

State of Business Correspondent Industry in India – The Supply Side Story

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A recent *MicroSave* [publication](#) highlighted the huge opportunity in India to leverage the potential of e/m-banking and build a cash-light economy. While the previous paper presented the demand side dynamics and the recent regulatory liberalisations suitable for market development, this paper aims to look into the supply side dynamics and present views of business correspondent network managers (BCNMs) on this business.

Business correspondent network managers (BCNMs) are responsible for the operational heavy lifting to make financial inclusion a reality. Thus, this paper highlights some of the key concerns of this critical stakeholder in the financial inclusion process, as well as their perspectives and expectations from various other stakeholders in financial inclusion space.

This paper is based on a survey conducted by *MicroSave* in March 2012, with eleven leading BCNMs.¹ The survey included gathering information on a variety of key outreach, transaction and activity metrics and a questionnaire to elicit qualitative aspects of BC operations. The questionnaire had five main components – (i) background and services offered, (ii) technology details, (iii) business management, (iv) commissions and incentives and (v) profitability and sustainability.



¹ Institutions that participated in the survey are - [A Little World – Zero Mass Foundation](#), [Commonwealth Inclusive Growth Services](#), [Eko India Financial Services](#), [FINO](#), [GK Development Trust](#), [Gram Tarang](#), [Janalakshmi Social Services](#), [Oxygen](#), [SEED Financial Services \(Pvt.\) Ltd.](#)

Profile of Respondents

The eleven BCNMs who participated in the *MicroSave* survey are members of the BCNM Forum, a body of institutional BCNMs in India, dedicated to the advancement of financial inclusion for the unbanked and the under-banked population in a viable and sustainable manner. The BCNM Forum is anchored and facilitated by *MicroSave*. The institutions participating in the survey include the largest BCNMs in India. Thus, the results are representative of the sector as a whole.

The institutions who participated in the survey include established institutions as well as institutions that are in a start-up or maturing phase. The details of the business volumes and transaction values generated by BCNM from the two above-mentioned categories are as follows:

As on 31 st December 2011	Established institutions	Institutions in start-up phase
No. of BCNM respondents²	5	4
Customers enrolled	58.39 Mn	1.47 Mn
No. of agents	50,427	4,125
No. of deposits	Rs.7.63 Mn	Rs.0.12 Mn
Value of deposits	Rs.11.17 Bn	Rs.6.09 Mn
No. of withdrawals	39.56 Mn	0.05 Mn
Value of withdrawals	Rs.21.81 Bn	Rs.7.16 Mn
No. of remittances	5.72 Mn	0.40 Mn
Value of remittances	Rs.35.66 Bn	Rs.0.12 Bn
No. of payments	92,133	NA
Value of payments	Rs.16.39 Mn	NA

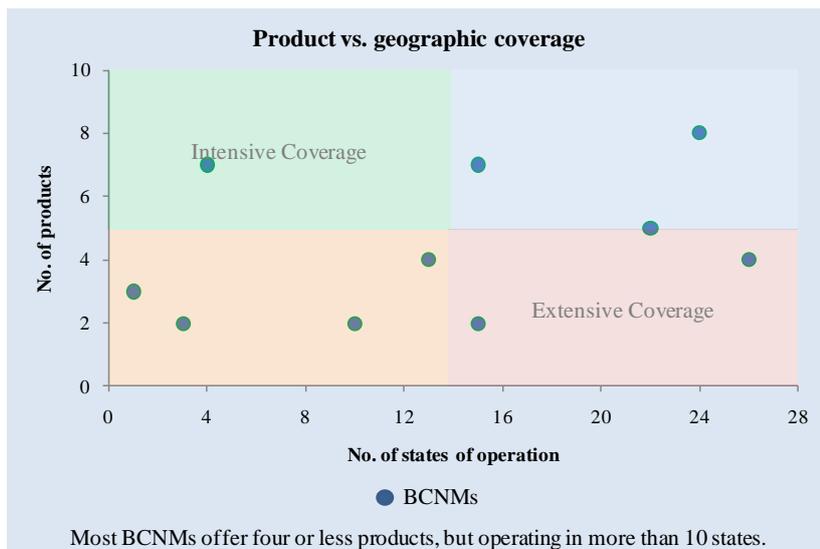
Agent Economics

	Established institutions	Institutions in start-up phase
Total No. of enrolments per agent	1,158	357
Total No. of transaction per agent	1,051	140
Amount of transaction per agent	Rs. 1.3Mn	Rs.32,376
Approx no. of years of operation for an agent	2	1
Average no. of enrolments p.m	48	30
No. of transaction per agent p.m	44	12
Amount of transaction per agent p.m	Rs.56,748	Rs.2,698
Average value of transaction	Rs.1,295	Rs.231
Average commission* per agent p.m	Rs.1,189	Rs.510

² Operational data not available for two players who have responded to the questionnaire

