



Sa-Dhan

The Association of
Community Development
Finance Institutions

FINANCIAL INCLUSION:

A STUDY ON THE EFFICACY OF BANKING CORRESPONDENT MODEL



Citi Foundation



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EXECUTIVE SUMMARY

0.00 Background

Financial Inclusion Programme was launched by Government of India as more than 40% of the country's population did not have any access to Banking services. There was growing concern regarding the link between financial exclusion and poverty. In the year 2006, India adopted bank led, technology driven Banking Correspondent (BC) model for expansion of branchless banking and thus achieve financial inclusion. Due to limitations of spread of brick and mortar branches, efficacy of Banking Correspondent model would most probably decide the fate of this socio - economically significant programme.

Substantial progress has been achieved in establishing basic financial infrastructure through the Correspondent Model. Recent data ¹ indicates that as at March 2012, **96,828 Customer Service points (CSPs)** have been set up in villages, with no banks, under the BC model. However, there was widespread apprehension and criticism that the BC system was not delivering the intended results due to various constraints.

0.10 The Context

Sa-Dhan, as an association of community based organizations and MFIs, thought it appropriate to conduct a reality check on the challenges faced by the system and suggest suitable strategies to overcome them. The underlying assumptions were that the community based organizations CBO and MFIs had a clear stake in the programme. A study at this juncture would help the stake holders including CBOs & MFIs to obtain clarity on the challenges and possible solutions. It would also help Sa-Dhan in policy advocacy at appropriate levels.

0.20 Objectives of the study.

- To understand the different models of BCs operating on the ground.
- To identify the challenges faced by the BC model.
- To pinpoint the viability issues faced by different models including strengths and weaknesses of each model and to suggest means of overcoming them.
- To evaluate different products and services offered by BCs and identifying others with potential to do well. Challenges preventing BCs from offering these products and services

0.30 The Scope and Coverage

The study covered different geographical regions. An attempt was made to scope the study across various legal forms of BCs like SHG Federations, Societies, Trusts, Not-For-Profit Companies and special purpose vehicles promoted by technology providing companies also all other important stakeholders including the regulators - the banks, technology providers,

clients, non clients, training institutions and other promotional agencies. BCs that were successful , not so successful and unsuccessful were included in the study. An attempt was made to draw from international experience of financial inclusion. The study outlines the existing guidelines of RBI on a bank led model and details of working procedures. The different technology models adopted by the banks and BCs were evaluated to identify and recommend the best suited model for different situations.

0.40 Financial Modeling

A financial modeling was attempted to understand the break-even points under different situations. The breakeven analysis shows that the basic No Frills Account (NFA) based model, under optimum circumstances in rural scenario takes four and a half years, with the addition of loans and other services including e-governance services it takes four years and the addition of non-NFA clients would reduce the break even period to three and a half years. It clearly brings out that the KIOSK model needs revenue gap funding for at least the initial three years. The Biometric GPRS mobile based model and SMS based mobile model would take at least two years to break even under ideal situations

0.50 Key Findings

0.5.1 : The most serious challenge the BC system faced was its commercial viability. The whole compensation structure is too meagre to sustain the BC system with a single product like NFA, on offer by the banks. The brunt of the burden is being borne by the Customer Service Point (CSP), who is employed by the BC. There are unmistakable signs of stress and strain in the system. If the current state is allowed to continue, it is likely that most of the CSPs will close down, relocate or become dormant.

0.5.2 : Banks who are driving this programme perceive BC as a mandated activity. The commitment to the programme gets diluted as goes down the levels, in the bank. At the branch level, where it matters the most, the programme is considered an unavoidable part of the work and sometimes a nuisance or a bother. Even at the corporate level, within the banks, the business garnered by the BCs is too small to attract attention as a significant business activity.

0.5.3 : The methodology of selecting BCs is acting against the system. The Banks select BCs through a competitive bidding process and the entity which quotes the lowest (L1) get selected. Quite often, entities which have not done necessary analysis of the direct and indirect costs get selected, who abandon the role after finding it not viable.

0.5.4 : Opening of CSPs and No Frill Accounts have been taken as the indicators for financial inclusion. The study found that while the CSPs were getting opened at one end, the CSPs opened earlier were either getting closed or dormant at the other. Similarly, the dormant accounts under NFAs were ranging between 88-96%. An equal emphasis on quality of implementation is needed.

0.5.5 : Financial literacy programme which is a key success factor was almost missing. For the clients to derive benefits, it is important that financial literacy programme has to go hand- in hand- with opening of accounts and delivery of credit.

0.5.6 : The fear of high operational risk in the form of deviation from acceptable norms, frauds and misappropriation were another major factors which was inhibiting more products from being offered by the Banks. The BCs do not feel that they are running a mini bank and are not putting robust systems, procedures and supervisory mechanism in place to prevent/manage operational risk. The low return from the operations was probably one of the inhibiting factors in making investments by the BCs in this crucial area.

0.5.7 : It was found that the morale at the CSPs was running low due to low and/or delayed remuneration, poor knowledge of the banking norms, lack of process participation, absence of an effective grievance mechanism, frequent technical snags, low cash holding capacity, frequent changes in rules etc. The CSPs of not-for-profit MFI led model of BCs were found to function with greater understanding of customer needs.

0.5.8 : Most of the clients had little knowledge of the range of services the BCs offer. They appeared to be uninformed of the advantages of dealings with the BCs also the Government's attempt to provide banking services at close proximity.

0.5.9 : The basic service like savings offered by BCs could be a way out of poverty for millions of poor in our country. Credit being a 'pull service', awareness about it and how its proper usage can make positive changes in the livelihood of the excluded are very important.

0.5.10 : There was no proper **dedicated** customer grievance mechanism or channel for customers of BC in many Banks. An effective and dedicated customer grievance mechanism with mechanism for appeal is very critical in an agency model dealing with illiterate or semi literate clients. Absence of a business continuity plan was clearly discernible.

0.60 : Recommendations

0.6.1 . Strategies for Improving Viability

0.6.1. a. Change in the selection Process of BCs

The process for selection of BCs needs a thorough and overall review to ensure financial viability of BCs, uniform rates for opening accounts, cash transaction and other activities should be stipulated either by the Govt. of India, Reserve Bank of India or by the Indian Banks' Association (IBA), after a thorough study of the costing, so that a fair return on investments would be available to the entities undertaking the work of BCs. A special dispensation may be thought for difficult areas. This may be adopted immediately as a strategy for improving viability.

0.6.1 b. Viability gap funding and assurance of a minimum fixed income to CSPs

Assure a minimum fixed remuneration to the CSPs until break even is reached. The BCs/BCNMs may be compensated through a scheme of viability gap funding for the initial three years by the Banks. The BCs in turn may pay a minimum assured compensation to the CSPs. Viability gap funding of BCs shall prompt them to make more investments in capacity building, strengthening of systems and procedures, improving supervision, etc which could in turn result in improving confidence and trust of Bankers, triggering finally in introduction of more schemes.

0.6.1 c. Keep initial investment low through appropriate business models

The initial investment on hardware at the CSP level is a critical factor affecting viability. The initial investment varies between Rs.1,26,000/- for the kiosk Model, Rs.40,000/-for the GPRS Mobile based biometric model and Rs.35,000/- for the SMS based mobile model. The Kiosk model appears to be suitable as a stationary point of customer contact in villages where population is above 2500. The second model appears to be ideal for covering a group of villages by a CSP and also for remittance services. The third model is found suitable for urban based remittances

0.6.1 d. SHG Federations, Community Based Organizations and MFIs as BCs

Presently, the NBFC- MFIs are not permitted to be BCs. It is time to review this policy in the light of the good experience with MFIs other than NBFCs. The 'conflict of interest' often held out as a reason to keep the NBFC- MFIs out of BC domain is not well founded as the experience shows. To begin with, the NBFC MFIs not offering services to facilitate saving may be permitted to offer such services in their role as BC.

0.6.1 e. Route all G2 P (Government to Person) payments through BCs

It is estimated that only 24% of the beneficiaries of MG-NREGA are paid their wages under the scheme directly though 70% have opened their NFAs. Immediate intervention of the Government of India in routing all payments to beneficiaries of centrally sponsored schemes through the NFAs and sharing administrative expenses with the Banks could substantially improve the revenue flows to the BCs and improve the commercial viability

0.6.1 f. Convergence of BC Model with National e-Governance Plan

The National e-Governance Plan aims at improving delivery of Government services to citizens and businesses through a common service delivery outlet, Common Service Centre (CSC) for a group of Villages. There is convergence of purpose of BCs/CSPs under financial inclusion driven by the Ministry of Finance and the CSCs initiated by the Ministry of Communication and Information Technology. **The kiosk model of CSPs is ideally suited to deliver services of CSCs.** The Government may consider entrusting the services of the CSCs in selected centres to the BCs which could improve the viability of the BC model.

0.6.1 g. Capacity Building of CSPs

The client perceives the bank through the CSP and hence, the banks have a very clear stake. Further, CSP is the key person to implement the financial inclusion agenda. He or she should be properly oriented to target the really needy. Therefore, the banks need to concentrate on capacity building of CSPs on a continuous basis by creating separate internal training facilities and programmes

0.6.1 h. Create confidence & trust in BC System

The basic reason for most of the banks shying away from offering a bouquet of products is the lack of confidence on the BC System. Banks should be made overseers and their supervision must percolate down to the BC/BCNM/CSPs. The Reserve Bank of India may consider making banks responsible for implementation of appropriate systems and procedures at the BC/CSP level. The risk mitigation measures and its earnest implementation might instill confidence and trust within banks, to roll out more products other than NFAs. This may be adopted by BCs/Commercial Banks as an immediate short term strategy.

0.6.1 i. Diversification of Product Offering

Once the BC/BCNMs are suitably strengthened, an internal rating mechanism should be developed by the banks and those BCs/BCNMs performing above par should be offered more products, especially small loans.

0.6.1 j. Recognize BC as an alternate Channel

BCs should be developed by the banks as one of the regular alternate channels to reach out to its customers like the ATM or Internet Banking with accessibility to all. This would be important for improving the financial viability of the BC channel. The financial modeling shows the beneficial impact of such a measure. This may be pursued as a long term strategy by the Regulator.

0.6.1 k. Make inter-operability a reality

Reserve Bank of India has decided to make inter operability for clients belonging to different banks and different CSPs operational. A time bound programme to make inter-operability a reality is to be stipulated by the regulator. This could be adopted as a short term strategy.

0.6.2 Strategy for enhancing commercial interest of banks

The BC programme has to be perceived by banks as a business proposition. A clear policy signal from the Government to the banks, especially, to those in the public sector, that the government is willing to consider changes, without introducing an outright subsidy, may help the banks to look at the programme as a commercial activity. This can be achieved by some tweaking of accounting/ regulatory norms.

0.6.2.a. Amortise costs

By creating a network of CSPs under the BC frame-work, banks are creating financial infrastructure in areas hitherto under served. This infrastructure, like any other infrastructure project needs long gestation periods. Hence, the resources expended by the banks for establishing BC net-work as a part of its Financial Inclusion Plan (FIP) should get the same treatment like any other infrastructure project. All costs, direct and indirect, incurred by the banks towards financial inclusion, may be allowed to be treated as an investment and the banks permitted to amortize it over a period of 10 years.

0.6.2.b. Incentivise banks for deposits mobilized through BCs

The deposits mobilized by the banks through their BCs should be excluded from the calculations for arriving at Adjusted Net Bank Credit of the Commercial Banks by RBI. This will encourage banks to make more No Frill Accounts active and thus mobilize rural savings. This measure would indirectly incentivise banks that otherwise run short of the mandated Priority Sector Advance ratio of 40% and consequently are forced to keep the short-fall with NABARD in Rural Infrastructure Development Fund (RIDF) at very low rate of interest. This may be considered for immediate implementation by Reserve Bank of India.²

0.6.2.c Create a separate vertical

To have the right focus and ownership, the whole programme should be driven by an exclusive business vertical in the banks to create ownership and accountability. This may be considered for immediate implementation by Government of India in all Public Sector Banks.

0.6.2.d. Weed out non-serious players

In the earlier days of implementation of BC model, many non-serious players had entered the fray and signed up with the banks without fully realizing the serious financial implications. There should be a policy to weed out such non-serious players and replace them with SHG federations or MFIs. Along with weeding out non-serious players, a business continuity and disaster recovery plan should be put in place by the banks. This may be undertaken as a short term strategy.

0.6.3 Client centric strategies

0.6.3.a. Financial Literacy programme to run parallel

Without financial literacy, the financial infrastructure so painstakingly created would remain grossly under used and might result in huge wastage of scarce resources. Hence, financial literacy and customer education has to run parallel to the BC programme. The Government of India may set up National level Task Force with enough resources under the Ministry of Finance and make them responsible to spearhead the programme. This may be considered for immediate implementation.

0.6.3.b. Make Financial Inclusion Fund functional

The Government of India may review the rules under the fund in the light of its poor utilization and consider positive changes and make the fund a fully functional and performing fund providing financial support to worthwhile client centric financial literacy programmes in the country. The fund should be open to BCs or NGOs, Self Help Group promoted institutions and

²International Research Journal of Finance and Economics ISSN 1450-2887 Issue 93 (2012)
<http://www.internationalresearchjournaloffinanceandeconomics.com>

other civil society organizations.

0.6.3. c. BCs to be active in financial literacy

Bcs should be assigned specific role in financial education space and they need to be incentivised to perform this on a continuous basis. Creation of a marketing and hand-holding machinery around each CSP or group of CSPs is essential to create awareness.

0.6.3.d Catch them young

Financial literacy programme has to be made part of the curriculum in school education throughout the country so that in future there may not be a need for such a massive effort for the next generation. This may be considered as a long term strategy.

0.6.3.e. Activate dormant No Frill Accounts

A Nationwide campaign, lasting a specific period, targeting No Frill Account holders, should be launched every year and customers educated systematically. Resources available with the Financial Inclusion Fund may be deployed to provide publicity back up through the print and visual media and through other means.

0.6.3.f. Build capacities and promote internal marketing in banks

Systematic and continuous efforts are needed in training the bank personnel on the concept and working of the BC model, managing agency networks and providing good customer service to clients of BCs. This may be considered as a long term strategy.

0.6.3 g. Set up dedicated customer grievance redressal mechanism

Absence of an effective and dedicated system in the banks to address the complaints and grievances of the customers of the BCs is a serious flaw which undermines the credibility of the banking system more so when the clients are semi-literate or illiterate and therefore, more prone to frauds, and malpractices. Banks should set up dedicated customer grievance mechanism.

0.70. Conclusion

The study undertaken has thrown light on the strength and weakness of the BC programme and suggested specific and important strategies, the team thought, are essential to achieve the intended results. The crux of the issue is to take the transactions at the CSPs to a break-even point as early as possible and provide quality services to the clients. The banks must become pro-active and willing players and should shoulder greater responsibilities in improving the management systems, working procedures and customer service at the BC. And finally, the greatest beneficiary of the programme is the excluded sections of the society. Social mobilization of an unprecedented scale would be required to fully exploit the financial infrastructure that is being created. In short, the Banking Correspondent model, if carefully rolled out, has the potential to usher in a second banking revolution in the country to achieve a near total Financial Inclusion and become a model for other nations.

BACKGROUND

1.0.0. Introduction

It is increasingly clear that 'inclusive' growth is a compulsory requisite for smoothening our country's journey towards growth & development. Financial inclusion has become part of our larger agenda for inclusive growth. An Inclusive financial system in India means bringing 94.8% of the country's 6,38,596 villages under formal banking system to facilitate access to financial services for millions of our countrymen.

“Trend and Progress of Banking in India 2010-11” says that out of every 1000 persons only 99 had a credit account and 600 had a deposit account with a bank, at the end of March 2010. This staggering nature of exclusion of a very large population would tend to make our journey towards progress and prosperity troublesome and costly. Affordable financial services especially savings and credit would improve livelihood opportunities and increase rural income and thus contribute to social, economic and political stability and well being.

“The exclusion varies widely across social groups and across different regions. For instance, only 14% had access to formal credit markets in urban centres and in rural areas it was as low as 9.5%.”³ “The Regional disparities were also quite glaring with the credit coverage at 25 per cent for the Southern Region and as low as 7, 8 and 9 per cent respectively in North Eastern, Eastern and Central Regions.”⁴

1.1.0 Financial Exclusion – The Rural- Urban divide:

“72.2% of our total population inhabit in our 6,38,000 villages. Of this, 2,36,000 villages have a population of less than 500. Commercial Bank Branch network covers only 5.2% of the villages constituting 39% of the total branch network. The remaining 27.8% of the population lives in 5100 towns and 380 urban agglomerations. This population is served by 60.3% of the Bank Branches.”⁵ The presence of so many Bank branches in urban India does not mean a better access to the banking system for the urban poor in India. The poor status of financial inclusion in the financial capital of the nation is widely known and it speaks of the enormous efforts needed in this direction.

1.2.0. Financial exclusion defined:

Approximately 87% of the people within the income of Rs.5000/- and less per year approach the money lenders, financial institutions such as microfinance institutions and friends and relatives for credit. On an average 71.7% of people of this income bracket do not have access to saving avenues with the formal Banking system. The poor, irrespective of the fact that he or she stays in the vicinity of a bank branch, as a class, gets excluded. 'The Committee on Financial Inclusion headed by Dr C Rangarajan in 2008 points out that the **“the poorer the group the greater is the exclusion.”**

Financial exclusion plays a key part in creation and amplification of poverty. For instance, poor households have their lifecycle needs. Inaccessibility to credit from formal system leads them to borrow from money lenders or from friends and relatives at a much higher and unsustainable rate of interest. This actually accentuates their financial position making them

³http://articles.economicstimes.indiatimes.com/2008-01-07/news/27695283_1_rural-areas-financial-inclusion-bank-account
Reaching the bottom of the pyramid Mythili Bhusnurmath Jan 7, 2008

⁴Financial Institutions & Markets 5E
By Bhole & jitendra mahakud

⁵Banker's Trust | Tamal Bandyopadhyay
<http://www.livemint.com/2010/08/15213952/Why-does-RBI-want-to-restrict.html>

more vulnerable. In such a situation, local money lenders thrive and proliferate, creating an unacceptable and exploitative system.

Till about four years ago, according to a survey from the Department of Economic Affairs, Govt. of India, the credit outstanding with the private money lenders in India was about Rs.70,000 crores, which was more than the personal loan portfolio of SBI . This gap and inaccessibility puts households already facing low productivity to sell their assets at much lower prices and reduces their ability to bargain for a better price. Absence of formal and safe institutions for saving their meagre surplus makes the poor more vulnerable to the vagaries of cash flows.

1.3.0. The Road to the Banking Correspondent model

1.3.1. Earlier efforts

If we examine the economic history of post independent India it is easy to find that the process of making financial services available to the poor has been on the agenda of the planners since its inception. The concept and delivery mechanism for such services have evolved overtime. The journey to the Banking Correspondent model has been quite long. Even though the coinage of the term '**Inclusive Growth**' and '**Financial Inclusion**' is of recent origin, a glance at the strategies pursued by the Government of India indicates its intent of bringing about inclusive growth. The road leading to the BC model brings it out clearly.

- Development of a three tier **Co-operative structure** during 1947-1970
- The take-over of The Imperial Bank in 1956 to what is presently known as **State Bank of India**.
- Bringing in **Social Control** on the Banking System in 1967 and identification of **Priority Sectors** for the growth of the economy.
- **Nationalisation of 14 Major Commercial Banks** in 1969 (Nationalisation of 7 Banks in the second round in 1980). and introduction of **Lead Bank Scheme** to provide a road map for expansion of branch network in areas with either no branches or with poor penetration, identification of credit potential and coordinated efforts towards deployment of credit.
- Introduction of **Differential Interest Rate Scheme (DIR)** in 1972 wherein public sector banks were required to extend credit to economically weaker sections at 4% rate of interest per annum.
- Instituting a '**20 Point Program**' in **1975**, focusing on the schemes targeted at poverty reduction, employment creation, health and education.
- Setting up of **Regional Rural Banks (RRBs) in 1976**, to provide access to banking for the rural poor. RRBs were to function as institutions with a local flavour and a bias towards the rural sector in a cost effective manner.
- Introduction of **Integrated Rural Development Program (IRDP)** throughout the country on **2nd October 1980** in order to provide self employment to the rural poor through a

combination of capital subsidy and bank credit.

- Introduction of **Service Area Approach in 1989** in Banking. Launching '**Swarna Jayanthi Gram Swarozgar Yojana' (SGSY) in 1999**- harnessing the Self Help Group movement picking up in the rural India, through the **NGO movement**
- The first half of the first decade in 21st century witnessed a resurgence of **SHGs**, largely by women promoted by various institutions including NGOs. The period also witnessed emergence of a new set of institutions, **Microfinance Institutions (MFIs)**, who were targeting the poor, to address their credit needs.

All these initiatives did not quite comprehensively address the problem of financial exclusion and the gap was showing signs of widening. Therefore, the Government of India wanted to pursue its Financial Inclusion agenda with greater vigour.

1.4.0. Financial inclusion

Unrestricted access to goods and services to all segments is the hall mark of an open and modern society. **United Nations** in the early years of the century adopted the policy of providing access to banking services in an unrestricted manner to the entire population of a country, as a result of the findings of a direct correlation between financial exclusion and poverty. On 29 December 2003, former UN Secretary-General **Kofi Annan** said: **“The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives.”**

Many developing economies of the world started addressing this problem. India being one of the major developing Economies, made financial inclusion a significant part of its growth strategies. Several new approaches were conceptualized to bring about financial inclusion

1.4.1. No Frill Accounts

In December 2005, Reserve Bank of India (RBI) advised all Banks to permit opening of 'No Frills Savings Bank Account', NFAs, with NIL or very low minimum balances and simplified KYC norms. Opening of No Frills Savings Bank account by branches of commercial banks and RRBs were the first direct attempt for financial inclusion. An intensive campaign saw millions of No Frill Accounts getting opened. However, the percentage of operative accounts was very low. Banks were advised by RBI to allow over drawings in No Frill Accounts to make it attractive and operational.

1.4.2. General Credit Card (GCC)

In January 2006, the General Credit card was introduced in the Banking Industry to provide easy access to credit up to Rs. 25,000 without collateral security for the deprived sections for taking up productive activities.

1.5.0. The launch of Banking Correspondent and Banking Facilitator Model

The Honbl'e Finance Minister in the Union Budget 2005-06, propounded **Agency Model in Banking** and requested Reserve Bank of India to create an enabling policy environment by

using the infrastructure of civil society organizations, rural kiosks and village knowledge centres to reach out to the unreached and provide credit support to rural and farm sectors. RBI, on the basis of Khan Committee recommendations, in 2006 permitted Banks to use intermediaries as Business Facilitators (BF)/Business Correspondents (BC). The Business Correspondent model allows the poor and hard to reach individuals, access to the mainstream banking infrastructure using a network of 3rd party agents. The BC, as a concept tried to combine the strength of the state and credibility of the banks in conjunction with the closeness of the clients of an NGO or a retired postmaster or teacher may have, to create a cost effective machinery for serving the financially deprived. The Banking Correspondent is governed by the following regulatory prescription.

- The BC would be an agent of a Bank and the Bank to pay a commission for its services.
- The BC shall function from a place other than the bank premises and shall service customers within a radius of 30 km from the branch and in urban areas within 5 km radius. (relaxations are permitted in exceptional cases)
- A BC is allowed to undertake saving services, loaning, remittances and other financial services for more than one bank. However, a sub-agent of a BC or CSP can function only on behalf of one bank. (This stipulation has been changed subsequently)
- The BC can also act as a Banking Facilitator for identifying potential clients.
- All transactions undertaken by BC should be accounted in the books of the Bank on the same working day.
- Banks are permitted to charge reasonable service charges to the clients in a transparent manner on the basis of a Board approved policy.
- Observing KYC (know Your Customer) Norms is the responsibility of the Bank.

1.6.0. Other initiatives of Government of India and RBI :

1.6.1. Opening of branches in rural centres with no banks:

“Banks have been advised to allocate at least 25% of the total number of branches to be opened during a year in rural centres where there are no banks.”⁶

1.6.2. Providing banking services in villages with no banks:

“Banks were advised under the **Swabhiman Scheme** of financial inclusion to draw up a road map to provide banking services in every village, not having a bank, with a population of over 2,000 by March 2012 either through brick and mortar branches or through Banking Correspondents. About 73,000 such villages were identified and allotted to various Banks through State-Level Bankers' Committees (SLBCs).”⁷

1.6.3. Financial Inclusion Plans (FIP) of banks for three years:

All public and private sector banks were advised to draw a three-year **Financial Inclusion Plan (FIP)** starting April 2010. Banks were advised to integrate Board-approved FIPs with

⁶<http://economictimes.indiatimes.com/news/news-by-industry/banking/finance/banking/RBI-asks-banks-to-open-25-new-branches-in-unbanked-rural-areas/articleshow/9237921.cms>

⁷Financial Inclusion | A road India needs to travel It is estimated that about 40% of Indians lack access even to the simplest kind of formal financial services K.C. Chakrabarty

their business plans and to include the criteria on financial inclusion as a parameter in the performance evaluation of their staff.

1.7.0. Recent changes in BC Model:

The concept of Banking Correspondent introduced by RBI in 2006, though remains the same, has undergone modifications and amendments to expand the categories of organizations/individuals who can perform the functions of a BC. The scope of entities eligible to be engaged as Business Correspondents by the banks has been enlarged by RBI from time to time. On the basis of recommendations of the committee headed by Smt. Usha Thorat a special dispensation for selection of BCs were permitted for North-East region.

RBI, in 2008, permitted the balance outstanding in General Purpose Credit Card accounts and overdraft permitted in No Frill accounts to be classified as Indirect Finance to Agriculture by Commercial Banks.

Recently, RBI permitted “for-profit” corporate entities to be engaged as BCs. The full range of permissible entities is listed in **Chapter 5, Para 5.1.1** in this report.

The BC model allows banks to do 'cash in - cash out' transactions at a location much closer to the excluded population, thus addressing the last mile problem. With a view to ensuring the viability of the BC model, banks have been permitted to collect reasonable service charges from the customers, in a transparent manner under a Board-approved policy.

Reserve Bank of India permitted “inter operability” in BC model accordingly a sub agent or CSP could transact for customers of any bank.

