



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

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Highlights

BCNMs in India are offering a much **broader range of services** than their counterparts in other developing countries. The industry still has much work to do to **tailor their products** for rural markets and to create a **product ecosystem** of relevant banking products that form a compelling value proposition to create real consumer demand and pull.

Very **few banks invest in liquidity** by providing overdrafts. Only 18% of the BCAs have an overdraft facility sanctioned from their link branches. Most of the overdraft facilities are provided because of the personal relationship between BCA and the branch manager.

Kiosk based BCNMs generally have a rural and urban spread. In rural areas, they restrict themselves to major markets and are able to maintain a steady flow of business. In a **mobile based** BCNM, rural samples constitute villages with population <2,000 in many cases.

Current business activity is one of the highest rated criteria for **agent selection** as this determines the amount of interaction with the DFS customers. Also, BCNMs note that if the agent's earnings from his prior business is more than from DFS, then he would be unwilling to commit more time since it is less profitable for him.

Most BCNMs offer **commissions in the range of 40 – 60 % of payment received** from banks for transactions. Other BCNMs decide remuneration on the basis of different factors. They also alter their commission parameters when they want to induce certain behavioural changes or want to achieve a specific target.

Background

MicroSave conducted a survey in December 2014 with fourteen leading Business Correspondent Network Managers (BCNMs) to gather information on a variety of key outreach, transaction and activity metrics and a questionnaire to elicit qualitative aspects of BCNM operations

Institutions that participated in the survey are:

BASIX Sub-K iTransactions Limited

Beam

C-DOT

Commonwealth Inclusive Growth Services (CIGS)

Ekgaon Technologies

Eko India Financial Services Pvt. Ltd.

FINO PayTech Ltd.

Oxygen Services (India) Pvt. Ltd.

Sahaj

Sanjeevani

SAVE

Swadhaar FinServe Pvt. Ltd.

TranServ

Zero Mass Foundation

Objectives of the report

This report presents the status of the Business Correspondent Industry and viewpoints of BCNMs. Additionally, this report provides current and authoritative statistics on BCNMs operating in India, along with analyses of the key challenges present in the sector.

The key objectives of this report include :

To deepen the understanding of the business correspondent sector in India;

To highlight the lessons learnt and challenges faced by BCNMs; and

To provide a compilation of insights from demand and supply side for reference by the various stakeholders

Methodology and Approach

To develop this report, ***detailed literature review*** was conducted

Information was gathered by ***conducting interviews*** and ***collecting qualitative and quantitative data*** by using a detailed questionnaire.

The ***questionnaire*** was broadly divided in eight sections, each the in-depth information required for this study . This includes section on:

- *Services offered by BCNMs*
- *Core banking system (CBS) and technology*
- *Business management*
- *Commissions and incentives*
- *Pricing*
- *Customer service*

Profile of the respondents

Fourteen BCNMs who participated in this research are members of the BCFI (Business Correspondent Federation of India), 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 institutions participating in the study include the largest BCNMs in India and we believe that the results are representative of the sector as a whole.

| SNAPSHOT[#] <i>(Data as on 30th June 2014)</i> | |
|---|----------------|
| No. of BCNM Respondents | 14 |
| No. of Agents | 98,000 |
| No. of Customers | 58 million |
| No. of deposits | 1.7 million |
| Value of Deposits | Rs.4.1 billion |
| No. of Withdrawals | 6.3 million |
| Value of Withdrawals | Rs.7.1 billion |
| No. of Remittances | 1.5 million |
| Value of Remittances | Rs.6.8 billion |

Self-reported data of the BCNMs

*BCFI is a section - 25, not for profit organisation for representing the interests of BCNMs at national and international forums

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



Business Correspondent Landscape in India

Overview of BCNMs in India

In India, a large section of adult population does not have access to formal financial services. World bank [FINDEX survey](#) estimated that only 53% of Indian population is financially included.

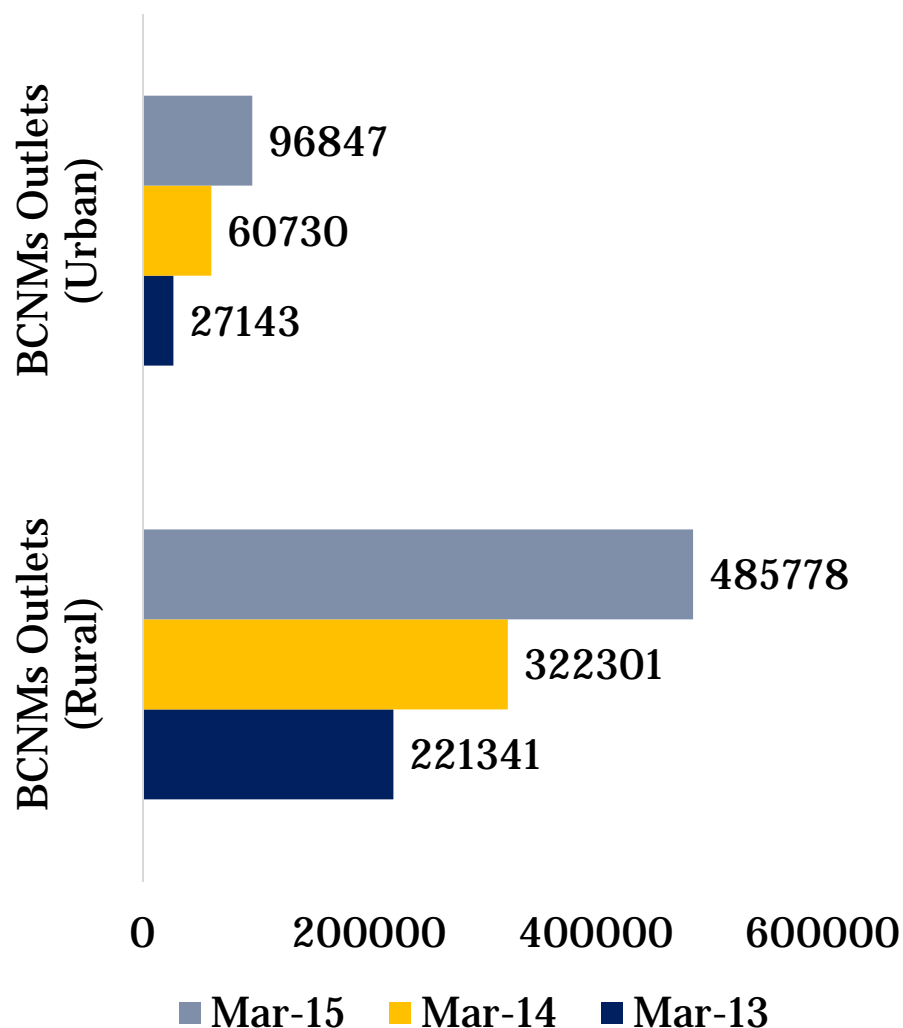
Hence it is imperative to explore possibilities of cost effective and sustainable delivery mechanisms to reach out to remote locations and satisfy the needs of the financially excluded population at affordable costs.

Over the past few years financial inclusion has become a priority for the Government and Reserve Bank of India. Among the many strategic initiatives taken by the regulator, an important one was to allow non-banking entities to provide financial services as an alternate channel for banks.

This model, which aims to provide an alternate banking channel to millions, is called the Business Correspondent (BC) model and has been in existence from 2006. The BC Model attempts to make financial services accessible for the un-/ under banked population.

Key Outreach Metrics

BCNMs Growth Rate



Annual report of RBI (2014-15) highlights that the number of Business Correspondent Agent (BCA) have increased to a total of 582,625. This shows an overall annual growth rate (AGR) of 52% as compared to 2013-14.

However, the growth rate represented in these number do not take into account the number of agents who are dormant.

Progress under phase II of Financial Inclusion Plan (FIP), where the banks have been encouraged to focus on extending banking services to unbanked villages with a population of less than 2000, has been substantial.

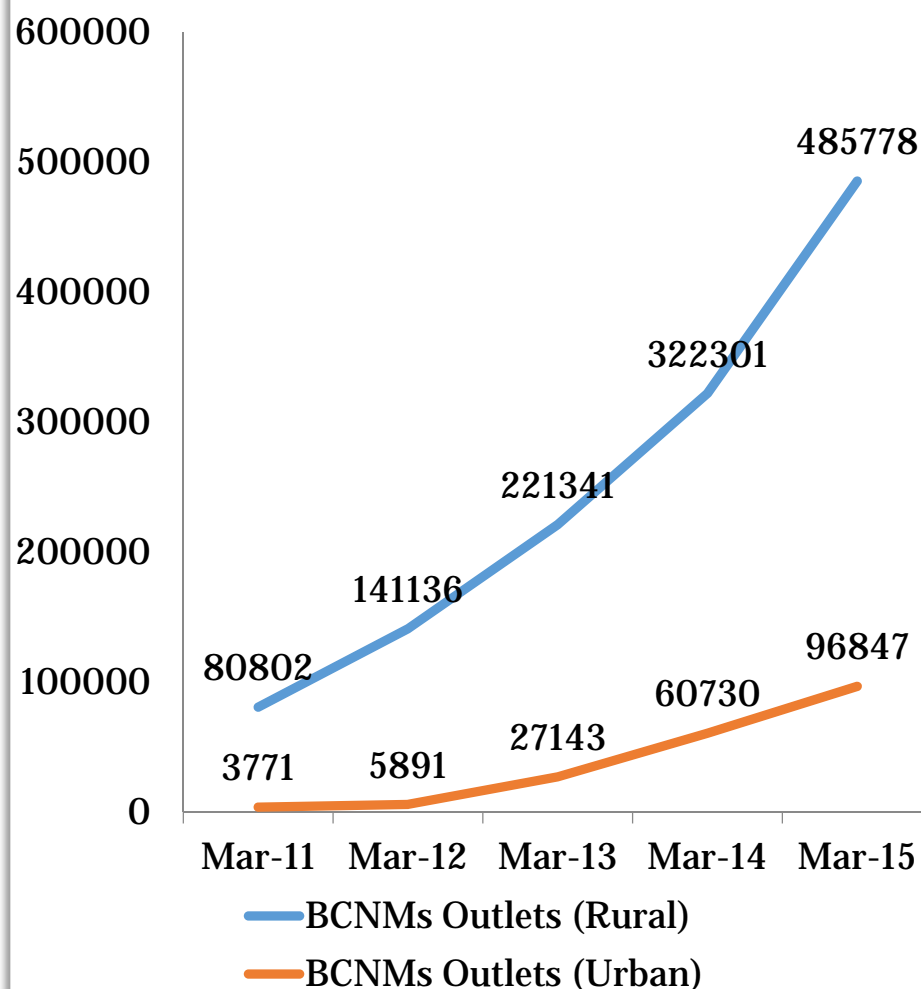
The BCA network constitutes 91% of the total banking outlets in India. At end of March'15, 357,856 BCAs have been deployed by the banks in the unbanked villages.

Key Outreach Metrics

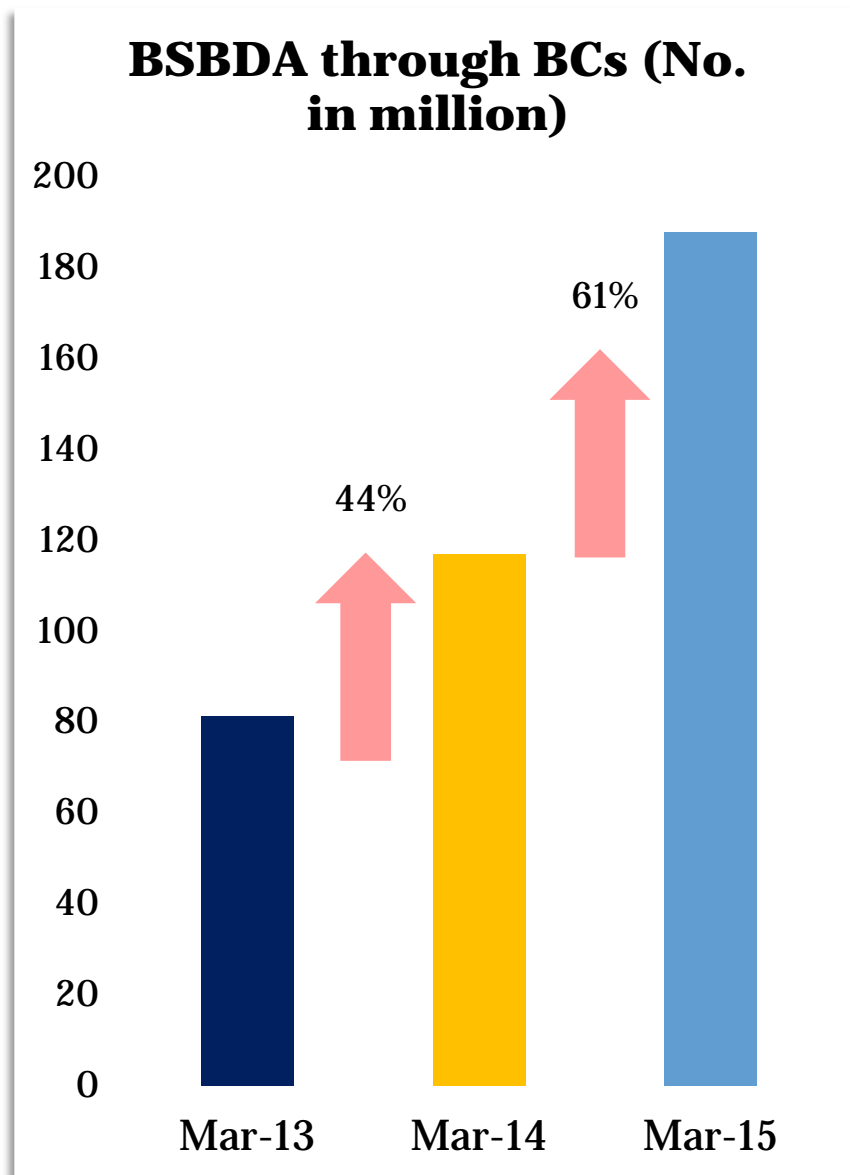
The absolute increase in rural BCAs (which is approx. 163,400) is four times the increase in number of urban BCAs (which is approx. 36,000), the annual growth rate of urban and rural BCAs remains in the range of 50% - 60%.

