

MicroSave India Focus Note 71

Sustainability of BC Network Managers (BCNMs) in India: How are BCNMs Paid?

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July 2011

Introduction¹

There have been various studies carried out on international branchless banking commission structures highlighting the benefits and drawbacks of different pricing methods for the end user/customer, and the importance of these for adoption. However in the case of bank-led branchless banking operations, the agent network managers (Business Correspondent Network Managers – BCNMs in India) doing the heavy operational lifting in the field, are often forgotten when it comes to commissions and sustainability.² They too must achieve basic economic thresholds of at least meeting expenses and earning a return; yet they are often squeezed between, and dwarfed by, large players such as banks, telecoms, IT providers and government agencies during pricing discussions and negotiations.

An earlier *MicroSave* India Focus Note (IFN) argued that BCs must cross two independent break-even points (first, by earning revenue through enrolment commissions, and second, through transaction commissions) before they achieve sustained profitability.³ This series of IFNs examines the different product revenue drivers based on how banks remunerate BCNMs, provides an overview on different commission calculation methods adopted by banks, and analyses different scenarios related to revenue maximisation. The first IFN looks at different revenue drivers based on how BCNMs in India are compensated by banks and offers a snapshot of commonly used commission calculation methods in Indian branchless banking. This IFN is of interest to entities who are exploring the option of becoming an BCNM in India; whereas the next two IFNs in this series could provide more insights to established BCNMs on where to focus their efforts and negotiations.

Product Revenue Drivers

The most common revenue drivers in India, account opening and transaction facilitation, are described below.

Account Opening: Since the first step of financial inclusion is opening an account for the un-banked

population, almost all banks in India remunerate BCNMs for opening accounts. However, BCNMs cannot become too dependent on this commission as high rates of account opening cannot be sustained indefinitely – they will run out of customers. Hence BCNMs need to be careful while choosing the account holders and remember that their true long-term sustainability depends on transactions that the account holder performs post-account opening.

Deposit and Withdrawal Facilitation: Not all banks remunerate BCNMs for facilitating deposit and withdrawal transactions. The banks that do not compensate BCNMs for transactions usually pay for account maintenance or for the balances maintained by clients of the particular BCNM (see below). Among banks that compensate BCNMs for transactions, some pay a commission for facilitating only deposits or withdrawals, and some pay for both.

Money Transfers/Remittances/P2P Transfers: The success of SBI's *Tatkaal* product, which allows deposits into remote accounts, highlights the demand for remittances in India.⁴ In India, banks offer money transfer facilities both 'within' the BCNM's customers for that bank and 'outside' the BCNM's network to any account of the same bank, such as those typically serviced at branches. However, the latter option is still rare compared to the former. Among banks that offer both types of transfers, the commission for outside network transfers is higher than for within network transfers. Inter-bank money transfer is still not very common in the Indian branchless banking landscape, but is being slowly rolled-out by the major banks.

Balance Maintenance: Though not as prevalent as other schemes, some banks also pay BCNMs for the balances maintained in the accounts operated through the BCNM's network, as banks ultimately earn revenue using depositors' money. The payment calculation for balance maintenance is generally performed on a quarterly basis. However, most banks do not offer balance based commissions and few BCNMs take a long-term, balance-focused view to push for it.

¹Please note that this set of IFNs focuses exclusively on top-line revenue for BCNMs and does not take into account the relationship revenue maximising has with costs. Cost optimisation will be covered in further research.

²Please note that the price that a customer pays does not directly reach BCNMs in India, as BCNMs are not allowed to charge customers directly. The revenue earned by the BCNM is totally dependent on the commission paid by banks. For more information, see: Financial Inclusion by Extension of Banking Services – Use of Business Correspondents (BCs), RBI Circular No. RBI/2009-10/238, Reserve Bank of India, 2009.