The Government of India is also pursuing the concept of one common BC for one State/Region for all banks in the Public Sector.

1.7.1. Latest development in BC

“Under the new BC and Financial Inclusion approach, the country has been split into 20 clusters where large states will have one cluster each. Each cluster will have a lead public sector bank, which will appoint BC firms to service customers of all PSU Banks in the cluster. BC should have 5 crore revenue in any of the last 3 years. This would ensure only big players with deep pockets irrespective of their field of specialization.”⁸

These allocations are being made based on lowest quotations quoted by the potential aspirants to become BCs (even though the BCs in turn are going to hire their BC agents, who could be SHGs or their federations or even MFIs). The bid amounts have been falling steadily. From getting paid 0.48% of the value of transaction that would flow through it, it has gone down to 0.19%.

⁸http://articles.economicstimes.indiatimes.com/2012-05-12/news/31679741_1_banking-financial-inclusion-kc-chakrabarty

RATIONALE OF THE STUDY

2.0.0. Background

Banking correspondent model was introduced by Reserve Bank of India in 2006 as a branchless banking initiative towards financial inclusion. The scheme is intended to reach the unreached in the remotest corners of our country to meet their banking needs. By this initiative, Govt. of India intends to facilitate flow of benefits under centrally sponsored social safety net schemes, presently around 38, directly to the beneficiaries by e-payments to their accounts to avoid leakages. To increase the momentum of implementation of the scheme, RBI made several changes based on studies conducted by them and feedback from the field.

2.1.0. Studies so far

In 2009, RBI constituted a **working Group** under the Chairmanship of **Mr. Vijaya Bhaskar** to review the scheme and suggest changes. Based on the recommendations of the working group, the number of players was enlarged to include 'for profit' companies other than NBFCs, Common Service providers, etc. details of which are discussed elsewhere in this report. This was one of the few studies undertaken by RBI on Banking Correspondents. The **Committee on Financial Inclusion** headed by **Dr Rangarajan** in its report also suggests, among others, some modification to the scheme at policy level.

Studies were also initiated by other organizations, notable among them are the study by **IFMR on 'Agency Network Management'** and a series of very informative and useful studies by **Micro Save**.

These efforts have helped to give a new direction to the programme and thanks to the efforts of the banks and the BCs, substantial progress could be achieved in quantitative terms in establishing BCs across the country. The latest data⁹ available indicate that up to **Mar 2012, 96,828 BCs or CSPs** have been established in the country and 103 Million NFAs opened.

While statistically the achievement is impressive, the net result on the field is a mixed. There has been criticism emanating from various quarters that the scheme is not delivering what it is intended to. There have been huge concerns expressed by organizations that joined the BC band wagon on its viability. Many of the educated youth employed as Customer Service Points (CSPs) were getting impatient and frustrated. Further, there was clear indication that the scheme is yet to reach an inflection point. The BC, as system was showing signs of stress and strain in many places. A study of this nature was thought in this context to have a look at the scheme holistically and suggest changes that are needed to increase the momentum of implementation to realize the financial inclusion goals of the Govt. of India and suggest a path towards sustainability. The objectives of the study were, therefore, set in this background.

2.2.0. Objectives:

- To understand the different models of BCs operating on the ground:

⁹<http://wrd.mydigitalfc.com/banking/no-frills-accounts-rise-over-two-fold-last-2-years-661>

- To understand the challenges in making the BC model viable.
- To understand the viability issues faced by different models (**Kiosk-model, GPRS mobile model and mobile SMS model/USSD**) including strength and weakness of each model currently operating on the ground and to suggest means of overcoming the weaknesses.
- To understand different products and services offered by BCs and the potential products and services BCs can offer. Challenges preventing them to offer these products and services and the means of overcoming them.

2.2.1. Sub-objectives

- To identify the expectations from the stand point of key stakeholders.
- Use the findings as a tool for policy advocacy and bringing necessary changes so that BCs would be a viable model for MFIs to adopt.

2.3.0. Why by Sa-Dhan

Sa-Dhan is the National association of Community Development Finance Institutions in India. It has a clear stake in the scheme as its members are either performing or are ideally placed to perform the role of BC or BF. It is considered essential that the organization gain deep insight into the programme. Sa-Dhan also felt the whole programme of Financial Inclusion has a direct bearing on what the organization and its members stand for and the study and its findings would have a positive impact on its journey towards achieving its goals. **Further, the study also clearly signals the organization's intent to support the Government of India's efforts in Financial Inclusion.**

Dr.C. Rangarajan Committee Report on Financial Inclusion

In order to address the issues of financial inclusion, the Government of India constituted a “Committee on Financial Inclusion” under the Chairmanship of Dr. C. Rangarajan. The Committee submitted its report in 2008.

The Committee has defined Financial Inclusion as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

The major recommendations of the Committee include:

- Launching of a National Rural Financial Inclusion Plan (NRFIP) in mission mode with a clear target to provide access to comprehensive financial services, including credit, to at least 50% (say 55.77 million) of the financially excluded rural cultivator/non-cultivator households, by 2012 through rural/semi-urban branches of Commercial Banks and Regional Rural Banks. The remaining households have to be covered by 2015. For the purpose, a National Mission on Financial Inclusion (NaMFI) is proposed to be constituted comprising too spreaded representatives from all stakeholders to aim at achieving universal financial inclusion within a specific time frame.
- Constitution of two funds with NABARD – the Financial Inclusion Promotion & Development Fund(FIPF) and the Financial Inclusion Technology Fund(FITF) with an initial corpus of Rs. 500 crore each to be contributed by GoI / RBI / NABARD.
- Deepening the outreach of microfinance programme through financing of SHG/JLGs and setting up of a risk mitigation mechanism for lending to small marginal farmers/share croppers/tenant farmers through JLGs.
- Use of PACSs as Business Facilitators and Correspondents.
- Micro finance – Non Banking Finance Companies (MF-NBFCs) could be permitted to provide thrift, credit, micro-insurance, remittances and other financial services up to a specified amount to the poor in rural, semi-urban and urban areas. Such MF-NBFCs may also be recognized as Business Correspondents of banks for providing only savings and remittance services and also act as micro insurance agents.
- Opening of specialised microfinance branches /cells in potential urban centers for exclusively catering to microfinance and SHG - bank linkages requirements of the urban poor.

SCOPE AND METHODOLOGY

3.0.0. Introduction

The Research team, before undertaking the study, reviewed all available literature about the scheme globally and within the country. The concept of BC is of recent origin, and programme itself is in an evolving stage in India and elsewhere. To realize the objectives, evolving a proper methodology was a great challenge keeping time and logistics constraints in view. The study had to cover stakeholders of different models and had to interact with planners, regulators, trainers, clients, non-clients and other support institutions to understand their views and needs.

The important stakeholders of the program are:

- (i) Clients
- (ii) Banks
- (iii) Technology providers
- (iv) Banking correspondents
- (v) BC Network Managers and the persons manning customer service points

Representative samples were drawn from as different geographies as possible to understand the true picture in the field and draw useful conclusions. Accordingly, the following are the individuals/institutions covered.

3.1.0. Stakeholders covered

3.1.1. Banks

- a) Oriental Bank of Commerce
- b) State Bank of India
- c) Punjab National Bank
- d) Syndicate Bank
- e) HDFC Bank
- f) Corporation Bank
- g) Yes Bank

3.1.2. Banking Correspondents

Swayamshree Micro Credit services Bhubaneswar, Orissa Sec 25 Company

Cashpor Micro Credit, UP-Sec 25 Company

FINO Fintech Foundation, Nissag Village, Haryana-Sec 25 Company

Integra's i25 Section 25 Company, Bangalore

Gramin Koota Development Trust Bangalore-Trust

Initiative for Development Foundation, Bangalore –Trust

SKDRDP, Karnataka -Society

Chaithanya, Pune ,Maharashtra Society-SHPI

Assomi, Assam,-Society

ALW- CSPs in Delhi

3.1.3. Technology Providers

- (i) FINO
- (ii) EKO
- (iii) A LITTLE WORLD
- (iv) NOKIA
- (v) Integra

3.1.4. Clients and Non Clients

3.2.0. Data Gathering:

Information was collected from the above using a structured format to understand the challenges faced by them and to elicit their feedback and suggestions on how to make the program more meaningful and sustainable. In the process, data was also gathered from clients and non clients to understand their aspirations, requirements and needs. The data gathering was done over a period of 2 months during November, December 2011.

Apart from the above, Sa-dhan team also discussed at length with the following officials to understand their concerns and requirements.

1. **Shri. Umesh Kumar**, IAS, Joint Secretary, Ministry of Finance, Gol.
2. **Smt. Deepali Pant Joshi, Chief General Manager, RBI**, Rural Planning and Credit Department, Central Office, Reserve Bank of India.
3. **Smt. Reena Banerji, General Manager**, Dept. of Banking Operation & Development, Reserve Bank of India, Central Office, Bombay.
4. **Niraj Kumar Gupta, Chief General Manager**, Financial Inclusion Department, NABARD, Bombay
5. **Smt. Usha Thorat, Deputy Governor (Retd.)**, Reserve Bank of India and Director, Centre for Advanced Financial Research and learning.
6. **Shri. R. Bhaskaran**, Director, Indian Institute of Banking & Finance, Bombay.

3.3.0. Scope

The report is drawn based on the information gathered during the study. The format of questionnaire used is enclosed as annexure. An attempt has been made in this report to highlight the concerns of various stake holders and address their expectations. The

recommendations of this report are based on the suggestions of the interviewed stake holders and others (formally and informally) and the observations, inferences of the team. The recommendations could be of use to the Planners, Regulators and Bankers and the existing as well as prospective BC network Managers, BCs, CSPs and clients and could be of use at the national level as the study covers different models across different geographics. The members of Sa-Dhan, who have a direct stake in the scheme, would find the report useful and interesting.

3.4.0 Limitations of the study

This study is not a scientific research report. The findings, recommendations and conclusions are drawn based on the impression the study team could get during the field visit. The Number of BCs covered are mostly drawn from the members of Sa-dhan. No random sampling of BCs has been done as is required in a research report. Therefore, the findings, recommendations and conclusions may suffer from these limitations. Further, some of the views expressed here are that of the members of the Research Team from Sa-Dhan based on the insights they derived from the study.

LEARNINGS FROM INTERNATIONAL EXPERIENCE

4.0.0. Introduction

Agency model as a means of Financial Inclusion was tried out by many countries in the world. Achieving social and economic equity came to sharper focus in the international community, once a direct co-relation between financial exclusion and poverty was established and United Nations gave a call in 2003 to work towards total financial inclusion. It is important to learn from countries who started the journey before India and try to identify areas where replication of efforts are possible depending on the degree of success achieved and learn lessons from the difficulties faced. It is in this context, the experience of a few other countries in this key area of financial infrastructure development is discussed.

4.1.0.BRAZIL : Brazil adopted a Bank led agency model. Financial Inclusion programme started in the country in mid 90's, had the objective of providing financial services to low income population and it gained momentum in the earlier part of the first decade in the 21st century. The agents of banks were permitted by Central Bank of Brazil, to offer services like deposits, withdrawals and transfers apart from consultation, mobile phone top ups, bill payments, sourcing of loans and credit cards, collection of repayment, international transfers etc. To reduce the risk of frauds by agents, Brazil did not permit use of an agent whose primary or sole activity consisted of services that are considered banking services. The Bank as a principal was made fully responsible for the quality of service by the agents, to control their activities and comply with all the legal and regulatory provisions. The agent is required to be fully transparent and display the rate of commission for all its services. Brazil has also appointed an ombudsman to take care of customer complaints. Most of the agents employed by Brazilian Banks are existing retailers. "The network of more than 100,000 agents set up by Brazilian banks has spread to the length and breadth of the country."¹⁰ The challenges faced by the BC system include:

- Agents claiming parity in wages with bank employees.
- The federal policies insisting on the same level of security as in the banks.
- National Health Surveillance Agency challenging the use of pharmacies and drug stores as bank agents.

Between 2000 and 2008 the number of bank accounts doubled in the country largely driven by correspondent banking model. 50% of the simplified savings and current account opened are active and operative. The Central Bank of Brazil, with full backing from the Government, is taking the leadership by creating an enabling environment for institutional arrangement, providing regulatory clarity and setting supportive requirements. The incremental changes it has made in regulation, has helped to reduce operational risk. The Brazilian Banking Correspondent Model is driven by retailers. Services are provided through point of sale devices installed with the merchants, which can permit financial transaction in real time or near real time. The bar scanner attached to the POS (Point of Sale) is used for electronic payment of bills.

¹⁰BRANCHLESS BANKING AGENTS IN BRAZIL: Building viable networks www.cgap.org/technology 16 Feb. 2010

However, the experience of Brazil and India are not comparable as the population of Brazil is almost one sixth of India. The BC outlets in Brazil focus primarily on transaction and payment services which include invoice payments, collection of service and payment orders, disbursement of govt. benefits and pension, pre-paid mobile top ups. Other banking services such as making deposits and withdrawals from savings accounts is comparably less compared to bill payment services. CGAP reports that the bill payments and the payments of government benefits to individuals comprised 78 percent of the 1.53 billion transactions conducted at the country's more than 95,000 agents in 2006. There are no subsequent reports to show that this patterning of revenue has changed.

Brazil has the largest number of customer service points, almost 100000, though many of them are not active. Credit related services are not very popular. Widespread agency network of the model has helped to reduce transaction cost and helped in extending services to far flung and remote rural areas. However, the central focus of correspondent network remains urban. There is criticism from some quarters that the programme is yet to demonstrate pro-poor, pro-growth impacts for households, communities, and the national economy.

4.1.1 Key Learnings from the Brazilian model:

- The Central Bank of Brazil was highly successful in creating an enabling environment for the BC model to flourish. Therefore, Central Banks has as a key role in BC model propagation.
- To reduce the operational risk, the Central Bank has been experimenting with incremental changes in regulation, one at a time and moving forward.
- The Brazilian model is not strictly replicable in India as revenues from the model are driven by bill payment and remittance and our demographic profile is in variance.
- Given a choice, the agency network, tends to converge on urban and operationally convenient areas and might concentrate on profitable products and transactions.
- Existing retail and other distribution networks can be used successfully in urban segment for BC operations.

4.2.0. KENYA : Kenya amended its Banking Act in 2009¹¹ to create a provision for use of agents to carry out banking activities. Under the guidelines issued by the Central Bank of Kenya, for-profit organizations, limited liability partnerships, individuals etc. are permitted to be employed as agents. The vision 2030 document of the Government of Kenya seeks, among others, to raise financial inclusion level. It has enabling regulation that encourages Microfinance and Agent Banking and builds co-operation within the formal financial sector through a Telecom Service provider led model. Introduction of mobile money, with participation from the service providers and banks, has made significant contribution both to the financial sector and financial inclusion. It has opened a new channel for delivering financial services, enabling customers to perform a growing range of transactions such as opening of accounts, making deposits, loan repayments, making payments to other parties, etc., thus

¹¹RBI - Discussion Paper on Engagement of 'for-profit' Companies as Business Correspondents –Annex-1

integrating in the process, the services of Microfinance institutions, commercial banks and telecom service providers. This has helped in integration of mobile money system with the core banking system of banks which enabled transfers between mobile phone virtual accounts and traditional bank accounts. M-PESA- the product name of the mobile-phone based money transfer service of Safaricom- with 8.8 million customers and 15,200 agents, is one of the most successful mobile banking models in the country. Started by a micro-finance company to help collect repayments, the initiative was taken over by Safaricom which is a Telkom Kenya-Vodafone affiliate

A subscriber has to register with Safaricom which provides it with a new SIM which has the application loaded on it. The customer has to create a PIN for the security of his account. M-PESA allows cash-in and cash-out via retailers of Safaricom and other associated retailers. The money collected by Safaricom (which it converts to e-cash) is transferred to a 'trust account' (escrow account) with a bank. The money which is loaded on the mobile can be sent to any recipient (not necessarily registered M-PESA). The final recipient can keep it as a balance on his mobile or can withdraw it as cash from any associated retailer, after paying a commission. The final recipient can be a company or person selling goods or services. Given the low penetration of the banking sector in the country, the Central Bank of Kenya has been supportive of the growth of Mobile Banking. M-PESA does not pay any interest on deposits to its account holders, nor does it offer any loans. M-PESA, hence, is primarily a payment mechanism. The arrangement in Kenya has, however, resulted in increased operational risk. The Central Bank of Kenya is trying to address this through stricter regulation.

4.2.1. Learnings from Kenya:

- The Kenyan model is not fully replicable in India as it is a telecom company led model, while India is pursuing a bank led model.
- The model in Kenya is fraught with many operational risks which has the potential to derail the system.
- The Banking infrastructure in Kenya and India are not comparable. India, therefore, may not have the same compulsions to adopt a telecom led model.

4.3.0. South Africa :

South Africa has made great strides in financial inclusion through the correspondent banking model. The **Mzansi** account, introduced in 2004 by four large Banks along with the 'Post Bank', is a simplified Savings Account, almost having the same features as the No Frill Accounts (NFA). The advantage of the Mzansi Account is that a client can use any branch of the participating banks and the entire network of ATMs and debit card accepting POS devices. By 2008, 6 million of such accounts have been opened which helped the country to increase the banked population from 44.5% to 63.5%.

South African Central Bank gives wide discretionary powers to Banks to use non-bank third parties to offer banking services beyond their traditional branch network, either as agents or

through outsourcing arrangements.

In 2004, South African Reserve Bank issued instructions on outsourcing arrangements to the banks. It provides guidance for outsourcing arrangement that could:

- Have a bearing on the risk profile of a bank
- Affect the systems and control of a bank
- Be classified as being strategic importance
- Have implications on South African Reserve Bank and its supervisory duties.

Though the regulatory directions do not specify which functions could be outsourced, the directions prohibit outsourcing of a bank's compliance functions. Further, the outsourcing arrangement would be subjected to scrutiny of the regulator.

A Bank can, therefore, enter into outsourcing arrangements subject to :

- It entering into a detailed legally binding outsourcing agreement.
- Ensuring that outsourced services are performed adequately in accordance with internal policies and standards.
- Ensuring processes are in place to identify and deal with any weakness in the service of an agent including access by the bank's internal and external auditors as well as external agencies.
- Providing the regulator any information on outsourced functions and activities.

This has enabled the banks to enlist retailers as bank agents and spread its agency network.

Another important offshoot of this arrangement is the integration of bank's application fully with mobile phone network. Under this arrangement, a non banking entity and a mobile operator teams with a bank to provide the customer, the convenience of a mobile phone as a payment instrument while operating savings account. WIZZIT, MTN mobile money and Standard banks' mobile banking services are examples of initiatives in using mobile phone in conjunction with a bank account to provide payment services.

4.3.1. Learnings from South African Experience:

- The South African Reserve Bank has given operative discretion to the Banks in engaging agents. However, they have kept the whole system under tight regulation to minimize operational risk and safeguard the interest of the customers. This has helped the Banks to take initiatives in developing innovative models.
- The Banks are made solely responsible for the internal management systems and procedures of the outsourcing agents. **This is a very important learning point for India.**

- Mobile telephones as an instrument for carrying out transaction could be used in a cost effective manner. **With mobile connections in India nearing 1 billion mark, India could emulate the South African example of using mobile phone as a payment instrument in all savings accounts particularly NFAs.**

In other countries like Philippines, Nicaragua, Indonesia etc. mobile operator agency model has been tried with varying degrees of success. For the sake of brevity, in this chapter, the discussions are confined to the above three countries.

4.4.0. Conclusion

The socio-economic situation of every country studied is unique. One common feature is that the Regulator, along with the Government, has been in the fore front in creating an enabling environment for the Agency model to flourish, without creating significant operational risk for the banks and the clients. The Regulator has played a key role by ensuring stringent regulation at the same time giving enough room to the banks for innovation and maneuverability which helps the system to proliferate. There is very little micro-management. The regulators have been quite cautious and move forward keeping a fine balance between the interest of the clients and the business compulsions of the players involved.

India has embraced a Bank led model for Financial Inclusion and hopes that it will scale up fast to bring about total or a near total financial inclusion. However, going by international experience, lot of regulatory caution is required for safeguarding the interests of the banking sector.

HOW THE BC OPERATES

5.0.0. Introduction

The legal relationship between the BC and the bank is that of an Agent and Principal bound by a legally enforceable contract. The BC, in turn, employs CSPs who are sub agents of the banks. The BC gets compensated by the bank for the services rendered which is shared with the CSP and the technology provider. The technology provider acts as a link between the bank, BC, CSP and the client creating an enabling environment using technology.

The eligible entities and the role and responsibilities of the BC and the technology provider can be summarized as follows.

5.1.0. Business Correspondent

5.1.1. Permitted entities

The list of entities permitted was expanded based on the recommendation of a working group under the Chairmanship of **Mr. Vijaya Bhaskar** of RBI. Meanwhile, under the earlier dispensation, most of the leading technology service providing companies had promoted Sec 25 companies as their affiliates to perform the role of BC. Reserve Bank of India permitted 'for Profit companies' other than NBFCs also to become BCs with an intention to leverage the retail network established by them throughout the country. On the basis of the recommendations of the committee headed by Smt. Usha Thorat, the regional office of RBI in north-east region was permitted to allow any entities recommended by the DCC/SLBCs to function as Bcs.

Following is a list of permitted entities:

1. NGOs/MFIs set up under Societies/ Trust Acts
2. Cooperative Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Acts of States/ Multi State Cooperative Societies Act.
3. Section 25 companies.
4. Post Offices.
5. Retired Bank employees
6. Ex-Service men.
7. Retired Govt. Employees.
8. individual owners of kirana/medical/fair price shop owners.
9. Individual Public Call Office (PCO) operators.
10. Agents of small savings schemes of Government of India/ Insurance Companies
11. Individual who own petrol pumps.
12. Retired teachers.
13. Authorized functionaries of well run Self Help Groups (SHGs) linked to banks.
14. Individual members of Farmer's Clubs.

15. Individual operators of Rural Multipurpose kiosks/ Village Knowledge Centres
16. Individuals/ proprietors/ owners who manage Agri Clinics/Agri Business Centres.
17. Retired Post Masters.
18. Individuals such as auto dealers, tractor dealers and FMCG stockists.
19. Insurance agents including of private insurance companies (IRDA certified) and postal agents.
20. Individuals operating Common Services Centres (CSCs) established by Service Centre Agencies (SCAs) under the National e-Governance Plan (NeGP).
21. Any other individual considered suitable by the banks.
22. Companies registered under the Indian Companies Act 1956 with large and wide spread retail outlets, excluding Non Banking Financial Companies (NBFCs).

Identified Business Correspondents should not have been black listed by any bank for deficiency of service during the last two years.

5. 1.2. The role and responsibilities of the BC

I. Activities

- (a) **Enrollment of customers, including collection of biometric and other details, provide card (ID Card, Debit Card, Credit Card), PIN.**
- (b) **Provide transaction facility.**
 - (i) Deposit of money in an account with any bank
 - (ii) Withdrawal of money from an account with any bank
 - (iii) Remittances from an account with a bank to an account with the same or any other bank.
 - (iv) Balance Enquiry and issue Receipts/ Statement of Accounts.
- (c) **Disbursal of credit facilities to borrowers involving small amounts strictly as per the instructions of the Bank.**
- (d) **Other activities:**
 - i. Identification of borrowers and classification of activities as per their requirements.
 - ii. Collection and prima facie scrutiny of loan applications including verification of primary data.
 - iii. Creating awareness about savings and other products offered by the Bank and education and advice on managing money & debt counseling.
 - iv. Preliminary scrutiny of data and submission of applications to the Bank for its review.

- v. Promotion, nurturing, monitoring and handholding of Self Help Groups and/or Joint Liability Groups and/or Credit Groups and others.
- vi. Facilitating the repayment of dues owed to the bank by its customers.
- vii. Marketing of third party financial products.

5.1.3. Products offered

The following products are to be offered by the CSPs to their clients.

- a. No Frills Savings Bank accounts
- b. Recurring Deposit Accounts
- c. Remittances
- d. Fixed Deposit
- e. Overdraft/Retail loans
- f. KCC/GCC
- g. Third party financial products

5.1.4. The products that can be canvassed by the BC acting also as Business facilitator are:

- a. Loans against Valuable securities/own deposits
- b. Gold Loans
- c. General purpose Credit card (GCC)
- d. Kisan Credit Card (KCC)
- e. Loans to SHGs/JLGs
- f. Current Account
- g. Savings Bank account (other than No Frills Account)
- h. Term Deposits
- i. Recurring Deposits
- j. Mutual funds on a referral basis
- k. Insurance (Life and Non Life), Pension and any other third party financial product.

5.1.5. Cash Management

The CSP/BC is required to maintain sufficient liquidity by way of deposit with the Bank or can take an Overdraft facility from the branch in whose service area the BC is operating. For instance, liquidity to be maintained by the CSP ranges between Rs10,000 to Rs 25,000/-

5.2.0. The Technology Services Provider

Technology plays a very critical role in BC model. Technology is supposed to bring down per

transaction cost of low value high volume transaction at the same time provide the same efficiency and customer experience that is available in any other service channel. The responsibility of the technology provider is significant. While some Banks have developed own solutions for BC operations as 'add-ons' to their Core Banking solutions, Majority of the BCs depend on a separate technology provider.

The responsibility and services offered by the technology provider include:

- a. Providing and maintaining devices (laptop computers, hand-held devices, mobile phones, etc.) for customer enrollment including biometric capturing devices supporting ISO templates generation and verifications as per standards stipulated by Banks.
- b. Devices for making transactions including central biometric authentication linked to National Payment Corporation of India (NPCI).
- c. The technology solution offered need to conform to open standards. And, provide multi channel support (Biometric POS, Internet operated devices, Mobile, etc.) with standard interface capabilities (standards like ISO, XML, web services) and Multiple back-end systems interfacing capabilities on open architecture i.e. multiple OS and should be capable of supporting transactions in 'on line' mode with CBS systems of the Banks as well as 'offline' mode with the device.

