# *MicroSave* India Focus Note 72

## Sustainability of BC Network Managers (BCNMs): Review of Commission Structures

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**Background**[1]

To achieve the objectives of financial inclusion it is important to ensure that all stakeholders in the ecosystem are given equal opportunity to survive and sustain themselves. Business correspondents (agents) and their managing support organisations, BCNMs, play a very important role in promoting Financial Inclusion in India, yet they often face the biggest challenge of sustainability.[2] The previous India Focus Note (IFN) 71 in this series presented the basics on the most common commission calculation methods and drivers in Indian branchless banking. This second IFN critically analyses the different commission structures and the implications this has on the top-line revenue of the BCNMs. For this purpose, *MicroSave* analysed six actual branchless banking commission structures offered by three major banks in India. The objective of this IFN is to present common ways banks use to compensate BCNMs for various services and provide an indication of commissions that may be relatively more rewarding.

**Common Ways of Paying BC Commissions**

In this section, each revenue driver is analysed individually and common ways for calculating the commission for each is provided. For each driver, there does seem to be a pattern on how banks generally choose their commission structures.

| Revenue Drivers | Commission Structures | | | | | |
|---|---|---|---|---|---|---|
| | *A* | *B* | *C* | *D* | *E* | *F* |
| Account opening | Flat | Flat | Flat | Flat | Flat | Flat |
| Deposits | % | Nil | Nil | Flat | Nil | % |
| Withdrawals | % | Nil | Tier | Flat | Nil | % |
| Transfers within network | Tier | Tier | Tier | Tier | Tier | % |
| Transfers o/s network | Flat | Flat | Flat | NA | NA | NA |
| Account maintenance | Flat | Nil | Flat | Nil | Flat | Nil |

***Account Opening:*** It is understandable that this commission is typically a flat fee paid for opening new accounts. Yet the range of the fees varies dramatically from bank to bank in Indian branchless banking. At the lower end some banks pay as little as Rs.10 per account opened, however, this can go as high as Rs.100 (or higher) for each new account. The average typically lies towards the lower end. Those with lower account opening fees usually focus on higher transaction fees.

***Deposit and Withdrawal Facilitation:*** Most banks prefer remunerating BCNMs on a percentage basis for deposit and withdrawal facilitation. The range of commission percentages generally range between 0.5% and 1% calculated on the value of deposit and withdrawal facilitated. Some banks do pay a flat fee for every deposit transaction and typically seem to pay somewhere between Rs.2 to Rs.10 for every deposit or withdrawal transaction. Apart from flat and percentage based commissions, a few banks also offer tiered commission structures. Generally banks that have separate commission structures for urban and rural operations offer tiered commissions for withdrawals.

***Transfers within Network:*** The most common method of remunerating for facilitation of transfers within a network is through a tier based commission based on the amount remitted (see IFN 71 in this series for an example). Out of the six commission structures analysed, five commission structures offered tier-based commissions for transfers within the network. A few banks also offer percentage based commissions, but pure flat fee based commissions (without tiers) are rare.

***Transfers Outside Network:*** Although transfers outside network is still not a common offering in India, banks that have this facility pay a higher flat fee per transfer outside network. Typically, Rs.10 per transaction is paid for every outside network transfer transaction. This product offering is very recent in India, and with the introduction of Inter-bank Mobile Payment System (IMPS), we can expect more innovation, usage and evolution of this product.[3]

**Revenues to the BCNM**

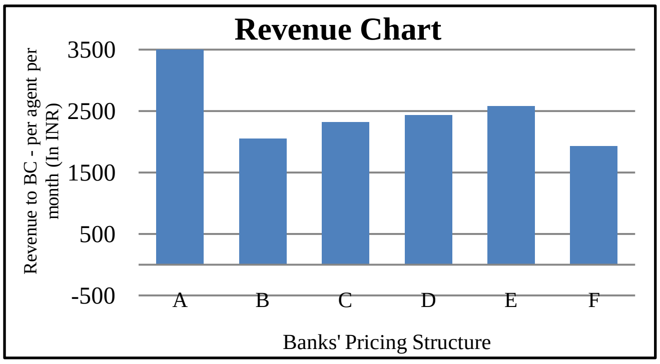
Having discussed each revenue driver individually, the commission structure is now analysed in its entirety. The graph below shows revenue that an BCNM has earned from one agent in one month, on average, analysed over a period of one year.[4]

[1]Please 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. Costs optimisation will be covered in further research as it is the next piece in the puzzle for BCNM sustainability.