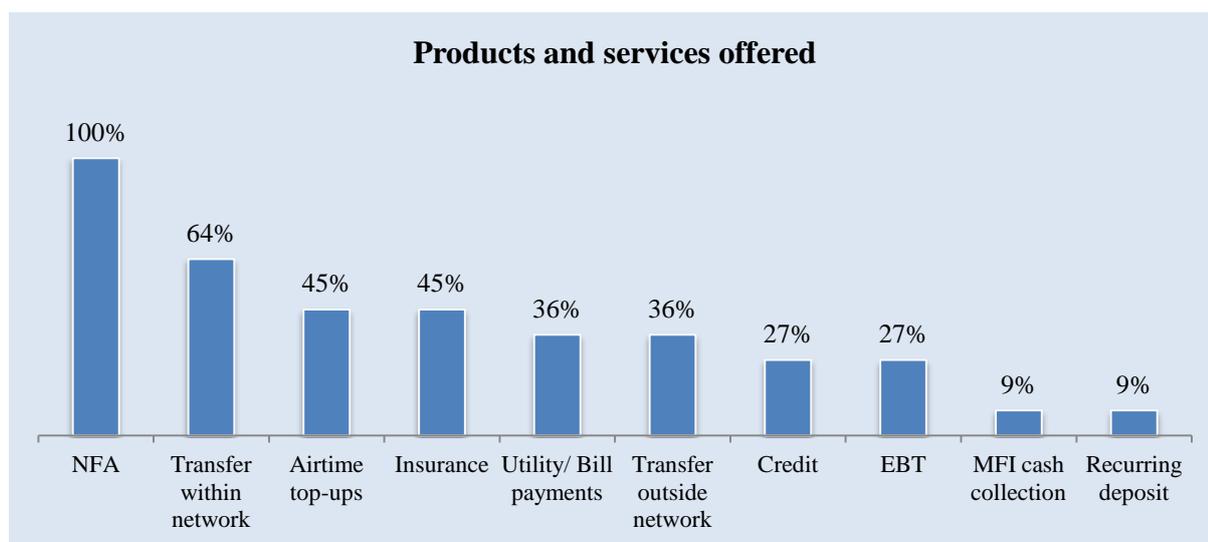
*Based on average industry agent commission structure

Snapshot of Products and Services Offered



BCNMs currently appear focused on increasing geographic coverage as opposed to providing intensive coverage with multiple product offering. This is partly driven by the financial inclusion mandates from the Ministry of Finance and Reserve Bank of India to open no-frills savings accounts. Moreover, BCNM can offer only those products that their partner banks want to extend through BCNM networks. The branchless banking in India is still a largely mono (or at best a dual) product industry where most BCNMs offer a simple no frills account (NFA) to customers through which many process G2P payments.

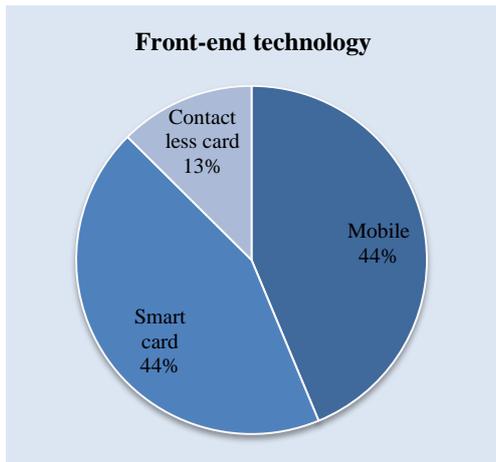
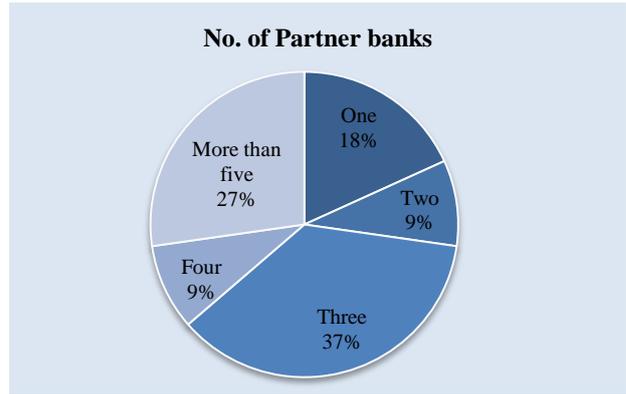
Remittance or money transfer within NFA network is the second most commonly offered product by BCNMs. Seven out of the eleven BCNMs surveyed offer remittance or money transfer services within NFA network. One of the main reasons for BCNMs to offer transfers within NFA network is because most banks offer this product along with NFA. This will become more widespread as banks integrate BCNM-managed NFAs into the CBS (see section below)



Even though the range of banking products offered by BCNMs is quite small, some have innovated and added several non-banking products to their portfolio, to meet consumer needs and increase agent viability. The most common amongst these are insurance, selective loan products, utility or bill payments and airtime top-up. It is also interesting to note that five BCNMs have the facility to purchase airtime top-ups from their network. However, relatively few BCNMs offer other value added services such as remittances, credit, bill/merchant payments. Out of the eleven BCNMs who took part in the study, only a few of them (and their partner banks) offer a complete basket of banking products needed by the unbanked. This indicates that the industry still has much work to do to create a product ecosystem of relevant banking products that form a compelling value proposition to create real consumer demand and pull. *MicroSave* [research](#) shows that once customers start to use two or more products on an average, the proposition starts becoming viable for BCNMs and agents.³