The technology provider supports the BC and the Bank with necessary software, with common Key Management System (KMS) to service the following banking products: -

- i. Basic Saving Bank Account with built in overdraft
- ii. Recurring Deposit/Fixed Deposit Account
- iii. Remittance Module
- iv. Credit module
- v. KCC/GCC
- vi. Overdraft
- vii. Retail Loans

The front-end devices support smart cards and/or non card operations with central authentication (biometric/ PIN/ OTP). The technology provider also supplies or supports delivery of Smart Cards to the customer, wherever required. They also provide connectivity between the devices with the CSP and bank's server. The customer account, including biometric details, shall reside on CBS server of bank. However, these details are also available on the smart card and/or the POS device with the BC to provide for local level authentication wherever connectivity at desired level is not available. They provide a platform for digitization of data for account opening by the BC.

The solution should provide facility of:

- a) Business Correspondent /Agent Maintenance
- b) Biometric authentication for agent and customer

- c) Audit trail of all administrative/ transactional activities
- d) POS/other terminal authentication etc.

5.3.0. How the system operates

- The BC and technology providers are selected by Bank through an open bid process. After evaluating the technological capability of the technology partner of the BC, the contract is awarded to the BC which gives the lowest (L-1) quote.
- The BC employs, sometimes in consultation with the Bank, the CSPs who could be educated unemployed youth from the same area, existing retailers, members of the SHG or suitable persons who are permanent residents.
- An area of operation is assigned by the Bank to the CSP which is usually a Gram Panchayath or group of Panchayath/villages.
- The CSP is assigned a link branch within the distance criteria stipulated by RBI.
- The CSP is given basic training and equipments. The cost of equipment is borne by the CSP or by the technology Company/BC or sometimes by the Bank.
- At the front end, the point of service terminal usually consists of a reader, printer, a mobile phone connectivity and RFID smart card which communicate through Near Field Communication (NFC) Protocol. The configuration may vary for Kiosk model and mobile phone model.
- The terminal can handle both, on line and off line, transactions.
- The terminal is connected to the server of the technology service provider through broad band/ GSM/GPRS mobile device. The server is interfaced with the bank's core banking server.
- The bio-metric identification is stored in the terminal of the CSP for easy access.
- No frill accounts are opened by the CSP by capturing the finger prints and photographs of the clients and obtaining account opening forms with KYC documents.
- The account opening forms with all data captured is sent electronically to the Bank. The base /mother branch/ opens the account after verifying KYC documents and authorizes issue of a smart card to the client. The process takes about 15 days or sometimes more.
- Thereafter, the client can operate the account - deposit or withdraw cash - using the smart card through the CSP.
- The mobile phone/lap top of the CSP terminal has all client details which are validated using the smart card and positive identification is established through the finger print reader. All transactions pass through the server of the technology provider. The account of the client is debited or credited real time or at the end of the day. To enable this, the CSP maintains an escrow or imprest account with the base branch with enough cash balance. The account is frequently replenished by the CSP depending on the operations. The CSP/BC also does reconciliation of accounts on daily/weekly intervals.
- The client can also receive MNREGS payments, old age pension and other benefits through the account.

- The payment of commission to the BC is settled by the bank at the end of each payment cycle which usually is one month depending on the number and volume of transactions.
- Though the system appears simple, it is facing several challenges due to various factors including deficiency of infrastructure etc., which is discussed in details elsewhere in this report.

DIFFERENT TECHNOLOGY MODELS

6.0.0 Information and Communication Technology (ICT)

Financial Inclusion, without the intensive use of ICT in the Indian context appears almost impossible. Of a total of 6,38,596 villages in the country, 4,94,442 (or 83.3%) have less than 2,000 inhabitants with a total population of 34 Cr as per 2001 census. Covering all these villages with brick and mortar branches of banks would be nearly impossible. Even an ultra small branch might need an initial investment of Rs. 5 lakhs and annual recurring cost of Rs10 lakhs at the current prices. This would mean the branch would need an average business level of Rs. 3 crores to attain break even. Further, small value transactions using brick and mortar branches may not be cost effective. The estimated cost of a cash transaction - a deposit or withdrawal - across the counter might be on an average Rs. 50, an ATM transaction Rs. 15, a transaction using a mobile Re. 1 and through the internet a fraction of a Rupee. With the extensive use of technology, BCs have the potential to reduce the cost of transactions and position themselves between the mobile and the ATM.¹²

Further, technology has the potential to address the issues of outreach and credit delivery in rural and remote areas. Therefore, one of the basic assumptions for viability of BC model is intensive and extensive use of information and communications technology (ICT). By such use of ICT, it is possible to provide doorstep banking services where the accounts can be operated by even illiterate customers by using biometrics or mobile telephones, thus ensuring the security of transactions and enhancing confidence in the banking system. Information technology in the BC eco- system is thus becoming a key business enabler and is being positioned as a key differentiator.

6.1.0. Leveraging Core Banking Infrastructure

The banking industry has achieved, in the last one decade, significant success in leveraging IT through the implementation of core banking solutions and it has helped them in streamlining, standardizing, and expanding their services portfolio. Information, communication, and technology (ICT) solutions will continue to help banks in providing seamless systems to capture customer data, ensure unique identification, and facilitate financial transaction services using remote connectivity. These systems will also ensure uninterrupted service delivery, consumer data protection, customized products, dissemination of information on credit operations, and offer of multiple financial products in local languages. The existing ICT infrastructure in the banks could be leveraged to create a delivery model suitable to achieve Financial Inclusion through the BCs.

6.2.0. Electronic Transfer of Social Benefits

ICT could also be used for electronic transfer of social benefits through the bank accounts of the beneficiaries and deliver government benefits at the doorstep, thus reducing dependence on cash and lowering transaction costs. Realising this, the RBI advised all banks to make intensive use of information technology in BC Model.

¹²As per Sa-Dhan survey team Estimates

NATIONAL PAYMENT CORPORATION OF INDIA (NPCI)

National Payment Corporation of India (NPCI) has created Inter Bank Mobile Payment Service (IMPS) to offer round the clock instant electronic fund transfer using mobile phones to bank customers.

Under this facility, customers can access their bank accounts using their mobile phones in a secured manner and effect transfers. Currently, this facility is available to clients of 38 Banks who are members of National Financial Switch of NPCI and are issued with licenses by RBI to undertake mobile banking service. Under this arrangement, a remitter need to register with his/her bank for mobile banking service—and should possess a mobile money identifier (MMID) and MPIN number to his/her account in the respective bank and receive Mobile Money Identifier number (MMID) from the bank. The beneficiary should link his/her mobile number to his/her account in the respective bank and receive Mobile Money Identifier number (MMID) from the bank. The remitter can send money to the beneficiary by entering the beneficiary's mobile number, beneficiary's MMID and the MPIN of the sender. The transfer takes place real time.

Transfer of money through mobile is fast gaining ground in the country. The total mobile subscriber base as at Jan.2012 was 936 million with 313million of them in rural areas. During Feb.2012, more than 2.8 million transactions were carried out totaling Rs.196 crores, recording a 300% increase in number of transactions over Feb.2011.

In the initial years of evolution of the BC model, all transactions used to be routed through the server of the technology provider and the settlement used to take place at the end of the day or within 24 hours. Banks were reluctant - and still are - to open up their core banking servers to the technology providers due to security concerns. However, lately some banks have evolved own technology solutions allowing BCs to use their own Financial Inclusion server connected to the core banking server at the back-end. For instance, in the case of Punjab National Bank, Infosys has provided the financial inclusion solution in their regular core banking solution.

6.3.0. The Two Models

The BCs are found to use two models viz, 1) The Smart Card Based Kiosk Model and 2) The Mobile Hand set based Model. Under the mobile based model there are two types viz; one where a GPRS based mobile is used to access the server through the internet and the other through Short Messaging Service (SMS) or Unstructured Supplementary Service Data (USSD) technology.

6.3.1. The Smart Card Based Kiosk Model

Under this model, each customer is given a smart card with a 32k/64k memory chip where the following details are stored. These include primary account number, postal address, nominee details, contact information and transaction history. Both the CSP and the customer are issued smart cards. The CSP's smart card is used for authenticating the Point of Sale (POS) machine, establishing connection with the intermediate server for BOD (Begin of Day), EOD (End of Day), data transfer and to prevent the misuse of the POS machine.

No transaction can go ahead without the smart card of the CSP. The Terminal Operator (CSP) Card and the Customer Card are mutually authenticated. The customer is authenticated using the biometric finger print stored in the smart card.

The CSP get connected using any secured communication channel such as Global System for Mobile communications (GSM), Code Division Multiple Accesses (CDMA), Public Switched Telephone Network (PSTN) or Ethernet depending upon the type of connectivity available at the local place of operation. Through this connectivity, the CSP reaches the back-end intermediate Financial Inclusion server belonging to service provider/bank. All customer details and account information including current balance is held by the FI server which will regularly update the bank's core banking server at pre-decided intervals or on a real time basis.

The Minimum Hardware requirement for the model is as follows.

1. Smart Card Reader-Smart Card Readers may be of two types viz., with contact or without contact.
2. Speaker for voice guidance in local language of instructions and status information
3. Fingerprint Sensor
4. Printer capable of printing receipts in local language
5. Web cam
6. Lap top /hand held Device
7. Power Backup with a Minimum battery backup for 4 Hours operation and 24 hours standby with provision for charging from alternate sources.
8. Connectivity
9. Essential furniture

The total cost of establishing a CSP with the above equipment is Rs1,26,000/-

The Kiosk is a one man point. It has the potential to carry out about 150 transactions per day. The person manning the kiosk exclusively attends to the kiosk and its customers. The command area of the kiosk is one village or at times one or two nearby villages. In most cases, he/she has to attend to financial literacy and client education, marketing, liaison with the base branch, attend to minor hardware technological issues etc. CSP is supervised by the BC Network Manager (BCNM) who deploys a supervisor for 5-10 CSPs. The CSP is attached to a Branch of the Bank with whom BC/BCNM has made the tie up. An exclusive deposit account (like an imprest account) is maintained by the CSP in the base branch which is debited or credited each time a transaction is undertaken by the CSP. The CSP also maintains a physical cash balance, usually Rs10,000/-. At the end of each day, the CSP remits the excess cash holding above the overnight standard cash limit to the base branch or withdraws sufficient money to maintain the cash limit.¹³

6.3.2. The mobile based models.

a) GPRS based mobile model.

In this model, the CSP uses a high end General Packet Radio Service (GPRS) based, Near Field Communication (NFC) mobile phone with a camera in place of a PC. It will have wired or

¹³Data sourced from <http://www.docstoc.com/docs/82415300/Bussiness-Correspondents#>

FINO

Financial Information Network and Operations Limited FINO, the company jointly promoted by banks in the public and private sector and a few investors drives the BC program through its Section 25 Company "FINO FINTECH FOUNDATION".

The foundation employs a major network of CSPs through which it endeavours to create a technology and distribution channel. The network attempts to enable financial services in remote location with minimum connectivity and infrastructure. The normal practice is to issue bio metric enabled smart cards to the customers during No Frill account opening process. The data is uploaded to the back end system which is connected to the core banking server of the principal bank. Customers can transact in the field through hand held POS machines, GPRS enabled mobile telephones or through micro deposit machines or using lap top in a KIOSK. FINO has created the largest network of CSPs.

As many as 22 banks have tied up with FINO. Yet the company is struggling to break even.

blue-tooth serial connection to a hand held printer, bar code reader, contact or contact less smart card reader etc. The mobile phone with the CSP will have sufficient memory to carry data on all customers including their photographs and finger prints. The transactions can be carried out both on line and off line.

The advantages of this model are:

- Initial low investment of Rs. 40000/- (which includes Rs. 25,000/- as working capital.)
 - Self contained-No need to depend on external power. Low operational cost due to GPRS.
 - No need for biometric card.
 - Used for account opening and for transactions.
 - Can be used by a CSP for door step service or to cover more than one location.
 - This model is ideal for covering sparsely populated villages in remote locations. This can also be used by existing retail outlets in urban locations due its low investment and simplicity in operations.
- b) Mobile for banking transactions**
- This is the cheapest model available where the CSP and the customer can use any mobile hand set to put through a cash debit or credit transaction. The system is not dependent on the mobile network operator, or handset model or operating system on the handset.

A Little World

A Little World India Pvt. Ltd. is a technology company trying to provide a convenient and innovative solution for delivery of banking services in remote areas. SBI has taken 20% equity participation in the company.

The BC, Zero Mass Foundation, a close associate sec 25 company of ALW is partnering with the company in promoting financial inclusion.

The most popular and well known technology model promoted by them is the GPRS enabled mobile phone device that can record and store customer information including the biometric details and send the transaction details to a central server. More than a dozen banks have tied up with ALW for their technology and the BC Services.

- The client interface is just dialing of numbers. It works using Short Messaging Service (SMS) or unstructured supplementary service data (USSD) technology (like one sending a message to the service provider to know the balance available in the mobile in the case of a pre-paid connection). The best example of this is the system developed by EKO, a technology company which uses this through its not-for-profit company, Eko Aspire Foundation, as BC.

EKO

Eko India Financial Services Private Limited, EKO, a technology company trying to propagate banking services tries to leverage the penetration of mobile telephone in the country.

There are nearly 700 million mobile telephones in India. The advantage of the technology promoted by the company is that it needs little or no capital investment on the part of the CSP as any ordinary mobile telephone with USSD messaging is used for transactions.

Eko Aspire Foundation, their sec 25 company is trying to leverage existing retail/ service outlets and distribution network to create the BC infrastructure. The model promoted by the company has helped in generating large number of transactions mainly in metropolitan and urban centres for small value remittances. Their tie up with SBI in the initial phase enabled transaction between SBI customers of EKO with another SBI customer of EKO anywhere in the country. SBI has recently permitted integration of their operations with the core banking solution and presently money can be deposited in any SBI customers account through the CSP of EKO. This has resulted in the migrant population from States like Bihar, Orissa, West Bengal, Assam and other north eastern states using their CSP for making inward remittances.

Under the model, a person with a mobile phone can open a no frill account with the CSP. The customers types the bank's short code, then an asterisk, then the mobile number of the person they are paying, then an asterisk, then the amount, followed by another asterisk and the customer code.

This model has been successful in metropolitan cities as a means of remittance by the migrant workers. The advantage of the model is its low cost. However, in a rural scenario with semi literate or illiterate clients, it might sometimes find lower acceptance.

Domestic Money Transfer Guidelines by RBI:

RBI has issued guidelines to effect small value fund transfer through the banking channels in a safe, secure and efficient manner. This has been a great boon to the migrant labourers. It has a direct bearing on the functioning of Banking Correspondents.

- Cash transfers upto Rs.10000/- can be made by an account holder to a beneficiary not having a bank account, through a BC or ATM subject to a cap of Rs.25000/- per month.
- A non customer is permitted to remit funds to a BC customer up to Rs.5000/- with a monthly cap of Rs.25000/-.
- Such walk in customer has to provide full details of his name and complete address to the remitting Bank.

INSIGHTS FROM THE FIELD

7.0.0. Assam: Experience with ASOMI

Among the states in the North Eastern region, Assam is probably the most financially excluded in terms of Banking penetration and accessibility to credit. While the all India Average Population Per Branch office (APPB) is 13147 as on 2011, that for Assam is 20324. The National Sample Survey Organization has found that while 51% of the farm households in all India basis has no access to credit from formal or informal sources, the exclusion in North Eastern region for farm households from formal sources is as high as 95.91%. As one of the most deprived regions as far as financial services are concerned, the research team thought it fit to include Assam in its study.

ASOMI is one of the leading NGOs in Assam registered under the Societies Registration Act XXI 1860 as a Society. It is engaged in social transformation through a number of programmes, including livelihood development promotion programmes, dairy processing, packaging and marketing, promotion of Self Help Groups and linking them with the Banks. It has also promoted a Non Banking Finance Company (NBFC), ASOMI Finance Pvt. Ltd. for undertaking micro credit. It has over 53 branches and 235 employees. The Society is one of the first organizations in Assam to take up the business of Banking Correspondent, by becoming an agent of Assam Gramin Vikash Bank, a Regional Rural Bank (RRB). In 2009, the BC pilot project was launched with the help of World Bank and NABARD with M/s Source Trace System India Pvt. Ltd, as the technology provider. Two CSPs were established by the BC, one in Bongaigaon District and another in Jorhat District. The CSP in Bongaigaon District was established in Baitamari to cover 5 villages and another one in Nagabat in Jorhat district to cover 6 villages. The average population of the villages covered by the CSP is more than 2000. Both CSPs started functioning in Dec.2009. Activities of the CSPs are confined to opening No Frill Accounts. The CSP at Baitamari could open 540 No Frill Accounts and Nagabat CSP 515.

Services are provided to the clients by the CSP through a laptop and POS accessories and the customers are provided with biometric cards. The Salary of the CSP @ Rs3700 month plus conveyance of Rs500 is met by the World Bank under the pilot project. All the software, hardware and POS machines/laptop costs are met by the technology provider. The BCs open on an average 30 accounts per month. The average transactions are about 80 deposit transactions amounting to Rs.1 lakh and 25 withdrawal transactions of around Rs30000/- per month. The Regional Rural Bank is paying the BC Rs.17 per account for account opening and 0.75% for cash withdrawal and cash deposit. The income and expenditure of the CSP at the time of the study was assessed as follows:

Expenses:

| | | |
|--------------------------------|---|-------------|
| Salary to CSP | : | 3 700 |
| Traveling expenses | : | 500 |
| Rent nominal | : | ---- |
| Other expenditure : <u>500</u> | | |
| Total | | 4700 |
| | | ===== |

| | | |
|--|---|-------------|
| Income for opening of accounts 30 x 17 | : | 510 |
| From transactions | : | <u>1050</u> |
| Total | | 1560 |
| | | ===== |

Loss per month : 3140

ASOMI is able to carry on the activity, since the salary and expenses of the CSP is funded by an outside agency. The NGO has plans to expand their activities and take advantages of the new offer of commission from the RRB which works out as follows:

| | | |
|--------------------------------|---|--------------------|
| 1. Initial grant by the RRB | : | Rs. 4000/- per CSP |
| 2. For fresh term deposit | : | 0.5 % of deposit |
| 3. For cash transactions | : | 0.75% |
| 4. Recovery of standard assets | : | 0.5% |
| 5. Recovery of NPA | : | 5-7% |

Learning

- The BC is able to continue operation because of external financial support in the form of re-imbusement of expenses of CSP by the World Bank.
- Opening of No Frill Accounts and cash transactions alone cannot bring viability. There is an urgent need to identify and meet credit demands of the rural households through the BC/CSP.
- Involvement CSP in monitoring & recovery of loans can meet the demands of clients at the same time improve cash flows for the BC/CSP.
- The NGO needs to build very strong supervisory mechanism, with off site and on site capabilities, to manage operational risks as the CSPs are located in far flung areas.

7.1.0.Orissa: Experience of Adhikar :

The state of Odisha in the eastern region of the country is one of the States which merits attention in financial inclusion. The average population served by a bank branch in the state is 13737 against the all India average of 13147. Though the spread of branch network in the state appears to be comparable to all India average, as per RBI data the state is ranked 16th among 24 states in the Financial Inclusion index, indicative of a large financially excluded population.

The research team, therefore, took up the state to analyse the reasons coming in the way of spread of banking correspondents and why the existing ones are not able to deliver. The experience of Adhikar, an NGO, was taken up for study. A member of Sa-Dhan, it represents a group of institutions which was compelled to come out of BC relationship.

7.1.1. Adhikar is an NGO/MFI head quartered at Bhubaneswar. It is committed to protecting the human rights of the poor and down trodden, particularly that of rural women. It has in the last one decade involved itself in many social interventions including forming co-operatives and SHGs. It is very active in the microfinance sector as a MFI. It started its banking correspondent relations with ICICI Bank with two CSPs, one at Mayappally and another in Damana. FINO was the technology provider and had deployed hand held machines, computer, webcam, biometric reader, printer and other accessories.

In a short span, they were able to open about 1000 savings bank accounts for each CSP. However, due to non viability of the model, Adhikar had to back off from BC operations and wind up the venture. The reasons cited by them for the failure can be summarized as follows:

- The compensation structure was very unfavourable making staff retention difficult. The entire loss of operations had to be absorbed by Adhikar.

Experience of HDFC Bank:

HDFC Bank was one of the first Banks to jump into the BC band wagon and implement it in right earnest from 2006. Their strategy was to enlist NGOs who were mostly in the field of SHGs promotion. 204 such NGOs were enlisted as BCs and they were facilitated to open savings bank accounts of the SHG members. Finance was extended through these BCs to about 0.5 million clients to the tune of Rs.500 crores. The BCs were made responsible for disbursement, follow up and recovery of these loans and were paid 2% of the loan amount as the commission.

Initially, the model worked well with large number of SB Accounts and substantial loans being disbursed. But, slowly after a year of operation, operational risks in the form of leakages, frauds etc. started to emerge which forced them to tighten the rules and regulations and intensify supervision operations.

Currently, they have 40 banking correspondents left and they have stopped lending through the BCs. Instead, they started financing through the branches of their bank. This is a change in their strategy - moving away from the banking correspondent model and focusing on brick and mortar branches.

The Bank feels that plugging all loop holes of operational risk in the BC model is a great challenge and needs to be tackled with great caution.

- The model was driven by a single product savings bank account. The bank was not willing to open up other products like credit and remittance.
- There was no system to address customer complaints. Adhikar was left with the responsibility of managing 2000 clients of the 2 CSPs. It was taking 2-3 months for issue of identity cards to the clients by the bank and Adhikar had to face the ire of the customers.
- Due to deficiency of the bank, Adhikar's own credibility and reputation was taking a beating.
- The whole scheme, Adhikar felt, was biased towards the bank and no help was forthcoming from any quarter to address issues faced by the BC or its clients.

An interaction with the clients of Adhikar revealed the following:

- The clients felt that the transactions at CSP level were slower than at the bank and it took a long time for the CSP to provide services.
- Pass book and ATM cards were not possible to be issued.
- No loan facility was offered to the clients.
- Clients were being charged high rates for opening SB Account. Rs.100 as account opening charges and Rs.15 for ID card.

Learning

- The attempt of Adhikar failed due to non viability.
- There was no serious effort to address the concerns of the BC.
- The customers felt aggrieved as only one product was on offer and that too at a very high cost.
- There was no business continuity plan for the accounts already opened.

7.1.2. Swayamshree Micro Credit Services, Bhubaneswar (SMCS)

SMCS is a Section 25 Company based in Bhubaneswar engaged in microfinance activities. Like Adhikar, they too are a member of Sa-Dhan. SMCS entered into a BC arrangement with State Bank of India from September 2011. At the time of the study in November 2011, they had opened one CSP and opened about 90 NFAs. For opening a CSP, SMCS has invested in one computer system & accessories, printer, webcam, one bio metric reader, one UPS and essential furniture at a cost of Rs.75000/- . Another Rs.50000/- was deployed as working capital. The operating cost incurred by them included salary of CSP operator, telephone and net connectivity, electricity, AMC, conveyance, office rent, depreciation and return on capital employed, which together worked out to Rs14000 per month. State Bank of India is providing software support for the company. FINO is the technology provider and currently they are paid Rs.20 for opening a No Frill Account. The Bank has assured them of servicing loan applications once they achieved a target of 300 NFAs. Going forward, the outlook of SMCs can be summarized as follows:

- They have serious doubts about the viability as the income from the activity alone will not be sufficient to sustain the project.
- There is resistance on opening of accounts from the clients as the CSPs were not issuing Pass Books and offering other facilities. Further, the clients were being charged for operation unlike dealing with the bank directly.
- Attempts are made to reduce costs by opening CSPs in the microfinance branches of the company.
- The BC is not getting proper and timely response from the Bank.

Learning

- It is too early to draw any conclusion from the experience of SMCS as a BC.
- There should be an exclusive officer in the mother branch or at least for a group of mother branches who shall own the programme and address all problems or queries by the BC.
- Clients of BC would not wish to get differentiated in terms of availability of services and charges of their account operation.

7.1.3. Feedback from SBI on BC operations in Orissa

State Bank of India commenced BC operations in the state in 2010 with the help of 3 organisations including SMCS. State Bank of India has plans to open 1200 CSPs by March 2012 and take the number of CSPs to 10000 by 2014. A one-day training programme is conducted for BCs and CSPs. An exclusive bank executive of the rank of an Assistant General Manager (AGM) has been placed as a channel management executive for the 13 regions of the bank in Orissa .

The business generated by the BCs was extremely low. The bank provides software support to the BC/CSP. The bank has specific guidelines for BC operations. The bank feels that greater awareness of BC model is to be created among the clients and non clients in order to make full use of the model. They also suggest provision of financial assistance to banks and BCs at least during the initial years to support their activities until their business reach the point of viability.

Learning

- Banks do not perceive the program as a commercially viable business activity due to low business volumes. Yet the programme is being pursued as it is a mandate.
- Financial literacy program has to be taken up in right earnest for the BC program to succeed where the literacy rate is low and exclusion large.
- In the bank there is no separate agency or vertical to drive the financial literacy campaign at the field level.
- Investment on training to CSP is inadequate

7.2.0. Karnataka

“Karnataka state is ranked No.3 in the country in terms of index of Financial Inclusion after Kerala & Maharashtra.”¹⁴ However, there is a concentration of branches in urban region. The state also has an excellent network of Gramin Bank Branches. The research team conducted a study of operations of 3 BCs in Karnataka- SKDRP, Gramin Koota Development Trust and Initiative for Development Foundation. The observations from this study are summarized below:

7.2.1. SKDRP (SHREE KSHETRA DHARMASTALA RURAL DEVELOPMENT PROJECT)

SKDRP is a society with headquarters in Dharmastala focused on microfinance the SHG based model. They are pioneers in this field and occupy a pre-eminent position among MFIs in the State with a good network of branches and excellent record of recovery. The society commenced its operations in 1982 under the visionary leadership of Dr. D. Veerendra Heggade of Dharmasthala. They work with 13 lakh families grouped into 1.18 lakh SHGs with total outstanding loan of Rs.1085 crores in 2011. They also mobilized a total savings of Rs.304 crores.

SKDRDP has been working as the BC of State Bank of India (SBI) since January 2009. Under this model, SKDRDP forms the SHGs, links credit for them to the branches of SBI and provides handholding services as well. Acting as a BC, SKDRDP provides banking services at the door step. This has ensured that a large number of SHGs can transact with the bank with the help of remote hand held devices through which all transactions take place. SKDRDP gets the benefit of the commission as a banking facilitator and also gets paid for the savings and recovery. The SKDRDP earned the confidence of State Bank of India through their track record.

