

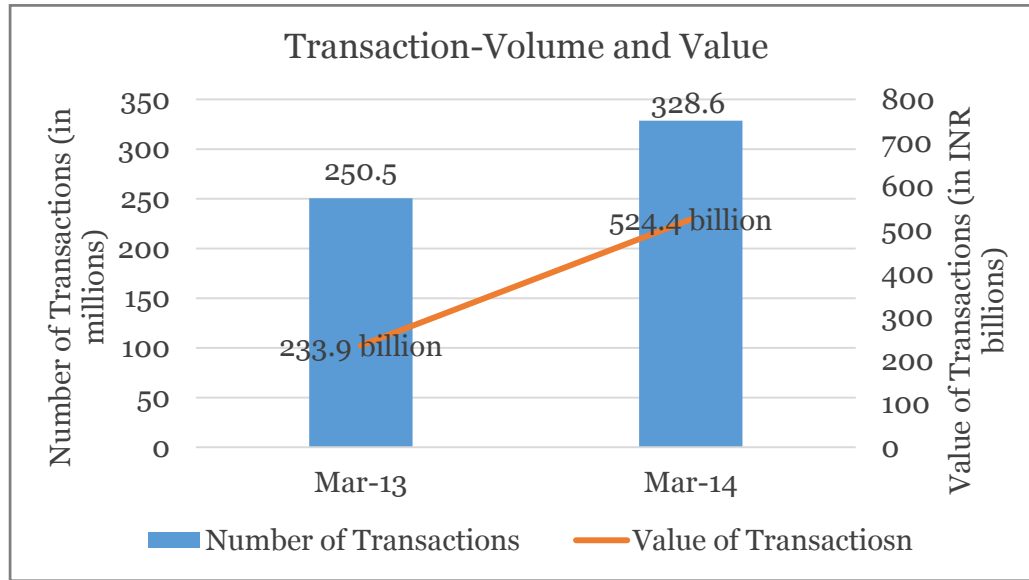
G2P Payments in India - How a 1% DBT Commission Could Undermine India's Financial Inclusion Efforts

May 2015

MicroSave

Market-led solutions for financial services

Sector Background



The number of ICT-based transactions* through BCAs increased from **250.5 million** in March 2013 to **328.6 million** in March 2014

The transactions amount* increased steadily from **INR 233.9 billion** to **INR 524.4 billion** during the same period

For PMJDY specifically**:

125.4 million accounts have been opened out of which **75 million** accounts are in rural areas and **50.4 million** accounts are in urban areas

Out of a total requirement of **126,837** BCs, **123,805** BCs have been deployed***

BCA Outreach

- ❖ Number of BCAs in villages: **337,678**
- ❖ Urban locations covered through BCAs: **60,730**
- ❖ Total channel employment (direct and indirect) ~ 600,000
- ❖ Basic Savings Bank Deposit accounts opened through BCAs: **116.9 million** (Total **243 million**)

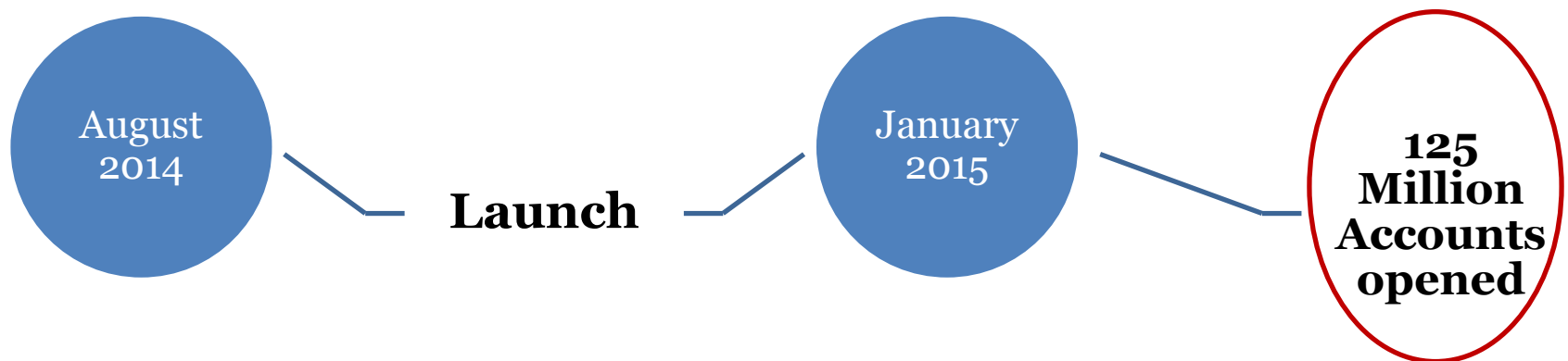
*Table IV.7: Financial Inclusion Plan-Summary Progress of all Banks including RRBs RBI Annual report 2013-2014