³ This is in part because of the relatively low commission rates paid to agents in India – elsewhere, where mobile money systems can become sustainable on the basis of two (relatively expensive) transactions per month. See for example [MicroSave Briefing Note # 93 “Innovation and Adaptation on the M-PESA Rails”](#) ... and, of course, two

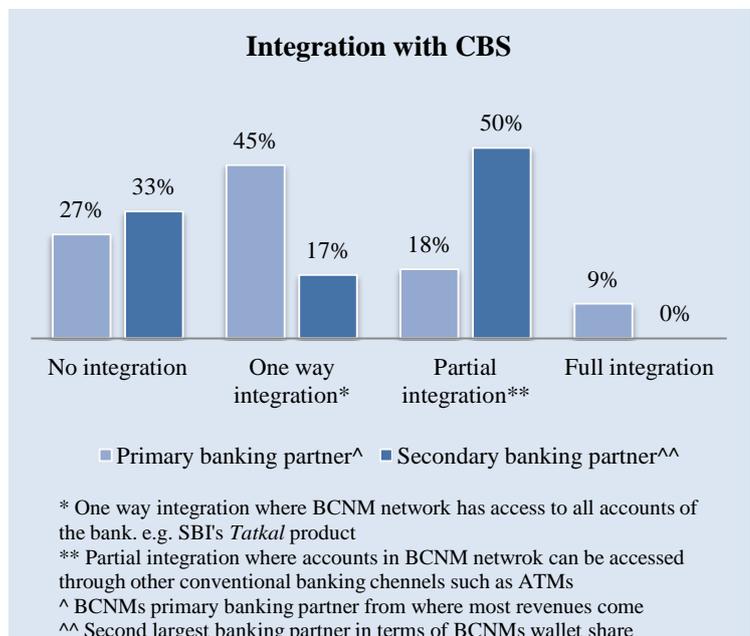
In terms of bank partnerships, many BCNMs have started to work with multiple banks. The majority of the BCNMs who took part in the survey are working with more than two banks (73%). With the recent [RBI circular](#), that removes agent exclusivity and allows them to work for multiple banks, BCNMs’ relationships with multiple banks can offer synergies in their agent network. This will further provide opportunities to offer different/unique products and services from partner banks to the clients and diversify their business and risk.



[Front-end technology](#) can have significant implications for the ease of delivering products to customers and for the customer value proposition. Mobile based technology offers more functionality to customers and opportunity to perform remote transactions without the dependence on agents. Bill payments, balance enquiry, transfers and airtime purchases can be made more easily if offered through mobile technology. Among the eleven major BCNMs who took part in the survey, equal number of players use mobile and smart card based technology and two players use contactless (RFID/NFC) cards. Nonetheless, the current emphasis on bio metric authentication by the Government of India means that cards will, in the short term at least, remain preferred for most G2P transactions.

The survey also assessed the extent to which BCNM networks are integrated with their partner bank’s core banking system. Integration with the bank’s core banking system (CBS) provides customers with several benefits. The basic advantage it offers is the access to banks’ other channels – branch and ATMs that provides convenience to customers and healthy competition for market development.

Many BCNMs report that they have either a one way or partial integration to the partner banks’ core banking system. The [phenomenal success](#) of SBI *Tatkal* product that allows customers to deposit money through BCNMs into any SBI account shows the value of CBS integration brings to the table. In addition, RBI has mandated that the BC back-end systems be integrated to banks’ CBS to ensure that balance information for user accounts can be accessed online, wherever connectivity exists. This further drives BCNMs and banks to integrate with their CBS.



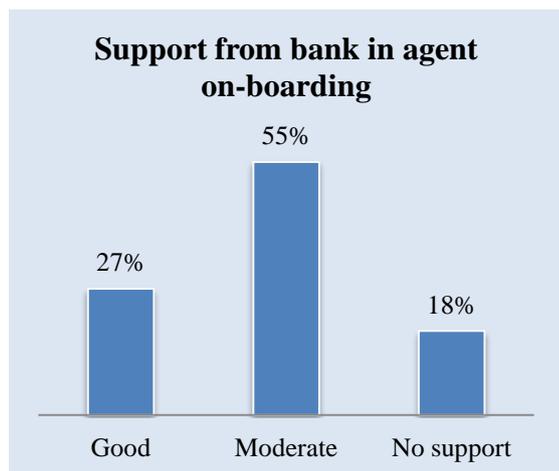
payments transactions a month can hardly be described as “success” in terms of financial inclusion. See [MicroSave Briefing Note # 94 “Do the M-PESA Rails Contribute to Financial Inclusion?”](#).

Business Management

This section focuses on some of the key aspects of business management that are uniquely important to deliver financial services through agent networks. These include – agent recruitment and training, liquidity management, marketing and monitoring and control.

Agent Selection and Training

A recent *MicroSave* [Briefing Note](#) argued that selecting the right agents is critical to the success of any mobile banking initiative, especially during the most difficult introductory period as the solution seeks acceptance in its target market. Along with selection, it is also important to impart hands-on training to agents, as most of the agents do not have prior experience in cash management and technology usage.



