

# MicroSave India Focus Note #136

## Agent Dormancy: Reasons and Remedial Measures

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In continuation of the previous Note "[Agent Dormancy: Impact on Customers](#)", in this Note we discuss the reasons for agent dormancy and the ways to address them. To retain agents, we first need to understand the issues forcing agents to leave. Agents close down their outlets due to a combination of reasons mentioned below:

### **Irregular/Inadequate/Non-payment of**

**Salary/Commission:** Agents across the research locations complained that they do not get commission on time, with delays as long as 4–6 months. Also, banks frequently change commission structures, which makes it difficult to predict income earned. For example, an agent in Gujarat was promised a fixed monthly payment of Rs. 3,500 (USD 53) and a variable component of Rs. 1,500 (USD 23) by the bank. He received his fixed emoluments only once. After one month, he received a communication from the bank regarding a change in bank policy, discontinuing the fixed pay-out.

Many agents did not get their commissions or salaries at all. A respondent in Uttar Pradesh (UP) worked as BC agent for twelve months for one of the rural banks. He did not receive any salary, commission or allowance from the bank or business correspondent network manager (BCNM) from the first day of his appointment. The agent continues to believe that he is working for a government-owned rural bank and will be eventually compensated.

Data collected from the [Agent Network Accelerator India Survey \(ANA\)](#) in early 2015 highlighted that agents' profit margins, if any, were very low. The ANA survey reports that 32% of the agents are not profitable and the median profitability per agent per month is only Rs. 1,000 (USD 16). The [ANA India report](#) also states the median transaction volume per day at 13 is the lowest among ANA countries, with the exception of Pakistan.<sup>1</sup> On the brighter side, *MicroSave's* more recent PMJDY [Wave III](#) research reports average monthly net profit of agents using micro ATM / POS at Rs. 2,542 (USD 39), while for those using laptops, it is Rs. 1,401 (USD 21).

**Lack of Support from Bank and BCNM:** The distance of the link branch from the agent location is a matter of concern for several agents. Banks rarely provide doorstep liquidity rebalancing support. [ANA India](#) reports that 94% of the agents have to travel for rebalancing (76% travel to bank branch, 14% to the provider and 4% to nearby retailer). Rural agents take

the longest to reach rebalancing points (mean of 28 mins) compared to agents in other urban areas (20 mins) and metros (14 mins). In UP and Bihar, the agents feared travelling to/from the bank branch with cash because of the risk of theft/robbery. Cash transit insurance has not been provided by the bank or BCNM to cover this risk – it is left with the agents.

In some bank branches, the staff have limited understanding of the financial inclusion agenda and its importance. On occasions, some branches do not serve agents efficiently, due to lack of manpower. As a result, liquidity re-balancing can take hours of an agent's precious time.

Agents get minimal support from the staff of BCNMs and banks for promotional activities to increase customer awareness regarding the benefits of transacting at BC outlets. Agents report that most of the canopy activities (BTL) were undertaken only in the initial stages of BC business by bank and BCNM staff. The [ANA survey](#) also echoes that fewer (58%) agents in India receive support visits, compared to other countries. The [Wave III report](#) highlights how much agents' performance depends on support they receive from their link branch. The 63% of active BC agents who were satisfied with link branch support also saw higher daily customer footfall compared to those agents who were dissatisfied.

Where replacement agents were on-boarded, communication of the change to the customer is left to the new agent. Bank staff are either unaware (in case of individual agents) or pass on the onus to the BCNM (in case a BCNM is involved). Sadly, very few BCNMs make efforts to inform customers about new agents.

**Poor Communication:** Changes in bank policies that affect the agency business are not communicated to agents on time. This leads to confusion and operational issues at the agent's end. Frequent change of officials at bank/BCNM also poses challenges as continuity is disrupted, and it takes time for the agent to build rapport with the new staff. Additionally, the new staff may not even be aware of the BC channel and its functioning. The [Wave III report](#) highlights how most customers and agents are unaware of PMJDY's product offerings and scheme riders. Instances such as miscommunication of overdraft as "free money" motivated many to open PMJDY accounts.

**Poor Customer Grievance Mechanisms:** Staff at banks and BCNMs do not invest time in training agents.

<sup>1</sup> Pakistan has non-exclusivity at 66%, as compared to India at 11% and hence the median transactions in Pakistan are lower.