It also operates in Tumkur District, with Corporation Bank. Integra Microsystem is the technology provider. They operate through hand held machines and smart cards. In Belgaum district, SKDRP has tied up with UBI, while Integra micro system and FINO provides technology. The BC provides deposits and loan services through the SHGs who are their clients. SKDRP is a successful model in BC operations as the banks have opened both savings and credit services and the BC uses their existing branch network for delivery of services. The society proposes to expand their BC network to other districts in Karnataka.

SKDRDP uses their staff for BC operations. Due to the respect and reputation of the promoters and their credible track record and better systems and procedures, the society has earned a good reputation with the banks and the clients, though there are issues like reconciliation of accounts etc with the Bank.

Learning

- The success of SKDRP as a BC comes from providing both savings and credit services to their clients.

¹⁴RBI - Financial Inclusion in India: A case-study of West Bengal, 2011

- The society already has a huge customer base which they are able to leverage through BC operations.
- The operational cost is reduced considerably as they are using existing branch infrastructure. The only extra cost they incur is on the hardware and software.
- SKDRP has a large backup service program for customer education and creating customer awareness and for other social interventions. The SKDRP model may not be fully replicable across the country because of several unique characteristics of the organization like their parentage.

7.2.2. Grameen Koota Development Trust

Grameen Koota Development Trust (GKDT) was founded in January 2010 with the purpose of furthering financial inclusion among customers of Grameen Financial Services Private Limited (GFSP). The first project under financial inclusion taken up by GKDT in partnership with mChek (a mobile payment technology provider) Bank of India and GFSP was for providing mobile banking services to Grameen Koota members by enrolling them with SIMs linked to their savings accounts through mChek technology. Using their SIMs, customers could also utilize a wide range of payment services, including loan repayments to GFSP. Mobile banking was intended to facilitate GFSP customers to have a safe place to save and an opportunity to earn interest on savings. GKDT also wanted to save cost for the GFSP customers through reduced time spent in weekly centre meetings (centre meetings are mainly for collecting repayments) and in making other bill payments, as well as reduced transportation cost for clients.

Chek as technology provider, considered its association with the project as technology demonstrator and therefore funding was done by them by providing the capital expenditure

Integra Micro Systems Pvt Ltd.

IMSPL is a technology provider for BC model and has tied up with more than 25 Banks. They have promoted a nonprofit organisation, I-25 to act as BC for banks. They operate through hand held devices, payment on terminal machine (POT), and Micro Terminal (MT). At the time of the study in Oct.2007 the company had 930 CSPs and 7 lakh clients.

The commission is shared by the banks at the ratio of 70:30 or 60:40 with the BC. The BC employs CSP who are mostly in the nature of franchisee doing other retail services. They are paid Rs.1000/- per month up to 120 transactions and beyond 120 at the rate of 50 paise per transaction. The franchisees incur the following cost.

| | | | |
|---------------------------|---|-------|--------------|
| 1. Registration | - | Rs. | 500.00 |
| 2. Security with the bank | - | Rs. | 10000.00 |
| 3. Security with Integra | - | Rs. | 30000.00 |
| | | | ----- |
| | | Total | Rs. 40500.00 |
| | | | ----- |

Each franchisee needs to do a minimum of 250 transactions per day to be sustainable..

I-25, BC of Integra is trying to channelise payments under NREGP, Widow pension, pension for old age and physically handicapped through the franchisees.

and part of the working capital. GKDT commenced operation as BC of Bank of India in January 2010 with 5 CSPs attached to five branches in JP Nagar, Bansankari, HSR Lay-out - all in Bangalore city and Bidthi, Whitefield, in the outskirts of Bangalore. Out of 5 CSPs, one was a direct employee and four trained retailers (kirana Shops). The fact that the project had an exclusive Project Manager with two supporting staff and one field staff indicated the seriousness with which GKDT wanted to go about the project. The Bank was paying Rs10 for opening a NFA and 0.5% for cash deposit and withdrawal. The BC was sharing 60% of the earnings with the CSPs. All the CSPs together could open 3367 NFAs with a balance of Rs. 6.97 lakhs . No other product was offered to the clients. Though the clients felt the convenience of doorstep banking and saving in cost and time, the Banking Correspondent was finding it uneconomical to carry on. With almost negligible operations in the accounts, the CSPs soon lost interest in the project. The Trust was steadily losing money and mChek pulled out from the project on completion of the project period. At the time of conducting the study, the Trust had virtually stopped their operations. The clients interviewed felt that without alternate arrangements to carry on the relationship with the bank, the going in the future would be extremely difficult and they were unsure about what would happen in the days to come. The NFA account holders were not permitted operations through the counters of the mother branch. Ms. Rehana one of the customers and wife of an autorikshaw driver who had saved money, felt lost in the process. Bank of India branch at JPnagar, which was acting as a mother branch had no business continuity plan and the feeling the research team got was that the branch was not much involved in the activity of the BC model and everything was being controlled and executed from the Regional Office. There was virtually no supervision of the BC/CSP from the Bank.

Learning

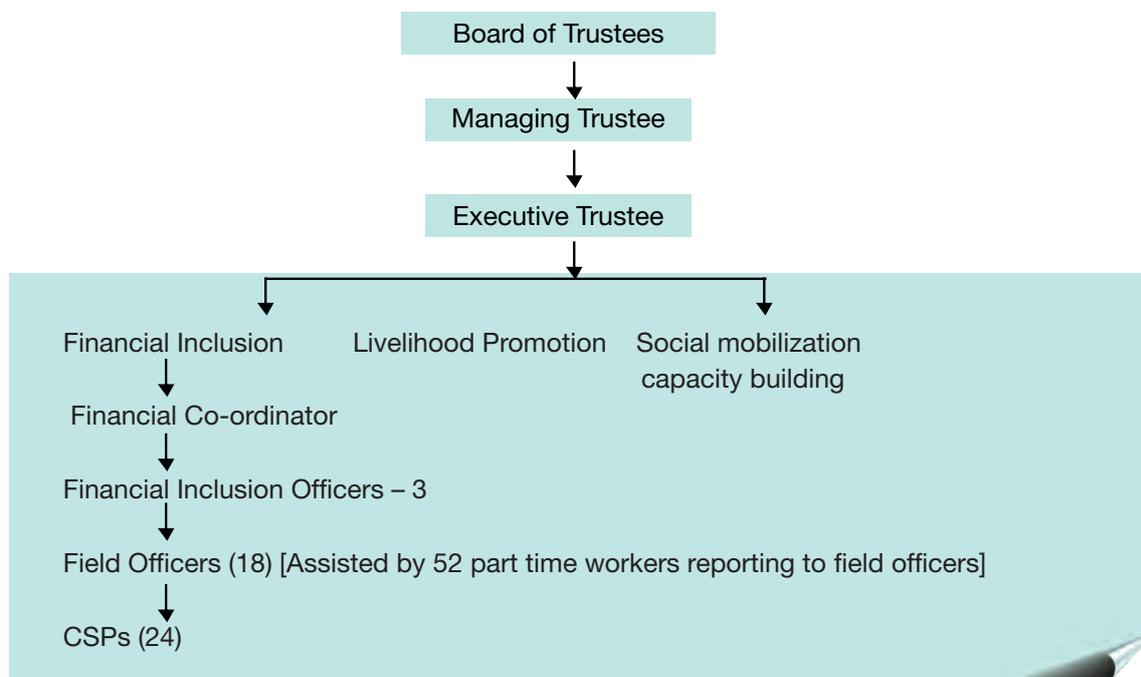
- With a single product of 'No Frill Accounts', the model was extremely unviable even when executed through existing retailers.
- There was little involvement, supervision, audit etc. from the mother branch of the BC.
- There was no business continuity plan and the clients were left in the lurch
- Delay in payment to BC by the bank added to their woes.
- BC operation in the initial stages until they reach an inflection point needed to be funded either by the govt. or the bank without which many of the BCs and their CSPs would down their shutters leaving the clients high and dry which could create a bad reputation for the programme and the Bank.

7.2.3. Initiative for Development Foundation (IDF)

IDF is a trust headquartered in Bangalore in Karnataka State, which is undertaking BC/BF activity as an agent of State Bank of India. It handles Government to Customer (G2C) business on behalf of Govt. of Karnataka and Bank to Customer (B2C) business for SBI. They also undertake mobile recharge, recharge of DTH services and other Bill payment services

with the help of Oxygen Services (India) Private Limited. The technology provider of the B2C access is SBI. They are in the process of establishing KIOSKS in the district of Thumkur.

The administrative structure of the BCs is as follows:



The job of the field officers and part time workers is conducting financial literacy programmes, generate business from the CSP and support the CSPs by removing infrastructural bottlenecks and cash management. The elaborate machinery created by the BC for field work could result in substantial business to the CSPs, IDF feels.

The requirement of investment, recurring cost and revenue per CSP in this typical Kiosk Model has been estimated as follows:

1. Capital Cost

| | | | |
|--------|----------------------|---|---------------------------|
| (i) | Lap top | - | 30,000.00 |
| (ii) | Fingerprint capturer | - | 8,000.00 |
| (iii) | Furnishing | - | 30,000.00 |
| (iv) | UPS | - | 18,000.00 |
| (v) | Printer | - | 4,000.00 |
| (vi) | Data card | - | 2,000.00 |
| (vii) | Telephone | - | 500.00 |
| (viii) | Cleaning cost | - | 8,000.00 |
| (ix) | Security deposit | - | <u>10,000.00</u> |
| | Total | - | <u>1,10,500.00</u> |

2. Recurring Cost per CSP per month

| | | |
|---|---|------------------|
| AMC on hardware | - | 600.00 |
| Rent | - | 500.00 |
| Electricity | - | 500.00 |
| Salary | | |
| (a) KIOSK operator | - | 5,000.00 |
| (b) Field Officer | - | 2,000.00 |
| (1/3 rd of the salary of the field officer @ one field officer for 3 CSPs) | | |
| (c) Facilitator | - | 2,000.00 |
| Transportation & Conveyance | - | 3,000.00 |
| Connectivity charges | - | 1,000.00 |
| Misc. expenses | - | 500.00 |
| Depreciation | - | 1,800.00 |
| Return on capital employed @ 10% | - | 1,000.00 |
| Total | - | 17,900.00 |

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The contract with BC with SBI which is to be renewed every year stipulates the following revenue sharing pattern.

For rural & semi- urban areas:-

| | | |
|-------------------------------|---|--|
| (i) Opening No Frill Accounts | : | Rs. 25 (Rs15 goes to BC, Rs5 to technology provider and Rs5 to the Bank) |
| (ii) Issue of Smart card | : | Rs. 25 (Rs15 to BC, Rs10 to tech-Provider) |
| (iii) Cash Deposit | : | 0.25% of the amount with minimum Rs.1 and maximum Rs.6 |
| (iv) Cash withdrawal | : | Minimum Rs.2 and maximum Rs.15 |

The CSP studied by the research team, at the time of visit in Dec 2011 were in early stages of operation. The income generation per CSP per month at the time of the study is as follows:

Income of CSP per month

| | | |
|----------------------|---|----------------|
| Opening of accounts | : | 4500.00 |
| Granting of loans | : | 500.00 |
| Deposit & withdrawal | : | 700.00 |
| B2C and G2C | : | 1250.00 |
| Total | : | 7000.00 |

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The activities of the Trust are currently funded by grants and they are in the midst of implementing the project for demonstration purpose. However, the BC feels that in the current form, its activity may not be viable and once the grant support is removed, it will be difficult to survive. Mr. Salimath, its Managing Trustee feels that to improve the viability of BC, all SHG loans, disbursement under Kissan Credit Cards from the Bank should be carried out and

repaid through the CSP. Similarly, all Government services envisaged under the e-governance programme through the Common Service Centre should also be routed through the BC. The benefits under various schemes especially, NREGA has to be delivered through the CSP. He also felt that the rates across the banking system has to be rationalized to give a fair rate of commission to the BCs and the settlement of the commission on BC should be automatic and without delay as all transactions are captured in the core banking system of the Bank.

Learning:

- The KIOSK model needs very high capital investment. It is suitable for serving villages with a fairly large population
- There needs to be significant promotional effort and investment by the Business Correspondent for client education.
- Financial literacy and education programme has to run parallel to the BC programme.
- The G2P payment & services has to be an integral part of the revenue model.
- The Kiosk model BC can deliver the services envisaged under the e-governance programme which would substantially improve the lead time needed to achieve self sustainability.

An interview with a senior banker

This bank official gave new insights as to how the largest bank in the country views the whole programme. He feels “Business Correspondent Model should be open to all sections of the society so that the business volume generated by this segment would be self sustainable. As at Oct 2011, 70 million No Frill Accounts has resulted in Rs.125 crores as savings bank account balance in SBI. It may not be significant today. But it can turn out to be a huge business in future”. The bank’s business through BC model under Savings Bank Account has grown from Rs. 57 crores in March 2011 to Rs. 125 crore in October 2011.

The bank tied up with technology providers like FINO, A Little World Technologies, EKO and has also developed its own technology product. He feels that commercial banks have not yet accepted the business potential of the BC programme. It still remains as a mandated initiative.

To succeed there needs to be a huge effort in awareness building within the banking industry and an intensive parallel campaign for financial literacy targeting the existing and potential customers. The bank has a target of covering 16000 villages with more than 2000 population, out of 73000 villages currently identified under the financial inclusion plan. Up to October 2011, 9000 villages have been covered either through BCs or by opening own branches.

He feels that the quality of implementation of the programme is equally important. To have sustained interest, the compensation to BC should be adequate to cover the fixed and variable cost. There is a need to have separate models for serving the urban & rural clients.

The challenges faced by the bank are

- (1) finding good BCs who have the capacity and systems to manage efficiently a large number of CSPs,
- (2) failure of most of the State Govt. to route G2C payments through the BC channel and
- (3) risk management associated with outsourcing.

The transactions in the Bank through BCs have picked up from 26.28 lakhs in the whole of the financial year 2007 to 44.59 lakhs in the seven months of 2011-12 with the amount of transactions increasing from Rs1260 cr. to Rs2031cr.

SBI has all the 3 models of BC in the field, smart/non smart card; Cell phone based messaging system and KIOSK banking. Of these, based on the number of transactions, the KIOSK model with 25.51lakhs transactions during 2011-12 seems to be the most popular.

7.3.0. Uttar Pradesh

“Uttar Pradesh, the most populous State in India ranks 13th under the financial inclusion index. The average population per bank branch in the State is 20000 against national average of 13,147.”¹⁵ Uttar Pradesh therefore was a natural choice for the study.

7.3.1. Cashpor Micro Credit

Cashpor Micro Credit, a nonprofit, Section 25 Company acting as Banking Correspondent, was taken up as a representative model for the study. They operate in Eastern UP and Bihar. They have entered into Bank Correspondent arrangement with ICICI bank under which saving services is provided. Similarly, they have arrangement with HDFC bank and IndusInd bank for thrift and credit. EKO is the technology provider. The model adopted by Cashpor is found to be successful in that they are using the existing infrastructure of their branches. Their Centre Managers double as CSPs. Cashpor has deployed 536 CSPs for their operations. The CSPs are given additional incentives over and above their normal salary for the services rendered. In the initial stages, the Branch Managers were acting as supervisors of CSP. As the business grew, they are experimenting with dedicated supervisors for the CSPs. Five officers are engaged exclusively for supervising the BC operations. Cashpor is authorized by the bank to charge Rs.100/- to open a savings account from the client Rs.50 is charged per client per year for undertaking unlimited transactions in their NFAs. Those clients who do not opt for unlimited transactions are charged Rs.2/- for every transactions. The banks pays the BC Rs.20/- for every savings bank account opened, out of which the BC provides Rs.5/- to the CSP as incentive. Thanks to Cashpor, 22000 clients have access to services for enabling savings, 70% of them are their existing borrowers and 30% are new clients. The clients of Cashpor felt quite satisfied with the service as they get doorstep service and transact accounts using the mobile phones.

Learning

- Cashpor is one of the successful models the study encountered.
- Their operation is successful because they have a captive clientele base, share the Infrastructure of the branches and deploy their own staff as CSP.
- The Eko model is less capital intensive, limited to the cost of an ordinary mobile costing Rs5000/- or less. (The actual cost of a standalone model is mentioned under the Chapter on financial modeling) and hence they have almost nil capital cost.
- Cashpor uses the savings account for disbursement of their loans.

¹⁵RBI - Financial Inclusion in India: A case-study of West Bengal, 2011

Interview with Miss Usha Thorat, Deputy Governor, RBI

Ms. Usha Thorat, as the Deputy Governor of RBI, has been taking keen interest in popularizing the Banking Correspondent Model "If, only one single product, No Frill Account, alone is offered through the BC, it would be very difficult to make it viable. The Banks need to offer all the 4 products, savings, loans, remittances and micro insurance to make BC model viable and demonstrate that financial inclusion is not an obligation, but a business."

She feels that huge investments are required in the field of training and capacity building of the potential clients. For this purpose, the investment needs to come from the Banking sector. Institutions like Indian Institute of Banking and Finance are needed across various regions to train the staff in the banking sector. She felt that involving SHGs and their federations in implementation of the BC model, by training and building capacity in them, could prove to be a game changer.

7.4.0. Haryana

Haryana stands in the 10th position in financial inclusion index amongst the 24 states in the country. Though a fairly advanced State in development of agriculture, in banking penetration, it has many excluded areas. Therefore, the study took up the case of village, Gunayana where the **FINO FINTECH FOUNDATION** operates as the BC.

7.4.1. Fino Fintech Foundation:

The Technology Company, FINO established **FINO FINTECH FOUNDATION** in an attempt to take its solution to the, small underserved clients. The study covered a CSP of **FINO FINTECH FOUNDATION** in Gunayana village attached to Nissang branch of Oriental Bank of Commerce. The CSP operates in Gunayana village.

The CSP is a graduate and was chosen by the BC. He is provided with POS machine, mobile telephone and batteries, customers are issued bio-metric cards for identification. The CSP commenced operations in May 2010. Only saving services in the form of NFAs are offered. Out of 1300 households in the operational area of the CSP, 900 have opened accounts at the time of the study in November 2011.

Interview with Mr. R.Bhaskaran, Director, Indian Institute of Banking & Finance

Indian Institute of Banking and Finance is doing pioneering work in capacity building of various stakeholders of BC programme. It is one of the 22 accredited agencies engaged in capacity building. Some of the banks have made it mandatory that every person who manages a CSP needs to undergo 5 days of training from the institute before they are deployed in the field.

Mr. Bhaskaran said, "Every CSP has to be a money shop and all cases of disbursement in the village need to be carried out through the CSP to improve its viability. The product ranges on offer through the BC need to be increased to at least 3 with strict monitoring on compliance." He claims that interoperability of the BC is a must for improving operational efficiency.

He also feels that the scheme needs a fairly long gestation period for it to become operationally viable and during this period it is to be supported by the Banks or the Government or by both, instead of asking the CSP, the BC or the technology provider who have very little staying power to bear this cost.

The numbers of transactions are 6 to 7, including both credit and debit, per day with total number of transactions averaging 150 per month.

The entire investment on the hardware and software is done by the BC. The BC allows the CSP to hold an overnight cash balance of Rs10,000/- While this was sufficient to meet the normal cash requirements at current levels of transactions, it was found inadequate to meet seasonal cash disbursement arising out of NREGA payments. This was mentioned as a serious concern by the clients. The BC was not willing to enhance this limit for fear of operational risk.

The CSP was also facing serious issues in connectivity and reconciliation.

There was also absence of customer grievances redressal mechanism. The village where the CSP operated was fairly developed and financial condition of the people was above the national average. However, the CSP was not targeting the really excluded among the villagers.

The CSP is not trained to go beyond class and caste prejudices and reach out to the excluded sections of the village. The CSP was not able to derive any commission for the last 11 months as he could not come above the threshold level to earn commission. He felt that with the kind of compensation it was not worth the effort. He was continuing because he had other agriculture income.

Learning:

- The whole operation of the BC in the village was unviable. The bank was yet to open credit services through the CSPs. This was a typical case of CSP not getting enough and was on the verge of leaving.
- Customers were not satisfied due to limitation of CSP in handling cash and the time taken for disbursement.
- Connectivity, reconciliation of differences and liquidity were real operational bottlenecks.
- The customers had no formal mechanism to air their complaints and get their grievances redressed.

Nokia Mobile Money:

Nokia acts as Banking Correspondent for Union Bank of India and YES Bank. They have outsourced their technology to Obopay. They operate in 250 towns of which 150 are in Eastern UP. Their CSPs are the Nokia retailers. Though the operation, through the CSPs, shows an increasing trend, the break even was still three to four years away. However, Nokia is optimistic about India as they see it as an emerging market and there is lot of emphasis on Financial Services. They felt that the Banks were not very keen in taking the BC model forward. The BCs, Nokia feels should be treated as equal partners by the Banks. Handholding assistance and financial help need to be extended till the BCs become viable and self sustaining. As far as regulations are concerned, RBI should slowly increase the caps as the banks gain experience and become more confident so that the BCs would be able to serve a larger clientele. The inter operability of CSPs permitted recently by RBI should be implemented in a time bound manner.

7.5.0. Maharashtra

Maharashtra leads in average population per bank branch largely because of the concentration of bank branches in Mumbai. In financial inclusion index also the state is ranked second among the 26 States in the Country.

7.5.1. Chaithanya

Chaithanya is a society established in the year 1993 in Nasik. They operate in 29 villages largely acting as Self Help Promoting Institution (SHPI). They have promoted 161 groups with a total membership of 1935.

The groups are segregated into 12 clusters depending on their geographical location. A federation of SHG was formed as a Mutual Benefit Trust (MBT) in 2008. 148 SHGs are members of this Trust. The purpose of the Federation is to undertake savings and lending to its members. The parent organization entered into a BC arrangement with YES bank in January 2012. The BC arrangement is mainly to provide loans to the members of the federation. Saving facilities are extended by the federation itself. Under the BC arrangement 30 groups have received bank assistance in the first phase from YES bank through the federation.

The BC also provides repayment facility to the borrowers of the federation. Under this arrangement the BC gets 1% of the loan extended, the federation 9% and the bank charges 14%. The ultimate beneficiary is charged 24% for the loan. Through this process, the viability of the BC is ensured and the federation is also able to meet its operating expenditure. The Bank keeps a close vigil on utilization of loans, recovery and collection practices through an independent supervisory mechanism. The BC, in this case, is not encouraging any non-member to become its client for fear of too much exposure. M/s. Dhruv Technologies provide the technological support for the BC. The BC has just commenced the operation and it is hoped that this model for Community Based Organisation acting as MFIs is replicable

Learning

- Community based organizations like Chaithanya can play a very important role as BC and act through the SHG federations.
- The bank- SHG Federation- SHGs model with the parent NGO acting as the BC for lending and savings is truly a replicable model to unleash the potential of SHGs and can create a win-win situation for all.

7.6.0. Conclusion.

In this study an attempt has been made to study organizations from different geographies in the country. Similarly, BCs of different legal forms, ranging from societies, trusts and section 25 companies, have been covered. Successful BCs, not so successful BCs and those who could not succeed have been put under the scanner. Various stake holders like Banks, Regulators, Training and Capacity Building Institutions, Technology Providers have all contributed their ideas. This has helped the team to come out with their Key Findings and Recommendations in the ensuing Chapter.

FINANCIAL MODELLING

8.0.0. Introduction

In this chapter we discuss the feasibility of types of Customer Service Point (CSP) models being utilized by BCs to provide last mile outreach. These models are primarily differentiated by the technology and device utilized by the CSP to enable transactions. These are as indicated elsewhere in this report in detail:

- 1. Laptop + Hand-held** capable of biometric identification operated from **kiosks (Kiosk-model)**
- 2. GPRS enabled mobile set** with biometric identification and blue tooth enabled hand held printer (**GPRS mobile model**)
- 3. Simple mobile sets** utilizing SMS and facilities such as India Interbank Mobile Payment Service of National Payments Corporation of India (**Mobile SMS model/USSD**)

Within the three broad models identified above, there are variations in the way the CSP operates. While CSPs mostly operate through establishment such as small shops, those using GPRS enabled mobile sets also move in contiguous areas (such as neighboring villages), typically on a motor bike. The study analyzed the financial feasibility of all these models, based on assumptions regarding various expenditures and revenue streams.

8.1.0. Capital Expenditure

Capital expenditure for different models.

| Kiosk-model | | GPS mobile model (Shop) | | GPS mobile model (Motor Bike) | | Mobile SMS model | |
|-------------------|----------------|--|--------|--|---------------|-----------------------|---------------|
| Item | Cost* | Item | Cost* | Item | Cost* | Item | Cost* |
| Laptop | 30,000 | Biometric GPS mobile plus blue tooth enabled hand held printer | 15,000 | Biometric GPS mobile plus blue tooth enabled hand held printer | 15,000 | Mobile cost | 5,000 |
| Biometric unit | 8,000 | Security Deposit | 25,000 | Security Deposit | 25,000 | Printer/ Note counter | 5,000 |
| UPS/Printer | 22,000 | | | Motor Bike | 40,000 | Security Deposit | 25,000 |
| Furnishing | 35,000 | | | | | | |
| Data Card | 2,000 | | | | | | |
| Telephone Deposit | 1,000 | | | | | | |
| Training | 8,000 | | | | | | |
| Working Capital | 20,000 | | | | | | |
| Total | 126,000 | | | Total | 40,000 | Total | 80,000 |

*Currency in INR

8.1.1. Operational Costs **

The operational costs of the CSPs depend on their operating models:

1. whether they operate from shops or move on motorbikes
2. whether they operate in rural areas or in urban areas.

In the following tables, the operating costs that were deduced from field work and discussions with important stake-holders are presented. These also serve as assumptions in the financial models presented later, with an annual increase of 5% taken on account of inflation.

| Shop/Kiosk (Rural) | Monthly Costs* | Urban-shops | Monthly Costs* | Motor Bike | Monthly Costs* |
|---|----------------------------|---|--|-------------------------------|----------------|
| Rent | 500 (Nil in case of shops) | Rent / Electricity | Nil as CSP operates from existing premises | Fuel Expenditure | 1,750 |
| Maintenance of Hardware/Admin | 500 | Maintenance of Hardware/Admin | 500 | Maintenance of Hardware/Admin | 500 |
| Operator's Salary | 5,000 | Operator's Salary | 7,000 | Salary | 5,000 |
| Connectivity Charges | 1,000 | Connectivity Charges | 1,000 | Connectivity Charges | 1,000 |
| Cost of Insurance (apportioned monthly) | 400 | Cost of Insurance (apportioned monthly) | 400 | Cost of Insurance | 400 |
| Electricity | 500(Nil for shop) | Electricity | 500 | | 500 |

*Currency in INR

8.1.2. Revenue Streams for CSP

The CSPs can depend on the following sources to earn a revenue stream.