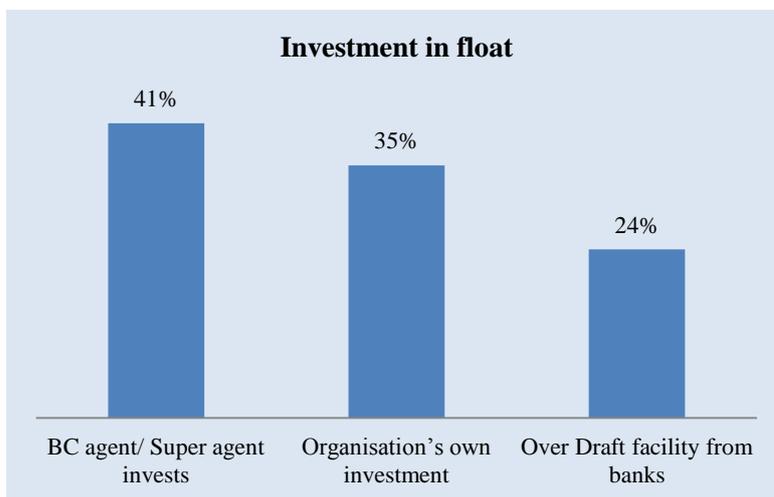
The majority (73%) of the BCNMs felt that support and involvement from banks in agent selection and training is moderate, at best. Several BCNMs also noted that their partner banks had no involvement in the selection and training process. As BCNMs operate on tiny margins,⁴ support from other stakeholders especially banks can be essential. And as RBI regulations clearly specify that banks are ultimately responsible for the conduct of their agents, it is surprising that they take such limited interest in these key aspects of the agent network development.

Liquidity Management

Liquidity management is one of the key components of agent banking, particularly in India where the electronic payment system is still evolving and use of cash is widely prevalent. This paper looks into who invests in float, which is an integral part of liquidity management.

The three most common ways of investment in float are:

- 1) Upfront investment by super agents (aggregators) to provide liquidity to agents or agents invest themselves
- 2) BCNM invests to provide liquidity to agents
- 3) Partner banks offer over draft facility to manage liquidity

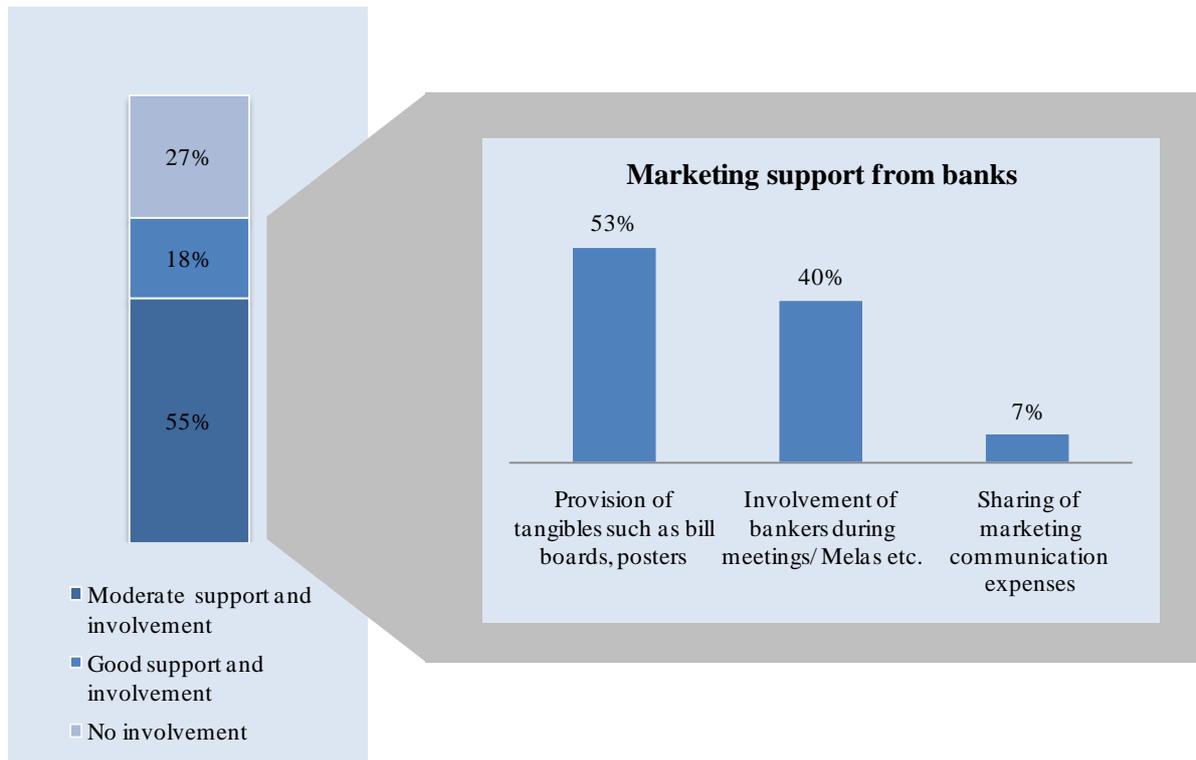


The survey indicates that in 35% of cases, the BCNM has to invest in float. This has serious implications for scaling up the business correspondent model as it results in very high working capital requirements for BCNMs who are already capital squeezed. The main reason behind this is lack of a compelling value proposition for end customers, which results in limited transactional volumes, which in turn works against economics of agent/super agent investing in BC activities. Based on the transaction amounts reported by five BCNMs who invest in float, *MicroSave* estimates that these organisations together have invested around Rs.120Million in float alone and if these institutions had not invested, investment requirement from agents would have been around Rs.5,000 per agent.