³["Making Business Correspondence Work in India." India Focus Note 24, MicroSave, 2009.](#)

⁴["SBI Tatkaal"- From Cash to Cash Cow.' MicroSave India Focus Note 68, 2011.](#)

Account Maintenance: Some banks, especially those who do not pay for transaction facilitation, pay BCNMs for the accounts that are active during a specific period. (Most banks require a one-year period with at least one transaction to consider an account active.) By paying an account maintenance fee, banks compel BCNMs to encourage transactions in order to keep the accounts active, even though they are not remunerated for transaction facilitation.

Commission Calculation Methods

In order to assess the different methods of calculating BCNM commissions, *MicroSave* analysed the financial results of an Indian BCNM based on six different types of commission structures offered by three major banks in India over the course of 12 months. The dynamics of broadly used commission calculation methods in India are presented below.

Percentage vs. Flat: The overall results indicate that remuneration for facilitating a transaction is generally maximised for BCNMs when the commission payable is calculated as a percentage of the value of transaction. However, flat fees help cover fixed operational and financial costs incurred on low value transactions. For a BCNM that facilitates a large number of small value transactions (perhaps in the early roll-out period), a flat fee-based commission system would be more financially beneficial. However, of course, as the transaction size grows, percentage based commissions become more rewarding.

Tier-based/Hybrid Pricing: Tier-based/hybrid fee structures perhaps have the best features of both flat and percentage based commissions. In this scheme, low value transactions that fall under the lowest tier are paid on a nominal flat fee basis, and subsequent higher value transactions are paid either on a percentage basis or a higher flat fee basis. While these structures were not prevalent in earlier years, both are becoming more common with Indian banks. Below is an example of tier-based pricing.

Tier-based pricing model example

Range	Floor (Rs.)	Cap (Rs.)	Fee
Range I	1	499	2.00
Range II	500	2,499	5.00
Range III	2500	10,000	10.00

Of late, customers are also given the option to choose their pricing plans (though giving a choice is less common). The BCNM's commission is calculated based on the customer's choice of pricing plans. The following are two commonly offered pricing plans.

Pay-per-use Pricing Plans: Under the pay-per-use pricing method, the customer pays for every transaction that s/he performs, and BCNMs are compensated for

every transaction that is facilitated through one or a combination of the calculation methods above. Pay-per-use pricing is generally the preferred plan for poor customers.

Subscription Plans: When customers opt for subscription plans, they pay an additional fee that entitles them to a certain number of "free" transactions for a specific period. For every active customer who opts for a subscription plan, the bank will share a part of the subscription fee paid by these customers with the BCNM, and they do not pay commissions to the BCNM for facilitating individual transactions. *MicroSave's* analysis indicates that even when 50% of customers opt for subscriptions plan, both pay per use plans and yearly subscription plans yield about the same revenue for the BCNM, based on actual customer behaviours for one BCNM.⁵ Most banks do not provide this choice to customers and generally offer only pay per use plans.

Urban vs. Rural Operations: Some banks offer different commission structures for urban and rural operations. Generally the commission structure for rural operations is higher than the corresponding urban commission structure, particularly for withdrawals and account maintenance. Higher commissions are offered, perhaps, due to India's central bank's (RBI) preference to focus on rural areas for financial inclusion, to compensate for the relatively lower volumes from rural operations, and to encourage BCNMs not to ignore rural operations.

Conclusion

This IFN primarily examines the broad types of product revenue drivers and commission calculation methods. While the easy and quick returns are from account openings, BCNMs should remember that sustained earnings are from transaction-based revenues. Offering balance or account maintenance-based commissions could be in the best interest of banks and BCNMs, however this needs a longer-term outlook by both. Though earlier either flat or percentage fees were offered by the banks, it now appears that tiered and hybrid pricing (a combination of both flat and percentage) is becoming more common. The next IFN 72 "Sustainability of BCNMs in India: Review of Commission Structures" in this series will present an indicative snapshot of branchless banking commission structures prevailing in India.

⁵A subscription plan yielded 4% higher revenue than a pay per use plan, with transaction levels kept constant.