[2]See *MicroSave* India Focus Note 18 "MFIs as Business Correspondents – To Be or Not to Be?"

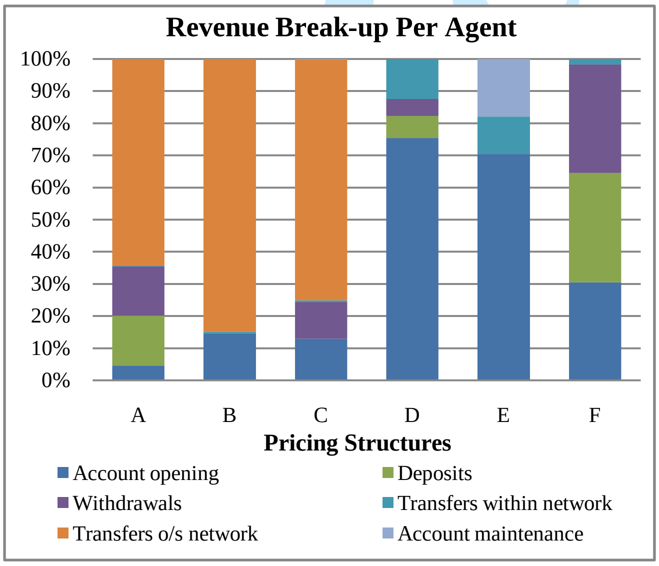
[3]See *MicroSave* India Focus Note 61 "Interbank Mobile Payment System: Will It Catalyse Financial Inclusion?"

It is quite clear that the remuneration from Bank A is the highest! Yet before drawing the conclusion that Bank A's structure is most promising, it is important to analyse the revenue break-up and understand which commission structure is more stable and sustainable.




## Revenue Contribution

From the graph below, it is evident that each bank and its commission structure favour a 'primary product' and not all favour the same products equally. For instance, commission structures A, B and C target transfers outside network by heavily incentivising BCNMs for facilitating transfers outside network (and due to demand). As mentioned before, option A yielded the most per agent per month with this focus but also with a smaller but significant balance of fees from deposits (15%) and withdrawals (16%). Structure C also focuses on out of network transfers, but also has a significant percentage of its revenues from account opening (13.5%) and withdrawals (11%).[5]




Unlike other commission structures, commission structure F's revenues are equally split between account opening, deposits and withdrawals in the ratio of 30%, 34% and 34% respectively. Commission structures D and E on the other hand target account opening. This focus on account opening seems to be an old practice due to RBI mandates to open accounts that is slowly being phased out by Indian banks after many mishaps and distortions (see IFN 73 of this series). Even though options D and E seem to be the second and third most lucrative option, respectively, they are likely not sustainable in the long run, as banks continue to move away from focusing just on new accounts, and as new account opening growth will slow.

**Urban vs. Rural Operations:** While it may be true that certain models favour one product over another due to commission structures, it is also very much driven by customer demand. For *MicroSave*'s BCNM partner, there were higher revenues in urban areas for remittance services (where the fee is generally paid). The opposite was true with the same BCNM's rural customers, generating more commissions from account enrolments and typical deposits and withdrawals.

## Diversify!

In most of the commission structures discussed, the contribution of revenues is skewed towards one revenue driver. While it does appear that having a good business in transfers is the key to revenue maximisation, it is also important to have a presence in other products as well. With evolving and newly emerging business models, rapid technological innovations, state initiatives and more players entering the market, competition will play an influential role through new product features, convenience and commissions. In this scenario, major dependence on one product could be a risky strategy.

It is also in the interest of the banks to offer a diversified commission structure, such as the emerging tiered commission structures, to ensure the success of branchless banking and financial inclusion initiatives. By pushing one product, banks will risk incentivising BCNMs to ignore other products and focus only on the most lucrative ones. BCNMs could also tie-up with more than one bank to diversify the risk as well as to cater to a wider customer base. And instead of offering the same products from multiple banks, BCNMs could also look to diversify into multiple products from multiple service providers. Services like merchant payments, airtime top-ups, international remittances, social security payments can ensure revenue diversity and stability for BCNMs. Loan repayments for banks and MFIs could also be lucrative and have not been extensively explored.

[4]Other than commissions structures, all other variables were held constant, such as transaction volumes and number of accounts.
[5]Deposits were 0% as the bank may want to encourage customers to deposit as much or as little as they would like.