⁴ See the section on profitability and sustainability in this document

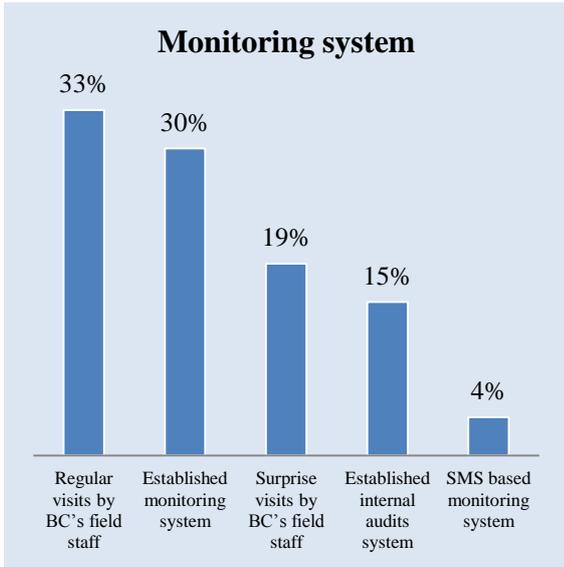
Marketing

Marketing, another important component of agent banking, creates customer awareness and increases financial capability among customers who are new to formal banking. Since banks have better reputations and larger brands than their BCNM counterparts do, they have a key role to play in marketing e/m-banking services and creating trust among potential customers. Marketing encourages customers to conduct banking transactions at non-bank, retail outlets, with which they never had any kind of financial relationship. International experiences show that it is the usually account-issuing entity, be it bank or MNO, which invests heavily in marketing of the mobile money services. Most, if not all, successful e/m-banking initiatives across the globe have been backed by a combination of above the line mass media marketing campaigns and local below the line personal selling (the latter largely by agents themselves).



One of the key reasons behind M-PESA’s success was the visionary marketing of the new payment system that helped to gain critical mass of customers in a relatively short span of time. Unfortunately, in India a significant number of BCNMs still feel that banks can do much more to support marketing efforts. Nine of the eleven BCNMs believe that they only receive either moderate or no support from banks in their marketing activities. Most common marketing support offered by banks are through provision of marketing tangibles such as posters, name boards, involvement of officials from base branch during introductory village meetings or by providing a fixed fee towards marketing for every customer acquired.

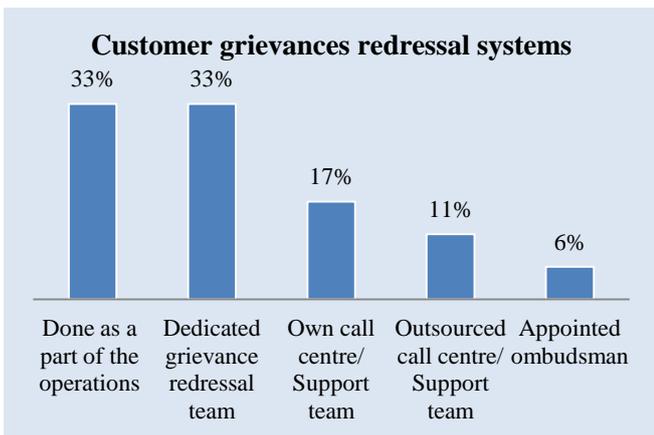
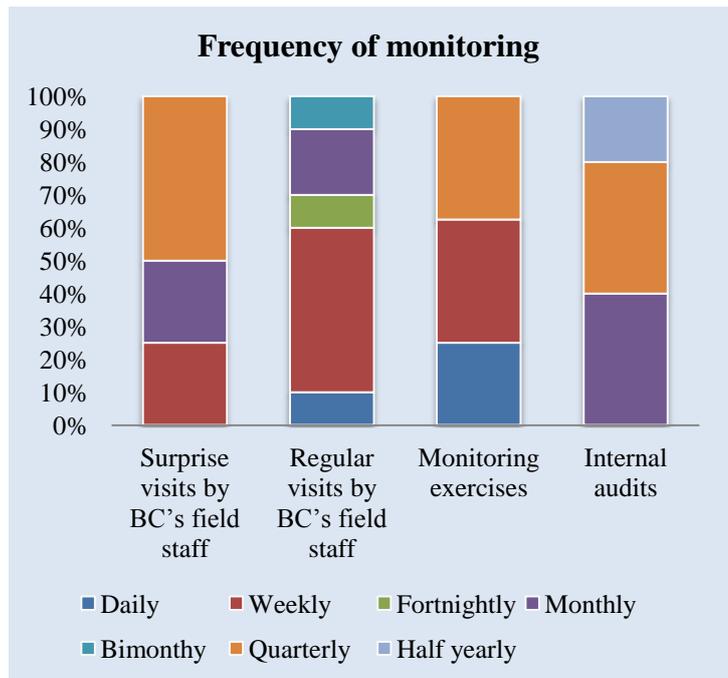
Monitoring and Control



Monitoring and control of agent networks should follow a two pronged approach. One is through an established monitoring and control system, and the other is through carefully listening to customer complaints and grievances. Both systems should work simultaneously complementing each other. Stringent monitoring and control of agent networks helps to decrease fraud, build trust and consistently deliver positive customer experience. Monitoring and control measures, such as frequent and regular visits to agents, may act as an effective mode of coaching and as a method to trigger corrective measures and make improvements. They do not always need to be punitive measures.