The proliferation of urban BCAs can be attributed to various factors, some of which may include the increasing number of migrants to urban centres, increasing demand for remittances, and a better business proposition for BCNMs (due to volumes of remittance transactions).

BCAs Penetration in India



Key Outreach Metrics



There is an annual growth rate of 61% in terms of Basic Savings Bank Deposit Accounts (BSBDAs) opened by BCAs, it is important to observe that this is not commensurate with 52% annual growth rate of BCAs penetration.

Contrary to the prevalent belief that banks focus more on account openings than on transactions, this data suggests that banks are currently focusing on the appointment of BCAs. This might be due to the new mandates given to the banks to increase their footprint in particular geographies.

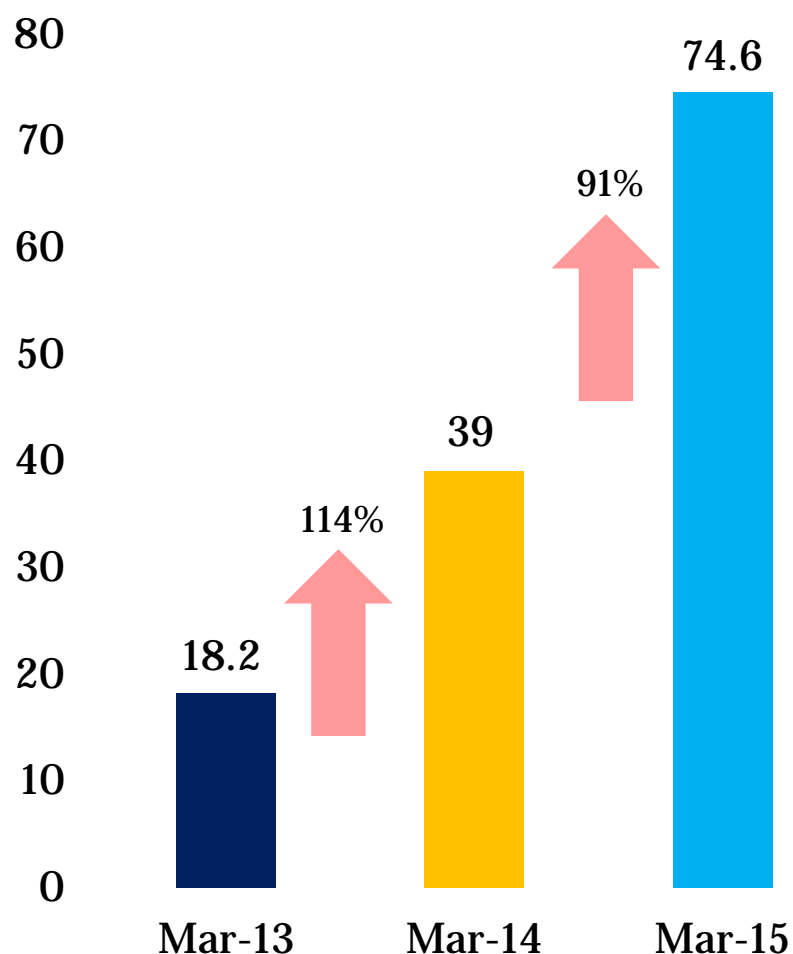
Key Outreach Metrics

By March 2015, the total savings in BSBDA stood at Rs.439.5 billion, which is approx. 41% higher than March 2014.

An annual growth rate of 91% has been reported in terms of deposits in BDBDAs operated by BCAs. DBT payments might have a role to play here.

This increase in total BSBDA deposits is surprisingly high, and the average deposit per BSBDA has increased by 19% to Rs.397 (from Rs.333). The 61% increase in BSBDA and 91% increase in BSBDA deposit, does suggest that banks have, at least partially, shifted their focus towards enabling more transactions.

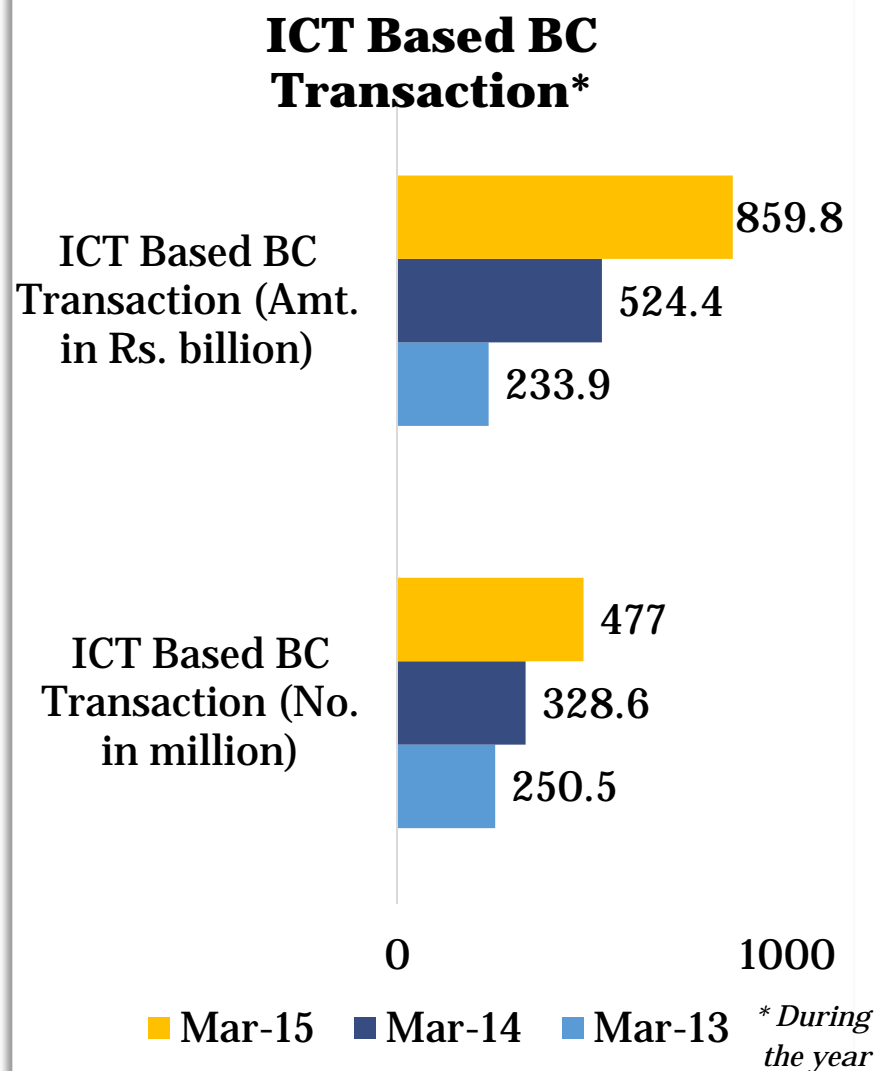
BSBDA through BCs (Amt. in Rs. billion)



Key Outreach Metrics

Under the phase II of Financial Inclusion Plan, banks have been directed to focus on the volume of transactions in BSBDAs. As a result of this, nearly 477 million transactions have been carried out in BC-ICT accounts. The transaction amount has increased by approx. 64% when compared to previous year. Average amount per transaction has also increased to approx. Rs.1,800.

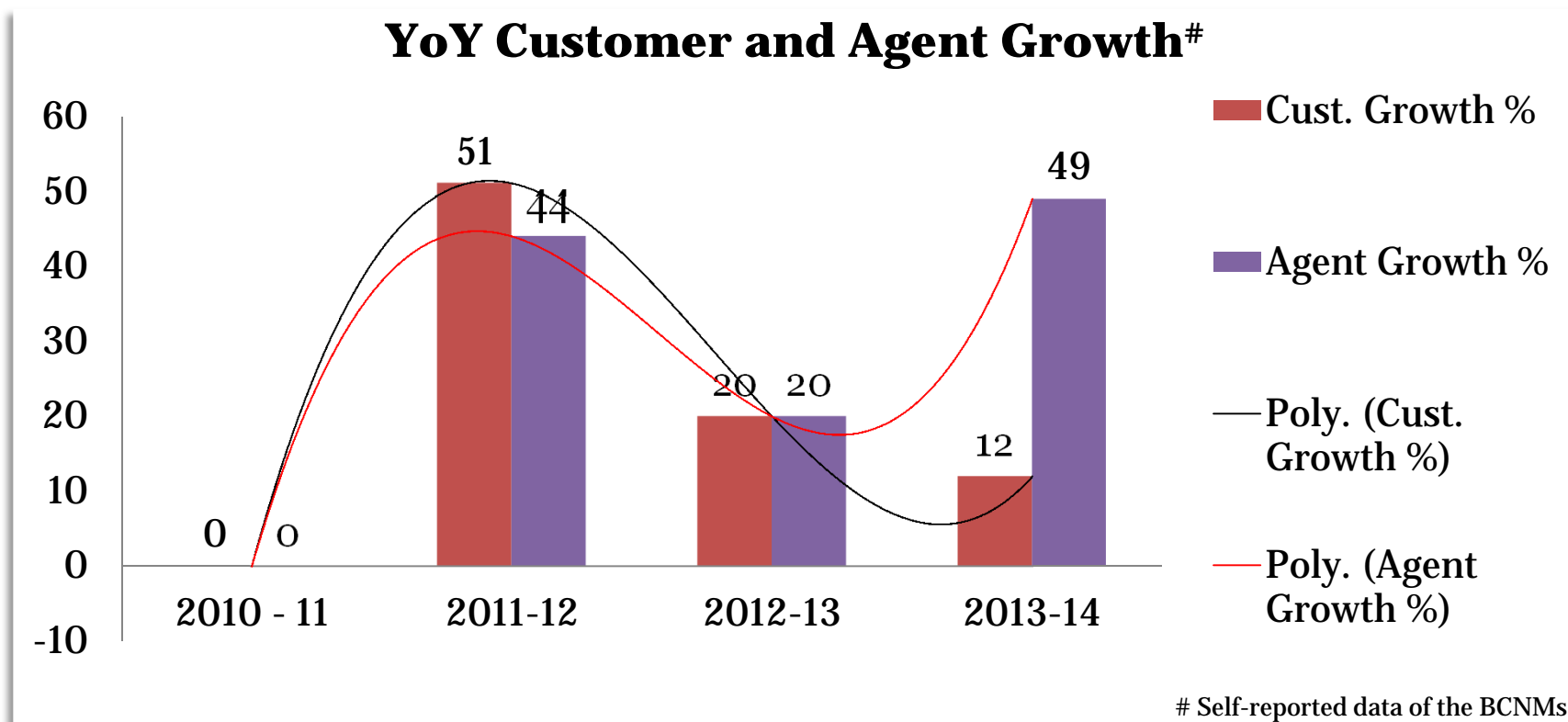
Even though the number of BC-ICT transactions showed considerable increase (45%), is smaller than the increase in the number of BCAs engaged (52%) and increase in BSBDAs (61%) opened though them. The focus of the banks on appointing a BCA in all mandated villages to meet their FI targets might explain the phenomenon.