One of the key areas found lacking is customer grievance resolution. In case of grievances, agents are often caught between banks and BCNMs and have to find a workaround to help the customer. The [ANA India](#) research reports that only 59% of the agents know that there is a call centre to resolve their queries.

#### **Technology and Infrastructure Challenges:**

Some agents are not given POS machines and biometric devices on time. This results in delay in commencement of operations at the agent point. A few of them faced issues with POS machines; according to agents, performance of POS machine starts deteriorating as the number of accounts increases. For example, an agent in Gujarat said that after opening 200 accounts, he saw a decline in performance of the POS machine (possibly because of low memory on the POS). The [Wave III report](#) also highlights that though 47% of the customers have received *RuPay* cards, only 33% of customers can transact using *RuPay* cards. The prime reasons for not being able to transact are non-receipt of PIN (21%) and non-activation of *RuPay* card (11%).

Agents are not informed pro-actively by banks or BCNMs about instances of “server downtime”. Erratic electricity supply and patchy internet connectivity in villages raises concerns amongst customers about the dependability of financial services at agent point, affecting the business of agents. A failed transaction that does not go through and remains unreconciled, is often enough to deter the entire village from making further transactions.

#### **What Can be Done?**

Though agent dormancy is unavoidable, it is imperative for the industry to minimise agent churn and build a system of advance warning so as to minimise the impact on customers.

An **Early Warning System** can be enabled on the digital technology platform with defined Quality of Service (QoS) parameters, and can be monitored at various levels. Some of these signs are:

- Unavailability of agent at the designated location for extended periods of time
- Reduction in number of transactions
- Absence of collateral mandated by the BCNM
- Reduction in rebalancing frequency and value

Where the agent cannot be restored, the service provider/bank need to ensure continuity of services as under:

#### **Interim Handover of Customer to Link Branch:**

[RBI guidelines on BCs](#) clearly indicate that banks should introduce their retail outlets / agents to the villagers in a public meeting. This communication can be also extended in cases when there is a change in agent and how customers can access their accounts in the interregnum. This will avoid dormancy of customer accounts as well as build trust. The personnel attending the dedicated toll free help line number (also required in the [RBI guidelines](#)), which is displayed at all the BC points, should help customers understand the process of transferring their account to a link bank branch / ultra-small branch or to another agent, in the case of agent dormancy.

Banks should clearly lay down guidelines for their link branches in the eventuality of an agent going dormant. While [RBI guidelines](#) explain the importance of ultra-small branches, whose purpose is to improve efficiency in cash management, documentation, redress of customer grievances and supervision of BC operations, it does not clearly indicate their role when agents become dormant. Also, the link branches must be clear that they own customers served by their agent and that these customers deserve services like any other client of the bank. [RBI guidelines](#) highlight the importance of periodic review of BC agents by banks; however, this is yet to be systematically institutionalised. Indeed, many branches scarcely even know the agents operating in their geography.

#### **Seamless Migration of Customer Accounts:**

There should be clear guidelines/policies facilitating seamless migration (in the core banking system) of accounts opened and maintained by the previous (now dormant) agent to the new (replacement) agent. Banks should build in contractual obligations to ensure that the agent operates throughout a notice period before surrendering operations so that a replacement is appointed, while the previous agent is still around.

**Service Level Guidelines for Agent Points:** Given the importance of agents for last-mile delivery, it is time to define [service level expectations](#) from BC outlets. BC points should be treated similar to a bank branch, which, once established, cannot be closed down arbitrarily. RBI may mandate that no BC outlet can be closed for more than five consecutive days in a row (barring *force majeure* events). It is for the bank and the BCNM to make arrangements for a replacement in case the existing agent goes dormant. This in itself will focus attention on agent retention, which does not seem to be a priority, as yet. RBI guidelines should also speak of handover communication between in-coming and out-going agents.

**Interoperability Among Agents:** [RBI allowed interoperability at agents of BCNMs in March 2012](#). This, however, has had little impact as the customer interfaces of many BCNMs are still not interoperable and cannot acquire transactions for other banks or BCNMs. In case of one [BCNM \(SAVE\)](#), there is interoperability amongst agents of the same link branch; however, neither the agents nor the customers are aware of this. A feasible and scalable technological solution needs considerable investments. [White Label](#) agents could help address this challenge. This would help customers to access their accounts from agents of other providers.

If we aspire to leverage the benefits of low-cost agent-based models for a financially inclusive society, we need to address operational bottlenecks at an early stage – before trust in these models is irretrievably eroded in the target market.