**http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=862

**Please see <http://financialservices.gov.in/banking/FinancialInclusionIndicators.pdf> for further details

*** Based on Sub service area approach

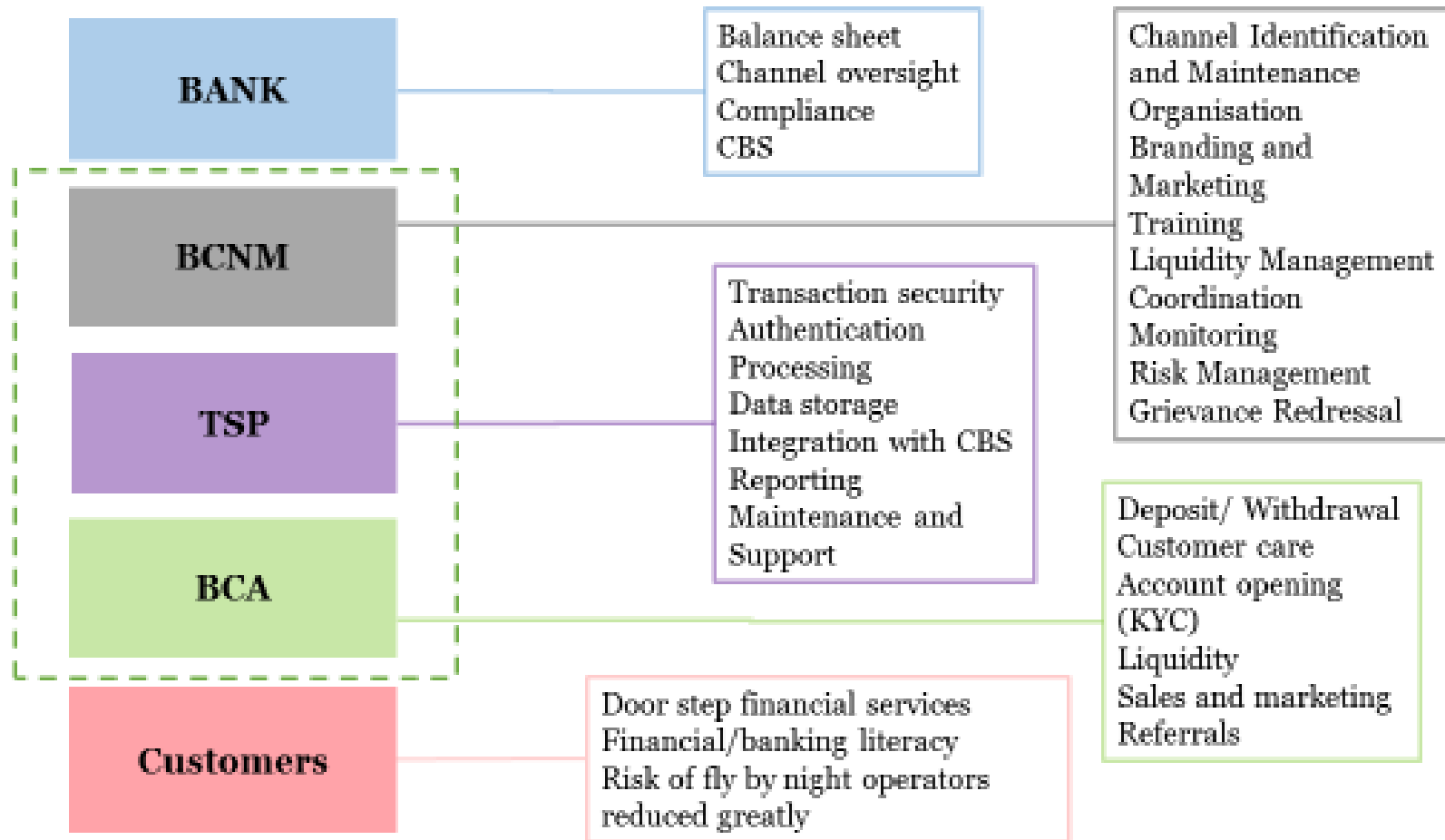
PMJDY Has Seen Tremendous Growth



- Flagship programme of Government of India, with an objective of giving all households in the country access to banking services
- Benefits include:
 - ✓ A zero-balance account with interest on deposits
 - ✓ RuPay debit cards, accident insurance coverage of Rs. 1 lakh (US\$ 1,613)
 - ✓ Life insurance coverage of Rs. 30,000 (US\$ 484)
 - ✓ Possibility of overdraft protection with credit of up to Rs. 5,000 (US\$ 81)

One of the most important aspects is the direct benefit transfer (DBT) of social benefits and subsidies into bank accounts. This could amount to approximately Rs. 3 lakh crore per annum and drive activity in the accounts and remuneration for the bank mitrs' (agents)

Channel Participants in Delivery of Financial Services to Unbanked Customers



* In some cases the TSP is linked with the bank, and in others with the BCNM

The Success of the PMJDY and DBT Programme Depends Heavily on Bank Mitrs (BCAs)



Number of rural bank branches –
41,000



Number of villages – 650,000



Bank Mitrs Bridge the Gap

Bank Mitr Networks in India Have Been Weak in the Past

860 Surveyed in 2012

Tried to contact again in 2013
(15 months later)

A *MicroSave* analysis conducted across 41 districts in 9 states in November and December 2014 corroborates this and found that 31% of Bank Mitrs were unavailable at their stated locations.