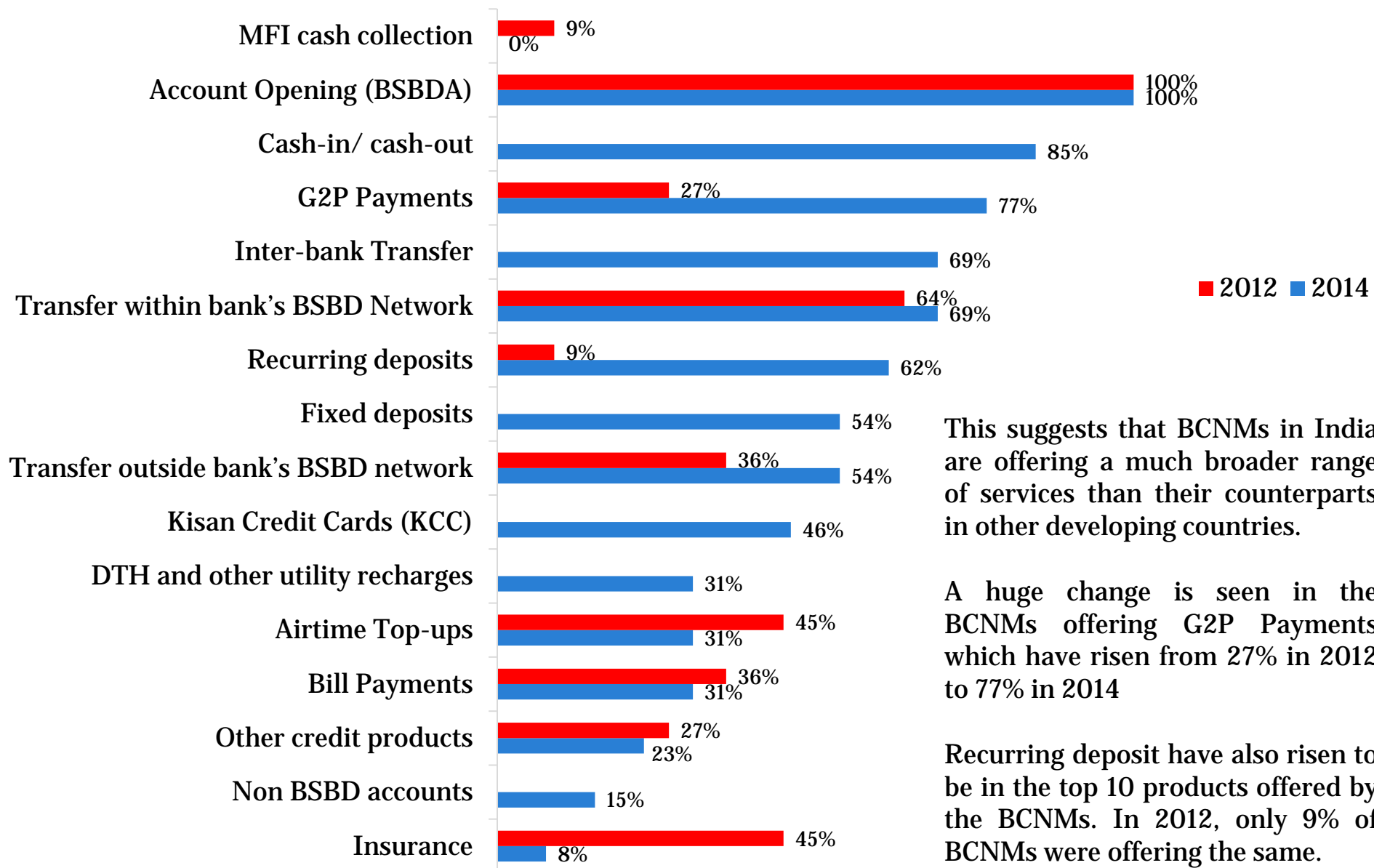
The Supply Side Story of BCNMs

YoY Customer and Agent Growth



The customer growth percentage has reduced but on the other hand agent growth is increasing. The industry is employing more agents but customer growth is slowing down. It is potentially indicative of the rising [Over The Counter \(OTC\) remittance transactions](#). This may also be indicative of agents not being able to generate enough customer registrations or transactions. This might have a direct effect on agents Return on Investment (ROI) and profitability. The growth in agents may be a result of 'the central government led initiatives on FI, most notably PMJDY.

Products Offered#



Products Offered

Product range is partly driven by financial inclusion mandates from the Ministry of Finance and RBI to open BSBDAs (Basic Savings Bank Deposit Account), and the profitability of different products. Moreover, the BCNM can offer only those products that their partner banks want to extend through BCNM networks.

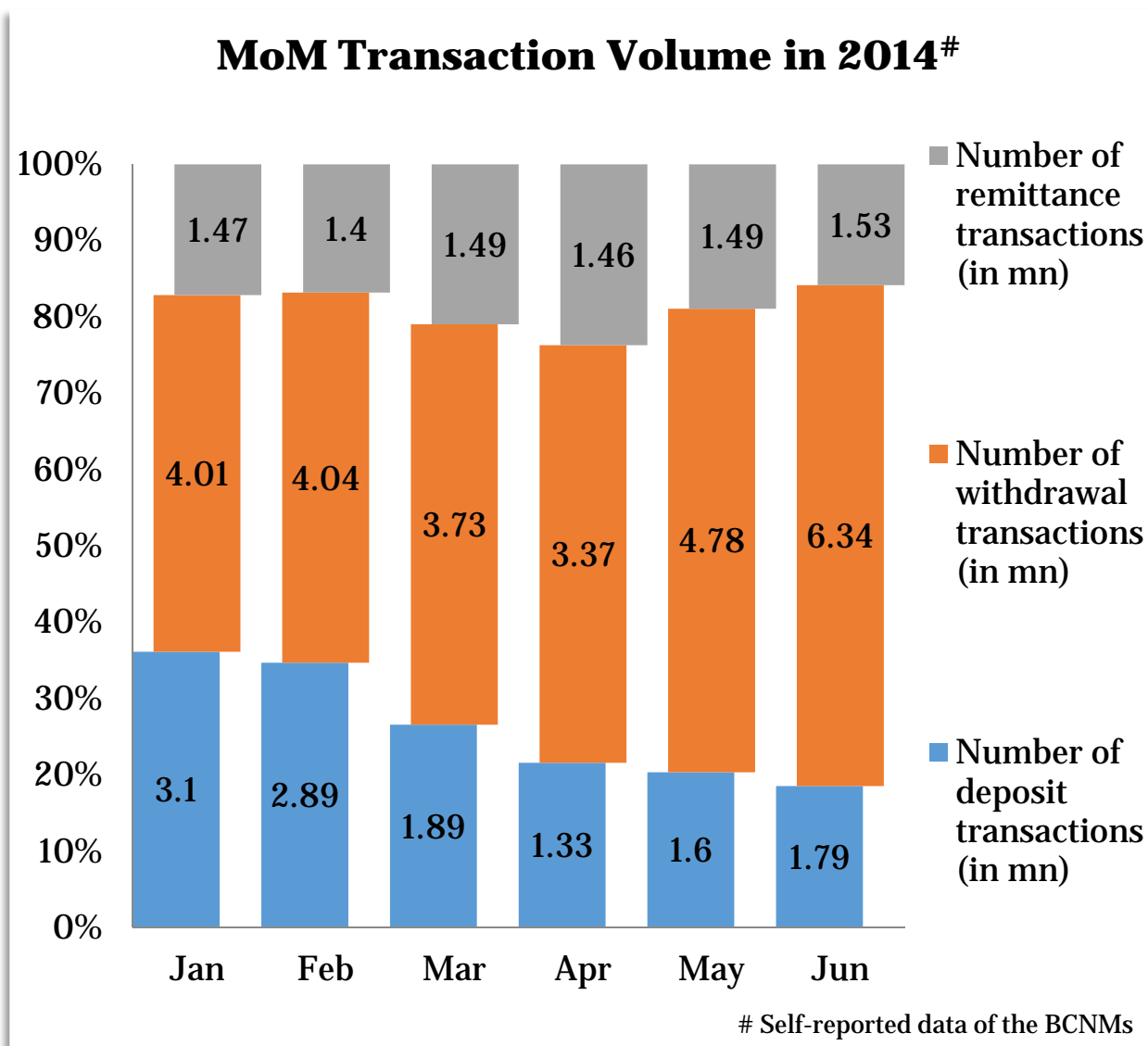
Remittance or money transfer within BSBDAs network is the second most commonly offered product by BCNMs. One of the main reasons for BCNMs to offer transfers is because most banks bundle this product along with BSBDAs. This will become more widespread as banks integrate BCNM-managed BSBDAs into the CBS.

BCNMs have innovated and added several non-banking products to their portfolio, to meet consumer needs and increase agent viability. The most common among these are insurance, selective loan products, utility or bill payments and airtime top-up.

It is also interesting to note that 31% BCNMs have the facility to purchase airtime top-ups from their network. However, relatively few BCNMs offer other value added services such as credit, bill/merchant payments.

The industry still has much work to do to tailor the product for rural markets and to create a product ecosystem of relevant banking products that form a compelling value proposition to create real consumer demand and pull.

Transactions



Withdrawal transactions are on a rise, on the other hand deposit transactions have reduced significantly.

This may be because of higher migration from the areas in which the participating BCNMs are operating. Another reason for this trend can be the DBT transaction processes through these accounts

Number of remittance transactions has remained almost constant for the BCNMs who reported their data*

*This analysis is based on data reported by a small number of BCNMs/ OTC players and most of them do not have presence at the sending end of remittance corridors.

Liquidity Management

Why Manage Liquidity?

Meet customer expectations

- Honour each and every transaction request – generate and maintain customer trust
- Offer services when there is a demand from customers

Balance between income, costs and risk

- Lack of cash or lack of e-money means lack of income for agent and the service provider
- Excessive e-cash increases cost in the system
- Excessive cash has costs and risks

Managing the E value/float to be able to accept customer deposits/cash in transactions

- E Float management is a more serious problem and most of BCNMs face float issues even when business volumes are low.
- As the agent is not getting business, he might not be interested in buying float at the first instance.

Managing the cash to be able to service cash out transactions

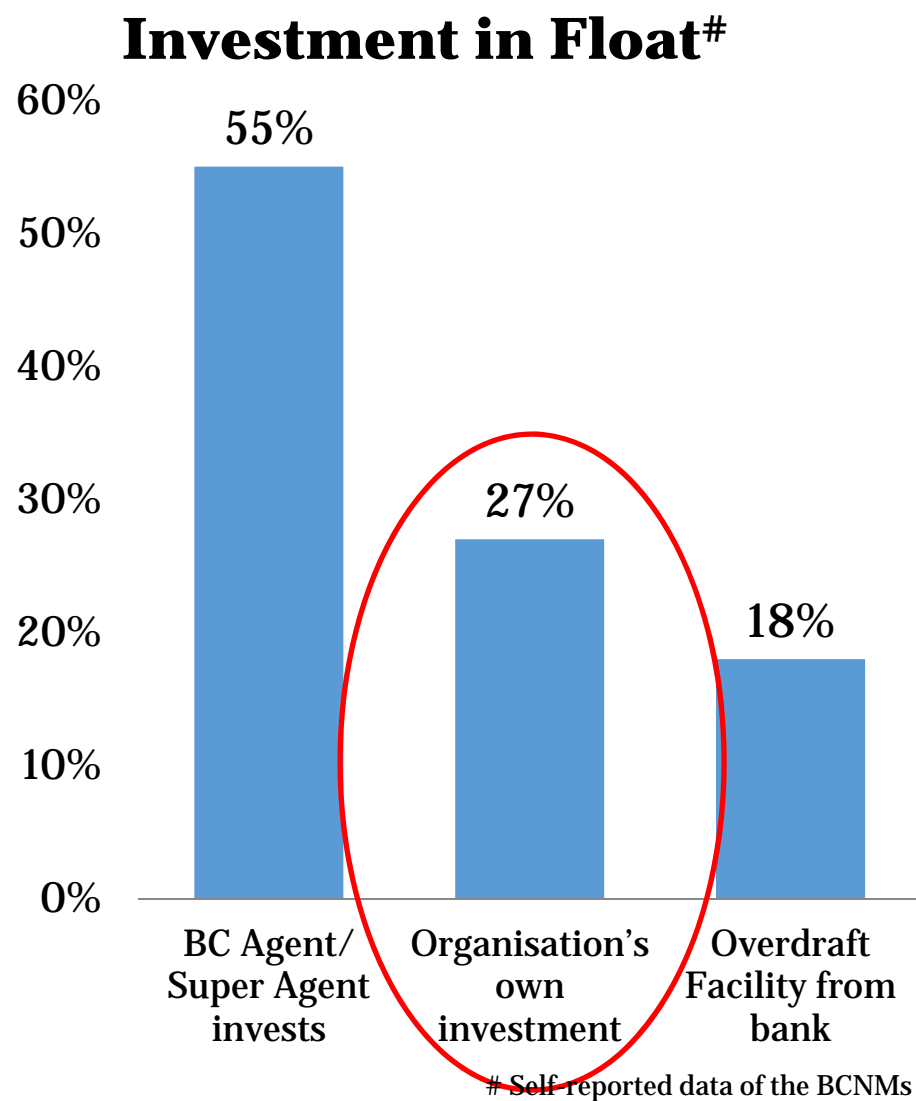
- Cash management becomes an issue only when transaction volume increases - more withdrawals need to be serviced.
- Depending on the relative volumes of cash-in or cash-out transactions in any given day, the retail agent can become either cash-rich, with too much cash on hand, or cash-poor. BCA's other business will also have a bearing on this.