One-third of the BCNMs in the survey conduct monitoring of their agents through their regular field staff visits, while another one-third have an established monitoring system. An established monitoring system involves frequent visits, as well as follow up and corrective measures based on the observations where required. Having a suitable monitoring system with well-defined follow-up procedures will help to systematically monitor agents, reduce fraud, and aid in constantly improving field operations.

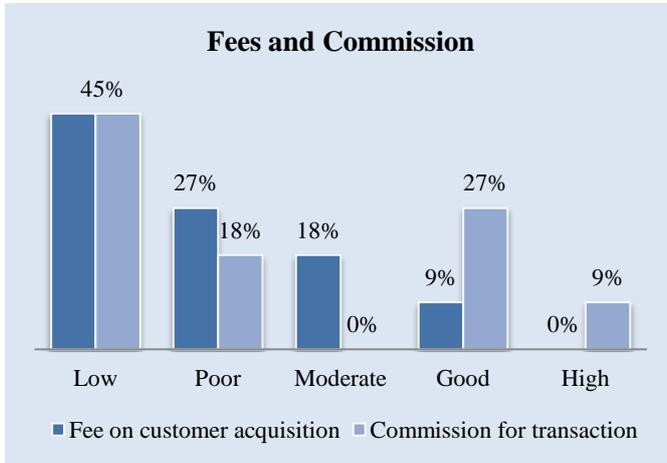
Other monitoring systems followed by Indian BCNMs include surprise visits, internal audits and SMS based systems where the agent needs to provide operational and financial reports to the field office at a pre-defined frequency.



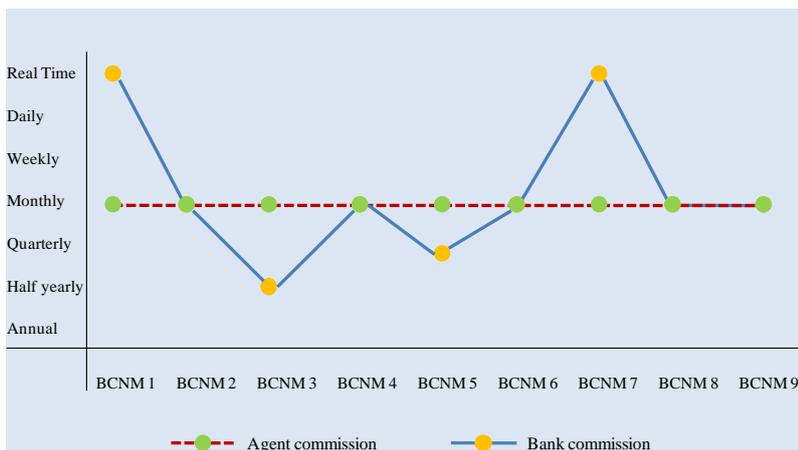
Among the survey respondents, 33% still manage customer grievances through their field staff, but the rest have started to dedicate a customer grievances redressal team and call centres through which they address customer complaints and other queries related to products and services. It may help to have a separate unit/team as this allows customers to communicate freely and the BCNM to take action independently without any bias.

Fees and Commissions

A *MicroSave India Focus Note* argued that in order to be sustainable, BCNMs should achieve basic economic viability and reasonable returns, as any other market-led business. 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.



This is further corroborated by the findings of this survey, in which, a majority of the BCNMs opine that the commission that they receive from banks is inadequate. This includes commissions both for customer acquisition and for transaction processing/facilitation. Another 18% BCNMs felt that the fee for commission acquisition is just about moderate.



While many studies have analysed the viability of agent commission structure per se, it is also important to understand the frequency with which BCNM’s pay out to agents. This has a direct impact on the business viability and to some extent shaping agents’ perception of the viability of the business.

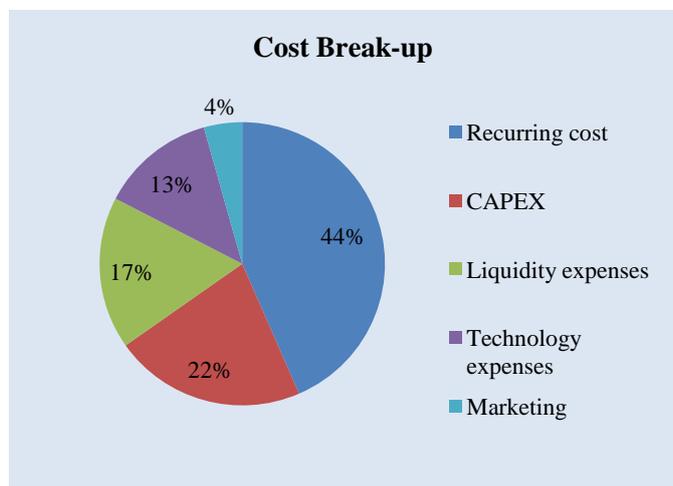
BC agents who are often retailers are used to instant realisation of their profits as soon as the goods are sold. However, in agent banking

services, agents need to wait for a period between transaction facilitation and commission receipt. Nevertheless, the advantage of receiving in lump sum is that it helps agents to see value in the business provided BCNMs ensure that they do not delay commissions beyond certain limits.