1. Opening of No Frills Accounts (NFA) of banks: The account opening charges for NFA was observed to be Rs 25 for rural areas and Rs 100 for urban areas. Of the amount collected from the client, 25% is retained by the bank. CSP gets 40% of the remaining amount, the rest going to the BC.
2. Maintenance of NFA: The maintenance charge for NFA was observed to be Rs 4 per annum. Of the amount collected from the client, 25% is retained by the bank. CSP gets 40% of the remaining amount, the rest going to the BC.
3. Deposit services for NFA: The cash deposit charge was observed to be 0.25% on an average, with the minimum being Re 1 and upper limit fixed at Rs 6. Of the amount collected from the client, 25% is retained by the bank. CSP gets 40% of the remaining amount, the rest going to the BC. In the financial models it is assumed that CSP gets Re 0.5 per deposit transaction.

**Cost assumptions, by Sa-Dhan team, derived from an analysis of the cost structures of CSPs of different BCs interviewed during the study

4. Withdrawal services for NFA: The cash withdrawal charges was observed to be 0.5% on an average, with the minimum being Rs 2 and upper limit fixed at Rs 12. Of the amount collected from the client, 25% is retained by the bank. CSP gets 40% of the remaining amount, the rest going to the BC. In the financial models it is assumed that CSP gets Re 1 per withdrawal transaction.

| Outreach | Year 1 | Year 1 | Year 3 | Year 4 | Year 5 |
|---|--------|--------|--------|--------|--------|
| Area Served (Village) | 1 | 1 | 1 | 1 | 1 |
| Number of Households in the Area | 500 | 510 | 520 | 531 | 541 |
| Percentage of Households Enrolling with CSP | 60% | 70% | 80% | 80% | 80% |
| Clients enrolled per household | 1 | 1 | 1 | 1.2 | 1.2 |
| Percentage of Enrolled Households Maintaining Active Accounts (deposit, withdrawal, remittance and credit transactions) | 60% | 60% | 60% | 60% | 60% |
| Number of deposit transactions per Active Client per month | 1 | 2 | 3 | 3 | 3 |
| Number of withdrawal transactions per client per month* | 1 | 2 | 2 | 2 | 2 |
| Number of Remittance transactions per month by CSP | 30 | 45 | 60 | 60 | 60 |
| Number of Loans Disbursed by CSP | 180 | 214 | 249 | 305 | 311 |
| Average tenure of loans (Year) | 1 | 1 | 1 | 1 | 1 |
| Average Loan Size | 5,000 | 7,500 | 15,000 | 20,000 | 25,000 |
| Percentage of Active Clients Obtaining Life Insurance | 10% | 15% | 20% | 25% | 30% |
| Average Life Insurance Premium Per Account Per Year (Rs) | 1000 | 1000 | 1000 | 1000 | 1000 |
| Percentage of Active Clients Obtaining Non Life Insurance | 5% | 10% | 15% | 20% | 25% |
| Average Non Life Insurance Premium Per Account Per Year (Rs) | 100 | 100 | 100 | 100 | 100 |
| Percentage of all households utilizing bill payment service | 18% | 28% | 39% | 49% | 63% |
| Number of bill payment transactions per month per household using bill payment services | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Percentage of Active Accounts enrolling for Swavalamban | 10% | 20% | 35% | 45% | 50% |

Note: Cost assumptions, by Sa-Dhan team, derived from an analysis of the cost structures of CSPs of different BCs interviewed during the study

5. Remittance services for NFA: The remittance charge was observed to be 2% on an average, with the minimum being Rs 25 and upper limit fixed at Rs 100. Of the amount collected from the client, 25% is retained by the bank. CSP gets 40% of the remaining amount, the rest going to the BC. In developing financial models it has been assumed that CSP gets 0.8% per remittance transaction.
6. Loan facilitation for NFA: As last mile arms of the banks, the CSPs can also facilitate provision of credit to NFA. The CSP gets 1% on sourcing of loan and 1% on recovery of installment.
7. Insurance Services: The CSPs can also provide insurance services to their clients. In the financial model we have assumed that the CSP gets 7.5% of the total premium collected in a year for life insurance and 5% for non life insurance.
8. Bill payment services: The CSP can also provide bill payment services. In the financial model we have assumed that the CSP gets Rs 5 per bill payment transaction.
9. Sub agent of Swavalamban pension scheme aggregator: CSPs can also potentially act as last mile arm of Swavalamban scheme for micro pensions. In our financial models we have assumed that the CSP gets Rs 25 for opening Swavalamban accounts and Rs 12.5 for collecting premium for Swavalamban accounts.
10. Income from government sponsored schemes such as MG-NREGA payments.

The revenue streams discussed above can translate reliably only when important stakeholders such as banks, are able to place sufficient trust on the CSPs. This in turn depends on the kind of management control systems and procedures established by the BCs. Moreover, BCs also need to provide training to CSPs so that they can perform their operations effectively and efficiently.

8.2.0. Basic Kiosk Model

In addition to the cost and revenue assumptions presented earlier, we have made the following assumptions to analyze the financial feasibility of the CSPs operating under the Kiosk model.

*Including payment on account of Government Sponsored Schemes

8.2.1. Projection for the basic kiosk model

With the outreach assumptions presented above, we get the following projections for earnings and costs of the CSP in the basic Kiosk model.

| Capital Costs | Year 1 | Year 1 | Year 3 | Year 4 | Year 5 |
|--|----------------|----------------|----------------|----------------|----------------|
| Hardware | 30,000 | - | - | - | - |
| Biometric unit | 8,000 | - | - | - | - |
| UPS/Printer etc | 22,000 | - | - | - | - |
| Furnishing | 35,000 | - | - | - | - |
| Data Card | 2,000 | - | - | - | - |
| Telephone Deposit | 1,000 | - | - | - | - |
| Training | 8,000 | - | - | - | - |
| Working Capital Employed | 20,000 | - | - | - | - |
| Total per CSP | 126,000 | - | - | - | - |
| | | | | | |
| Operational Costs | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Rent | 6,000 | 6,300 | 6,613 | 6,946 | 7,293 |
| Maintenance of Hardware/ Other Admin | 12,000 | 6,300 | 6,613 | 6,946 | 7,293 |
| Kiosk Operator's Salary | 6,000 | 63,000 | 66,150 | 69,458 | 72,930 |
| Connectivity Charges | 60,000 | 12,000 | 13,230 | 13,892 | 14,586 |
| Cost of Insurance | 4,800 | 5,040 | 5,292 | 5,557 | 5,834 |
| Electricity | 6,000 | 6,300 | 6,6154 | 6,946 | 7,293 |
| Depreciation | 25,200 | 25,200 | 25,200 | 25,200 | 25,200 |
| Total Operational Cost | 120,000 | 124,740 | 129,717 | 134,943 | 140,430 |
| Charge for Return on Capital Employed @ 10% | 12,600 | 12,600 | 12,600 | 12,600 | 12,600 |
| Earnings from BC Operations | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Account Opening Charges | 2,250 | 428 | 444 | 699 | 76 |
| Revenues from Deposit Transactions | 1,080 | 2,570 | 4,495 | 5,501 | 5,611 |
| Revenues from Withdrawal Transactions | 2,160 | 5,141 | 5,993 | 7,335 | 7,428 |
| Revenues from Remittances | 4,320 | 8,100 | 12,960 | 13,824 | 13,824 |
| Revenues from Account Maintenance | 216 | 257 | 300 | 367 | 374 |
| Total Earnings from BC Operations | 10,026 | 16,496 | 24,191 | 27,726 | 27,368 |
| Earnings from Loans Facilitated | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Commission earned on | 9,000 | 16,050 | 37,350 | 61,000 | 77,750 |
| Commission earned on repayments collected | 4,500 | 12,525 | 26,700 | 49,175 | 69,375 |
| Total Earnings from Loans Facilitated | 13,500 | 28,575 | 64,050 | 110,175 | 147,125 |

Note: Cost assumptions, by Sa-Dhan team, derived from an analysis of the cost structures of CSPs of different BCs interviewed during the study

| Insurance | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--|------------------|-----------------|-----------------|----------------|-----------------|
| Life | 1,350 | 2,410 | 3,745 | 5,731 | 7,014 |
| Non-Life | 45 | 107 | 187 | 306 | 390 |
| Total Earnings from Insurance Distribution | 1,395 | 2,517 | 3,933 | 6,036 | 7,404 |
| Swavalamban | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| CSP Revenues from Account Opening | 450 | 1621 | 1,564 | 1,874 | 2,022 |
| CSP Revenues from Swavalamban Installment | 225 | 536 | 1,092 | 1,719 | 1,948 |
| Total Earnings from Swavalamban | 675 | 1,157 | 2,656 | 3,594 | 3,971 |
| Earnings on Bill Payments | 2,625 | 4,284 | 6,008 | 7,800 | 10,229 |
| Total Income (Basic Kiosk Model) | 28,221 | 53,028 | 100,838 | 155,331 | 196,096 |
| CSP Profits (after 10% charge for capital employed) | (104,379) | (84,312) | (41,479) | (7,788) | (43,066) |

*Currency in INR

The projections reveal that the CSP breaks even after the third year of operations. This breakeven scenario assumes a village with over 500 households or a population of over 2500 persons. Also, in the five projected years, the CSP is unable to recover the losses made in the initial three years.

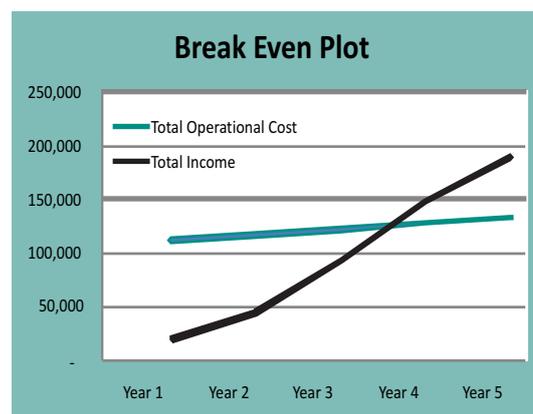
8.2.2. Kiosk Model (Also Acting as E Governance Service Centre)

Given the infrastructure created in the kiosk, it can also be used as E-Governance Service Centre. As an E-Governance Service centre the CSP can help provide the following services related to government departments:

1. Encumbrance certificates
2. Site plans
3. Ownership and possession certificates
4. Other services relating to local bodies such as registration of marriage, birth and death
5. Payment of Taxes (Land, House, Vehicle)
6. Water and sanitation charges

8.2.3. Assumptions:

The table below presents the assumptions regarding the revenues that the CSP earns by acting as an E Governance Service Centre.



| E Governance Services | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--|--------|--------|--------|--------|--------|
| CSP's earning per transaction (INR) | 10 | 10 | 10 | 10 | 10 |
| Percentage of all families in the area availing services | 30% | 50% | 75% | 75% | 75% |
| Number of families availing services | 150 | 255 | 390 | 398 | 406 |
| Number of transactions per family per year | 5 | 5 | 5 | 5 | 5 |

While the operational costs and revenues from facilitating transactions for NFA remains the same in this model as in the basic kiosk model, the CSP gets an additional stream of revenue by acting as an E Governance Service Centre. This revenue acts as a buffer and improves the profitability of the CSP. This is presented in the table below.

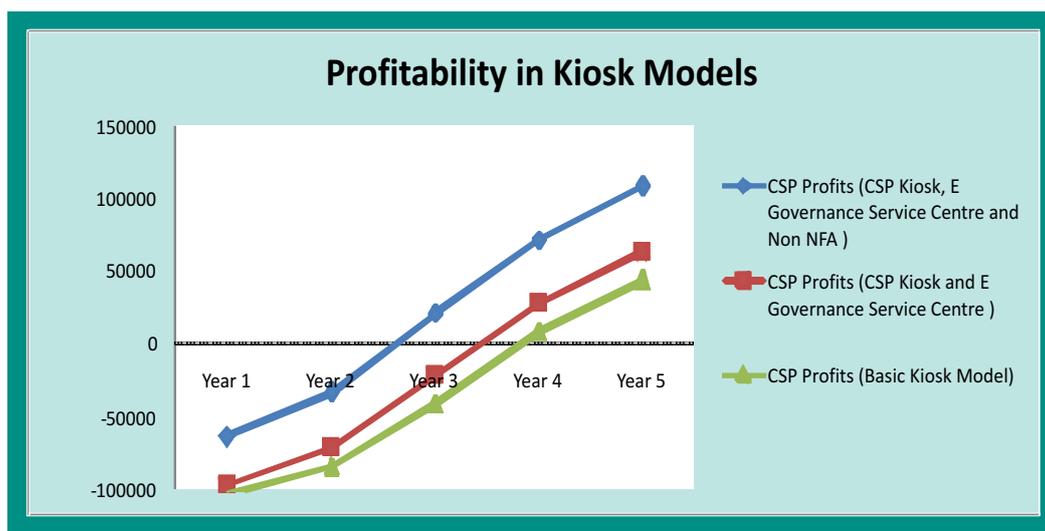
| Profitability (INR) | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--|----------|----------|----------|---------|---------|
| Total Operational Costs | 120,000 | 124,740 | 129,717 | 134,943 | 140,430 |
| Capital Charge @ 10% | 12,600 | 12,600 | 12,600 | 12,600 | 12,600 |
| Earnings (Basic Kiosk Model) | 28,221 | 53,028 | 100,838 | 155,331 | 196,096 |
| Earnings from E Governance | 7,500 | 12,750 | 19,508 | 19,898 | 20,296 |
| Total Income (CSP Kiosk and E Governance Service Centre) | 35,721 | 65,778 | 120,345 | 175,229 | 216,392 |
| CSP Profits (after 10% charge for capital employed) | (96,879) | (71,562) | (21,972) | 27,686 | 63,362 |
| Non NFA | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Percentage of household having bank accounts | 15% | 15% | 15% | 15% | 15% |
| Percentage of above availing services through CSP | 50% | 65% | 80% | 80% | 80% |
| Number of Non No Frills Accounts Availing Services | 45 | 60 | 75 | 76 | 78 |
| Deposit Transaction Per Month Per Non No Frills Accounts | 8 | 8 | 8 | 8 | 8 |
| Withdrawal Transactions Per Month Per Non No Frills Accounts | 8 | 8 | 8 | 8 | 8 |
| Remittance Transactions Per Month Per Non No Frills Accounts | 2 | 2 | 2 | 2 | 2 |
| Charge on Deposit Transactions on Non NFA* | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Charge on Withdrawal Transactions on Non NFA* | 3 | 3 | 3 | 3 | 3 |
| Charge on Remittance Transactions on Non NFA* | 30 | 30 | 30 | 30 | 30 |
| Percentage Share of CSP in Revenues Collected | 40% | 40% | 40% | 40% | 40% |
| Percentage Non NFA related loans of all households | 10% | 10% | 10% | 10% | 10% |
| Number of Non NFA related loans | 60 | 61 | 62 | 64 | 65 |
| Disbursement transactions per loan per year | 3 | 3 | 3 | 3 | 3 |
| Recovery transactions per loan per year | 2 | 2 | 2 | 2 | 2 |

*Currency in INR

Note: Cost assumptions, by Sa-Dhan team, derived from an analysis of the cost structures of CSPs of different BCs interviewed during the study

8.2.4. Kiosk Model (Acting as E Governance Service Centre and providing Services to Non-NFA)

In this scenario, we have assumed that in addition to providing services to No Frills Account holders and acting as an E Governance Service Centre, the CSP also provides last mile banking services to Non No Frills Account holders (Non NFA) of banks.



The assumptions regarding revenues from services provided to Non-NFA are presented in the table below.

| Profitability (INR) | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|-----------------|-----------------|----------------|----------------|----------------|
| Total Operational Costs | 120,000 | 124,740 | 129,717 | 134,943 | 140,430 |
| Capital Charge @ 10% | 12,600 | 12,600 | 12,600 | 12,600 | 12,600 |
| Earnings (Basic Kiosk Model) | 28,221 | 53,028 | 100,838 | 155,331 | 196,096 |
| Earnings from E Governance | 7,500 | 12,750 | 19,508 | 19,898 | 20,296 |
| Annual Earnings from Deposits Transactions of Non NFAs | 1,620 | 2,148 | 2,697 | 2,751 | 2,806 |
| Annual Earnings from Withdrawal Transactions of Non NFAs | 3,240 | 4,296 | 5,393 | 5,501 | 5,611 |
| Annual Earnings from Remittance Transactions of Non NFAs | 8,100 | 10,741 | 13,484 | 13,753 | 14,028 |
| Annual Earnings from Commissions in Non NFA Loans | 20,000 | 20,400 | 20,808 | 21,224 | 21,649 |
| Annual Earnings from Non NFA Loan Transactions | 180 | 184 | 187 | 191 | 195 |
| Earnings from Non NFAs | 33,140 | 37,769 | 42,569 | 43,420 | 44,289 |
| Total Income (CSP Kiosk, E Governance Service Centre and Non NFA) | 68,861 | 103,547 | 162,914 | 218,649 | 260,680 |
| CSP Profits (after 10% charge for capital employed) | (63,739) | (33,793) | 20,597 | 71,106 | 107,650 |

Note: Cost assumptions, by Sa-Dhan team, derived from an analysis of the cost structures of CSPs of different BCs interviewed during the study

The costs and earnings related to services provided to NFA and E - Governance related services are the same in this model as in the previous model. However, there is a substantial revenue stream that arises from services provided to Non NFA holders, which makes this model more profitable than the previous models.

8.2.5. Comparison of the Three Kiosk Models

| Total Number of Transactions Per Day | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|--------|--------|--------|--------|--------|
| Basic Kiosk Model | 19 | 37 | 54 | 66 | 68 |
| Kiosk Model (Also Acting as E Governance Service Centre) | 21 | 41 | 59 | 72 | 74 |
| Kiosk Model (Also Acting as E Governance Service Centre well Providing Services to Non-NFA) | 44 | 72 | 96 | 110 | 112 |

Note: Cost assumptions, by Sa-Dhan team, derived from an analysis of the cost structures of various kiosk models

Profitability is achieved earliest when the CSP also serves as an E - Governance Service Centre and provides last mile banking services to normal customers of the bank in the village (Non NFA). This also ensures that the kiosk infrastructure is utilized optimally as shown below in the table.

For the CSP to have profitable operations in the kiosk models, it is imperative that the village in which the CSP operates is fairly large with around 500 households. Also, the CSP breaks even earliest when it provides E - Governance services as well as banking services to Non NFAs. This is reflected in the adjacent graph.

8.2.6. Biometric Mobile Model (Shop)

This CSP model requires investment in a Biometric GPS mobile plus blue- tooth enabled hand-held printer. Additionally, the CSP needs to place a deposit with the mobile company which provides connectivity. In this model we have assumed that the CSP operates from a shop which also sells other articles such as mobile phone SIMs, in addition to providing CSP services. The GPRS mobile would be placed in an existing retail shop where there will be no

| Capital Costs | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--|-----------------|-----------------|----------------|----------------|----------------|
| Biometric mobile plus blue tooth enabled hand held printer | 15,000 | - | - | - | - |
| Security Deposit with the mobile phone company | 25,000 | - | - | - | - |
| Total per CSP | 40,000 | - | - | - | - |
| Operational Costs | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Maintenance of Hardware | 6,000 | 6,300 | 6,615 | 6,946 | 7,293 |
| Operator | 60,000 | 63,000 | 66,150 | 69,458 | 72,930 |
| Connectivity Charges | 12,000 | 12,600 | 13,230 | 13,892 | 14,586 |
| Cost of Insurance | 4,800 | 5,040 | 5,292 | 5,557 | 5,834 |
| Depreciation | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 |
| Total Operational Cost | 85,800 | 89,940 | 94,287 | 98,851 | 103,644 |
| Charge for Return on Capital Employed @ 10% | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 |
| Total Income | 28,221 | 53,028 | 100,838 | 155,331 | 196,096 |
| CSP Profits (after 10% charge for capital employed) | (61,579) | (40,912) | 2,551 | 52,480 | 88,452 |

Note: Cost assumptions, by Sa-Dhan team, derived from an analysis of the cost structures of CSPs of different BCs interviewed during the study

remittance and no additional costs towards electricity. The outreach assumptions used for this model are the same as used for the Basic Kiosk model.

The financial projection of the CSP operating in this model is presented below. Although the earnings under this model is similar to the earnings in the basic kiosk model, the profitability is better because of lower depreciation as this model is less asset intensive.

While like the Basic Kiosk Model, this model also breaks even in the third year, given its lower cost intensity; it is able to recover all its losses with the profits earned in the fourth and fifth year. The break Even plot shows the break even in this model.



8.2.7. Biometric GPRS Mobile Model (Motor Bike)

In this model, the CSP uses a Biometric GPRS mobile plus blue-tooth enabled hand-held printer as in the previous model, and is also required to place a deposit with the telecom company. Additionally, the CSP uses a motor bike, which allows him to be move in villages in contiguous areas. This model depicts a scenario where the CSP serves a cluster of five small sized villages (with 200 households or population of 1,000 persons on an average).

| Outreach | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--|--------|--------|--------|--------|--------|
| Area Served (Village) | 5 | 5 | 5 | 5 | 5 |
| Number of Households in the Area | 1000 | 1020 | 1040 | 1061 | 1082 |
| Percentage of Households Enrolling with CSP | 60% | 70% | 80% | 80% | 80% |
| Clients enrolled per household | 1 | 1 | 1 | 1.2 | 1.2 |
| Percentage of Enrolled House holds Maintaining Active Accounts (deposit, withdrawal, remittance and credit transactions) | 60% | 60% | 60% | 60% | 60% |
| Number of deposit transactions per Active Client per month | 1 | 2 | 3 | 3 | 3 |
| Number of withdrawal transactions per client per month | | 1 | 2 | 2 | 2 |
| Number of Remittance transactions per month by CSP | 50 | 75 | 100 | 120 | 120 |
| Number of Loans Disbursed by CSP | 360 | 428 | 499 | 611 | 623 |
| Average Loan Size | 5,000 | 7,500 | 15,000 | 20,000 | 25,000 |
| Average tenure of loans (Year) | 1 | 1 | 1 | 1 | 1 |
| Percentage of Active Clients Obtaining Life Insurance | 10% | 15% | 20% | 25% | 30% |
| Average Life Insurance Premium Per Account Per Year (Rs) | 1000 | 1000 | 1000 | 1000 | 1000 |
| Percentage of Active Clients Obtaining Non Life Insurance | 5% | 10% | 15% | 20% | 25% |
| Average Non Life Insurance Premium Per Account Per Year (Rs) | 100 | 100 | 100 | 100 | 100 |
| Percentage of all households utilizing bill payment service | 18% | 28% | 39% | 49% | 63% |
| Number of bill payment transactions per month per household using bill payment services | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Percentage of Active Accounts enrolling for Swavalamban | 10% | 20% | 35% | 45% | 50% |

Note: Cost assumptions, by Sa-Dhan team, derived from an analysis of the cost structures of CSPs of different BCs interviewed during the study

8.2.8. Financial Projections

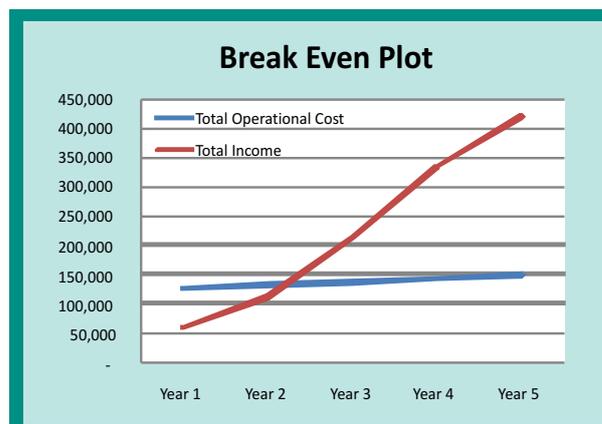
The financial projections for this model are presented in the following table.

| Capital Costs | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|-----------------|-----------------|----------------|----------------|----------------|
| Biometric GPRS mobile plus blue tooth enabled hand held printer | 15,000 | - | - | - | |
| Motor Cycle | 40,000 | - | - | - | |
| Security Deposit with the mobile phone company | 25,000 | - | - | - | |
| Total per CSP | 80,000 | - | - | - | |
| Operational Costs | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Fuel Expenditure | 21,000 | 22,050 | 23,153 | 24,310 | 25,526 |
| Maintenance of Hardware | 6,000 | 6,300 | 6,615 | 6,946 | 7,293 |
| Operator's Salary | 60,000 | 63,000 | 66,150 | 69,458 | 72,930 |
| Connectivity Charges | 12,000 | 12,600 | 13,230 | 13,892 | 14,586 |
| Cost of Insurance | 4,800 | 5,040 | 5,292 | 5,557 | 5,834 |
| Depreciation | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 |
| Total Operational Cost | 111,800 | 116,990 | 122,440 | 128,161 | 134,170 |
| Charge for Return on Capital Employed @ 10% | 8,000 | 8,000 | 8,000 | 8,000 | 8,000 |
| Earnings from BC Operations | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Account opening charges | 4,500 | 855 | 887 | 1,398 | 153 |
| Revenues from Deposit Transactions | 2,160 | 5,141 | 8,989 | 11,003 | 11,223 |
| Revenues from Withdrawal Transactions | 4,320 | 10,282 | 11,985 | 14,670 | 14,964 |
| Revenues from Remittances | 7,200 | 13,500 | 21,600 | 27,648 | 27,648 |
| Revenues from Account Maintenance | 432 | 514 | 599 | 734 | 748 |
| Total Earnings from BC Operations | 18,612 | 30,291 | 44,061 | 55,453 | 54,735 |
| Earnings from Loans Facilitated | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Commission earned on disbursements | 18,000 | 32,100 | 74,850 | 122,200 | 155,750 |
| Commission earned on repayments collected | 9,000 | 25,050 | 53,475 | 98,525 | 138,975 |
| Total Earnings from Loans Facilitated | 27,000 | 57,150 | 128,325 | 220,725 | 294,725 |
| Insurance | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Life | 2,700 | 4,820 | 7,491 | 11,461 | 14,028 |
| Non-Life | 90 | 214 | 375 | 611 | 779 |
| Total Earnings from Insurance | 2,790 | 5,034 | 7,865 | 12,072 | 14,808 |
| Distribution | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Swavalamban | | | | | |
| CSP revenues from Account Opening | 900 | 1,242 | 3,128 | 3,749 | 4,045 |
| CSP revenues from Swavalamban Installments | 450 | 1,071 | 2,185 | 3,438 | 3,897 |
| Total Earnings from Swavalamban | 1,350 | 2,313 | 5,313 | 7,187 | 7,941 |
| Earnings on Bill Payments | 5,250 | 8,568 | 12,017 | 15,600 | 20,458 |
| Total Earnings from Non NFAs | - | - | - | - | - |
| Total Income | 55,002 | 103,356 | 197,581 | 311,037 | 392,667 |
| CSP Profits (after 10% charge for capital employed) | (64,798) | (21,634) | 67,141 | 174,875 | 250,498 |

This model shows higher earnings and better profits than the models presented earlier. This is on account of higher volumes.