Liquidity Management

The data indicates very few banks invest in liquidity by providing overdrafts. Only 18% of the BCNMs have an overdraft facility sanctioned from their link branches. Most of the overdraft facilities are provided because of the personal relationship between BCA and the branch manager.

Data also indicates that in 27% of cases, the BCNM has to invest in float. This has implications for scaling up the business correspondent model as it results in high working capital requirements for BCNMs who are already capital squeezed .

More BCAs have started investing in float. Last reported this number was 41%. The increase in the number can be an indication to agent's building confidence in the business.



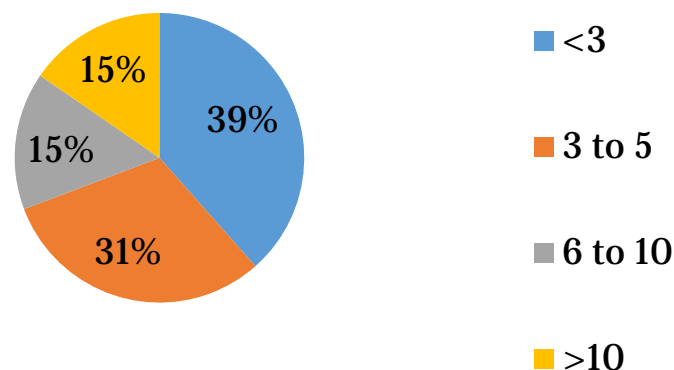
Partnerships and Alliances

In terms of bank partnerships, many BCNMs are working with multiple banks. Most BCNMs who took part in the study are working with more than three banks (61%).

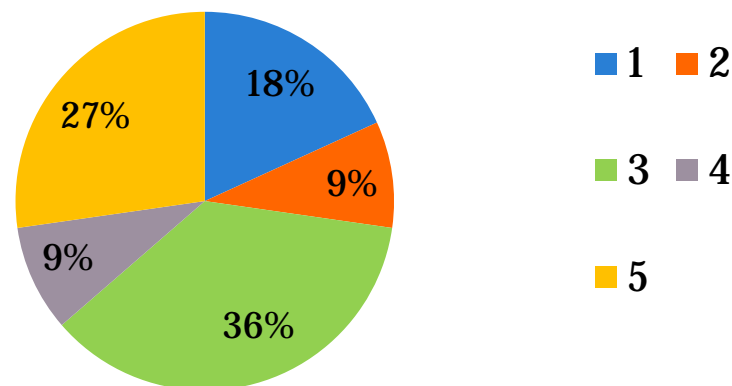
This shows a significant change from the last reported situation when only 36% of BCNMs were working with more than three partner banks.

When BCNMs work with multiple banks it helps them in building better agent economics. It also help the diversify their business and risk.

No. of Partner Banks 2014



No. of Partner Banks 2012



Self-reported data of the BCNMs

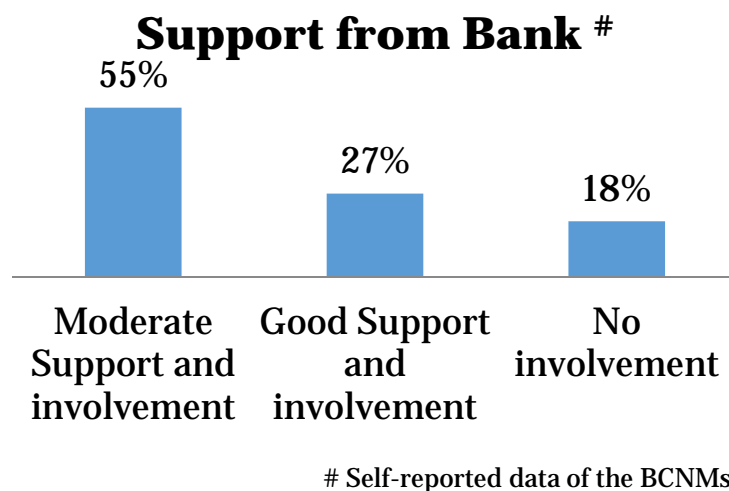
Partnerships and Alliances

Support from the bank has been the most complicated piece for the BCNM industry till date. BCNMs manage delivery end of the product, while the product is owned by the bank. Banks are the decision makers in this alliance.

In this study, BCNMs were asked to rank the support they expect from bank. Most of the BCNMs are not happy with the amount of commission being paid and need more marketing support from them. They also expect a range of banking services to cater to their customers' needs.

Other support they need from banks are help in agent selection, faster BCA code generation, and supporting their bank BCAs by promoting them at local level.

It is interesting to note that the top areas of support needed from the bank by the BCNMs has not changed at all from the [last study](#).



- 1 [Increased Commissions for BCNM](#)
- 2 Marketing Support
- 3 Broader Product Offerings
- 4 Quicker Payment of Commissions
- 5 Others

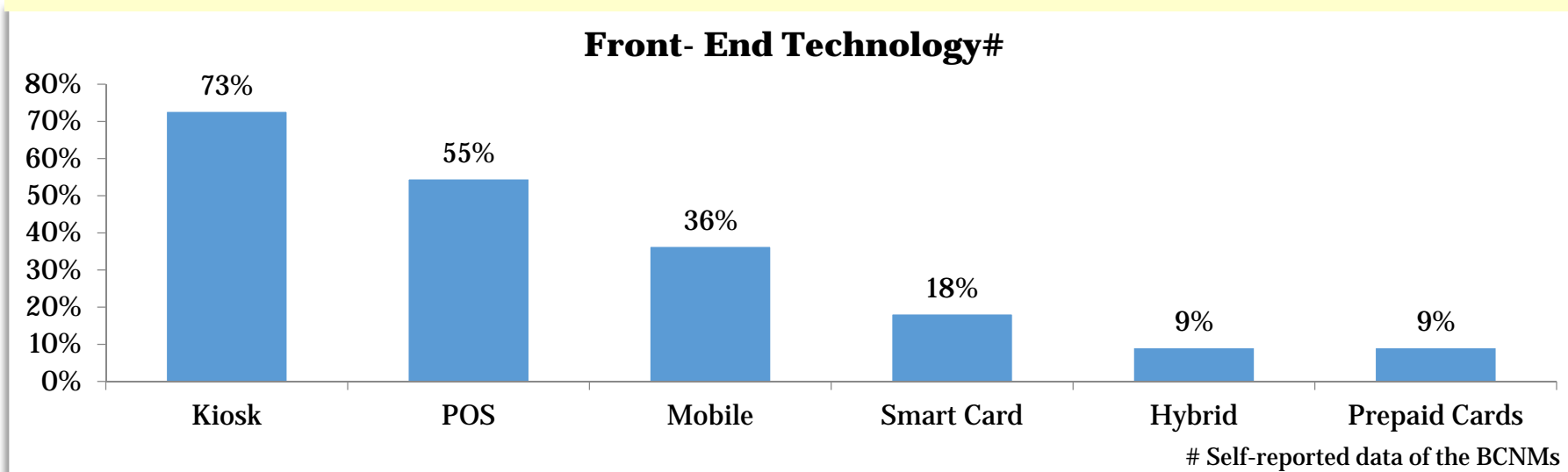
Support Needed from the Bank

Technology

Among the major BCNMs who took part in the study, 73% uses Kiosk model and 55% and 36% were doing it through POS (Point of Sale Device) and Mobile respectively. Smart card based technology is used by only 18% of players.

Data of this study shows significant increase in technology options used by the BCNMs. In the [earlier report](#), reported technology options were mobile based technology (44%), smart card (44%) and contact less cards (12%). Contactless cards are no longer in use because banks were not comfortable with the technology.

[MicroSave's studies](#) suggests, **Kiosk based** BCNMs generally have a rural and urban spread. In rural areas, they restrict themselves to major markets and are able to maintain a steady flow of business. More often than not, kiosk based rural agents are able to achieve better business volumes compared to their urban counterparts. In a **mobile based** BCNM, rural sample constitutes villages with population <2,000 in many cases.

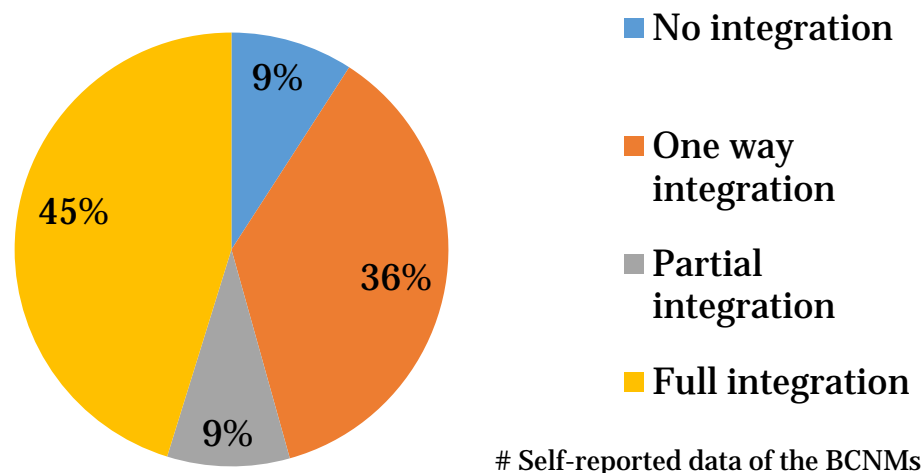


Technology

45% of BCNMs report that they have full integration and 46% said they have one way or partial integration to the partner banks' core banking system, rest 9% works with no integration.

If the technology integration is higher (i.e. full or partial), it is more likely that the customer will use the service for variety of transactions like savings, remittance and bill payments. Lower level of technology integration translates to limited transaction avenues for the customer. Hence, increasing the chance of account dormancy.

Technology Integration Level[#]



More BCNMs are now fully integrated with the bank's CBS, raising the number of BCNMs with full integration from 9% ([reported in 2011](#)) to 45%, thus enabling their customers to access banks' other channels.

No Integration: Agent can only operate account in BC network of same bank. | One Way Integration: Agent can deposit money into a CBS account of the bank but cannot see sender or receiver's details through his login. | Partial Integration: Account opened can be accessed through ATM too and BC can check sender and receiver's basic information through his authorised login. | Full Integration: Accounts can be accessed through ATMs, bank branch, NEFT etc. can be done and BC agent can check basic information of sender and receiver.

Marketing and Communications

BCNMs focus on marketing products that they find more profitable. So less profitable products at times take a back seat. The majority of BCNMs use word of mouth as the mode of marketing while others put more effort and money in a variety of other marketing activities.

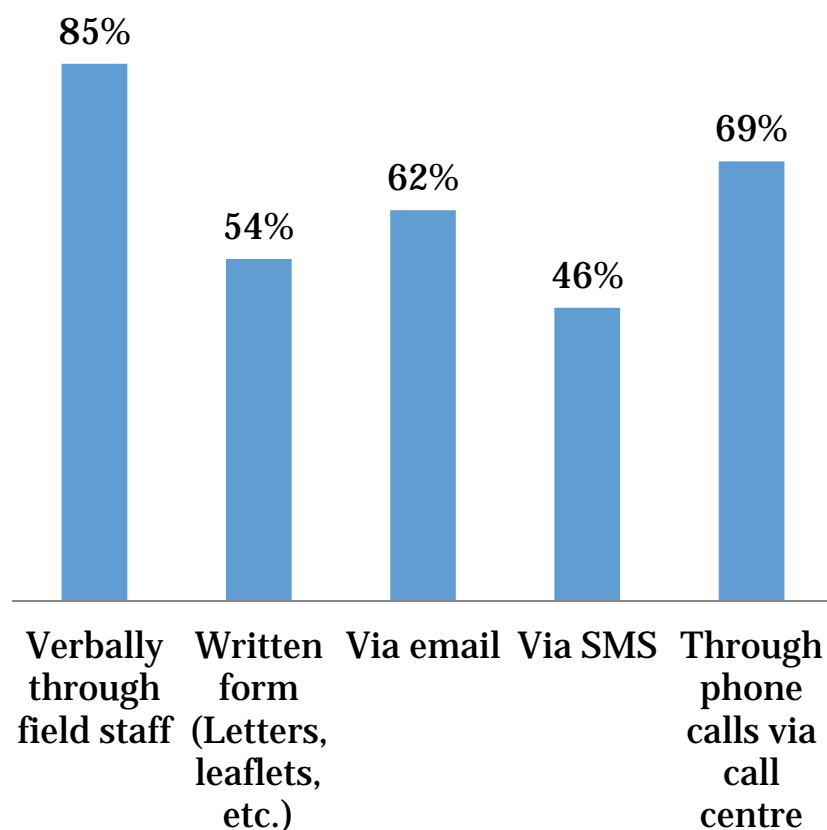
BTL activities are considered the most effective mode of communication and ATL is almost never considered unless the aim is to brand company as a whole rather than a particular offering.