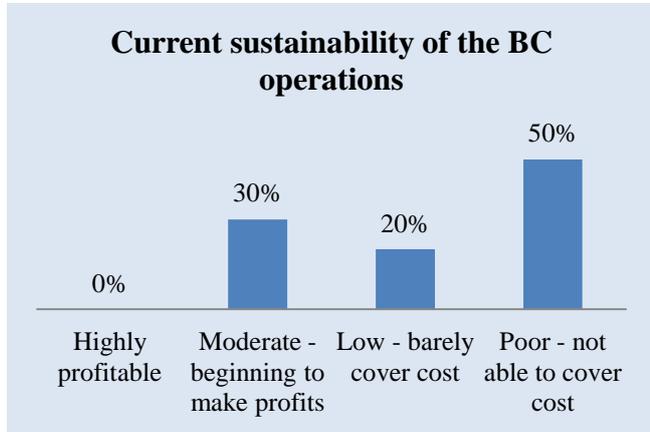
It is interesting to note that irrespective of the frequency of commission receipt from banks most BCNMs pay monthly commission to agents. In addition, the time lag in receipt of commission from bank and consequent payout to agent has important implications for working capital requirements for BCNMs.

Profitability

Business correspondent operations are highly people intensive and involve high recurring expenditure on as salaries. In the recent past, the sector witnessed many entities setting up as BCNMs with limited funds at their disposal and then struggling to meet recurring expenses. Other high cost components are capital expenditure, liquidity and technology costs.



It is important that BCNM invest adequately in the operations during the early stages of market development so that customers develop trust and experience the value proposition in the new system. Several [MicroSave publications](#) have demonstrated that the e/m-banking business requires high upfront investment with a long investment horizon. However, BCNMs’ readiness to invest remains a challenge - primarily because of lack of confidence in the business case as the operations are yet to prove viable in India and there are no big success stories to emulate.



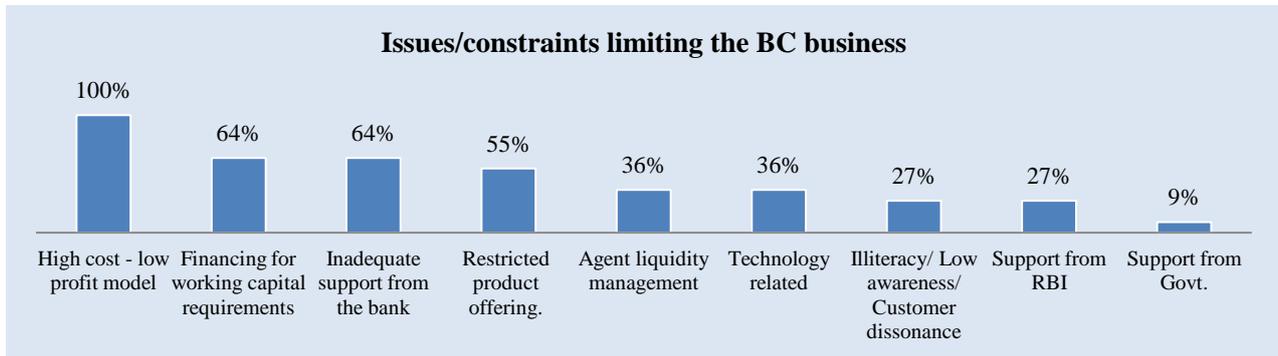
The business correspondent sector is yet to attain viability. Nearly all the BCNMs who took part of the survey mentioned being unsustainable or barely sustainable with current financials. Half of them even find it difficult to cover their costs and the other half barely cover costs and have started to earn nominal profits.

This has profound and worrying implications for the model and the banks that are depending on it to achieve financial inclusion mandates. [MicroSave’s analysis](#) has shown rapid and growing churn amongst agents (particularly those in rural areas), and many existing BCNMs, weighed down by an

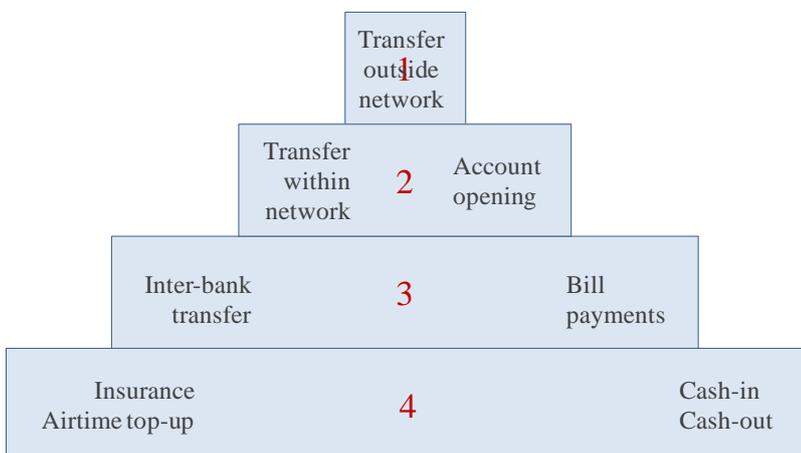
array of costs and limited support from banks, are struggling to survive.

