

# MicroSave India Focus Note 105

## The Curious Case of Missing Agents in Rural India

*The Reality Behind the “221,341 Customer Service Points in India”*

Akhand Tiwari, Lokesh K Singh, Mukesh Sadana and Puneet Chopra

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***In a survey of 2,932 villages with a population of greater than 1,000, only 39% are covered through customer service points (CSPs) according to State Level Bankers' Committee (SLBC). Field work reveals that only 7% of the villages have transaction ready CSPs; only 4% have CSPs available to transact every day.<sup>1,2</sup> A little over 2% of the appointed CSPs are doing more than 10 transactions a day, and less than 4% are earning more than Rs. 2,000 a month; with a median monthly income as low at Rs.1,500 – and so quite likely to quit the business soon.***

Access to banking and basic financial services is vital for economic development and people's progress out of poverty. Establishing the business correspondent model to achieve financial inclusion was visionary and held the promise of making banking available to everyone in India.

To accelerate financial inclusion, the Reserve Bank of India (RBI) and the Government of India mandated banks to establish Customer Service Points (CSPs) in every village. Initially villages with a population of greater than 2,000 were to be covered, and subsequently the targets were extended to cover villages with a population above 1,000. Nominally, according to the RBI and the banks it supervises, this has been achieved. However, most of these CSPs do not exist, or are dormant, creating a major barrier to achieving the underlying objectives behind the vision.<sup>3,4</sup>

In order to do accurately ascertain the real presence of CSPs and their activity levels, *MicroSave* conducted a survey covering five districts of Uttar

Pradesh and Bihar.<sup>5</sup> These states cover almost 25% of the 594,584 inhabited villages in India, and thus can be considered indicative of the universe of CSPs. As per the SLBC records of UP and Bihar, these districts have a total 1,141 CSPs. Of these, data could be found for 923 CSPs, and 862 could be visited. Interestingly, the remaining 61 villages in the SLBC records could not even be traced - no one had heard their names or could identify such villages.

The findings from the survey are startling. Against the reported achievement of one CSP in every village with a population over 1,000, “transaction ready” CSPs were present in only about 6.6% (194 against 2,932) of the villages. Further, only 117 villages had CSP available for transactions every day, implying that only 4% villages can really be considered to have proper CSP coverage.<sup>6</sup> Furthermore, the survey found that only in just over 1% of the villages (34 out of 2,932) CSPs are earning more than Rs. 2,000 a month, equivalent to a minimum wage in these geographies.

<sup>1</sup> There are of 2,932 villages with a population above 1,000 in the five districts of U.P. and Bihar that were surveyed. The list of CSPs provided by State Level Bankers' Committee (SLBC) for these five districts has 1,141 villages shown as covered by a BC agent.

<sup>2</sup> 117 CSPs operated from their place of residence or business and hence were available for certain number of hours every day.

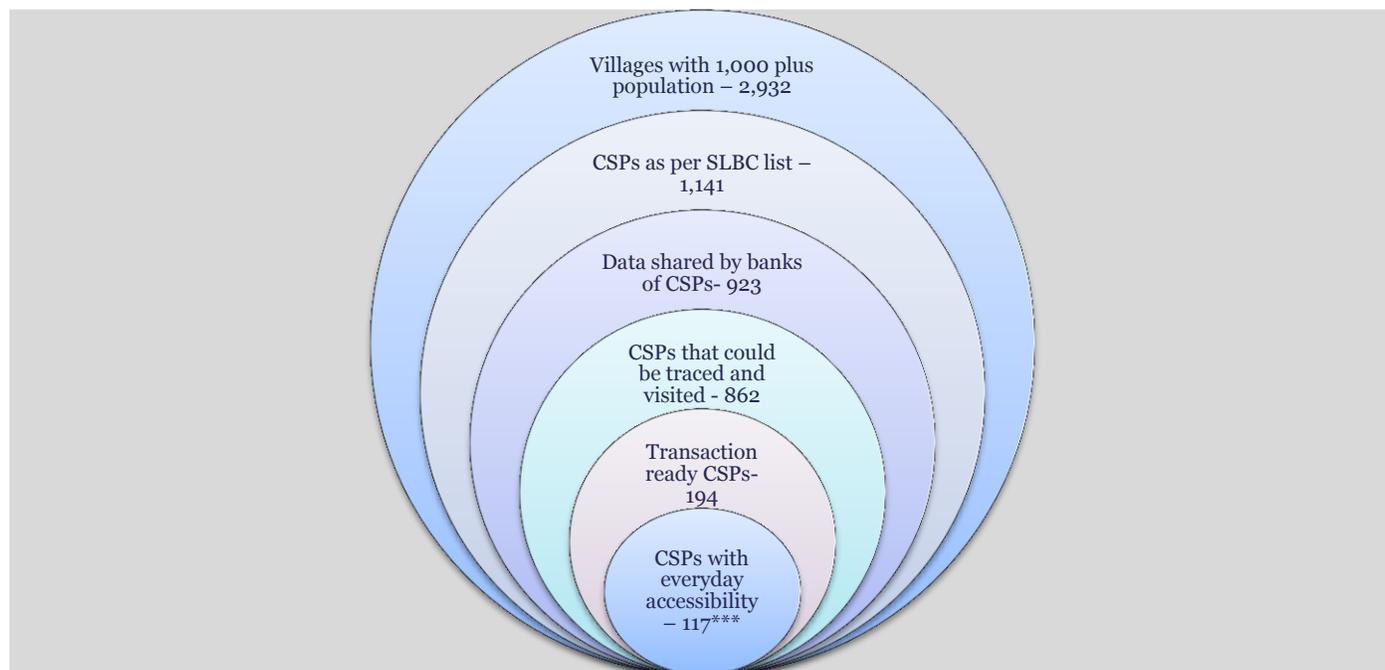
<sup>3</sup> The RBI mentions that as of 31<sup>st</sup> March'2013, there are 221,341 villages with a business correspondent. This means that there is one CSP in every third Indian village!