The breakeven is attained before the third year and there are significant profits there-after.

However, in this model it may not be possible for the CSP to provide additional services such as those related to E-Governance initiatives.



Still, given the higher volumes, the CSP is better utilized in this model when compared to the earlier models, as depicted by the number of transactions enabled in a day on an average. This is shown in the table below.

8.2.9. Mobile SMS Model (Urban)

This model assumes an urban setting. The CSP uses a simple mobile capable of sending and receiving SMS and operates from an existing shop. Therefore the CSP does not incur any incremental costs on rent and electricity. Transactions are made using Interbank Mobile Payment Service of National Payments Corporation of India. Also, in urban areas there is a higher demand for remittance transactions as people move to urban areas to work and need to remit money to their native places. The outreach assumptions for this model are presented in the table below.

| Total Number of Transactions Per Day | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--------------------------------------|--------|--------|--------|--------|--------|
| GPS mobile model (Shop) | 19 | 37 | 54 | 66 | 68 |
| GPS mobile model (Motor Bike) | 33 | 72 | 102 | 130 | 136 |

8.2.9. Mobile SMS Model (Urban)

This model assumes an urban setting. The CSP uses a simple mobile capable of sending and receiving SMS and operates from an existing shop. Therefore the CSP does not incur any incremental costs on rent and electricity. Transactions are made using Interbank Mobile Payment Service of National Payments Corporation of India. Also, in urban areas there is a higher demand for remittance transactions as people move to urban areas to work and need to remit money to their native places. The outreach assumptions for this model are presented in the table below.

| Outreach | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|--------|--------|--------|--------|--------|
| Area Served (Urban Locality) | 1 | 1 | 1 | 1 | 1 |
| Cumulative Clients Enrolled | 100 | 200 | 240 | 280 | 300 |
| Percentage of Enrolled Households Maintaining Active Accounts (deposit, withdrawal, remittance and credit transactions) | 60% | 60% | 60% | 60% | 60% |

Note: Cost assumptions, by Sa-Dhan team, derived from an analysis of the cost structures of CSPs of different BCs interviewed during the study

| | | | | | |
|---|-------|-------|--------|--------|--------|
| Number of deposit transactions per Active Client per month | 1 | 2 | 3 | 3 | 3 |
| Number of withdrawal transactions per client per month | 1 | 2 | 2 | 2 | 2 |
| Number of Remittance transactions per month by CSP | 300 | 450 | 600 | 700 | 800 |
| Number of Loans Disbursed by CSP | 60 | 120 | 144 | 168 | 180 |
| Average Loan Size | 5,000 | 7,500 | 15,000 | 20,000 | 25,000 |
| Average tenure of loans (Year) | 1 | 1 | 1 | 1 | 1 |
| Percentage of Active Clients Obtaining Life Insurance | 10% | 15% | 20% | 25% | 30% |
| Average Life Insurance Premium Per Account Per Year (Rs) | 1000 | 1000 | 1000 | 1000 | 1000 |
| Percentage of Active Clients Obtaining Non Life Insurance | 5% | 10% | 15% | 20% | 25% |
| Average Non Life Insurance Premium Per Account Per Year (Rs) | 100 | 100 | 100 | 100 | 100 |
| Percentage of all households utilizing bill payment service | 18% | 28% | 39% | 49% | 63% |
| Number of bill payment transactions per month per household using bill payment services | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Percentage of Active Accounts enrolling for Swavalamban | 10% | 20% | 35% | 45% | 50% |

Note: Cost assumptions, by Sa-Dhan team, derived from an analysis of the cost structures of CSPs of different BCs interviewed during the study

The financial projections resulting from these assumptions are presented in the table below.

| Capital Costs | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--|----------------|----------------|----------------|----------------|----------------|
| Mobile cost | 5,000 | - | - | - | - |
| Printer/ Note counter | 5,000 | - | - | - | - |
| Security Deposit with the mobile phone company | 25,000 | - | - | - | - |
| Total per CSP | 35,000 | - | - | - | - |
| Operational Costs | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Maintenance of Hardware | 6,000 | 6,300 | 6,615 | 6,946 | 7,293 |
| Operator's Salary | 84,000 | 88,200 | 92,610 | 97,241 | 102,103 |
| Connectivity Charges | 12,000 | 12,600 | 13,230 | 13,892 | 14,586 |
| Cost of Insurance | 4,800 | 5,040 | 5,292 | 5,557 | 5,834 |
| Depreciation | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Total Operational Cost | 108,800 | 114,140 | 119,747 | 125,634 | 131,816 |
| Charge for Return on Capital Employed @ 10% | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 |
| Earnings from BC Operations | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Account opening charges | 3,000 | 3,000 | 1,200 | 1,200 | 600 |
| Revenues from Deposit Transactions | 360 | 1,440 | 2,592 | 3,024 | 3,240 |
| Revenues from Withdrawal Transactions | 720 | 2,880 | 3,456 | 4,032 | 4,320 |
| Revenues from Remittances | 43,200 | 81,000 | 29,600 | 161,280 | 184,320 |
| Revenues from Account Maintenance | 72 | 144 | 173 | 202 | 216 |
| Total Earnings from BC Operations | 47,352 | 88,464 | 137,021 | 169,738 | 192,696 |
| Earnings from Loans Facilitated | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Commission earned on disbursements | 3,000 | 9,000 | 21,600 | 33,600 | 45,000 |
| Commission earned on repayments collected | 1,500 | 6,000 | 15,300 | 27,600 | 39,300 |
| Total Earnings from Loans Facilitated | 4,500 | 15,000 | 36,900 | 61,200 | 84,300 |

| Insurance | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--|-----------------|----------------|----------------|----------------|----------------|
| Life | 450 | 1,350 | 2,160 | 3,150 | 4,050 |
| Non-Life | 15 | 60 | 108 | 168 | 225 |
| Total Earnings from Insurance Distribution | 465 | 1,410 | 2,268 | 3,318 | 4,275 |
| Swavalamban | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| CSP revenues from Account Opening | 150 | 450 | 810 | 1,080 | 1,170 |
| CSP revenues from Swavalamban Installments | 75 | 300 | 630 | 945 | 1,125 |
| Total Earnings from Swavalamban | 225 | 750 | 1,440 | 2,025 | 2,295 |
| Earnings on Bill Payments | 2,625 | 4,284 | 6,008 | 7,800 | 10,229 |
| Total Income | 55,167 | 109,908 | 183,637 | 244,080 | 293,795 |
| CSP Profits (after 10% charge for capital employed) | (57,133) | (7,732) | 60,390 | 114,946 | 158,479 |

*Currency in INR

This model shows good earnings and profitability primarily on account of higher revenues from remittances. Also, the upfront investments required are comparatively lower than the kiosk models. The break even is achieved in the second year of operations. It is also noteworthy that given our assumptions, the number of transactions enabled by the CSP only goes up to 70 in the fifth year. This implies that there is potential for the CSP to further improve his revenues and profits.

8.3.0. Summary

In this chapter we have analyzed the financial feasibility CSPs operating through different models based on certain Assumptions:

1. Kiosk model
2. GPRS mobile model
3. Mobile SMS model

The analysis gives us important insights regarding their financial feasibility. CSPs that only provide deposit, withdrawal and remittance transactions may not be viable. It is important for CSPs to have revenue streams from diverse service offerings, which along with other services including loan facilitations, micro-insurance, micro-pension and bill payment services would help achieve breakeven within a reasonable period of time.

Our analysis has revealed that CSPs operating through kiosks and providing these services are able to achieve operational break-even in about four and a half year horizon. However, this does not result in recovery of investments made upfront. The kiosk models are more cost intensive and entail higher capital expenditure as well as recurring expenses as compared to the mobile based models. This however, also results in the creation of infrastructure which can be used to provide E-Governance services as well as last mile banking services to all customers (NFAs as well as non-NFAs). If these services are added, the viability of CSPs improves considerably.



The breakeven analysis shows the basic NFA based model, under optimum circumstances in a rural scenario takes four and a half years ,with the addition of loans and other services including e-governance services takes four years and addition of Non NFA clients would reduce the break even time to three and a half years. It clearly brings out that the KIOSK model needs revenue gap funding at least for the initial three years.

The Biometric GPRS mobile based models seem suitable for scenarios where few small-medium sized villages (200 households) are located in clusters. The CSP can serve them by using motor bikes to move to each of these villages. The Mobile- SMS model appears to be suitable in urban contexts where there is a demand for large number of remittance transactions.

KEY FINDINGS AND RECOMMENDATIONS

9.0.0. Introduction

9.0.1. The frame work of Banking Correspondent BC Model is conceptually and fundamentally sound as a mechanism to reach out to the unreached in a cost effective manner and extend basic financial services at reasonable cost as a part of Financial Inclusion Agenda. If BC model implemented diligently, it can fill an important void in banking services infrastructure in our country, especially in remote rural areas, where establishing a brick and mortar bank branch may not be always viable or feasible. The model has the potential to combine trust and confidence of the people have on the banking system and the flexibility, convenience and proximity of a post office.

9.0.2. Ever since Reserve Bank of India issued guidelines for a bank led Agency Model in 2006, under the close supervision of Ministry of Finance, banks have been striving hard to spread their reach to underserved remote rural areas. The Study found that the technology service providers and the Section 25 companies created by them, along with other players like SHG Federations, Community Based Organisations and 'Not for profit MFIs' were successful in creating a huge network of Customer Service Points. The Financial Inclusion plan of the Govt. of India to cover 72,721 villages with a population of 2000 or more either by BCs or bank branches, statistically and quantitatively, appears reachable.¹⁶

9.0.3. This is a huge achievement and this infrastructure so painstakingly created should start delivering results soon. The research team tried to have a reality check to understand and pin point challenges faced by the BC ecosystem which is coming in the way of its efficient functioning and preventing it from fully delivering the intended results and recommend strategies to overcome these challenges.

9.0.4. The findings and recommendations of this report are described in the ensuing paragraphs. The findings are based on the feedback the research team could collect from the field study and also through informal discussions with the stakeholders. The first part of this chapter summarises the findings. The second part contains the recommendations. The focus of the recommendations is to overcome the constraints and weaknesses of the BC model identified by the research team through strategic intervention by the regulators, Government of India, commercial banks and the BCs themselves. Implementation of these recommendations could be grouped under three broad strategies viz. -

- 1) Improving the viability of the BC system
- 2) Enhancing the commercial interest of banks
- 3) Client centric strategies

The recommendations are sequenced and presented in such a way that each recommendation is inter linked and implementation of them would lead finally to overcoming the challenges identified. These strategies are further classified into short term, which can

¹⁶Data sourced from <http://www.thehindubusinessline.com/industry-and-economy/banking/article2991474.ece>

produce immediate results, and long term which needs an ongoing effort bringing in incremental changes over time.

Part I- Key Findings

9.1.0. Finding No. 1: Commercial viability – A serious challenge

Commercial viability of the BC programme is a serious challenge threatening its very existence. The whole BC model is designed to be sustained by low value - high volume transactions. At present, most of the BCs and CSPs operating in the rural areas are struggling to generate volumes. In urban areas, the situation is different, driven by remittances, many of the CSPs are making money at an average of Rs.10,000/- per month.¹⁷

9.1.1 Income Sharing Pattern

The average charges collected by CSPs from the customers were found to be as follows.

- | | | |
|-------------------------------|---|---|
| 1. Opening No frill account | - | Rs. 25 (Rural/Semi-urban) one time at the time of A/c opening. This may be up to Rs100/- urban/Metro Centres. |
| 2. Account Maintenance Charge | - | Rs. 4 per month |
| 3. Cash Deposit | - | 0.25% of amount deposited, (minimum Re. 1, maximum Rs. 6.) |
| 4. Cash Withdrawal | - | 0.50% of the amount transacted (Min Rs. 2, Max. Rs. 12) |
| 5. Remittance | - | 2% -(minimum Rs. 25, maximum Rs.100/-) |

Over and above this, the customer is charged Rs40-Rs100 for a smart card, where it is applicable.

The bank, normally retains 10 -25% of the charges collected. In some cases like remittances, (where there is no payment to the technology provider as it is done through the normal core banking channel of the Bank and EFT) the share of bank may go up to 40% (example SBI 'tatkal money' scheme in kiosk model)

The Bank shares the remainder with the BC. The cost of BC operation has three major components, viz.

1. Payment to CSP
2. Cost for technology
3. Supervisory/ Management cost.

The BC usually pays 45% to 50% of its earnings to its CSPs. For instance, ZERO (Microfinance) and Savings Support Foundation, an associate sec 25 Company of A Little world Ltd, which acts as the BC of SBI pays 45% of all its earnings from BC operation to their

¹⁷Data sourced from http://www.indg.in/financial-literacy/financial_quiz/financial_inclusion_through_cscs_28_02_20111.pdf

CSPs. Though the ratios appear to be quite loaded in favor of the BCs, considering the low average transactions per day, the income derived by the CSP and BC is too small. For instance, the total revenue of the CSP in Gunayana Village attached to Nissang Branch of Oriental Bank of Commerce hardly touched Rs. 3000 per month.

The study estimates that a typical rural CSP which handles only 'No Frill Accounts' (NFAs) and where some marketing support in the form of client education is forthcoming from either the BC or the bank, the average commission income per month is around Rs3000/-. After meeting essential expenses towards travel to the base branch, cost of electricity and connectivity, a CSP hardly earns anything. The commission payment also does not come promptly from the banks.

9.1.2. The process of appointment of BCs

The low earnings of BCs can be traced to the very process followed in appointment of BCs by the Banks. The BCs are appointed by banks at corporate level for a state or for a region. The process followed is found to be as under:

- The corporate office of the bank calls for technical and financial bids from entities eligible to be appointed as BCs through a detailed Request for Proposal (RFP).
- The eligible entity of BC identifies a technology partner and submits the RFP to the bank containing technical and commercial bids.
- The bank first evaluates the technical bid, based on capacity of the entity, its business model, compatibility and acceptability of the technology and shortlists successful bidders and thereafter, opens their commercial bids.
- The short listed entity which quotes the lowest compensation (L-1) for opening accounts, cash transactions, remittances, sourcing of loans, supervision, recovery , etc is selected as BC.
- The Bank enters into a formal agreement with the selected entity, appoints them as BC. The agreement provides for appointing sub agents.

In the earlier stages of appointment of BCs, many entities went in for submitting bids without fully realising the financial implications or the complexity of the task. With the result, they were not able to perform satisfactorily as a BC. The net result is that after going through the initial steps of opening a few CSPs, they abandon the task or virtually become dormant. Though, later the banks started insisting on 'performance guarantees' from the new BCs, this also did not help much. The result was that precious time was often lost in an apparently infructuous selection exercise. The problem lies in going for the lowest bids (L1) which the banks are forced to follow as per the extant guidelines.

9.1.3. Outcome of low Earnings

Many of the CSPs, who usually are unemployed youth, have taken up the work (as CSP)

hoping to make a living out of it. However, they get disillusioned in a matter of 10 to 12 months. The CSP attached to Nissang Branch of OBC in Haryana with 900 NFAs is a typical example.

Well meaning NGOs like Adhikar in Bhubaneswar which opted for BC of ICICI bank had to withdraw due to viability issues. The financial modeling presented in Chapter 8 of this report clearly indicates that even with the most optimistic assumptions, a CSP in kiosk model will take 30 months to break even. **(Refer Para 8.2.4).**

The poor status of viability of the BC system is also leading to another undesirable result. The BCs / BCNMs find it less and less attractive to invest in capacity building of CSPs, improving systems and procedures and tend to do minimum supervision resulting in poor outcome and thus getting trapped in a vicious cycle of low return-low investment.

9.1.4 The CSP-The weakest link in the BC chain

Until the BC system builds up enough volume, the BCs and CSPs in rural areas would continue to lose money. They do not have deep pockets to sustain the losses nor have years of staying power to attain financial viability. The study could sense unmistakable signs of stress and strain bordering on despair in the whole BC chain barring certain exceptions.

The challenge before the system is to keep the BCs and their CSPs already established, running until they achieve financial viability. The study identified the CSP as the weakest, as well as the most critical link in the BC chain which needs immediate strengthening.

9.2.0. Finding No. 2 : From Mandate to Business Opportunity

Today, the Banks perceive financial inclusion and the BC as a mandated programme or a part of their social agenda or at best, as their Corporate Social Responsibility (CSR). The Govt. of India, in its effort to achieve financial inclusion, is driving the programme from the top. All banks have been asked to formulate board approved Financial Inclusion Plans. Targets for opening branches or BCs in villages, state-wise and bank-wise, have been allocated and the progress reviewed constantly at various levels. All public sector banks have been advised to create a Financial Inclusion Wing or department at the corporate level to implement the programme in a focused manner. Banks have been asked to consider achievement under the programme an important parameter in the performance appraisal of its personnel.

While there is good commitment at the top level in the banks, the study could clearly find interest and awareness in the programme progressively waning as one goes down the levels with changing priorities. The least motivation is seen at the branch level where it matters most. The personnel at the mother branch consider the programme as an unavoidable part of the work or sometimes as a nuisance or a bother. None of the branch managers interviewed ever thought the programme contributed significantly to their resource mobilization efforts or would give a boost to their earnings or income in the foreseeable future. Even at the corporate level, the achievement appears to be far too insignificant at present to capture attention as a commercial activity.

For instance, in SBI, seven million No Frill Accounts opened up to September 2011, yielding

an outstanding balance of Rs125 crores. If the programme is to be self sustainable, there must be a change from the mandated model to a commercially viable business model, as otherwise it risks running into inertia or in the worst scenario, imploding once the pressure from the top is taken off.

9.3.0. Finding No.3: Over emphasis on numbers

The quantitative progress so far achieved in establishing BCs and opening No Frill Accounts appears to give an impressive picture. Everyone, particularly bankers, takes pride in the numbers so far achieved. However, a look at these figures critically and closely to understand what lies behind reveal that the percentage of operative No Frill Accounts range from 4% to 12%. The Study found another peculiar situation of CSPs getting added rapidly at one end and at the other end, CSPs going dormant, mostly due to issues of viability. **The rapid addition of BCs and CSPs mask the fate of the BCs/CSPs opened earlier.** For instance, in one of the BCs when they were reporting 15000 as the total number of CSPs in December 2011, the active ones were only 10000. However, for the purposes of statistics, 15000 were being reported and counted. These inflated numbers gives a distorted picture and a false feeling of wider coverage. The study found that there was over reliance on the number of BCs/CSPs. Further, counting the number of No Frill Accounts opened as the main yardstick of financial inclusion can lead to wrong conclusions.

9.4.0. Finding No.4 : Inadequate financial literacy and customer education

The study found that one of the reasons for the high incidence of dormancy in No Frill Accounts (NFAs) is the inadequate financial literacy and customer education programmes. In almost all locations, there was some effort in this direction either from the BC or the Banks or from both, at the time of launch of a CSP in a village and almost forgotten thereafter. Only exception the study found was in the case of IDF, an NGO and BC of SBI in Tumkur District of Karnataka, where a group of CSPs is supported by field officers and facilitators who move around the villages propagating financial literacy leaving the person in charge of the CSP to take care the client transactions. No such hand holding could be seen anywhere else in the field. In the absence of a continuous and sustained effort to be in constant touch with NFA holders, they may not be in a position to derive the benefits of their connection with the formal Banking system.

Utilisation of Financial Inclusion Fund is an indication of the short comings at the national level. The Fund was established in 2008-09 with a corpus of Rs. 500cr. **The cumulative disbursement or utilisation up to Feb 2012 is Rs. 26.59 Cr or a little over 5%.** The Fund is expected to give impetus to the financial literacy programme from the top throughout the country. However, its presence is hardly felt. It appears as if the fund has bound itself in rules and regulations so stringent that hardly any user can access it. Meanwhile, the BC programme and those financially excluded cry for support in the crucial area of financial literacy.

9.5.0. Findings No.5 : Operational risk

Many of the BCs, especially those created by technology companies, have entered BC arena, without planning appropriate mitigation measures for managing operational risk. For them (the technology companies), the sec25 companies promoted are mere special purpose vehicles (SPVs) to generate revenues for their technology as they themselves were not permitted to play the role of BC then. The study revealed that at least one bank had to roll back its BC operations due to high operational risk. The banks feel that managing various risks at the CSP level is the function of the BC or the BC Network Managers (BCNMs). However, the fact remains that incidence of high operational risk might ultimately affect the reputation and credibility of the banks. The study could not find a robust internal audit system for BCs/CSPs in existence either with the BC or with the banks.

The study found that absence of proper risk mitigating mechanism, especially, to manage operational risk, is the single most important reason holding the banks back from using the BC model for rolling out loan products and possibly other schemes. There is apprehension of the BCs identifying wrong clients for loans, lapses in supervision and mishandling of cash and recoveries. This '**trust deficit**' emanates from poor capacity of the BCs or CSPs.

There also appears to be reconciliation issues with the Banks for many BCs as all BC operations are not real time. This accounting issues also needs quick resolution as it creates a breeding ground for operational risks like frauds and misappropriations.

9.6.0. Findings No. 6 : Capacity Building of CSP –an important issue

As mentioned in Finding No. 1 in this chapter, the CSPs hold a key position in the BC chain. The customer perceives the bank through the responses from the CSP. The study found that a CSP receives an initial 3 to 6 days training, which is insufficient. Apart from knowing the basics of banking, the CSP needs to imbibe the cultural ethos of the bank. It was found that the morale the CSP was running low due to low and/or delayed remuneration, poor knowledge of the banking norms, lack of process participation, absence of an effective grievance redressal mechanism, frequent technical snags, low cash holding capacity, frequent changes in rules etc. One CSP, the study encountered in New Delhi, admitted to taking some extra money from customers for effecting remittances. All these issues point to a serious last mile problem.

These issues, however, were more prevalent in CSPs appointed by Sec 25 BCs promoted by technology companies. The CSPs of not-for-profit MFI led model of BCs were found to function with greater understanding of customers' needs.

Another serious issue noticed in the field was that there was no specific targeting of those excluded by the CSPs who needed the services of the BC most. For instance, Mr. Kundan, the non client the study team met in Nissang in Karnal, Haryana, belonged to the most vulnerable group in the village. When 900 families out 1300 in the village were covered by the CSP through No Frill Accounts, the CSP remained an enigma to him. The CSP who was functioning in close association with the village 'Pradhan' never considered him a potential client. Mr.

Kundan's saving capacity was so tiny, he himself was not confident to approach the CSP. It was a clear case of not targeting the really excluded and it revealed lack of orientation on the part of the bank, the BC and the CSP.

9.7.0. Findings No.7: Needs of the client

The poor and vulnerable felt lost in formal bank branches and were awed by the procedures. Added to this, the distance and the indirect transaction cost involved, made frequent visits to a branch difficult. A safe, secure and easily accessible place to save was the most important **need** felt by the clients surveyed. Clients also wanted loans to support life cycle needs and for productive purposes at reasonable terms. As the financial profile of rural clients begins to change for the better in tandem with the growth of the economy, larger and larger cross-selling opportunities in insurance products, Micro-pension etc are expected to emerge. There appeared to be potential demand for these products.

The southern states and metropolitan and urban centres had a large migrant population from the north east region, searching for a safe way to remit money back home. The BC system is yet to address these needs especially in tier2 cities.

9.7.1. Lack of awareness of the services that the CSP can Offer

Like access to other infrastructure, such as safe drinking water, electricity, sanitation, road connectivity, etc., all citizens of the country are entitled to have access to the financial infrastructure. Awareness of this right is important to take advantage of the BC infrastructure. Most of the clients interviewed had little knowledge of the range of services the BCs offer. They appeared to be uninformed of the advantages of dealings with the BCs and the Government's attempt to provide banking services at close proximity.

9.7.2. How to take advantage of the products and services

A basic service like savings could be a way out of poverty for millions of poor in our country. Access to 'built in overdraft' in the No Frill Accounts, General purpose credit cards and other credit facilities the Banks were supposed to offer, remained beyond the comprehension of the clients. Credit being a 'pull service', awareness about it and how its proper usage can make positive changes in the livelihood of the excluded are very important if the financial inclusion programme is to bring in the desired benefits.

9.7.3. Ineffective Customer grievance mechanism

There was no proper dedicated customer grievance mechanism or channel for customers of the BC in many banks. A case in point is that of one private sector bank in Orissa where one of the BCs was forced to shut down due to non viability and inadequate redressal mechanism for customer complaints. Presence of an effective and dedicated customer grievance mechanism with mechanism for appeal is very critical in an agency model dealing with illiterate or semi literate clients.

It is also observed from the field that in the absence of a business continuity plan, the clients

acquired through a failed or dormant BC are left without alternatives, creating serious credibility and reputation issues for the banks.