Limitations to Sustainability

There are multiple factors that impede BCNM sustainability. The BCNMs surveyed attribute the following factors as the limitations or constraints in attaining sustainability.



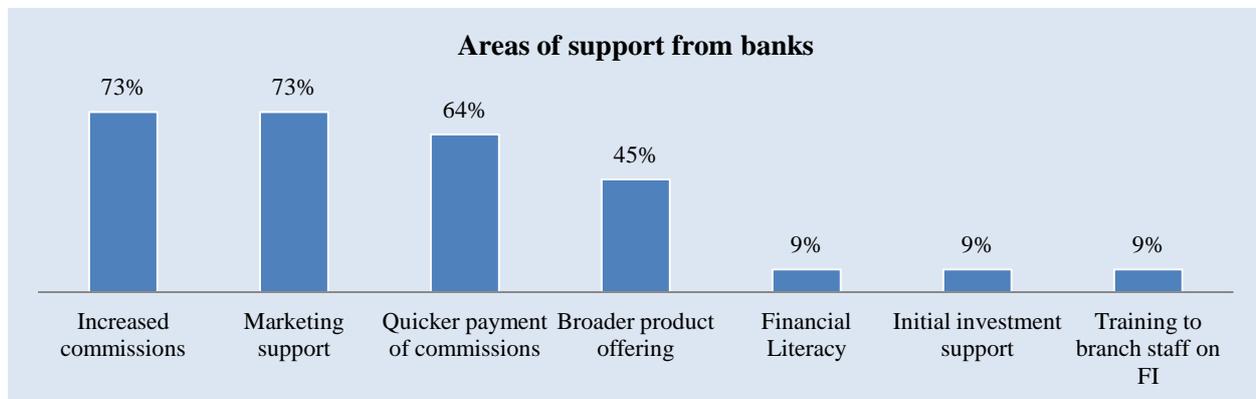
All BCNMs feel that it is the high cost-low profit construct that affects the sustainability of the model. Around two-thirds of BCNMs feel that inadequate support from banks or difficulties with financing of working capital requirements are major limitations.



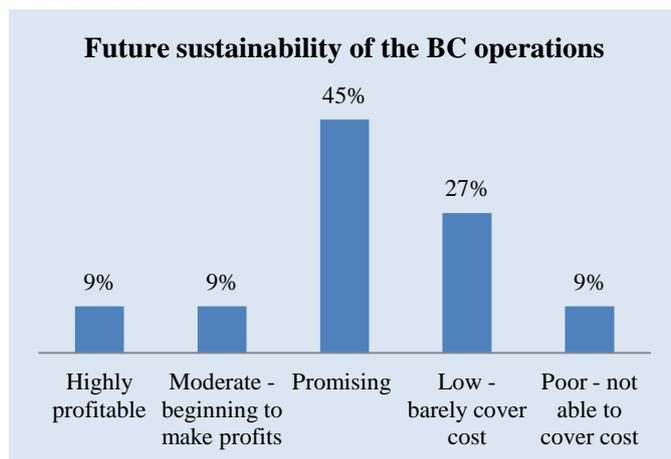
In terms of product-wise sustainability, BCNMs rank transfer outside the network as most remunerative. While it is important to adequately compensate BCNMs for services offered, at the same time banks may need to ensure that they do not create huge difference in channel commission between different product/service offerings. Otherwise, agents understandably begin to focus almost exclusively on higher commission services (as has been demonstrated with agents’ strong focus initially on account opening and more

recently on remittances) and ignore lower commission services (as has been seen with the largely inactive no frills accounts).

However, most BCNMs believe that improved and appropriate support from banks could help them achieve sustainability. The top four areas where banks could enhance their support to BCNMs are (i) increased remuneration / commissions, (ii) support for marketing efforts, (iii) faster payment of commission and (iv) expansion of the range of products offered.



Conclusion



Despite all the challenges in the sector, significant numbers of BCNM players are quite optimistic and believe that the sector is promising and has immense potential. [MicroSave research](#) shows that agent banking can indeed offer banks important cost reductions particularly through the decongestion of banking halls, lower cost of customer acquisition and additional float generation. However, in order for banks to realise this and pass on the benefit, BCNMs also need to achieve critical mass of customers so that they are not stuck in the sub-scale trap. Building customer base should happen simultaneously with building a strong agent network so that there

are enough customers who also have enough transaction points to transact.

On the other hand, the regulatory support to the sector has been gradually enhanced as has support from the banks. Entities like the National Payment Corporation of India and Unique Identification Authority of India are important enablers that will aid the growth of this nascent sector.⁵ With these various promising developments, BCNMs and banks should continue to look at leveraging the business correspondent model in the best possible ways to deliver impact and value to consumers, while ensuring symbiotic market-led growth for the participants.

⁵ For discussions of this see [MicroSave India Focus Note 61 “Interbank Mobile Payment System: Will It Catalyse Financial Inclusion?”](#); [MicroSave India Focus Note 69 “UID and Financial Inclusion – Solution or Not?”](#) and [MicroSave India Focus Note 70 “Leveraging Unique Identification \(UID\) for Mobile Banking in India”](#)