500 remain agents

267 no longer agents

93 unreachable

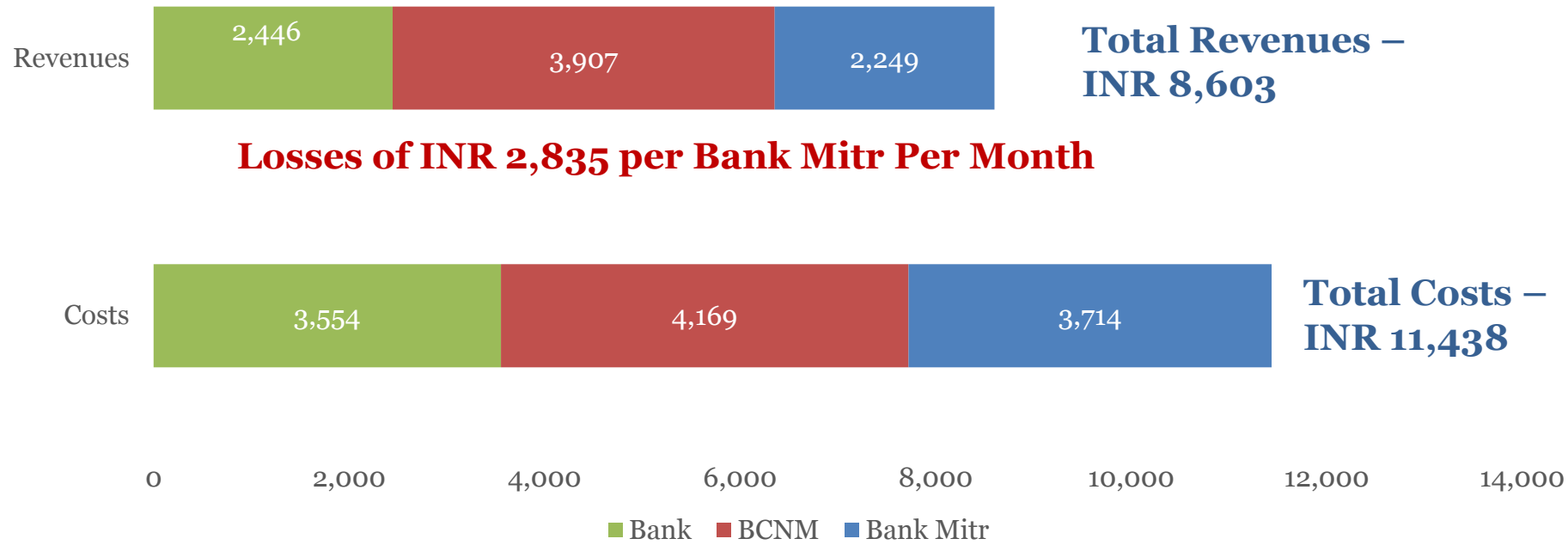
Annualised attrition rates of 25% - 34%



Sources: [2013 India: National Survey of Branchless Banking Agents](#), CGAP and College of Agricultural Banking

The Primary Reason for Drop-outs and Dormancy among Bank Mitrs is Inadequate Revenue