<sup>4</sup> In many of *MicroSave's* earlier studies we have highlighted challenge of CSP dormancy. Chopra et al, *MicroSave* Policy Brief #9, “[Behind the Big Numbers: Improving the Reach and Quality of Agent Networks in India](#)”, states that CGAP-CAB survey found 37% effective dormancy rate. Also please see *MicroSave's* Policy Brief # [2](#), [6](#), [7](#), [8](#), and [State of Business Correspondent Industry in India – The Supply Side Story](#) for more insights.

<sup>5</sup> *Research method*: Five districts of UP and Bihar were randomly chosen for survey. We created a data sheet of CSP contacts as per the information in public domain. We visited SLBC/Banks to ensure that data sheet is as updated as their records. We interviewed CSP at their location. The CSPs who could not be found or traced were coded as “not available” in the data sheet. There were cases when local residents were not able to locate/could not identify a village –those were recorded as “not traceable”. Please note that the information about CSPs while expected to be in the public domain is often simply not available. Also the available data is not uniform and varies from bank to bank. When we visited individual banks several refused to part with data on account of some policy or other.

<sup>6</sup> Proper CSP coverage means that an account holder has access to the CSP for at least 3-4 working hours every day.

The findings of the study reveal that in contrast to a reported 100% banking touch points being created, the on the ground reality is that a mere 6.6% of the CSPs are actually transacting.



The study also revealed that 19% (37 of the 862 CSPs that exist and could be visited) are either located inside a branch of the parent bank or in an adjacent premises. These agents usually work as support staff for the branch, and are also deployed for lending business activities, like recovery of loans. This, to an extent, defeats the purpose of establishing new banking touch points and providing banking services in proximity to the place of business or residence of the rural unbanked population.

We also probed the 194 “transaction ready” CSPs on their business and operational aspects - 118 of whom were willing to share their transaction data with the research team. The data reveals that 80% of them are doing less than 10 transactions a day. Only 0.2% of the CSPs (6 out of 2,932) have a monthly earning of more than Rs.6,000. The median revenue across the entire sample of transacting CSPs is Rs.1,500 per month. Approximately 96% of the transacting CSPs (113) conduct transactions worth less than Rs.20,000 a day. These transactions are limited to cash deposit and withdrawal.

The study also reveals that there is no uniformity in commission pay-out. A variety of commission structures exist. These range from fixed commission per transaction, to percentage basis, starting from 0.1% to as high as 3.0% of the value transacted.

In summary, of a total of the 2,932 villages included in the survey, CSPs in only 0.5% of the sample are earning more than what could be termed as minimum revenues to be viable to continue in business.

The prevalence of dormant CSPs and the unfortunate state of the CSPs that are operating indicates the poor management of agents’ operations by financial service providers and business correspondent network managers. This is further compounded by the lack of a viable business proposition for all the links in the value chain.<sup>7</sup> Until this changes, we can safely assume that neither *Aadhaar*-enabled benefit transfers nor financial inclusion will take off.

<sup>7</sup> See *MicroSave* Policy Briefs # 9 “[Behind the Big Numbers: Improving the Reach and Quality of Agent Networks in India](#)” and # 11 “[Optimising Commissions and Payout Mechanism For G2P Payments Under Electronic and Direct Benefit Transfer](#)”