Financial Inclusion in India and Business Correspondent Agents

Policy Brief December 12

Executive Summary

This policy brief focuses on the Business Correspondent Agent or Customer Service Point (CSP) as the critical link in providing a meaningful and sustainable model of financial inclusion. The rapid growth in the number of agents in recent years shows the pressure from policy makers to increase the percentage of the population with access to a bank account. However, the RBI and Ministry of Finance have established targets based on account opening rather than account usage. This has prompted banks to aggressively open accounts to meet their targets, but to invest little in building CSP networks or delivering high-quality products that encourage usage of the accounts. Interviews with CSPs document many areas of concern – high attrition rate, low diversity of product offerings, inadequate incentives, inadequate liquidity at the last mile, connectivity problems etc. Addressing all these issues ultimately helps achieve the goal of raising the number and quality of transactions.

It is time to go beyond solely targeting expansion in number of agents and accounts. Policy makers should set targets that also look at the average number of transactions per CSP. Banks and BCNMs should incentivize quality of service delivery, product diversification etc. Such benchmarks will enable more meaningful financial inclusion as well as raise agent profitability, making for a more sustainable model for India.

Key Takeaways

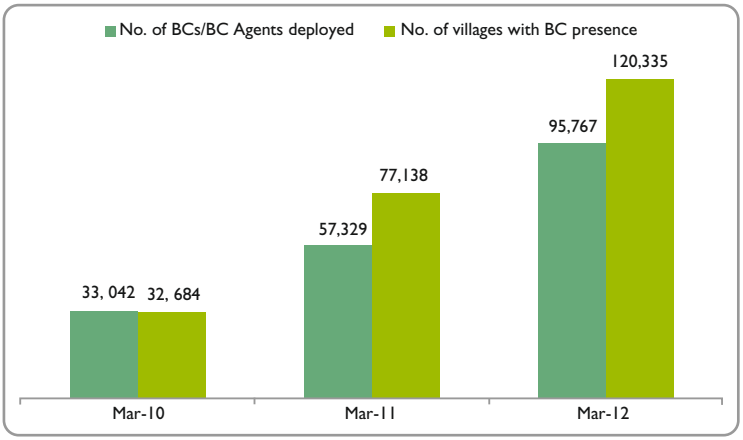
This policy brief examines the objective of financial inclusion through the lens of the Business Correspondent Agents or Customer Service Points (CSPs). The main conclusions drawn are:

- The RBI and Finance Ministry should consider introducing account activity-based targets for financial inclusion, rather than account registration-based targets. This will incentivize banks to establish high-quality CSP networks and encourage customers to use their accounts more actively.
- Quality of service and profitability of the CSP are the two sides of the coin that will strengthen the agent network towards achieving true financial inclusion.

Background

Six years ago, the RBI made the transition towards branchless banking using Business Correspondents or banking agents. The earlier approach of using branch expansion had clearly failed in bringing the majority of Indians into the banking system; now with technology enabling new modes of payments, building an agent network has been accepted globally as a catalytic model for expanding access to financial services. With the drive for financial inclusion intensifying, rules have changed over the years. At first individuals and non-profit organizations were allowed to be Business Correspondents and then this was extended to allow for-profit companies to do the same job. Consequently, Business Correspondents are of two types in India– a)

Expanding BC presence of India



Source: RBI Annual Report 2011-12

individuals who are directly appointed by banks as their agents and b) aggregators or Business Correspondent Network Managers (BCNMs) that are organizations who employ agents. In either case, the essential link for financial inclusion in India has to be the bank's relationship with the customer and the success of this link rests heavily on the point of contact i.e. the agent or customer service point (CSP).

This policy brief looks at achieving the goal of inclusion through the lens of the agents, focusing on the issues facing them, irrespective of whether they are employed by the BCNMs or the banks directly. This takes up higher relevance today given the latest government announcement of direct cash transfers that calls for micro-ATMs in the hands of individuals[1] and incentivizing them for the transactions. As these transfers are routed through bank accounts, the agent becomes the key for connecting the unbanked to higher financial services.

The current state of CSPs in India

The BC model is in its first stages in India and is still evolving. Several studies have assessed the quality and reach of India's agent networks. Over the period March-May 2012, CGAP collaborated with RBI's College of Agricultural Banking (CAB) to conduct a survey of CSPs in India[2]. Interestingly, of the 1030 CSPs that the survey tried to tap, 79 could not be contacted and 91 were unwilling to respond since they were either no longer a CSP or were unhappy with the work. While more than 80% of the CSPs are agents for BCNMs, there is a high level of dormancy here. In fact, MicroSave[3] documents up to 73% inactivity and in some cases more than 40% agent attrition.