Costs and Revenues - Per Month Per Bank Mitr

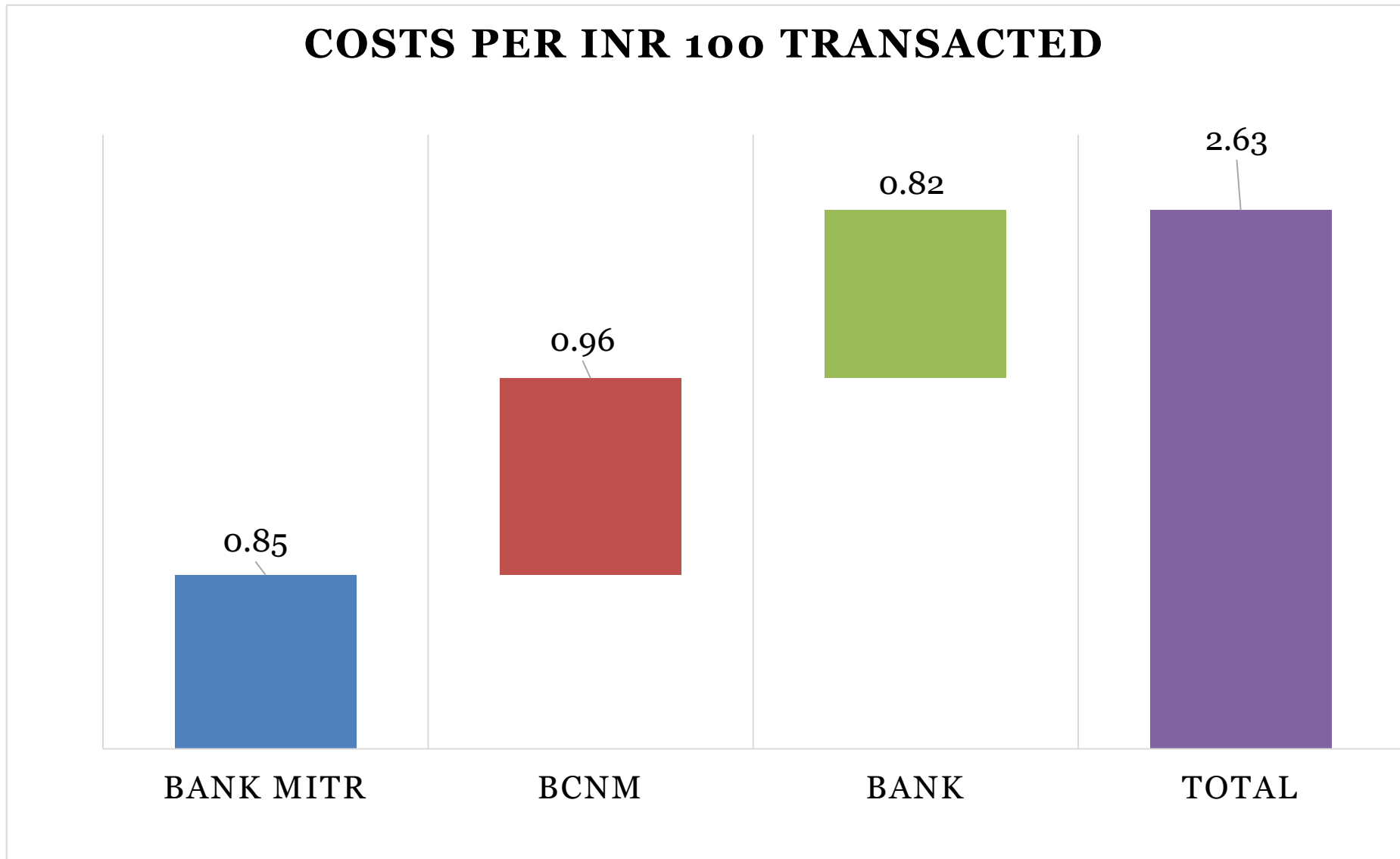


Low commission rates are driving losses for Bank Mitrs and BCNMs

- All participants in the value chain make losses. Banks incur a loss of INR 1,008, BCNMs incur a loss of INR 262, and Bank Mitrs incur a loss of INR 1,465 per Bank Mitr per month

Sources:
 MicroSave Research
 Bank Costs have been estimated based on “[Report of the Task Force on an Aadhaar-Enabled Unified Payment Infrastructure](#)”,
 February 2012

At Present, Cost of Transactions through Bank Mitrs is 2.63%



Commission Structure

January 16th circular from DoE fixes commissions for banks distributing DBT payments

For **urban** schemes such as Direct Benefit Transfer for LPG (DBTL), commissions will be paid at the National Electronic Funds Transfer (NEFT) rate or the Aadhaar Payment Bridge (APB) rate as per extant Reserve Bank of India (RBI) or National Payments Corporation of India (NPCI) circulars.

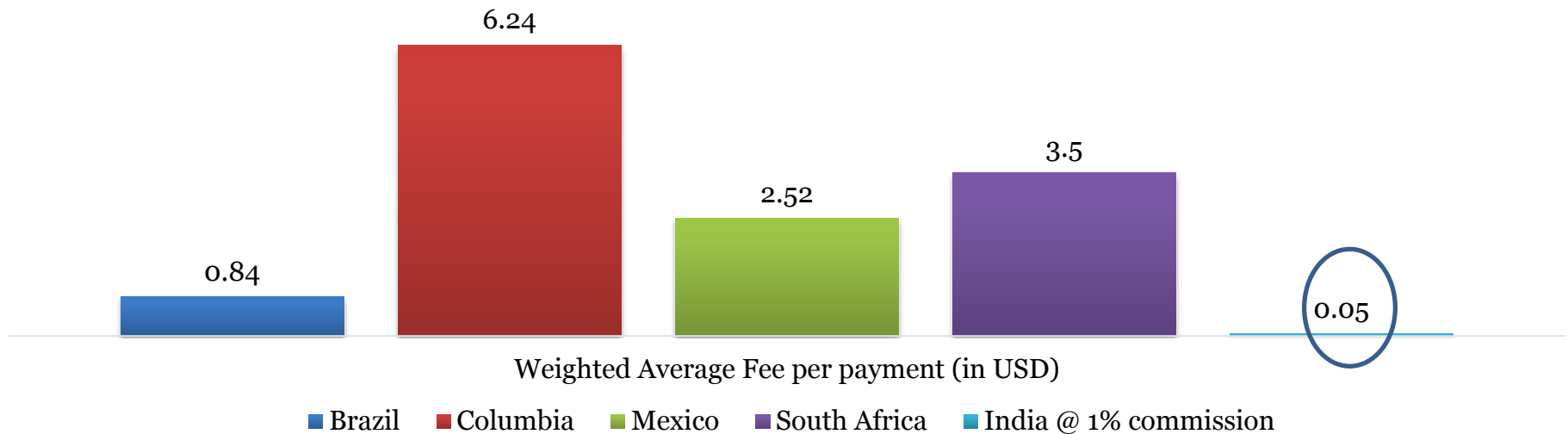
For **rural** schemes, the rate will be 1%, subject to an upper limit of Rs. 10 per transaction.