Part II – Recommendations

9.8.0. Strategies for improving viability

The emphasis of this recommendation is on making the BC model viable, sustainable and financially attractive to all the stake holders. The business models worked out in Chapter 8 clearly indicates that even under the best of the circumstances, an average time frame of 30 months is required for a CSP to break even. The challenge, therefore, is to sustain the CSPs till the breakeven point so that, the programme would find its own moorings and shall go ahead on its own thereafter. The recommendations are made keeping this in view.

9.8.1. Change in the selection Process of BCs

The process for selection of BC needs a thorough review and overhaul. To ensure financial viability of BCs, uniform rates for opening accounts, cash transaction and other activities should be stipulated either by the Govt. of India, Reserve Bank of India or by the Indian Banks' Association (IBA), after a thorough study on the costing, so that a fair return on investments would be available to the entities undertaking the work of BCs. The banks, in that scenario need not have to go through a rigorous commercial bidding process and instead can concentrate on evaluation of the managerial and technological capabilities of the BC.

A differential costing may be adopted for the north eastern region, difficult mountainous terrains and parts of Bihar, Chattisgarh, Orissa, Madhya Pradesh where specific penetration of banking services is urgently needed. This may be considered for immediate implementation.

9.8.2. Revenue gap funding and assurance of minimum fixed income to the CSP

As already indicated, the biggest and immediate challenge is to retain the CSPs already opened. Adequate and timely compensation to the persons in charge of CSPs would help in their retention and continued interest in the programme. One of the ways to do so is to assure a minimum fixed remuneration to the CSP until break even is reached. To make this happen, the BC/BCNMs may be compensated through a scheme of viability gap funding for the initial three years by the Banks.

The BCs, in turn, may pay a minimum assured compensation to the CSPs. Such payments can taper off over 2-3 years. The cost incurred by the Banks could be amortised over the next 10 years to minimize impact on the banks' balance sheet considering it as an investment towards generating future income. For instance, if 50,000 CSPs are paid at the rate of Rs.5,000 per month by the Banks the total cost per year for the Banking Industry could be Rs.300 crores. The impact on the profitability of all the Banks put together could be as little as Rs.30 cr in a year (1/10th) if the amortization suggested is considered. This strategy may be considered in the short term for implementation in all existing and future CSPs, considering its urgency. Once the break-even is reached, the CSPs can be motivated through a variable

compensation structure, linked to performance.

The revenue gap funding of the BCs shall prompt the BCs to make more investments in capacity building, strengthening of systems and procedures, improving supervision, etc which could result in improving confidence and trust of bankers, triggering finally an introduction of more schemes. It is, therefore, to be understood that introduction of revenue gap funding is fundamental to the success of the scheme.

9.8.3. Keep initial investment low through appropriate business models

The initial investment on hardware at the CSP level is a critical factor affecting viability. The initial investment varies between Rs.1,26,000/- for the kiosk model, Rs.40,000/-for the GPRS mobile based biometric model and Rs.35,000/- for the SMS based mobile model. It is difficult to suggest a single model across the country. For instance, the Kiosk model appears to be suitable as a stationary point of customer contact in villages where population is above 2500. The second model appears to be ideal for covering a group of villages by a CSP and also for remittance services. The third model is suited for urban based remittances.

The second and third models can be used by the existing retail businesses. Overall, the second model appears to be advantageous from the point of view of initial investment, as it can carry out customer transactions, without compromising on the two levels of authentication stipulated by RBI. The future focus needs to be on existing retailers, small businesses and members of the Self Help Groups since BC as a standalone activity takes time to achieve financial viability. Where kiosk models are **already established**, integrating it with the e-governance programme of the Government of India would improve its viability as discussed in Chapter 8 on Financial Modeling. **This may be considered as a long term strategy**

9.8.4. Different BC Models for different contexts

For instance, the Kiosk model is suited for villages with population above 2500. A GPRS mobile with biometric authentication with the CSP going round in a motor bike is ideally suited for providing door step service to a cluster of villages with population below 2500. The same GPRS mobile based model in a retail shop is suited for urban/semi urban situations. A mobile working on USSD/SMS is ideally suited for an urban remittance driven situation.

9.8.5. SHG federations, community based organisations and MFIs as BCs

The study found that wherever MFIs were acting as BCs, the operations were viable and successful. For instance, Cashpor in UP, SKDRDP in Karnataka and Gramin Mahila Swayamsidha Sangh with Chaithanya in Pune have successfully demonstrated their viability. Their comparatively better systems and procedures, better supervisory mechanisms and closeness to the rural population have given confidence to the banks to roll out more products, particularly loans, through them. It clearly shows that there is space for the MFIs in the BC ecosystem.

Currently, the NBFC- MFIs are not permitted to be BCs. It is time to review this policy in the

light of the good experience with MFIs other than NBFCs. The above cited MFIs have shown that 'the conflict of interest' often held out as a reason to keep the NBFC- MFIs out of BC domain is not well founded as they are able to meet the credit needs of their customers through their own lending programmes and, at the same time, serve their needs for savings as the BC of a bank. Appropriation of savings of the clients towards own overdue liability of MFIs, as apprehended, has not happened. It is difficult to comprehend that a mere change of legal composition can bring in such conflicts.

Further, with the RBI carving out a sub-group of NBFC-MFIs from the NBFCs and bringing interest rates of loans offered by them under regulatory control, the issue of providing credit at reasonable rates to BC clients also stands resolved to a great extent.

Another argument held out against the MFIs is that their field operations are carried out by field/credit officers who serve the clients at the door step and MFI branches are merely a base for the field staff to operate. This is not entirely true as there are MFIs where their loans get disbursed in branches. Even if it is so, the field staff of MFIs could use the mobile based model to cover more than one village and thus help in covering villages with no banks, and with a population of less than 2000 and provide services at the door step.

MFIs, due to their closeness to the clients, have earned their confidence over time. They have also comparatively better systems and procedures for cash handling and managing operational risks. Commercial banks, therefore, would feel more confident and comfortable in dealing with NBFC-MFIs as their agents. To begin with, the NBFC MFIs not offering services which include saving, may be permitted to offer the same as BC.

This is recommended as an immediate short term strategy so as to rope in institutions which have demonstrated their capability in the microfinance domain and make them active players in financial inclusion space. This may be considered for immediate implementation.

9.8.6. Route all G2 P (Government to Person) payments through BCs

The NFAs are intended to be used as a medium for payment of social benefits under the centrally sponsored schemes. The payment under MG-NREGA and others through BCs could improve the financial viability substantially. Under MG-NREGA, 6% of the outlay is available towards capacity building and development of administrative infrastructure. The GOI has requested the states to share 2% out of this with the banks to support BC operations. At present, only two-three states have implemented this directive. The estimated expenditure of MG-NREGA in a year being about Rs.40,000 crores, payment of 2% by all states to banks and the banks sharing it with the BCs, can make huge a difference to the viability of the BC programme. There are about 38 centrally sponsored schemes for social intervention.

The Govt. of India has also plans to route cash subsidies to eligible categories of the population for goods supplied under Public Distribution System (PDS). Disbursement of social benefits to the people through NFAs via the BCs and a similar administrative provision to pay 2% to disbursing Banks for all programmes could make the scheme imminently viable.

Currently, it is estimated that only 24% of the beneficiaries of MG-NREGA are paid their wages under the scheme directly though 70% have opened their NFAs. A greater coverage backed by client education to look at NFAs beyond a means of receiving payments under the scheme could bring positive and welcome results. This strategy may be considered by the Government of India for immediate implementation.

9.8.7. Convergence of BC Model with National e-Governance Plan

National e-Governance plan aims at improving delivery of Government services to citizens and businesses through common service delivery outlets so as to ensure efficiency, transparency and reliability of such services at affordable cost. Under the programme, computerised and internet enabled Common Service Centre (**CSC**) is envisaged for a group of villages. These **CSCs** are to offer online Integrated Service Delivery on behalf of various Government departments to the common man. Like the BCs under Financial Inclusion Plan, this is a countrywide massive programme in mission mode, requiring each Govt. Department to commit 2% of their budgetary resources for its implementation.

There is convergence of purpose of BCs/CSPs under financial inclusion driven by the Ministry of Finance and the CSCs initiated by the Ministry of Communication and Information Technology. **The kiosk model of CSPs is ideally suited to deliver services of CSCs.** The Government may consider entrusting the services of the CSCs in select centres to the BCs which could improve the viability of the BC model at the same time avoid duplication of efforts and investments and provide comprehensive services to people under one roof.

Implementation of this strategy would have a long term beneficial effect and would be seen as a good example of inter departmental co-ordination

9.8.8. Capacity Building of CSPs & Banks

The training provided to CSPs was found to be inadequate. The CSP which is at the grass root level needs to be well informed and should be confident in facing customers. The client perceives the Bank through the CSP and hence, the banks have a very clear stake. Further, CSP is the key agency to implement the financial inclusion agenda. He or she should be properly oriented to target the really needy.

Therefore, the banks need to concentrate on capacity building of CSPs on an ongoing basis by creating separate internal training facilities and programmes also making sufficient investments for their capacity building. The MFIs and community based organisations can be roped in for this massive training effort.

This process should be continuous and expenses incurred by banks towards this are to be treated as capital expenditure and amortized over ten years. This may be adopted by Banks as an ongoing long term strategy.

9.8.9. Create Confidence & Trust in BC System

One of the basic reasons for most of the banks shying away from offering a bouquet of

products is the lack of confidence on the BC System. The banks feel that managing the operational risk in the form of frauds, malpractices and non adherence to systems and procedures at BC/CSP level is a major challenge.

As far as the banking industry is concerned, reputation and customer confidence or trust is the two pillars on which the whole system is built. Any erosion or weakening of these two could have serious implications. Therefore, the banks must actively supervise the activities of the BC/BCNM/CSPs since any weakness at these levels could create an adverse image and reputation problem for the Banks.

This can be addressed by strengthening the systems and procedures at the BC/BCNM level with the active support of the Banks. BC Network Managers (BCNMs) should develop appropriate systems and procedures and systematically check their implementation through a well developed internal supervision mechanism as though they are running a small Bank.

The revenue gap funding suggested in this report in paragraph 9.8.2 could provide enough incentives to the BCs/BCNMs to make adequate investments on this count. The Reserve bank of India may consider making the Banks responsible for implementation of appropriate systems and procedures at the BC/CSP level. The risk mitigation measures and its earnest implementation might instill confidence and trust in banks to roll out more products, more specifically loan products, through the BC network.

Banks should conduct periodic **Systems Audit of BCs/BCNMs**, especially of those with a large network of CSPs to satisfy themselves of the existence of proper risk mitigating mechanism and assist them to address deficiencies and improve their systems and operating procedures over time.

This may be adopted by BCs/commercial banks as an immediate short term strategy.

9.8.10. Diversification of Product Offering

Once the BC/BCNMs are suitably strengthened, an internal rating mechanism should be developed by the Banks and those BCs/BCNMs who are performing better should be offered more products. This would also incentivize the BCs to develop robust internal systems and supervisory structures. Disbursal of small loans of Rs. 25,000 and less through BCs could be a game changer. For instance, if the Banks starts offering GCC (General Purpose Credit Cards) limits to No Frill Account holders, the BCs could become imminently viable. The existing viable models operating in rural areas, the study came across, had two distinct features.

1. They are all MFIs (Non NBFC MFIs) and their loans get disbursed and repaid through the CSPs
2. They use their existing infrastructure.

Banks may be advised to make disbursement of all existing and future small loans in a village where its CSP operates through BC mechanism. Similarly, remittance and bill payment may start through the BC mechanism. In short, more product offerings would increase number of transactions which in turn would increase the cash inflow of the BCs, improving their viability.

9.8.10. Recognize BC as an alternate channel

As Banks gain confidence in offering a bouquet of services to the clients of BCs/CSPs, they need to be recognized and developed as one of the regular alternate channels to reach out to its customers like the ATM or Internet Banking with accessibility to all. Today, it is being perceived as a limited service under financial inclusion for servicing the NFA clients. What is suggested here would mean a fundamental shift in policy. To appreciate its implications, the case for an alternate channel is elaborated here.

- The CSP channel, today, accepts two levels of authentication.
In ATM channel, ATM cards are used along with PIN
- Convergence of these two would need hardware and software changes at the CSP / BC and Bank level
- Once we allow CSP as a regular channel, the number of transactions at the CSPs might go up improving their viability and bringing in some amount of cross subsidy.
- At the same time, there is a risk of non NFA clients crowding out the target group. This could be overcome by opening more CSPs and by giving clients of BCs access to other alternate channels including direct access to branches and ATMs.
- Opening up CSPs as an alternate channel would reduce footfall at the branches . This would be beneficial for the banks as they are increasingly under pressure to find personnel for manning rural branches and might result in lowering transaction cost.

Taking an overall view, it is felt that fashioning CSPs as an alternate channel would be important for improving the financial viability of the BC channel. In this regard, please refer Chapter 8 on financial modeling which shows the beneficial impact of such a measure. This may be pursued as a long term strategy by the regulator.

9.8.11. Make inter-operability a reality

Reserve Bank of India has decided to make inter operability for clients belonging to different banks and different CSPs operational. However, to make it happen a number of technological challenges are to be overcome. Further, rationalizing operations could make some of investments already made redundant. Hence, the road to inter operability may not be easy. However, inter operability would help in seamless operations and in avoiding duplication of efforts. A time bound programme to make inter-operability a reality is to be stipulated by the regulator. This could be adopted as a short term strategy.

9.9.0. Strategy for enhancing commercial interest of banks

The BC programme is to be perceived by banks as a business proposition. To make it happen, a few strategies are suggested here without directly committing funds by Government of India. The strategies suggested here are comparatively easy to implement and can be achieved in short term with benefits accruing over time. The initial cost of the programme should be funded by the Government either directly or indirectly. The creation of Financial

Inclusion Fund and Financial Inclusion Technology Fund are measures in the right direction.

However, they are not enough. The Government of India may consider the strategies suggested here so as to make the banks, particularly those in the public sector, view the programme from a commercial angle. This can be achieved by some tweaking of accounting/regulatory norms as suggested in the ensuing paragraphs.

9.9.1. Amortise costs

By creating a network of CSPs under the BC frame work, banks are creating financial infrastructure in underserved areas. This infrastructure, like any other infrastructure project needs long gestation and pay back periods. Hence, the resources expended by the Banks for establishing BC net work as a part of its Financial Inclusion Plan (FIP) should get the same treatment like any other infrastructure project. All costs - (direct and indirect) - incurred by the banks towards financial inclusion, may be allowed to be treated as an investment and the banks permitted to amortize it over a period of 10 years. This will reduce the strain on the profitability of the banks. This measure will not result in any negative impact on the revenues of the Government. This is suggested as achieving total financial inclusion is going to be a long journey lasting beyond a decade and with benefits to the banks (and the nation) spread over a long period. This may be considered for immediate implementation by Reserve Bank of India.

9.9.2. Incentivise banks for deposits mobilized through Bcs

While arriving at Adjusted Net Bank Credit (Adjusted NBC or ANBC- denotes NBC Plus investments made by banks in non-SLR bonds in 'Held to Maturity' (HTM) category)- of the Commercial Banks by RBI, the deposits mobilized by their BCs may be allowed to be reduced from the total credit for the purpose of calculation of percentage of Priority Sector Advances. The idea is to encourage banks to make more and more No Frill Accounts active, increase transactions and thus mobilize savings from the financially excluded.

A similar strategy had been adopted in the early 90's when the country needed foreign exchange desperately, by allowing netting off the balance available in Foreign Currency Non Resident (Bank) (FCNR-B) and Non Resident Non Repatriable (NR-NR) deposits from Net Bank Credit for the purpose of calculating the percentage of Priority Sector advances. This would indirectly incentivise the banks - both in the public and private sector - who otherwise run short of the mandated Priority Sector Advance ratio of 40% and consequently will have to keep the short fall with NABARD in Rural Infrastructure Development Fund (RIDF) at very low rate of interest or resort to bulk deals of port folio buy outs at a high cost in the last quarter of the financial year.

For instance, in the financial year ended Mar 2011, seven public sector banks missed their priority sector targets. Implementation of this recommendation will be revenue neutral as far as the Government of India is concerned, at the same time, provide the Banks a commercial reason to use the BC infrastructure effectively and NFAs already opened, more efficiently. This may considered for immediate implementation by Reserve Bank of India.

9.3.3. Create a separate vertical

BC in most of the banks is dependent on a branch in a rural area, which is not well staffed. For them, functioning of the BC is not a priority. Though for convenience, BC can be attached to a branch, the whole programme needs to be driven by an exclusive business vertical in the bank that should,

- own the programme,
- attend to customer grievance,
- monitor BC and CSP,
- manage operational risk,
- drive financial literacy programme,
- sensitise the staff,
- do the internal and external marketing,
- audit the operations and
- coordinate with various stake holders

and finally and most importantly be a profit centre. By creating this, more accountability and focus can be brought about within the bank and sufficient skill sets developed to own and manage an agency program of such massive magnitude. Absence of a separate business vertical is hampering the program in many banks and coming in the way of rolling out more products. This may be considered for immediate implementation by Government of India in all Public Sector Works.

9.9.4. Weed out Non-serious Players

In the earlier days of implementation of BC model, many non-serious players had entered the fray and signed up with the banks without fully realizing the serious financial implications. Banks sign up with the BC for a state or for a region for a specified period of time. These BCs and their CSPs have subsequently shut down or scaled down their operations after finding their operations unviable.

Since the banks have already signed up with BCs, they find it difficult to employ alternate BCs and CSPs in the same state or region. There should be a policy to weed out such non-serious players and replace them with SHG federations or MFIs. Along with weeding out non serious players, a business continuity and disaster recovery plan needs to be put in place by the banks very urgently to protect the interest of the clients already acquired.

This measure will free up scarce resources deployed for monitoring such BCs by banks. This may be undertaken as a short term strategy.

9.10.0. Client Centric Strategies

The BC model has been created with the primary objective of providing financial services to the excluded population. Hence client centric strategies are crucial for success of the

scheme. The strategies suggested here have this objective in prime focus.

9.10.1. Financial Literacy programme to run parallel

An effective and well orchestrated financial literacy programme is a prerequisite for financial inclusion to happen. Without financial literacy, the financial infrastructure so painstakingly created would remain grossly under used and might result in huge wastage of scarce resources. Hence, financial literacy and customer education has to run parallel to the BC programme for the financially excluded to derive its benefit. The literacy programme should specifically target the excluded and the vulnerable sections of the society.

Today, financial literacy programme is driven by the banks with RBI in the fore front. The task is enormous and it needs joint effort involving banks, central & state governments, NGOs and other civil society organisations. To give it a proper direction, the Government of India may set up a task force at the national level, with enough resources under the Ministry of Finance and make them responsible to spearhead the programme in a co-ordinated manner. This may be considered for immediate implementation.

9.10.2. Make Financial Inclusion Fund functional

The Financial Inclusion Fund is to be converted to a fully functional, performing fund providing financial support to worthwhile client centric financial literacy programmes in the country. The fund should be open to BCs or NGOs, Self Help Group Promoting Institutions and other civil society organizations.

Currently, the fund entertains programmes only from banks or those routed through them. It appears to be a case of over cautiousness which negates the very objective of the fund. This needs to change. The Government of India may review the rules under the fund in the light of its poor utilization and consider positive changes and make the fund one of the sources of financial support for financial literacy programmes. This may be considered for immediate implementation.

9.10.3. BCs to be active in financial literacy

While concluding agreements with the BCs by banks, a clear role in financial literacy need to be carved out for them with enough head room for expenditure towards financial literacy and marketing. BCs should be assigned specific role in financial education space and they need to be incentivised to perform this on a continuous basis to both clients and non clients. Creation of a marketing and hand holding machinery around each CSP or group of CSPs is essential to create awareness. This role is better left to the BCs to perform. This may be considered as an ongoing strategy.

9.10.4. Catch them young

Financial literacy programme has to be made part of the curriculum in school education throughout the country so that in the future there may not be a need for such a massive effort for the next generation. This may be considered as a long term strategy.

9.10.5. Activate dormant No Frill Accounts

Huge efforts have been made to open millions of No Frill Accounts investing time and financial resources. This investment should be converted into active assets. A nationwide campaign, lasting a specific period, targeting No Frill Account holders, should be launched every year and customers educated systematically with the ultimate objective of empowering the NFA clients to take action to improve their financial well-being by fully using the connection through the NFA.

Resources available with the Financial Inclusion Fund may be deployed to provide publicity back up through the print and visual media and through other means. All stake holders, state Governments and Financial Literacy and Counselling Centres (FLCC), established by Lead banks in all Districts, NGOs and MFIs should be made a party for such a campaign. This may be considered for immediate implementation.

9.10.6. Build capacities and promote internal marketing in banks

Systematic and continuous efforts are needed in training the bank personnel on the concept and working of the BC model. The efforts taken by institutions like The Indian Institute of Banking and Finance, Mumbai are laudable in training of trainers. But the task is so enormous that the Government may consider engaging a large number of agencies including the training set-up within the bank for internal capacity building to serve the BC clients and manage agency networks and provide good customer service to clients of BCs. This may be considered as a long term strategy.

9.10.7. Set up dedicated customer grievance redressal mechanism

Absence of an effective and dedicated system in the banks to address the complaints and grievances of the customers of BC is a serious flaw which undermines the credibility of the banking system more so, when the clients are semi-literate or illiterate and therefore, more prone to frauds, malpractices and unethical behaviour.

An effective, dedicated customer grievance redressal mechanism, with provision for appeal, exclusively for the clients of BCs at the bank level should be made mandatory by RBI.

A board approved internal monitoring mechanism has to be put in place to ensure timely redressal of complaints from clients of BC/CSP giving it utmost priority. This may be considered for immediate implementation.

9.11.0. Conclusion

The findings in this chapter point to the serious dilemmas faced by the BC system which need to be addressed before it is too late. The study felt that the development of BCs in the country today, is in a very critical phase. Serious and urgent steps are needed to sustain and accelerate its pace. Delay in addressing the issues highlighted could lead to the BCs and banks gravitating to more profitable urban and metropolitan areas, slowly ignoring the less profitable rural centres where it is needed most, thus causing a serious setback to the

Governments' efforts in financial inclusion. Evidence of this is already discernible in the field.

The study undertaken has thrown light on the strength and weakness of the BC programme and suggested specific and important strategies that, the team thought, are essential to increase the momentum and bring in the intended results. The crux of the issue is to take the transactions at the CSPs to a breakeven point as early as possible and provide quality services to the clients in an efficient, transparent and equitable manner

The team considers that decisive intervention of the Government of India is crucially required. The Government should seriously consider stepping in to fund the viability gap, either directly or indirectly, until the scheme reaches a tipping point. Public spending is justified taking into account the spending or loss the country may have to incur in future if the current levels of financial exclusion are allowed to continue.

The role of RBI in the programme is very vital. A bank led agency model, is in an emerging phase, world over, and there are no beaten tracks to follow. Hence, the regulator has to constantly scan the BC ecosystem and carefully maneuver around operational hurdles that emerge at every stage of evolution to ensure a hassle free enabling environment, at the same time keep the operational and reputation risk at bay and focus on the interest of the clients.

Similarly, Banks have a very important role to play in improving the quality of implementation and move away from a mandated numbers game. The Banks must become pro - active and willing players and should shoulder greater responsibilities in improving the management systems, working procedures and customer service at the BC and CSP levels by decisive interventions in capacity building. Banks should also show the courage and initiative to increase the offerings through the BC programme.

As a part of the BC programme, financial literacy campaign has to run in parallel, on a massive scale by a joint effort of banks, Government, NGOs and Civil Society Organisations as utilization of the BC infrastructure is greatly dependent on creation of awareness.

From the BCs' side, they should consider the programme from a long term perspective and should be prepared for a long haul. Assuming that they are running a bank, they must build internal capabilities and capacities so as to earn the confidence and trust of the banks and the clients which would eventually help in opening up a bouquet of schemes to the clients of Bcs. Community based organizations & MFIs may explore the BC space for new opportunities for providing comprehensive banking services to the rural people and at the same time augmenting their non-interest income. This avenue needs a fresh look in the light of restrictions on interest income.

And finally, the greatest beneficiaries of the programme are the excluded sections of the society. Social mobilization of an unprecedented scale would be required to fully exploit the financial infrastructure that is being created. In short, the Banking Correspondent Model, if carefully rolled out, has the potential to usher in a second banking revolution in the country to achieve near total financial inclusion and become a model for other nations.