Few reasons specified for marketing in this industry are:

- Increases trust of agent and customers and increases product awareness
- Reduces fraud - Some companies use training as a mode of marketing. Some chose to train their agents as and when required but others have made it mandatory to train them every month or quarter.

As reported in the last report, most of the BCNMs were dependent on banks for marketing earlier. Now most of the players are working on marketing and communication themselves

Mode of Communication[#]



[#] Self-reported data of the BCNMs

Marketing and Communications

These methods have worked well for the BCNMs. However, BTL (below the line) activities are human resource intensive and hence costly. In spite of knowing the benefit of marketing, few BCNMs are reluctant to spend much on advertising banking products.

BCNMs have the following expectations from banks in terms of marketing & operational support are:

- Banks should share marketing & communication and customer enrolment campaign expenses.
- The marketing collaterals should be co-branded.
- Financial education campaigns should be designed to increase the awareness of the banking products amongst the customers. It will also help increase trust on BCA outlet and the model.
- Provide ID cards and certificate of association to agents with bank logo and signature since it might be helpful to gain trust amongst the customers.
- Special queues for agents at bank branches, as they have to stand in the same line as customers to meet their liquidity requirements, which limit their availability for end customers.

Commonly used Methods of Marketing

- Pamphlets and Leaflets
- Trainings
- BTL activities
- Meeting with village head, villagers, bank staffs,
- Free health camps - for cross-selling other products
- Informational comics
- Account-opening camps
- Bank staff & CSP meet
- Wall paintings of agents

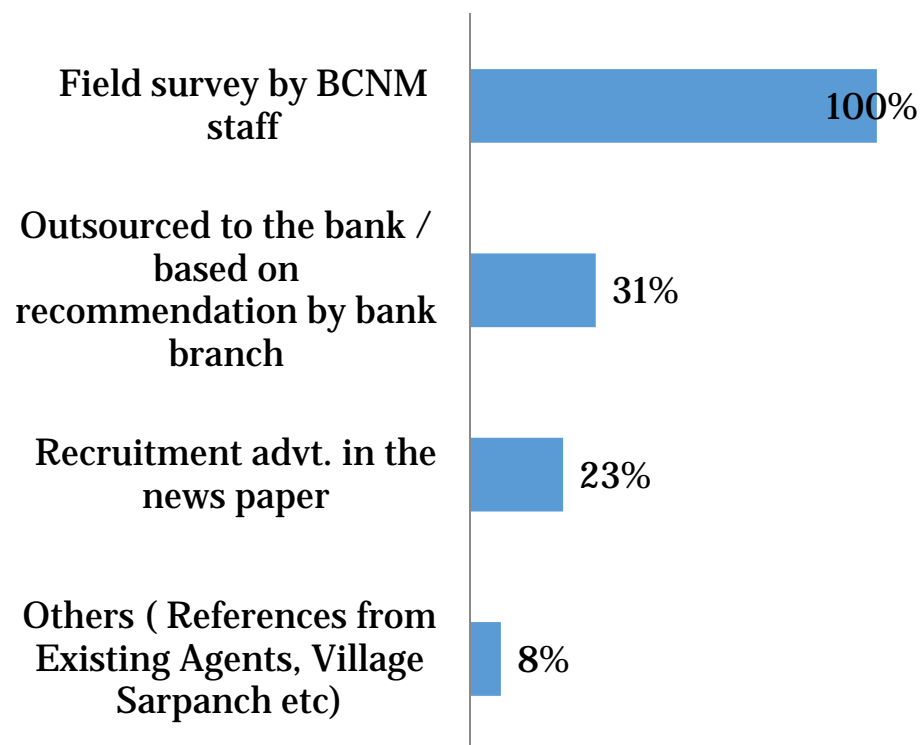
Agent Networks

Agent Selection

Selecting the right agents is critical to the success of any mobile banking initiative, especially during the most difficult introductory period as it 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.

Agent Deployment Methodology[#]



[#] Self-reported data of the BCNMs

Agent Selection

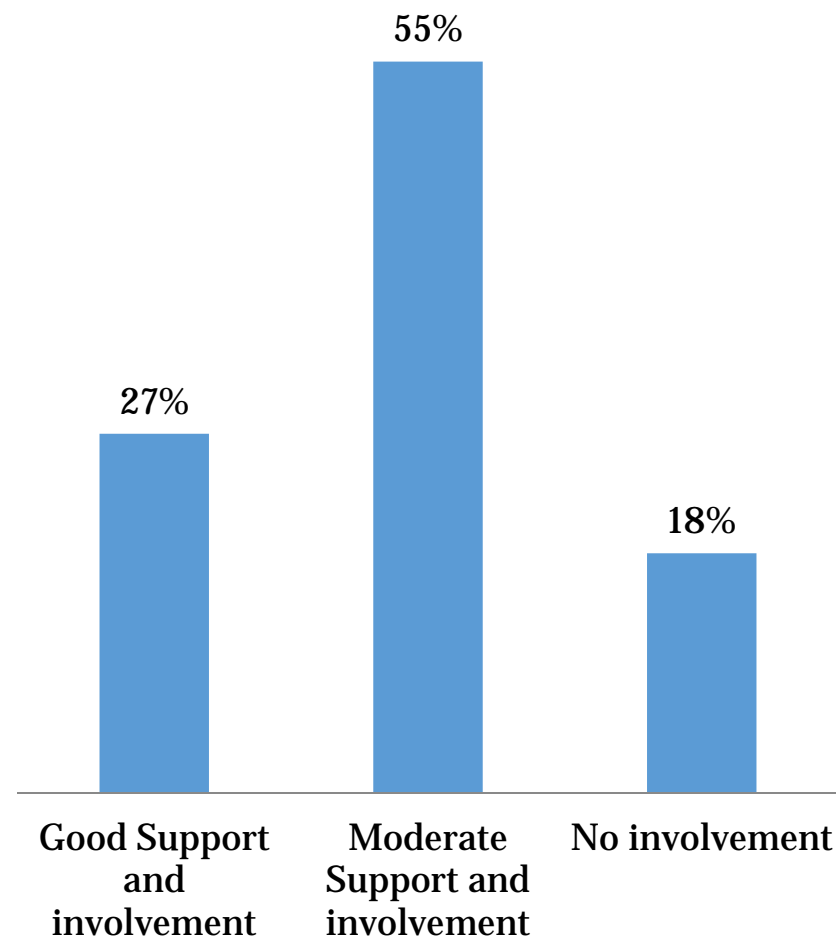
Most BCNMs felt that support and involvement from banks in agent selection and training is moderate.

Several BCNMs also noted that their partner banks had no involvement in the selection and training process.

Support from other stakeholders, especially banks is essential. Whenever local bank staff participates in the agent selection, on-boarding, training, monitoring, etc., agent motivation and customer's trust is higher. This translates into higher transactions at the agent's counter.

This particular parameter has shown no change from the last reported data. Though with the push from central government (through PMJDY), the situation might be different in the coming years.

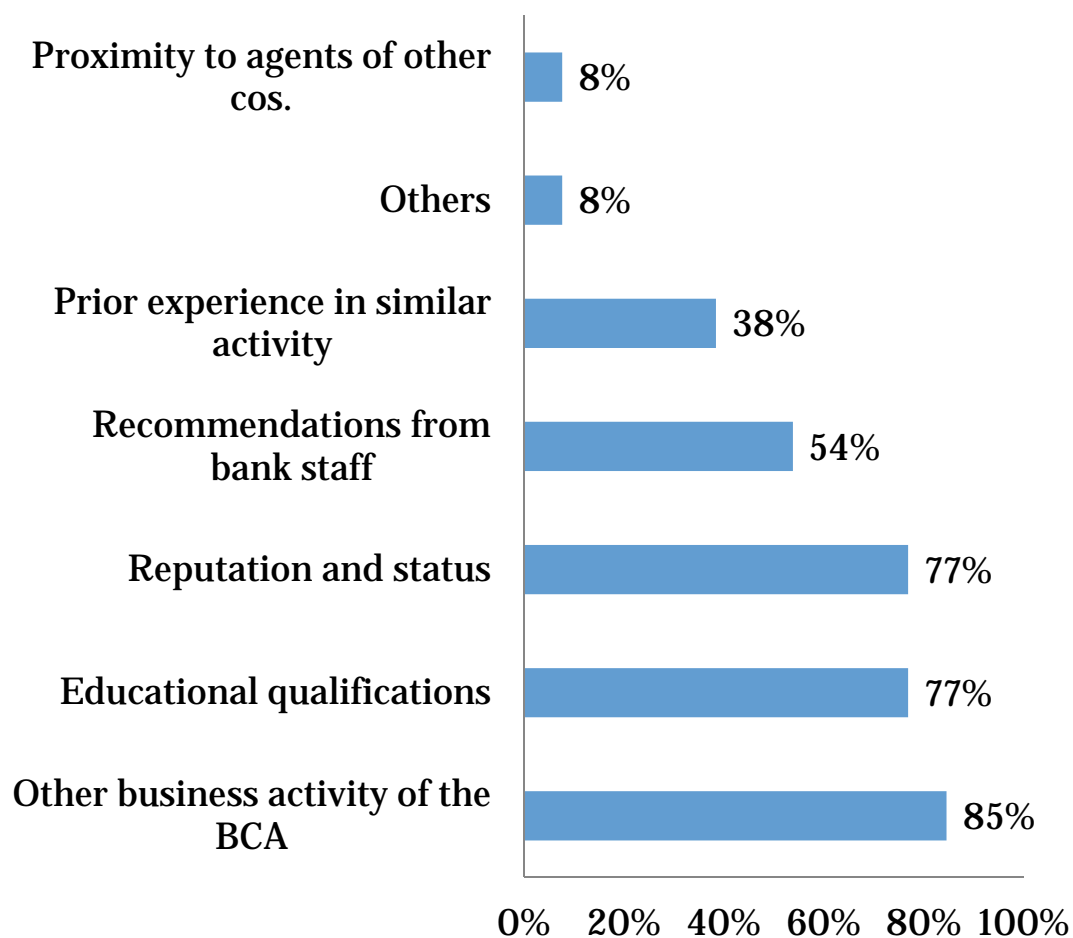
Bank Support in Agent on-boarding[#]



[#] Self-reported data of the BCNMs

Agent Selection

Agent Selection Criteria[#]



[#] Self-reported data of the BCNMs

Current business activity is one of the highest rated criteria for agent selection as this determines the amount of interaction with the DFS customers.

Also, if the agent's earning from his prior business is more than from DFS, then he would be unwilling to commit more time since it is less profitable for him. And if the time and capital involved in DFS is significantly higher than agent's prior business, then it will also have an impact on his involvement.

BCNMs ensure that the agents are picked to match the location of target clients and product positioning.

Mostly, BCNMs target shops where customers visit for low/ medium ticket size transactions, since customers visit these more frequently.

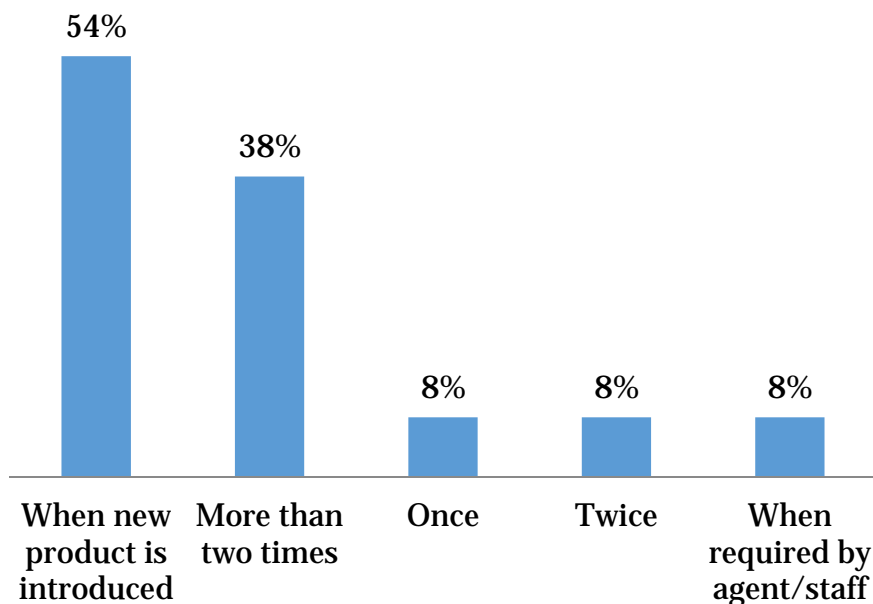
Agent Training

Agent training is done to ensure that the person understands, appreciates and follows his/her responsibilities as a service provider for a reputed financial institution.

A well-structured and monitored training programme ensures that reputation, compliance and operation risks are minimised.