1% is inadequate and can derail the DBT Programme

Government of India appointed **Task Force on Aadhaar-Enabled Unified Payment Infrastructure** estimated in its 2012 report that a 3.14% DBT commission would be needed to ensure a robust rollout of Bank Mitrs.

International Examples of G2P Payments also Mandate Higher Commissions

Fee per Payment for G2P Schemes

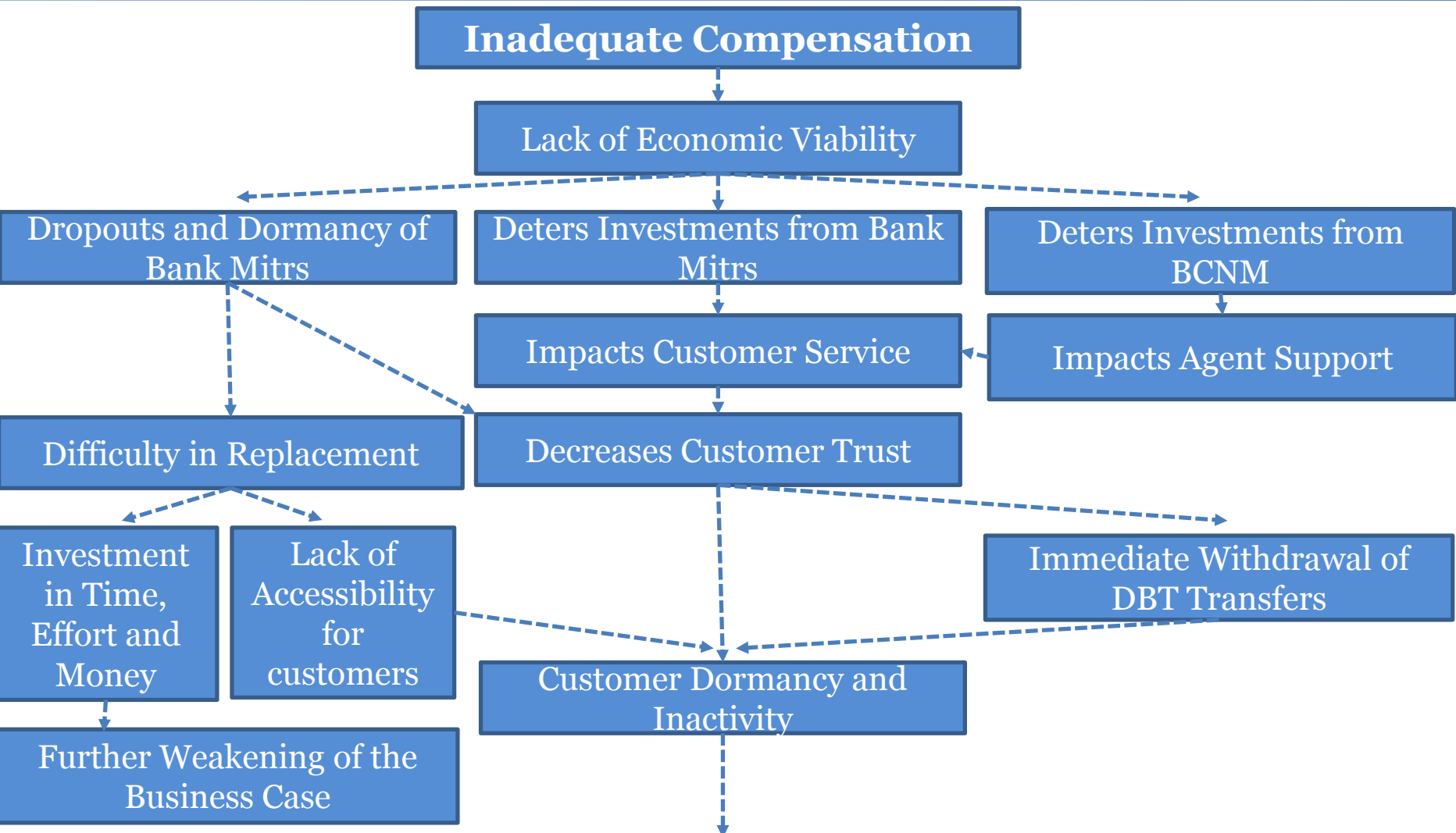


- The weighted average fee per payment, even at a transaction fee at 3.14% commission, is only USD .15 for India.
- The G2P schemes used for these calculations are MGNREGA, PDS Food subsidy and LPG subsidy
- The dollar exchange rates has been taken as constant; reference period being February 2012 in order to maintain parity