It is important for policy makers to identify the reasons behind these high rates so that regulation and programmes are aligned to the needs of the individual agent who is the banking system's point of contact with the unbanked.

The survey by CGAP-CAB brings out one point very clearly, that is meeting government targets for financial inclusion has been the driving force for expansion. In fact, 69% of the CSPs have been placed to accommodate the government set Financial Inclusion Plan targets in rural areas and this focus on increasing numbers unfortuntately shows up in the lower than desired quality of service delivery.

Most of the CSPs surveyed are new to the field - 62% of the CSPs have been operating for 12 months or less. The average number of daily transactions per CSP is still very low, 25 compared to Kenya's 87 and Brazil's 187 as recorded in 2010 by CGAP. Moreover, from the 860 CSPs surveyed, 5% had not had any transactions till date, 12% had no cash on hand and 25% were unable to transact mainly because of connectivity issues, defective cards or PoS terminals etc. Clearly, the number of transactions and the ability to transact are extremely constrained.

There is also low diversification and cross-sell of products. Of five product categories – government payments, transactions like remittances, savings, insurance and credit – 29% CSPs offer only one and 23% offer two products. 16% CSPs offer only the basic no-frills accounts. As a result, customer needs remain unmet – for instance 24% of customers surveyed have unmet credit needs, while 16% would have liked to receive their pensions through the CSP. Though the direct cash transfers programme announced by the government will help change this scenario around, there should be sufficient incentive for the agents to offer these products.

An important finding of the CGAP-CAB survey is that most CSPs have small amounts of cash, limiting their ability to immediately meet client needs. While on one hand, low liquidity keeps costs down, on the other hand, this can restrain the agent from offering more products.

Another study by Platt and Tiwari[4] uses interviews with more than 500 individuals (agents, customers, bank staff etc.) to document the most pressing issues faced by the agents. One point that comes through this study is the low level of income generated for agents, especially in rural areas (See Table 1 for an illustration). The urban agent earns more profits, despite higher costs. This does not augur well for expanding access in rural India.

Table 1: Agent Economics – Case Studies

(monetary units in Rs.)

	Case 1: Rural	Case 2: Urban
Products	**Account opening and government payments**	**Remittance (Deposit into bank account)**
Duration	5 months	5 months
Working capital expenditure	30,000	200,000
Volume of business per day (in nos.)	50-60	35
Value of business per day	30,000	70,000- 350,000
Average number of accounts opened per month	100	
Commission per account opening	10	
Commission on withdrawal amount	0.45%	
I. Monthly income based on commission	**5,050**	**34,088**
II. Monthly Total Expenses (A+B+C)	**4,967**	**8,550**
A. Monthly Financial Expenses	300	2,000
B. Administrative Expenses	4,000	5,300
C. Monthly Depreciation on Fixed Assets	667	1,250
Monthly Net Profit/Loss (I – II)	83	25,538

Source: Adapted from MicroSave Policy Brief #2 "The State of Business Correspondence: Agent Networks in India", Ann-Byrd Platt and Akhand Tiwari, March 2012.

The type of transactions also has a significant impact on the revenue generated – remittances are more lucrative, while no-frills accounts have the lowest potential for revenue. This finding is also substantiated in another study by Mukul Singh[5], which shows that profitability is an elusive target for agents. Agents who are focused on remittances are best placed to break even on costs due to high transaction volumes, while low transaction volumes drag down the agents who are focused on no-frills accounts and government payments.

While incomes and profits may vary across locations, all studies show some common problems facing agents. When it comes to delay in payments, there was little difference on this front between BCNMs and banks. This is a concern, since prompt payments enabled through technology can significantly ease operational costs on working capital and maintaining the 'e-float'. Another set of issues, also highlighted in the CGAP-CAB study, includes poor connectivity, server problems, problematic technology etc. For instance, failure of biometric authentication for customers with worn or damaged finger-pads leads to a lot of frustration, souring the experience for the unbanked.