It is beneficial if regular refresher trainings are organised as well, to keep agents up-to-date with new developments in the technology, regulations, fraud management and the model as a whole.

Agent Training Frequency[#]



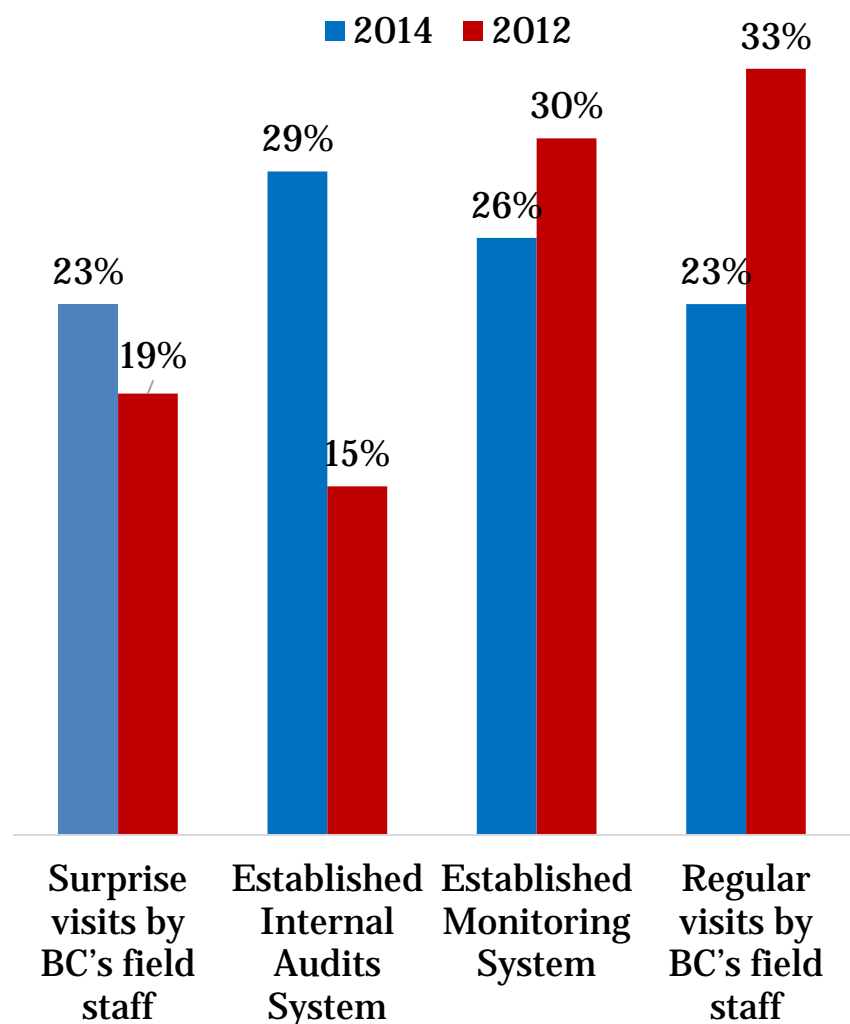
[#] Self-reported data of the BCNMs

Data shows that BCNMs do not have a set pattern that defines the frequency of agent training. While most (54%) of the BCNMs that participated deliver the training when new products are introduced; 38% reported that their agents have been trained more than two times since their joining .

Most agents are receiving their induction training. However, these numbers do not necessarily represent the quality and effectiveness of training.

Agent Monitoring Mechanism

Agent Monitoring Mechanism[#]



[#] Self-reported data of the BCNMs

From a BCNM's perspective, agent monitoring is a necessary evil. Cost to regularly monitor agents who are spread in rural areas is a major item on the profit and loss statements. But BCNMs cannot do away with it. They need to push the agents to focus more on the business and provide them operational support when needed.

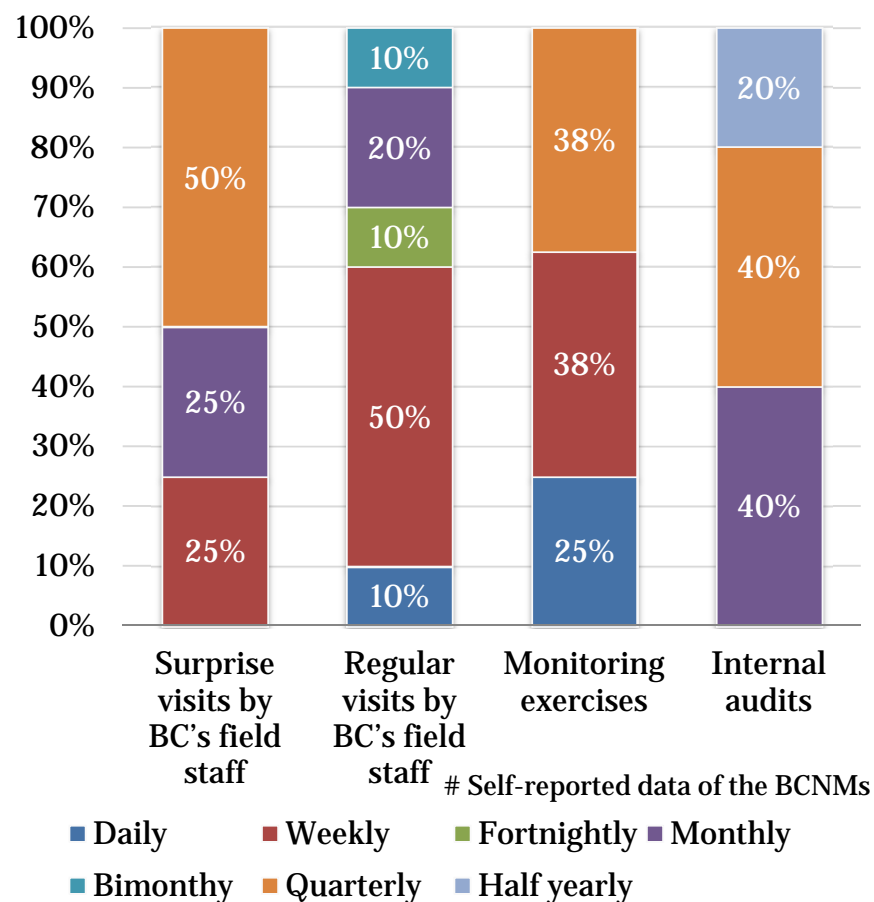
An increase in use of established internal audit systems is seen. While visits by BCNMs' field staff continues.

The key aspects that are monitored include:

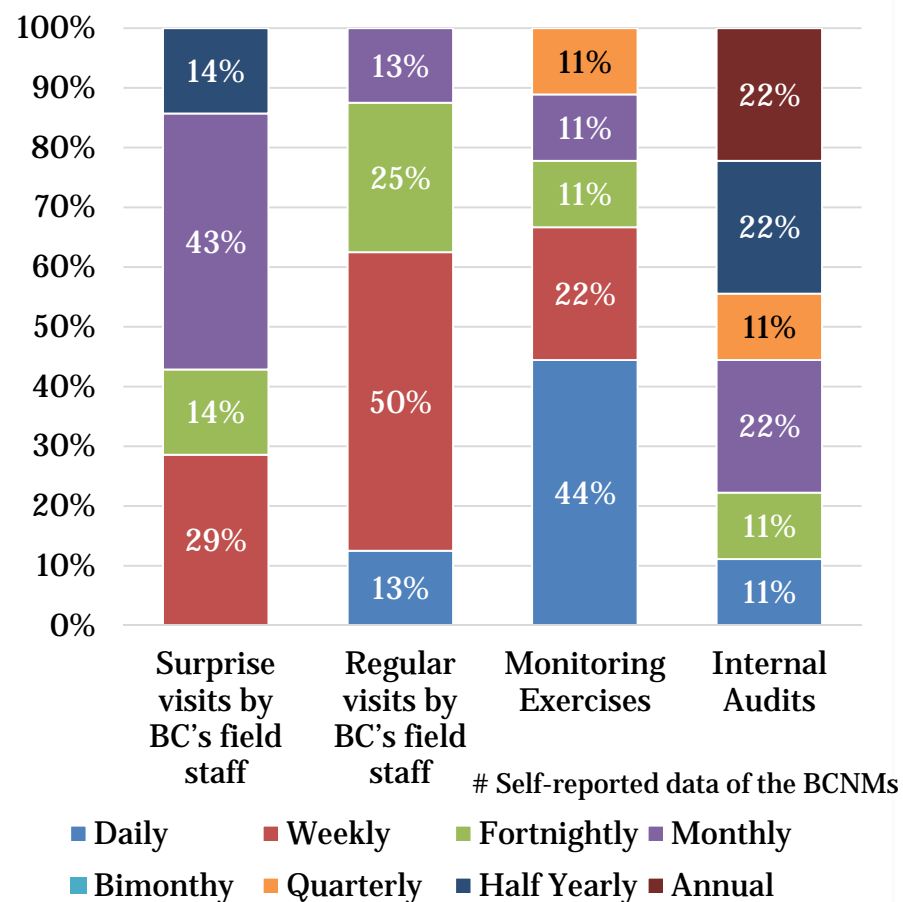
- Liquidity management
- Movement of account opening forms
- Grievance redressal of agents and in some cases of customers too
- Review of the collaterals provided by the BCNM

Agent Monitoring Frequency

Frequency of monitoring – 2012#



Frequency of monitoring – 2014#



BCNMs are using various mechanisms to monitor the agent network at different frequencies. Regular visits by the BCNMs' staff remain to be most frequently used monitoring mechanism.

Agent Monitoring Mechanism

The RBI also understands the importance of agent monitoring. It has suggested that the implementation of BC model should be closely monitored by controlling authorities of banks, who should specifically look into the functioning of BCAs during the course of their periodic visits to the branches.

Further, banks should also put in place an institutionalised system for periodically reviewing the implementation of the BF/BC model at the Board level. This step is to ensure that the implementation of BC model has been meeting the objectives set.

To ensure adequate supervision over the operations and activities of BCAs by banks, the RBI has suggested that every BCA will be attached to and be under the oversight of a specific bank branch to be designated as the base branch.



Provider Support

Agents underline the importance of the provider support. Agents seek cooperation from the link branch staff and the operational field staff of the BCNM. For agents, presence of someone who listens and addresses their grievances, troubleshoots technology issues, and assists them in a quick turnaround of their requests, is a morale booster and an operational necessity.

Support in terms in liquidity management practices and marketing & communication are the most sought after. *MicroSave's* field experiences have shown improvement in terms of provider support, and the complaints from agents regarding provider support have reduced in recent time.

Attention received from the link bank branch is also of high importance. The presence of bank branch staff on inauguration of the agent point gives the agent's business an enormous boost as it helps in building trust among the customer. Regular visits from the bank staff helps keep the agent morale high.

“Jabse manager saab humari dukaan pe aane lage hain, tabse logon ka vishwaas badh gya hai humare counter pe”

“Since the branch manager has started visiting my counter, customer has started trusting the service more” – An Agent in Rural Bihar

Agent Dormancy

Agent dormancy is a major source of concern for BCNMs and banks. While most of the banks report that there has been an upswing in the number of agents, agent dormancy numbers never get reported. This is because banks or BCNMs do not have a sure way to record the same.

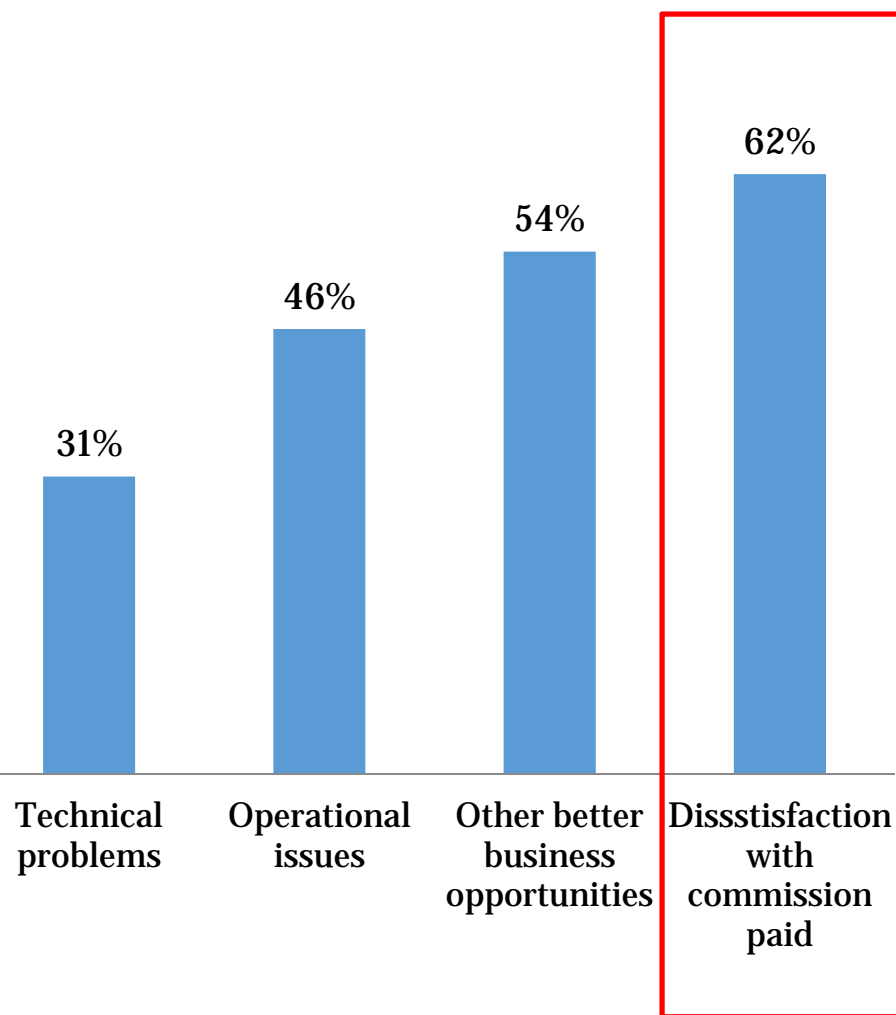
Agent dormancy showcases agents' motivation levels and the mismatch between their expectation and the reality.