Sources:

["Social Cash Transfers and Financial Inclusion: Evidence from Four Countries."](#) Focus Note 77.
Washington, D.C.: Bold, Chris, David Porteous, and Sarah Rotman 2012, February, CGAP

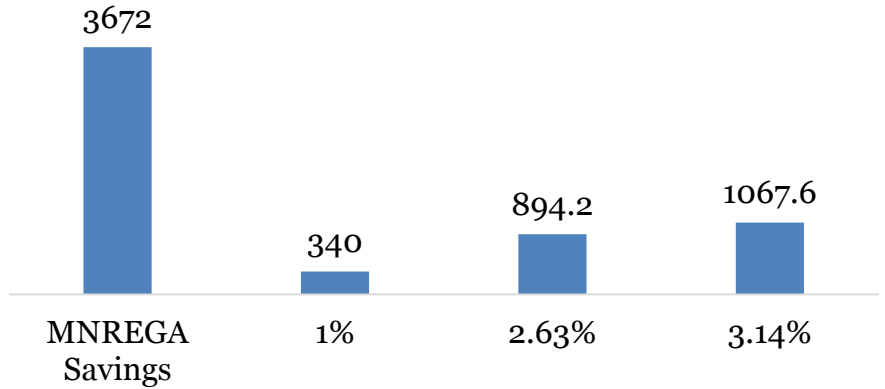
Likely Impact of a 1% Commission on DBT



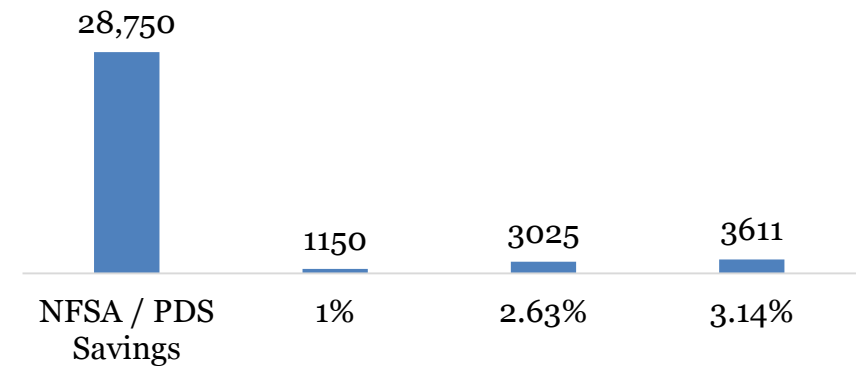
Defeats the Financial Inclusion Objective of PMJDY and DBT Programmes

Can the Government Afford to Pay?

Savings and Payouts for MNREGA
(in Rs. Crore)