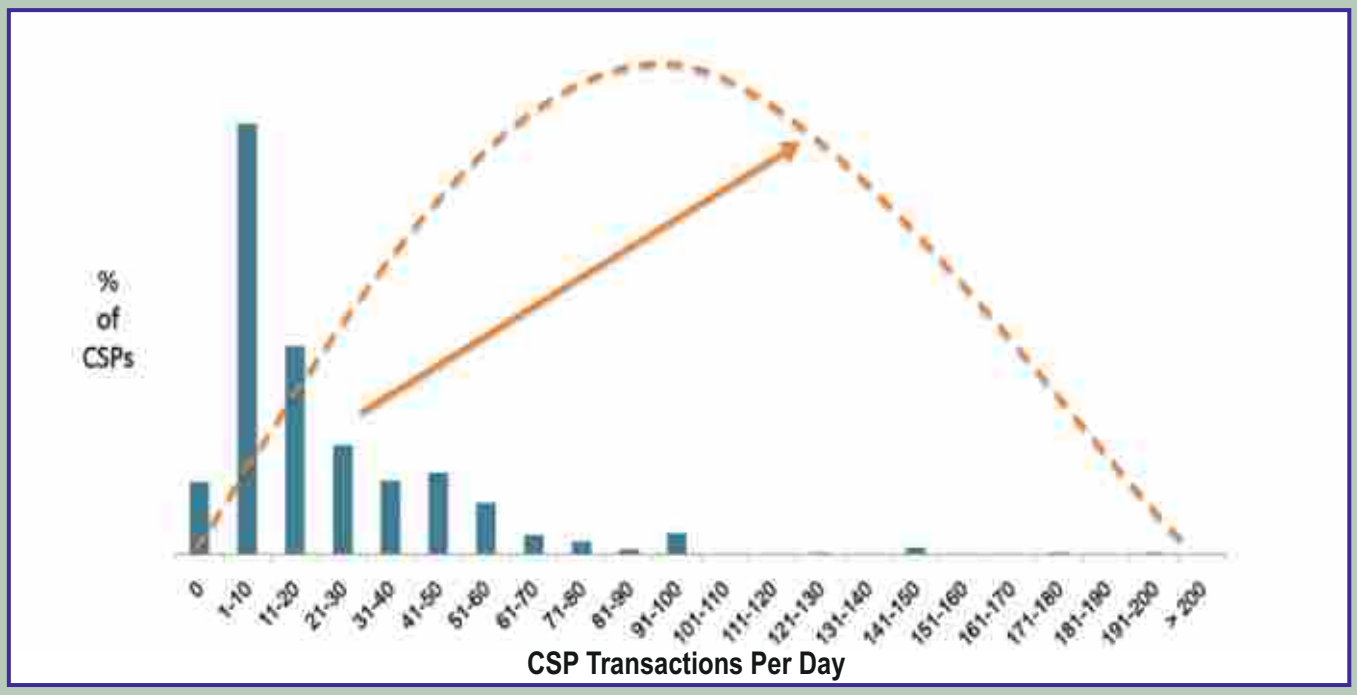
The Way Forward

India has now reached the stage where we have to go beyond mere coverage if we are to talk of positively making a difference in the lives of the unbanked; expanding financial inclusion can be best served by ensuring a network of motivated agents. Agents are the critical link to the unbanked and as the numbers increase across the country, the first time experiences of customers would be crucial in bringing them into the fold of the formal financial sector. Interviews and surveys of CSPs have thrown up a large number of important issues still to be addressed– proper training of agents, sufficient incentives, adequate liquidity at the last mile, solving connectivity problems etc. All these issues ultimately focus on raising the number as well as quality of transactions.

It is time to go beyond just targeting expansion in numbers. It is time to have additional benchmarks that look at the number of transactions per day (See Box), quality of service delivery and the diversity of products being offered. Policy makers, banks and BCNMs should work for incentivizing both number and quality of transactions. Such benchmarks will enable more meaningful financial inclusion as well as raise agent profitability, making for a more sustainable model in India.

Box: Target increasing the average number of daily transactions per CSP

In order to expand the focus of policy from mere coverage to improving quality, one leading indicator to be tracked could be the number of transactions per CSP. The graph shows the direction in which the frequency distribution of CSPs should change increasing the average number of transactions. Aiming for more transactions will call attention to addressing issues like adequate training, support from bank or BCNM, liquidity management etc. This will also have a positive impact on the profitability of the agent, making for a motivated network across the country.



Source: National Survey of Branchless Banking Agents in India, Gregory Chen and Aimthy Thoumoung, CGAP-CAB, June 2012

1. *Jairam Ramesh and Varad Pande, "No need for hype but certainly a hope", The Hindu, December 11, 2012.*
2. *Gregory Chen and Aimthy Thoumoung, "National Survey of Branchless Banking Agents in India: Towards high quality BC customer service points", CGAP June 2012.*
3. *Ann-Byrd Platt and Akhand Tiwari, "The State of Business Correspondence: Agent Networks in India", Policy Brief # 2, MicroSave, March 2012*
4. *Ibid.*
5. *Mukul Singh, "Assessing Agent Profitability: MicroSave's Agent Journal Studies", Policy Brief # 6, MicroSave, June 2012.*

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