A MicroSave study suggests that the delay in commission payments is a contributing reason of agent dissatisfaction.

Dissatisfaction associated with commission paid is the leading reason for agent dormancy. BCNMs need to further explore this with respect to:

- Is the absolute amount not satisfactory, or
- Is lack of transparency in the pay-out the reason

Reasons for Agent Dormancy[#]



[#] Self-reported data of the BCNMs

Customer Service

Agent behaviour towards the customers varies from one agent to another. Agents, who are self-motivated and have established the business, try to treat customers well.

There have been instances when agents have helped their customers beyond the banking business to build rapport and increase the customer base in their service areas.

Agents, who are not motivated enough to work as a BCA, do not consider their customers important. In such cases the agents do not make significant efforts to serve the customers if there is any problem in the system .

“Yahan aas pass ke customer tou sham ko bank branch hone ke baad bhi transaction karne aate hain”

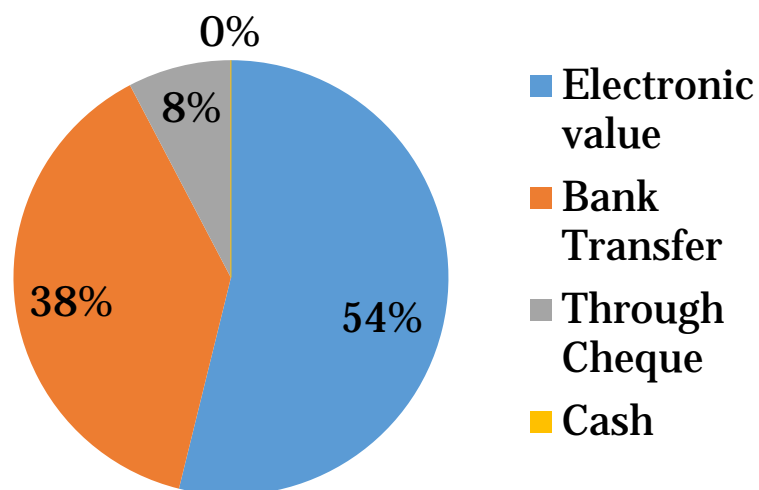
“Customer from nearby areas comes to my counter for doing the transactions even after banking hours” - An agent in U.P. (E)

“Koi fayda tou hai nahi khas.. tou fir customer ke sath matha-pachi kar ke kya fayda hai?”

“This service doesn't pay much so what is the point of going out of the way to help the customer” - An agent in Mumbai

Agent Commissions

**Agent Commissions
Payout Method#**



Self-reported data of the BCNMs

Electronic value transfer (54%) is the most common method of paying agent commissions, followed by bank transfers.

Most BCNMs offer commissions in the range of 40 – 60 % of payment received from banks for transactions. Other BCNMs decide remuneration based on different factors, including industry average, competition, target pricing, loyalty and differential commissions for urban and rural.

At times, they also alter their commission parameters when they want to induce certain behavioural change or want to achieve a specific target.

The RBI working group in 2009 perceived that the BC model can be successful only if sufficient business is generated, the commission earned by the BCA is commensurate, and banks “own” the BCA as their agents. Banks may, therefore, need to have a relook at the compensation structure for the BCAs.* Viability can be achieved through increasing the product basket, commissions, and providing overdraft facilities.

*Source: <http://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?ID=555>

Commission Pay-out Frequency

Most agents join this business to earn extra income. For non-dedicated agents, commissions are a supplement to their existing income. So to ensure agent interest, FI products need to offer a reasonable return on time invested. Commission structure becomes even more important for dedicated agents, as they are completely dependent on this business to make a living.

There are several incidences in rural India where dedicated agents are making less than \$2 per day. The majority of the agents complain about commission structure not being commensurate to their efforts and mention that it does not motivate them to walk the extra mile and pre fund liquidity beyond a certain limit.

Commission ***pay-out frequency has improved over a period of time***. The frequency of payment varies from model to model. For example, in the MNO-Bank mobile money model, the frequency of commission pay-out is fixed monthly and since the commission pay-out is calculated by servers, it is almost never delayed. But the breakup of the commission credited is not detailed and also not often provided to the agent. This limits transparency and results in lack of trust amongst the agents.

BCNM Costing (Kiosk) (1/2)

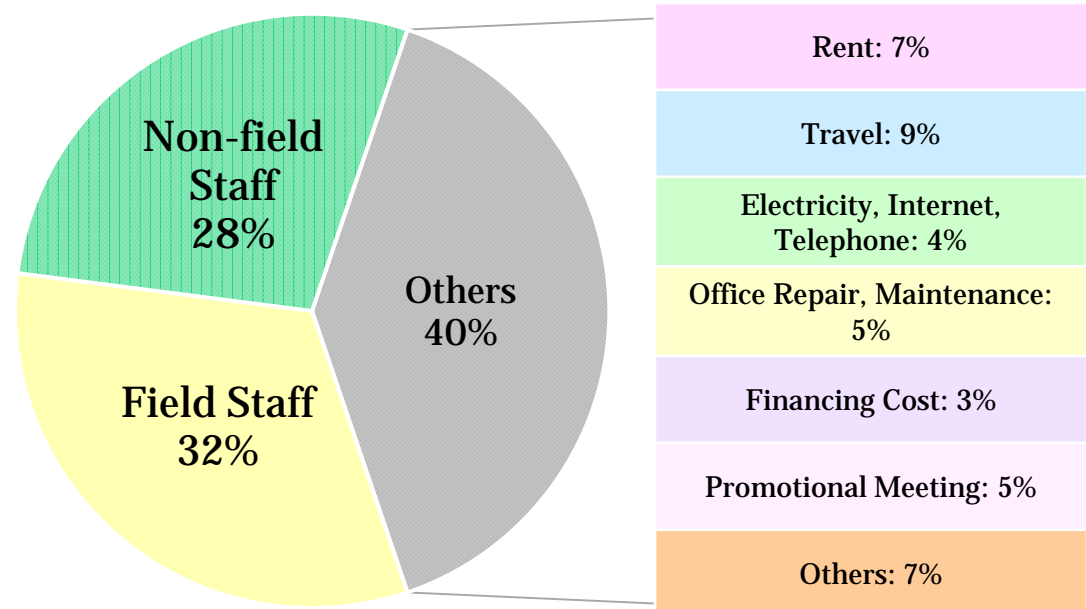
Monthly Cost per rural Outlet or CSP – INR 1,397

BCNM costs are mainly fixed in nature and not directly related to number of transactions. These are typical back office costs which are incurred to run a business of similar nature

Staff cost is one of the major cost - 60% of the total costs are incurred on personnel expenses

Rent and travel expenses together constitute close to 16% of the monthly costs incurred

BCNMs must leverage the fixed cost structure by increasing the number and volume of transactions



- Calculated based on data shared by BCNMs
- Commissions paid to agents/CSPs are not included in this calculation
- Calculated assuming an average agent base of 1,372

BCNM Costing (Kiosk) (2/2)

| Product | Value Leverage Ratio | Estimated Commission per Rs.100 transacted | Avg. Ticket Size per Transaction |
|-----------------------------|----------------------|--|-------------------------------------|
| Deposit | 0.228 | Rs.0.08 | Rs.3,389 |
| Withdrawal | 0.227 | Rs.0.15 | Rs.3,295 |
| Remittance/OTC | 0.187 | Rs.0.03 | Rs.3,986 |
| Product | Value Leverage Ratio | Estimated Commission per account opened | Average Ticket Size per Transaction |
| Account Opening | 7.44 | Rs.6.00 | NA |
| Value Leverage Ratio | | 0.32 | |

BCNMs incur INR 7.44 in opening an account while they earn an estimated commission of INR 6* for the same

Overall, BCNMs incur INR 0.32 per INR 100 transacted

In our sample, BCNMs did not earn profits on any of the products because costs incurred under all four products were higher compared to the revenues

Costs per transaction for remittance product is lower than deposits and withdrawals because of higher average value per transaction

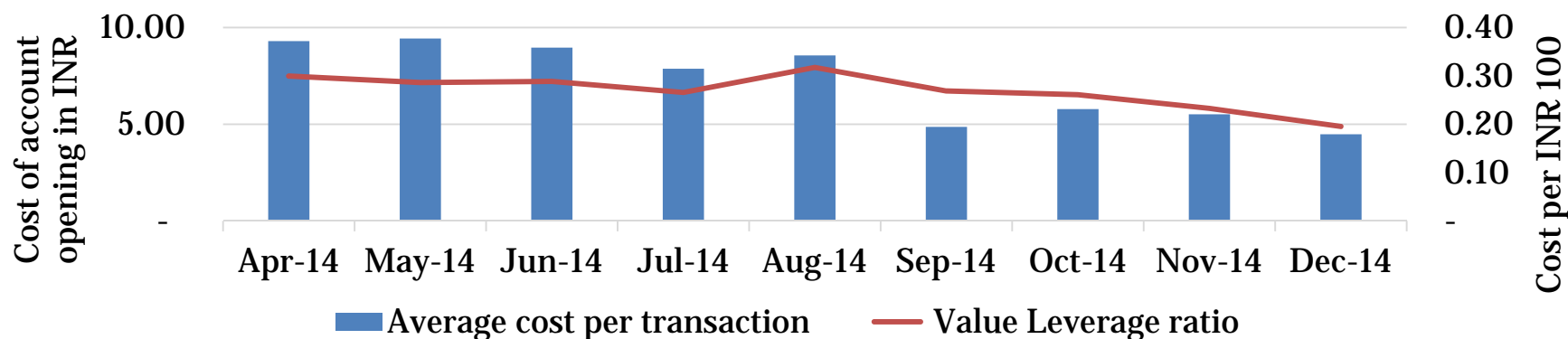
Since BCNMs have fixed cost structure, cost per transaction or BCA reduces for BCNMs with increase in number of transactions and transaction volumes

- BCNMs assessed receive an average commission of 0.25% (deposits), 0.50% (withdrawals), 0.10% (remittance) and INR 20 (account opening). 70% of this commission structure is passed on to BCAs.