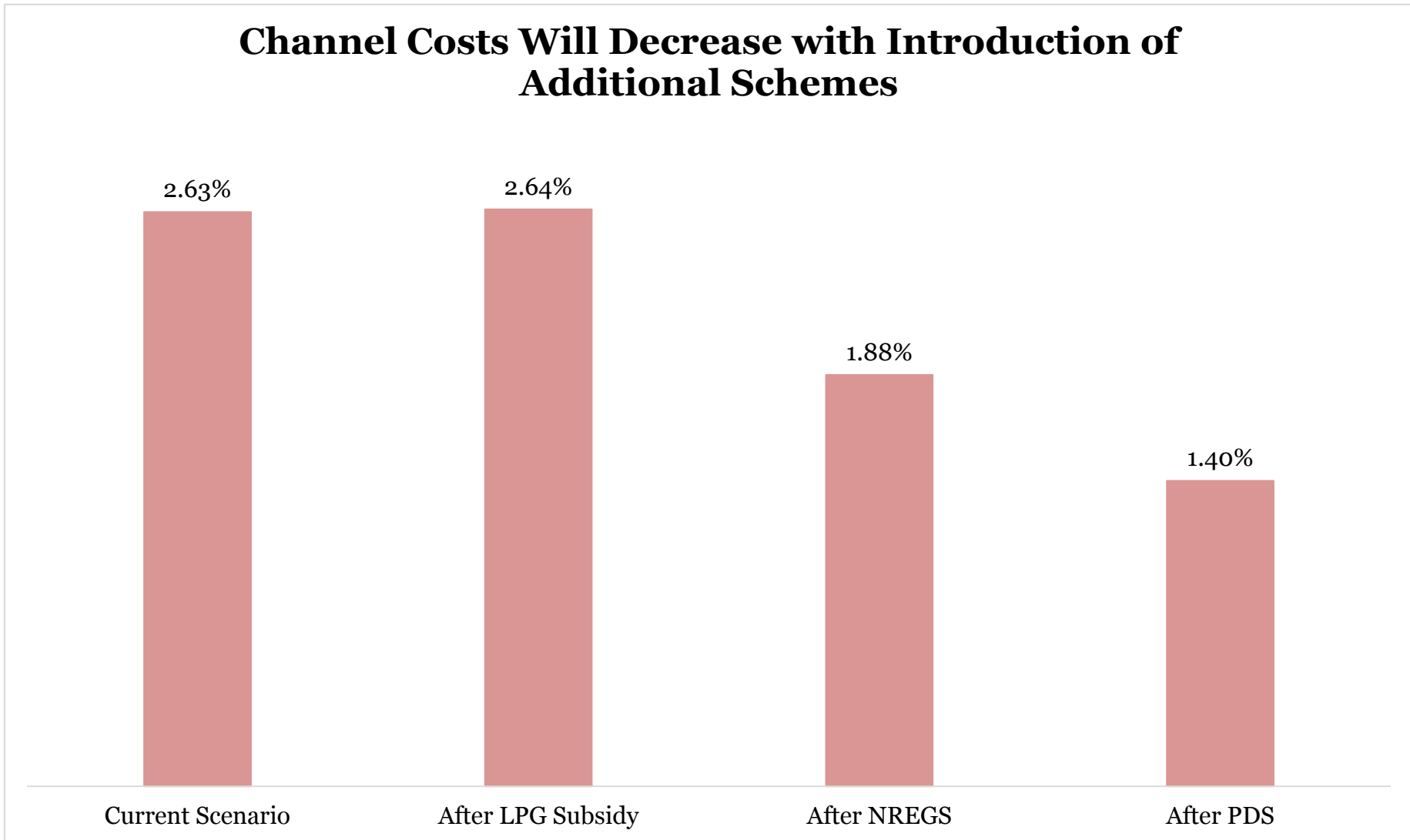
Savings and Payouts for NFSA/PDS
(in Rs. Crore)



- A McKinsey & Company report in 2011 estimated that an e-payment model can reduce current payment inefficiencies estimated to be Rs. 1 lakh crore annually (US\$22.4 billion). This would equal 8% of the total value of G2P flows in India.
- 80% of the savings would come from reduced leakages to unintended recipients. The remainder would come from the lower administrative cost of making payments digitally rather than using cash or checks.
- A randomised control trial conducted by the Abdul Latif Jameel Poverty Action Lab (J-PAL) in association with the Government of Andhra Pradesh in eight districts of Andhra Pradesh reported a 24% increase in weekly earnings of beneficiaries while fiscal outlays did not change; and a 10.8% reduction in leakages.

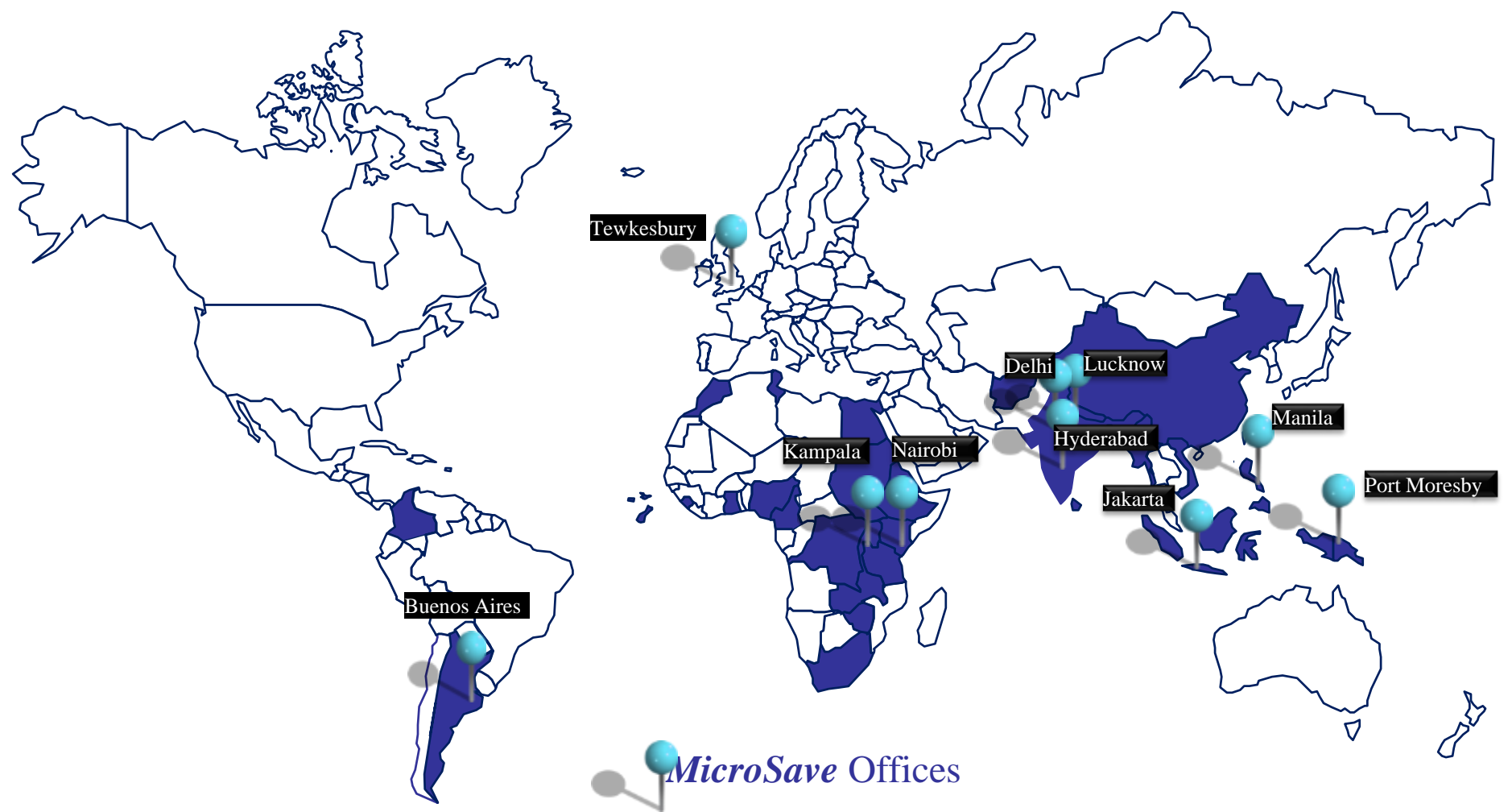
Moreover, 3%+ Commissions Need Not Be Perpetual