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**ANNEXURES:
CONSULTATIVE INTERVIEW GUIDES**

Consultative Interview with BC

| Question | Answer | Notes | Rationale |
|---|---|------------------------------------|------------------------------|
| A.Basic Data | | Date of filling the questionnaire: | |
| A.1. Organization's name | | | Contact data |
| A.2 (a) Nature of work/activities undertaken by the organization. | 1. 2. 3. | | Organization mission insight |
| A.3. Legal form | Individual/Partnership/ For profit company/ Not for profit Sec 25 Co. Society/Trust/ Others (pl. specify) | | Factual data |
| A.4. Phone No. | | | Contact data |
| A.5. Address (including email-address) | | | Contact data |
| A.6. Date of inception | | | Factual data |
| A.7 Capital & Free Reserves as per 2010-11 balance sheet | Rs. | | |
| A.8. Geographical presence | | Rural/Urban | Size of operations |
| A.9. Products offered by the organization? A) i)Saving i) SB ii) RD iii) Term Deposit B) Loans C) Rémittence D) Micro Insurance E) Micro pension F) Others (specify) | Y/N Y/N Y/N Y/N Y/N Y/N Y/N | | Diversity of Products |
| B. Basic Data on BC activity | | | |
| B.1. What is the name of the Bank(s) of which the organization is a BC? | | | Account Provider |
| B.2. Who is providing the technology for BC activity? | | | Technology Provider |

| | | | |
|---|---|------|--|
| B.3. When did the BC activity become operational? | | Date | Factual data |
| B.4. Could you please share the organogram? What is the field supervisory structure? | | | |
| B.5. Present client mix Number a) Farmers b)Daily wage earners c) others Total | Give actual number _____ | | Market segmentation |
| B.6. Total Number of clients A i)Saving Products I) SB ii)RD iii)Term Deposit B) Loans C) Rémittence D) Micro Insurance E) Micro pension F) Others (specify Total | _____ | | Client insight-Products of greatest value to the clients |
| B.7. What is the average number of clients under BC in a typical CSP of the BC(Customer Service Point) | | | |
| B.8. What is monthly average number of transactions in a CSP? (Pl. give numbers) a. opening of Dep accounts b. granting of loans | Give actual numbers | | |

| | | | |
|--|--|--------------------|-------------------------------|
| c. No of transactions i) Deposits ii) withdrawals iii) remittances iv) Insurance iv) Pension | | | |
| B9. Percentage of existing clients, if any, for usual product offerings making use of products offered as BC (Applicable to BCs offering other services or products) | | | Footfall benefits |
| B.10. Percentage new clients or regular product offering acquired from BC clients (if applicable) | | Yes or No | Footfall benefits |
| B.11 How do you perceive BC? Do you perceive BC only as a channel for payments of Government Schemes? | | | |
| Operational Details | | | |
| Capital Investments B.11 Does the organization need to make capital investments (one time) to specifically adapt to the role of BCs? If so, please provide break up for a typical unit/CSP 1. Software 2. Hardware 3. Furnishings 4. Training 5. Others (pl specify) Total | Rs..... Rs..... Rs..... Rs..... Rs..... Rs..... | Yes or No (Rs.) | Role in overall BC operations |
| B.12. Typical Recurring cost per unit/per month | | | |

| | | | |
|--|---|--|--|
| <p>Hardware AMC</p> <ul style="list-style-type: none"> ○ Software ○ Rent ○ Electricity ○ Salary ○ Transportation ○ Connectivity Charges ○ Share to technology provider ○ Any other <p>Total Recurring cost</p> | <p>Rs.....</p> <p>Rs.....</p> <p>Rs.....</p> <p>Rs.....</p> <p>Rs.....</p> <p>Rs.....</p> <p>Rs.....</p> <p>Rs.....</p> | | |
| B.13. How much average liquidity is held for the BC activity in a typical unit? | Rs..... | | |
| C Major Revenue Driver's for the BC activity | | | |
| C.1. Security deposit from sub agents, franchisees (if any) | Rs..... | | |
| <p>C.2 What is the commission structure agreed by the Bank for various transactions and charges collected by the BC from clients</p> <p>1) Opening of SB account</p> <p>2) Transaction in Deposit account</p> <p style="padding-left: 20px;">a) Deposit</p> <p style="padding-left: 20px;">b) Withdrawal</p> <p>3) Sourcing a loan</p> <p>4) Collecting repayment</p> <p>5) Remittance</p> | <p>From Clients</p> <p>Rs.....</p> <p>Rs.....</p> <p>Rs.....</p> <p>Rs.....</p> <p>Rs.....</p> <p>Rs.....</p> | <p>Sharing Pattern With other stake holders</p> | |
| <p>C.3 What is the average revenue of a typical CSP per month from various sources.</p> <p>1) Opening of accounts</p> <p>2) Transactions</p> <p>a) Deposit</p> | <p>From Clients</p> <p>Rs.....</p> | <p>Pattern Sharing With or stakeholders</p> | |

| | | | |
|---|--|--|--|
| <p>3) Granting loans 4) Repayments of loan 5) Remittances 6) Insurance 7) Pension 8) Franchisee commission Others PI specify)</p> | <p>Rs..... Rs..... Rs..... Rs..... Rs..... Rs..... Rs..... Rs.....</p> | | |
| <p>C.4. Do you have to share the revenue with Technology Service Provider? If so what percentage of your revenue is shared with them?</p> | | | |
| D. Major Cost Driver's for the BC activity | | | |
| <p>D.1 What is the profit or loss before Tax for the BC in 2010-2011 D.2 If the BC is in loss how the loss is funded? D.3 If the Institution is making losses, what are the reasons bank attributed for</p> | <p>a) Low rate of compensation by the bank b) unwillingness of the clients to avail service of BC c) lack of clients d) lack of interest on the part of the Bank Branch e) f) g)..... h) any other pl specify (Tick what is applicable)</p> | | |

| | | | |
|--|-------------------------------|--|--|
| <p>D.4 Do you think there should be separate models for urban/Metropolitan and other areas? If so, reasons.</p> <p>D.5 What prevents you from getting more clients?</p> <p>D.6 What according to you are the major impediments of the existing clients in making use of your services?</p> <p>D.7 What are the three most significant policy changes you would suggest in the BC scheme to make it more popular, attractive and sustainable?</p> | <p>a)</p> <p>b)</p> <p>c)</p> | | |
|--|-------------------------------|--|--|

Signature of the interviewer :

Name

Date :

CONSULTATIVE INTERVIEW WITH BANK HEAD OFFICE

| Question | Answer | Notes | Rationale |
|--|--------|------------------------|---|
| Basic Data | | | |
| Date of filling the questionnaire: | | | |
| Bank's name | | | Contact data |
| Phone No. | | | Contact data |
| Address (including email-address) | | | Contact data |
| Name and designation of the person interviewed. | | | Contact data |
| Have you implemented BC model | | | Factual data |
| Date of commencement of BC services | | | Factual data |
| How many Branches you have? PI inform how many in Metro/urban/Semi urban/Rural Network | | Rural/semi-urban/Urban | Size of operations |
| Understanding the vision behind the BC Model | | | |
| What is your intention for starting the BC Model? | | | Organizational Mission Insight |
| What are the different models adopted and implemented by the Bank? | | | |
| With almost 70% of NO frills in Banks classified as inoperative, Do you see it as a business opportunity or as an obligation? If you see it as a business, have you integrated it in your business plan. If you see it as an obligation reasons there of. Is there a plan or strategy to make the no frills accounts operational? If so,How? | | | |
| Coverage of BC and the procedure adopted | | | |
| How are the BCs selected by the banks? What are the procedural requirements? | | | How cumbersome and time consuming is the screening process? |

| | | | |
|--|--|--|--|
| Do you have a policy for training BC staff ? | | | |
| What is your policy for giving publicity for the BC model? | | | |
| How many of your BCs are presently viable? If some are not viable, What are the reasons for their non-viability? | | | |
| Is there any BC that has wound up its operations? If so, what are the reasons? | | | |
| Whether BCs are permitted to have sub-agents | | | |
| What kind of control/ supervision you have on the BC or its sub agents in ensuring proper service/charges. What are the products and services offered through the BC? If you have not started lending thru BC, reasons thereof | | | |
| Do you have a dedicated machinery at Head office and Regional offices to drive this programme? If so how many personnel are exclusively deployed for this work for the entire Bank? Whether these personnel has undergone any training or undertaken exposure visits to other organization? | | | |
| What kinds of contracts are formulated for the BCs? What is the procedure followed by the Bank in selecting the tech providers | | | |
| Whether the same technology is used by all BCs? | | | |
| competitive process? Do you obtain performance guarantees from BC? If so, Are there any case of invoking such guarantees? | | | |

| | | | |
|--|--|--|---------------------|
| Do you provide technology to the BC? If Yes, what is the technology? | | | Technology Provider |
| If not, Which organization has provided you the technology for BC and its integration with core Banking software? | | | Technology Provider |
| Describe briefly the technology deployed? | | | |
| What is its present coverage state-wise under BC Model | Name of the state Number of BCs as on Date- Performance of the BC model wise No SB /ac Amt No loans Amt Others | | |
| What is the maximum cost permitted by you for charging the clients for different transactions including cost per month (if any) for maintaining SB accounts. PI provide details If you are not charging your customer, what is the cost being provided by the Bank to BC and the Technology provider for every: | Opening SB account For every debit/credit Carrying cost if any per month Cost of remittance of Rs1000/- SB account Debit/credit transaction Remittance Loan sourced thru BC (PI provide the cost to BC and tech provider separately) | | |
| Normally What is the actual cost per transaction for the bank? | SB account at the Opening of no-frill counter Cash Credit or payments at the counter | | |

| | | | |
|--|--|--|--|
| | Cost of Cash dispensation through ATM | | |
| | Cost of transfer of money through internet | | |
| increasing BC coverage in <March 2012 and 2013 as per FIP adopted by the Bank? | | | |
| What is the mechanism to handle complaints of BC clients? | | | |
| Suggestions | | | |
| What are your suggestion for making the coverage of BC sand increasing number of transactions | | | |
| When the customers of your Branches are not charged for savings services, do you think there is a conflict or discrimination in charging the clients of BCs for the same services? | | | |
| Is there any alternative to charging the clients for services of BC so that the clients would find it more attractive? | | | |
| If you have the power to change the BC scheme what are three most important changes you would make? | | | |
| Signature of the interviewer : | | | |
| Name | | | |
| Date | | | |

CONSULTATIVE INTERVIEW WITH BANK BASE BRANCH

| Question | Answer | Notes | Rationale |
|---|--------|---|---|
| D. Basic Data | | Date of filling the questionnaire: | |
| A.1. Bank's name and Branch's name | | | Contact data |
| A.2. Phone No. | | | Contact data |
| A.3. Address (including email-address) | | | Contact data |
| A.4. Date of commencement of BC services | | | Factual data |
| A.5. Geographical presence | | Rural/semi-urban/Urban | Size of operations |
| Understanding the vision behind the BC Model | | | |
| B.1.What is the intention of the GOI/RBI in starting the BC Model? | | | Organizational Mission Insight |
| Coverage of BC and the procedure adopted | | | |
| How long you are exposed to the BC Model? | | | Factual Data |
| C1.1.How are the BCs selected by the bank? What are the procedural requirements? (Information optional) | | | How cumbersome and time consuming is the screening process? |
| When did the BC get attached to your Branch? | | | Factual Data |
| Whether any specific geographical area is attached to the BC and CSP | | | Factual Data and Operational Data |
| What is the number of households the BC or CSP is supposed to cover | | | Factual Data and Operational Data |
| Does your bank provide technology to the BC? If Yes, what is that technology? | | | Technology Provider |
| If you do not provide Technology then who is your technology Provider? | | | Technology Provider |
| What is the selection procedure for selecting a Technology Provider? (optional) | | | Technology Provider |

| Operational Process | | | |
|--|--|--|--|
| How many no frills SB accounts have been opened so far. | | | Factual Data |
| Once the BC submits account opening forms and fulfils KYC norms, what is the process adopted in the Branch to open accounts? | Procedure followed... No of Days taken to open accounts... No of days taken to provide Passbooks.... | | Efficacy of the BC Model |
| On an average how many SB accounts are opened by the BC per day? | | | Operational Efficiency |
| What percentages of accounts are active? | | | Viability of the BC Model |
| How many transactions are generated by the BC on an average? | Per Day Per Month | | Efficacy and viability of the BC model |
| Whether the number of transactions adequate for the sustenance of BC? | | | Efficacy and viability of the BC model |
| According to you what is the estimated capital investment made by the BC/csp the unit attached to your Branch? | Rs | | Cross verification of BC data |
| What is your estimate of the average monthly expenses for the BC or the unit attached to your Branch? | Rs | | Cross verification of BC data |
| Training and Monitoring Process | | | |
| Did you get any formal training on the role of the Branch in BC programme | | | Sustainability of BC |
| Did the Bank give any training to the person manning the CSP or BC? | | | Capacity Building |

| | | | |
|--|---|--|--|
| Who installs and maintains the equipment? | | | Monitoring |
| How many staff in the Branch are fully or partially engaged in the BC work? | No of People: Fully Engaged Partially Engaged | | Organizational Structure |
| From whom within the Bank you are getting guidance/clarification. | | | Capacity Building |
| How does the bank monitor the BCs? If it is making losses, what are your suggestions to make it profitable? | | | Organizational structure and Commitment |
| What are the mechanisms to deal with reconciliation and other problems? Does the internal Inspection team of the Bank cover the operations of BC/CSP by inspecting their books? | | | Organizational structure and Commitment |
| How is liquidity of the BC managed? | | | Capturing Process |
| Investments made for the BC model | | | |
| Did the bank make Capital investment to establish the BC? | | | |
| Did the Branch give any publicity before or after establishing BC? If so how much money was spent? | | | Capital Investment |
| Do you think that the BC has helped you in achieving the low cost Deposit target? | | | Capital Investment and long term vision for BC |
| Diversity in products offered under BC | | | |
| Do you grant loans through BC? If so how many has been granted? | | | |

| | | | |
|---|---|--|-----------------------|
| What is the percentage of recovery in BC loans? | | | Diversity in Products |
| If you have not started lending through BC, Reasons thereof | | | Constraints |
| What is the compensation structure of the BC agreed by the Bank; | <ol style="list-style-type: none"> 1. Opening No SB frill account..... 2. Sourcing and recommending a loan..... 3. For every Credit..... 4. For Every Debit..... 5. Carrying cost of SB account per month..... 6. Any other Commission (pl Specify)..... | | Revenue |
| Diversity in products offered under BC | | | |
| Do you grant loans through BC? If so how many has been granted? | | | |
| What is the percentage of recovery in BC loans? | | | Diversity in Products |
| If you have not started lending through BC, Reasons thereof | | | Constraints |
| What is the compensation structure of the BC agreed by the Bank; | <ol style="list-style-type: none"> 1. Opening No SB frill account..... 2. Sourcing and recommending a loan..... 3. For every Credit..... 4. For Every Debit..... 5. Carrying cost of SB account per month..... 6. Any other Commission (pl Specify)..... | | Revenue |

| Feedback and Suggestions | | |
|---|--|---|
| <p>According to you what need to be done by the BC/CSP to increase the coverage/transactions</p> <p>Does the BC/CSP act as a Business facilitator? If so monthly average remuneration.</p> <p>Does the BC/CSP also engaged in any other income earning activity? If so, PI specify. PI also indicate estimated average monthly income</p> | | <p>Efficiency of Branchless banking</p> <p>Value to the Branch</p> |
| <p>Do you face any constraint which comes in the way of increasing coverage or transactions.PI specify</p> | | <p>Suggestions to make BC sustainable</p> |
| <p>If you have the power to change the BC model, what three changes you will make (list according to the order of priority)</p> | | <p>Constraints and reasons why the BC Model has not taken off despite being around for couple of years.</p> |
| <p>Do you consider the technology support adequate? If not, mention areas of deficiency</p> | | |
| <p>Do you consider BC as a support mechanism for achieving your business goals? If no why?</p> | | |

Signature of the interviewer :

Name

Date :

CONSULTATIVE INTERVIEW WITH CLIENTS AND NON-CLIENTS

Note: Please remember to focus on non-clients. Please capture non-clients in great detail.

| Question | Answer | Notes | Rationale |
|--|---|-------|--------------------------|
| A. Basic Data | Date of filling the questionnaire: | | |
| Name | | | Contact data |
| Age | | | Factual Data |
| Address | | | Contact data |
| Number of dependents | | | Factual Data |
| Occupation and average monthly income | | | |
| Level of literacy | read/write | | |
| Whether recipient of any benefit from the Government | | | |
| Whether borrowed money from any source. If yes, the source. If from a MFI please mention name | | | |
| What is the outstanding liability | | | |
| Whether Banking with any Bank thru BC. If Yes, pl proceed to Part I. If not proceed to part II | | | |
| Have you taken any insurance from Government or any other source? Please provide details. | | | |
| Have you taken any pension scheme from Government or any other source? Please provide details. | | | |
| If one of your family members is working in another city, how do you get money from him? | | | To understand remittance |
| Part -I | | | |
| How did you come to know of the BC/CSP | | | |
| What are the reasons for choosing to open savings Bank account with BC? How were you keeping your Savings prior to opening the Account with the BC? | | | |

| | | | |
|--|--|--|--|
| Is this your first SB account? If not where do you have first SB account? | | | |
| Were you briefed about the services offered by the BC and the charges thereof before opening the account? | | | |
| How many times you had to visit the BC/CSP for opening the SB account? | | | |
| Was any assistance forthcoming in filling up the application form etc. | | | |
| What is the cost incurred for opening of account? | Cost of travel Notional loss of wages Cost of documents/photograph Total Indirect cost Direct Cost _____ (cost collected by BC) Total Cost _____ Rs _____ | | |
| How many times in a month you operate the account on an average? | how many credits and how many debits? What is the direct cost of such credits and debits What is the indirect cost | | |
| What is the cost debited by the Bank for maintaining the account per month? | For every credit Rs For every debit Rs Carrying Cost of SB account levied Per month by BC Rs | | |
| For what other financial needs you wish to use the connection with the Bank through BC? | | | |
| If you have opened the SB account with the BC/CSP but not operating it, what is the reason? | Not having surplus to save Consider the BC expensive BC is considered risky to entrust your savings-lack of trust | | |

| | | | |
|--|--|--|--|
| | <p>Procedure is too cumbersome</p> <p>Complexity of technology</p> <p>Accessibility problem</p> <p>Not satisfied with the service rendered by BC</p> <p>Any other (pl specify)</p> | | |
| What incentive would help you make the account operative? | | | |
| Do you face any difficulty in operating your account? If yes, please elaborate | | | |
| Have you received benefits under any Govt scheme through your SB a/c. If so, please mention the scheme | | | |
| What are your suggestions to make the scheme more people friendly | | | |
| Part- II | | | |
| Do you believe in saving your surplus for future needs? If so, How do you meet your savings needs presently | | | |
| Are you aware of the risk involved in saving through informal means? If not how you propose meet cost of emergencies/other livelihood needs. | | | |
| Are you aware of the BC scheme and the services offered by it? If so, how did you come to know of it? If you are aware of it, what stopped you from opening an account with the BC? PI give reasons | | | |
| If you are not aware of the BC scheme, will you open a SB account through BC if | | | |

| | | | |
|--|--|--|--|
| <p>offered? If yes, what facilities are expected from BC</p> | | | |
| <p>Do you think that there is a better way to offer financial services to poor? If so, what are your suggestions?</p> | | | |

Signature of the interviewer :

Name

Date :

CONSULTATIVE INTERVIEW WITH TECHNOLOGY PROVIDER

| Question | Answer | Notes | Rationale |
|--|--|------------------------|----------------------------------|
| A. Basic Data | | | |
| Date of filling the questionnaire: | | | |
| A.1. Organization's name | | | Contact data |
| A.2 (a) Nature of work/ activities undertaken by the organization. | 1. 2. 3. | | Organization mission insight |
| A.3. Legal form | Individual/Partnership / For profit company/ Not for profit Sec 25 Co. Society/Trust/ Others (pl. specify) | | Factual data |
| A.4. Phone No. | | | Contact data |
| A.5. Address (including email-address) | | | Contact data |
| A.6. Date of inception | | | Factual data |
| A.7.. Geographical presence | | Rural/semi-urban/Urban | Size of operations |
| Basic Data on BC activity of the technology provider | | | |
| B.1. Is the technology leased out to the BC or sold to the BC? | | | To understand the Business Model |
| B1.1. What are the different components of technology? | Hardware... Software... Programming... MIS updations... Any other... | | Understanding Technology |
| B1.2 How much time is required for opening an account? | | | |
| B.1.3 How much time is needed for transaction? Is the transaction taking place real time? | | | |

| | | | |
|--|--|----------------------------|---|
| B.1.4 What are the different biometric identification processes adopted? | | | Understanding Technology |
| B.2. Who installs and maintains the technology? | Technology Provider Any other company between the Technology provider and CSP? | | To understand the Business Model |
| B.3. Explain what kind of machine you provide to BC? Explain the process? | Hand-held device... Mobile Phone... Any other | Please list out the steps. | |
| B.4. Do you need regular power supply for the technological devise to function? If not, Is the device transportable or mobile? | | | Understanding efficacy in rural areas |
| B.5 Does the technology provider train the BCs on the use of technology? What are the key components of training? | | | How responsible is the technology provider in this entire chain? And, To understand barriers (if any) between man and machine and whether this has a bearing on the efficiency and viability of the BC Model. |
| B.6. Who bears the cost for the training? | | | To understand the Revenue Structure both of the technology provider and BC |
| B.7. How frequent are the system interruptions and how does the technology provider | | | To get a feedback on technology and |

| | | | |
|--|---|--|--|
| deal with them? | | | whether this has any bearing on efficiency of the BC Model |
| B.8. How is the connectivity provided ? Who is the connectivity provider? | | | |
| B.9. Do you have to share the revenue with service provider? If so what percentage of your revenue is shared with them? | | | |
| B.10. Organogram –What structure does the Technology Provider have at the field level and what is its role? Especially vis-à-vis supervision. | | | |
| Transaction Details | | | |
| C.1 What are the different levels of authentication of transactions | | | |
| C.2. What is the percentage uptime of the system | | | |
| C.3. What is the compensation to the BC for various Transactions? Is it provided by the Bank or is it recovered from clients. (If partially collected from clients, please indicate the amount) | Opening SB account Per Loan a/c opening Per Debit/credit transaction (min and max amt) Remittance Maintenance cost of SB /ac per month/per a/c DO.....Loan account | | |
| Revenue Structure | | | |
| D.1 What is your net worth 10-11 | | | |
| D.2 What is your profit/loss 10-11 | | | |
| D.3. What are the sources of revenue for the company. - | ----Amt actual- Per SB Account opening Rs Per Loan a/c opening Rs Per Debit/credit transaction (min and max amt) Rs | | |

| | | | |
|--|---|---|---|
| | Remittance Rs Maintenance cost of SB /ac per month/per a/c Rs AMC rev per annum Royalty per annum Any other | | |
| D.4. Are there any promotional cost involved in promoting your technology to the Banks and the BCs? | Discounts... Additional support... Any other.... | | |
| D.4..If the BC is running into losses, do you fund part of the loss through providing discounted rates etc. | | | Revenue Structure |
| Business Diversification | | | |
| E.1. Does the technology provider also act as a BC through a Section 25 company (e.g. FINO/EKO/ALW)? If no, please proceed to Section F. | Y/N | If yes then finish Section D. ...otherwise proceed to Section E | |
| E.2. What is the reason to move away from the core competency of Technology into BC operations? | | | Motivation to have a section 25 company |
| E.3. How do you perceive BC? Do you perceive BC only as a channel for payments of Government Schemes? | | | Intention of the TSP |
| E.4. Who decides the compensation sharing structure of BC and Technology Provider? | | | Revenue Structure |
| E.5. Does the technology provider have a role in customer acquisition, marketing etc? If yes, please explain the role. | | | To understand conflict of interest (if any) between technology provider |

| | |
|---|---|
| | role as technology provider vis-à-vis being a BC |
| E.6. How do you keep relationships with customers going? Do you deal directly with end customers through a CSP? What has been your experience? | To understand the organizational structure and vision. |
| E .7. Do you think there should be separate models for urban/Metropolitan and other areas? If so, reasons. | To understand rural-urban dynamics |
| E .8. What according to you are the major impediments of the existing clients in making use of your services fully? | Challenges to the BC Model |
| Suggestions | |
| F.1.What are the challenges faced by you in the field of technology? How do you propose to address them? | To understand what kind of improvements are required in the model as it currently |
| F.2.What are the three most significant policy changes you would suggest in the BC scheme to make it more popular, attractive to all stake holders and sustainable? | To understand sustainability issues. |

Signature of the interviewer :

Name

Date :

CONSULTATIVE INTERVIEW WITH CUSTOMER SERVICE POINT

Note: Remember to also chat with the Sarpanch/dominant person in the village and provide a narrative of this interview to the Research Team in a separate sheet .

| Question | Answer | Notes | Rationale |
|---|---|-------|------------------------------|
| E. Basic Data | Date of filling the questionnaire: | | |
| Name of the Individual or Organization's name. | | | Contact data |
| If not an individual, what is your legal form? Phone No. Address | | | Contact data Contact data |
| What kind of relationship you have with the local community? | Local resident.... Outsider.... Any other.... | | |
| What is the name of the BC to which you are attached? | | | |
| Do you do the BC activity yourself or have you employed someone else to do it on your behalf? If so, then how much do you pay per month? | | | |
| Are you engaged in any other activity other than CSP? If so, provide details. What is the average monthly net income from other activities.? | | | |
| What is the infrastructure you have or who provided you the infrastructure to run the CSP? | Get detailed information | | |
| Please provide monthly income from activities other than CSP? | | | |
| What prompted you to become A CSP? | | | |
| Did you get any training from BC or any other source? If so, for how many days? | | | |

| | | | |
|---|--|--|--|
| What is the investment you made to become a CSP | <p>Capital cost Rs..</p> <ul style="list-style-type: none"> o Hardware o Software <p>Sub Total=</p> <p>Working Capital</p> <ul style="list-style-type: none"> o Rent o Electricity o Salary o Transportation o Connectivity Charges o Any other <p>Sub Total=</p> <p>Grand Total</p> | | |
| What is the average liquidity per day maintained by you? | <p>In the Bank A/C Rs.....</p> <p>In Cash with you Rs.....</p> | | |
| What is the population of the area serviced by you? | | | |
| According to you how many in the above population have bank accounts? | | | |
| How many clients is one CSP dealing with? | <ul style="list-style-type: none"> » Savings Bank account » Loans » Any other | | |
| How many savings bank accounts are opened per day on an average? | | | |
| How many transactions on an average per day? | <ul style="list-style-type: none"> » Credit » Debit » Any other | | |
| What is the income generated by the CSP on an average per month? | <ul style="list-style-type: none"> » Account Savings opening » Transactions » Any other | | |

| | | | |
|---|---|--|--|
| Do you have to share the revenue with the BC? If so what percentage of your revenue is shared with them? (If this information is not with the CSP, please get it from the BC) | | | |
| What % of your time do you spend on your CSP activity per day? | | | |
| Who helps in the acquisition of clients? | <ul style="list-style-type: none"> » BC » Banks » NGO » Existing clients » Any other | | |
| How much time do you take in | <ul style="list-style-type: none"> » Opening an account » Doing a credit transaction » Doing a debit transaction | | |
| What is the average size of each credit and debit transaction? | | | |
| How often do you have to travel to the base branch in a month? | | | |
| Are you getting proper cooperation from the branch? | <ul style="list-style-type: none"> » Very Good » Good » Satisfactory » Not satisfactory | | |
| Do you face any technological problems? | | | |
| Who does the supervision and audit for your CSP? | | | |
| Have you faced any reconciliation problems/disputes and if so how often? | <ul style="list-style-type: none"> » Rarely » Sometimes » Frequently | | |
| Do you intend to expand your activities in the future to more geographies? | | | |

| | | | |
|--|--|--|--|
| <p>What problems do you face</p> <p>If you are given the power to change the BC scheme, what are the 3 changes you will bring about?</p> | <ul style="list-style-type: none">» Electricity» Connectivity» Software» Hardware | | |
|--|--|--|--|

Signature of the interviewer :

Name

Date :



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