Channel Costs Will Decrease with Introduction of Additional Schemes



Recommendation for Building a Sustainable Financial Services Delivery Model

- ❖ **Consider the total cost of transaction** across the channel (Bank, BCNM, BCA)
- ❖ **Revenues can be on a sliding scale**; higher initially and tapering off as volumes build up.
- ❖ **Revenues should enable players in the channel to be gainfully engaged** and not seek exit at the first option. Agent churn significantly reduces trust in the channel.
- ❖ **Business volume is key to success** of the Bank Mitr channel - Cost per transaction will come down with increase in volumes which in-turn can be increased with relevant products
- ❖ To build trust and improve quality of service, **BCA skills need to be upgraded and a process of certification needs to be initiated.**
- ❖ **Conduct a more detailed costing exercise** based on empirical data from Banks, BCNMs and BCAs. The exercise will enable realistic pricing and can be repeated once in two years or till such time that the model stabilises.
- ❖ Use the Universal Service Obligation Fund (USOF) for telecom, which remains largely unused, or potentially create another, similar fund for financial services for the poor.



MicroSave Offices

MicroSave (India)
 Head Office: Lucknow
 Tel: +91-522-2335734
 Fax: +91-522-4063773
 New Delhi Office:
 Tel: +91-011-45108373
 Hyderabad Office:
 Tel: +91- 40-23386140
info@MicroSave.net

MicroSave (Kenya Office)
 Shelter Afrique House,
 Mamlaka Road,
 P.O. Box 76436, Yaya 00508,
 Nairobi, Kenya.
 Tel: +254-20-
 2724801/2724806
 Fax: +254-20-2720133
 Mobile: +254-0733-713380
info@MicroSave.net

MicroSave (Uganda Office)
 Regency Apartments
 30 Lugogo By-Pass
 P.O. Box 25803
 Kampala, Uganda.
 Tel. +256 312 260 225
 Mobile. +256 776 36
 5536
info@MicroSave.net

MicroSave (UK Office)
 The Folly, Watledge Close,
 Tewkesbury,
 Gloucestershire
 GL20 5RJ
 UK
 Tel. +44 1684 273729
 Mobile +44 796 307 7479
info@MicroSave.net

MicroSave (Manila Office)
 Unit 402, Manila Luxury
 Condominiums,
 Pearl Drive corner Gold
 Loop,
 Ortigas Center, Pasig City,
 Metro Manila, Philippines.
 Tel: +(632) 477-5740
 Mobile: +63-917-597-
 7789
info@MicroSave.net

MicroSave (Indonesia Office)
 Jl. Penjernihan I No. 10,
 Komplek Keuangan -
 Pejompongan,
 Jakarta Pusat 10210,
 Indonesia.
 Tel: +62 82122 565594
info@MicroSave.net

MicroSave (PNG Office)
 Corner of Musgrave
 Street and Champion
 Parade,
 Port Moresby, Papua
 New Guinea.
 TeleFax No.: +675 321
 8823/321 8854
info@MicroSave.net