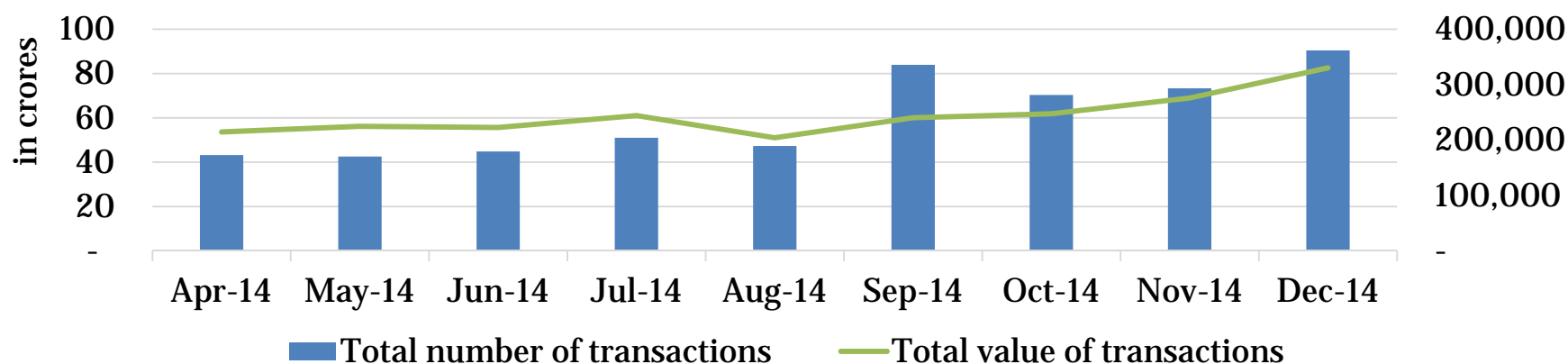
BCNMs' Trend Analysis - Kiosk

Cost per transaction and cost per INR 100 reduces for BCNMs as both volume and value of transactions increase

Costs Per Transaction and Value Leverage Ratio



Transactions-Volume and Value



BCNM Cost (Mobile) – (1/2)

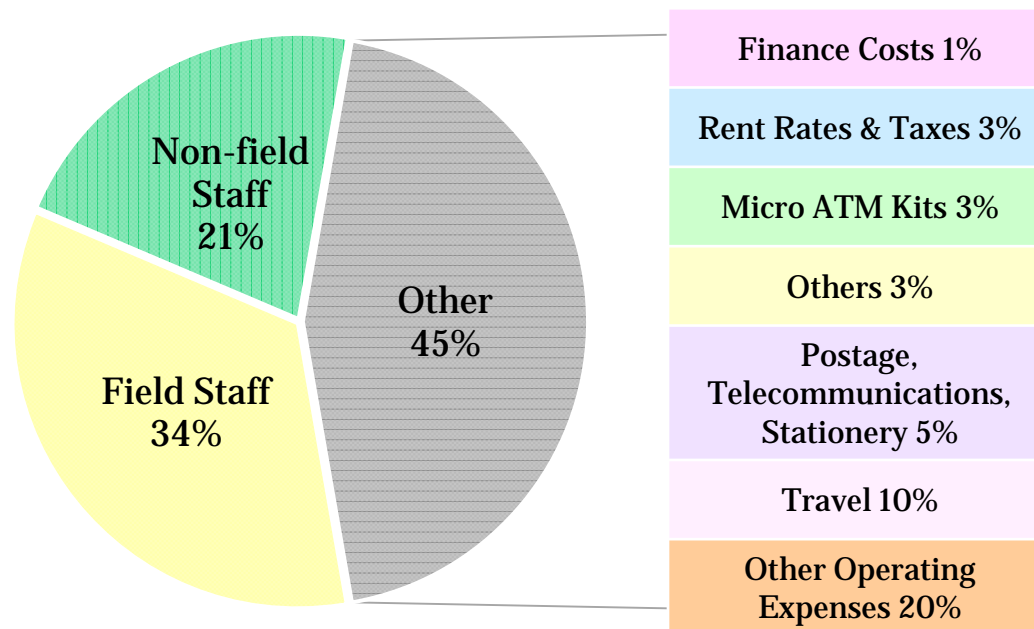
Monthly Cost per Rural Outlet or CSP – INR 5,111
Monthly Cost per Urban Outlet or CSP – INR 5,034

Operating and travel expense constitute close to 30% of the monthly cost incurred
Monthly maintenance cost per mobile BCA is almost 4 times compared to kiosk model (INR 1,397)

BCNM costs are mainly fixed in nature and not directly related to number of transactions. These are typical back office costs which are incurred to run a business of similar nature

Staff cost is the major cost - 55% of the monthly cost is incurred on personnel expenditures; Out of this 55%, 62% of staff cost is incurred on field level staff

BCNMs must focus on increasing the number and volume of transactions to take advantage of this fixed cost structure



- Calculated based on data shared by participating BCNMs
- Commission paid to BCAs is not included in this calculation
- BCNMs considered have an average BCA base of 1828

BCNM Cost (Mobile) – (2/2)

BCNM-Rural

| Product | Value Leverage Ratio | % No. of Transactions | Avg Ticket Size per Transaction |
|-----------------------------|-------------------------------|-----------------------|---------------------------------|
| Deposit | 107.39 | 61% | 96 |
| Withdrawal | 22.01 | 20% | 468 |
| Remittance/OTC | 2.63 | 1% | 3,924 |
| Product | Cost per account opened (INR) | | |
| Account Opening | 103.08 | | |
| Value Leverage Ratio | | 52.64 | |

BCNM-Urban

| Product | Value Leverage Ratio | % No. of Transactions | Av8 Ticket Size per Transaction |
|-----------------------------|-------------------------------|-----------------------|---------------------------------|
| Deposit | 2.55 | 1% | 1,206 |
| Withdrawal | 0.99 | 1% | 2,166 |
| Remittance/OTC | 0.44 | 95% | 4,868 |
| Product | Cost per account opened (INR) | | |
| Account Opening | 19.78 | | |
| Value Leverage Ratio | | 0.46 | |

As in kiosk, sample BCNMs did not earn profits on any of the products because costs incurred under all four products were higher compared to the revenues*

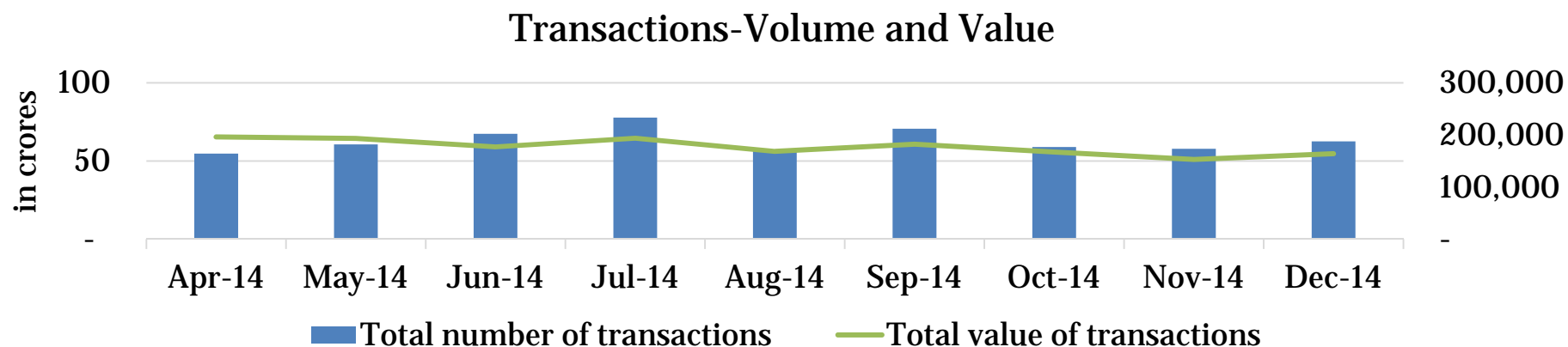
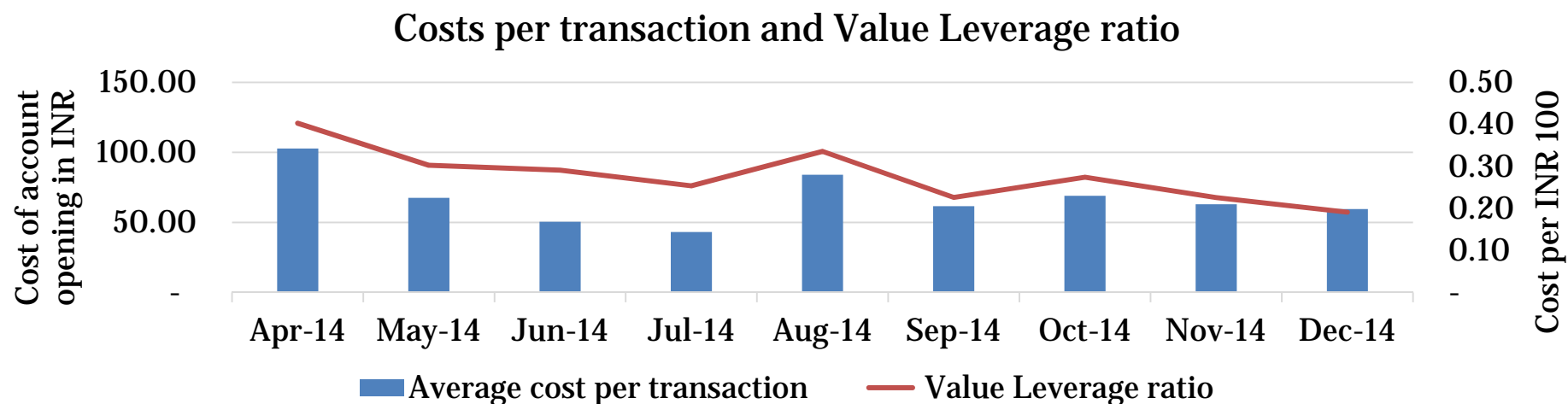
Costs per transaction for remittance product is lower than deposits and withdrawals because of higher average value per transaction, as was the case in kiosk

Since mobile BCNMs also have largely fixed cost structure, cost per transaction or cost per BCA reduces for BCNMs when there is an increase in number of transactions and transaction volumes

- BCNMs with major operations in villages with <2000 population
- Revenues as assumed and presented in annexure

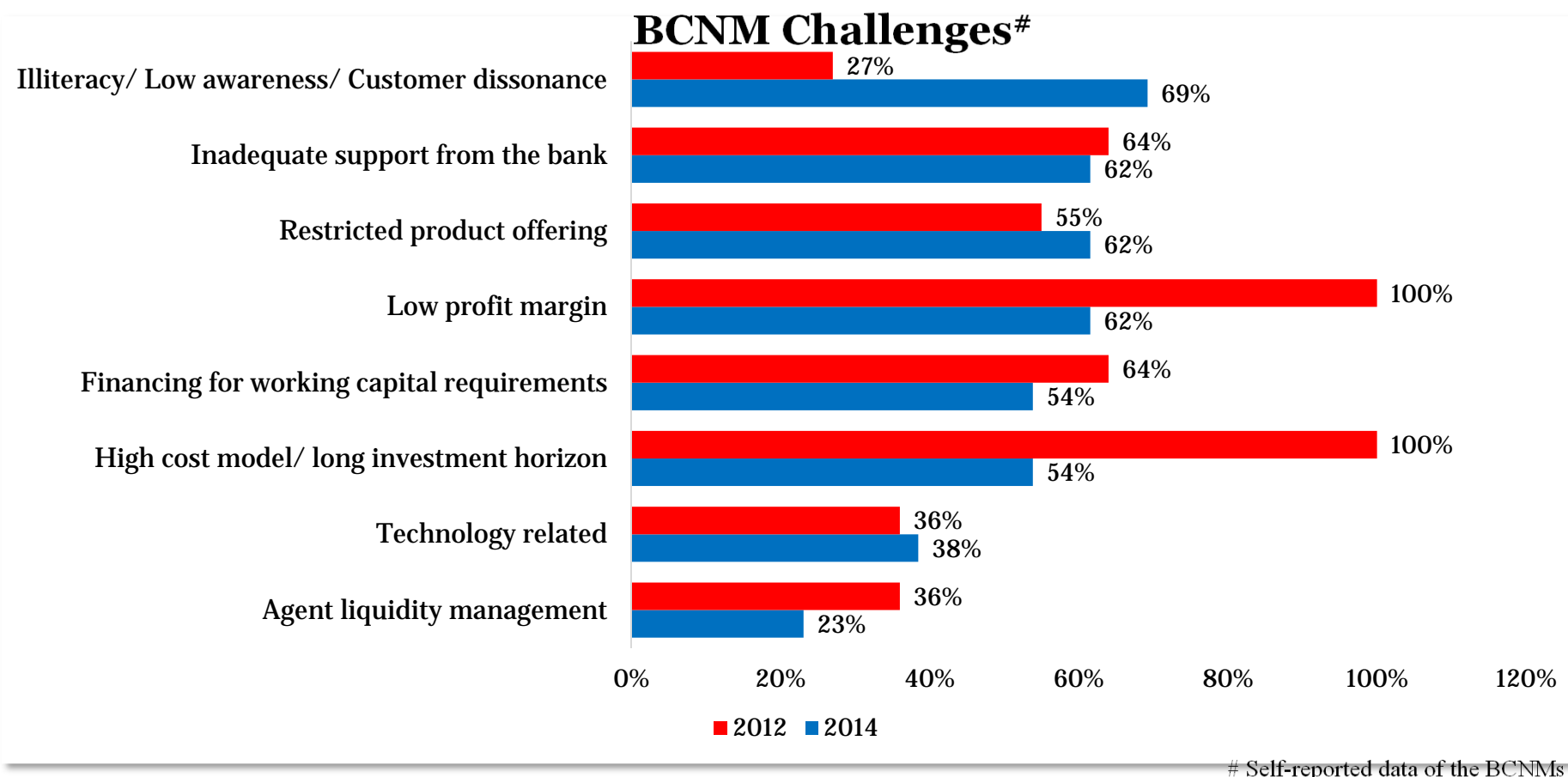
BCNMs' Trend Analysis - Mobile

Cost per transaction and cost per INR 100 reduces for BCNMs as both volume and value of transactions increase



Key Challenges

Unfortunately, a vast majority of the accounts opened by the BCNMs lie dormant. BCNMs face many challenges in their business. The participating BCNMs listed down their top challenges which are represented in the table below



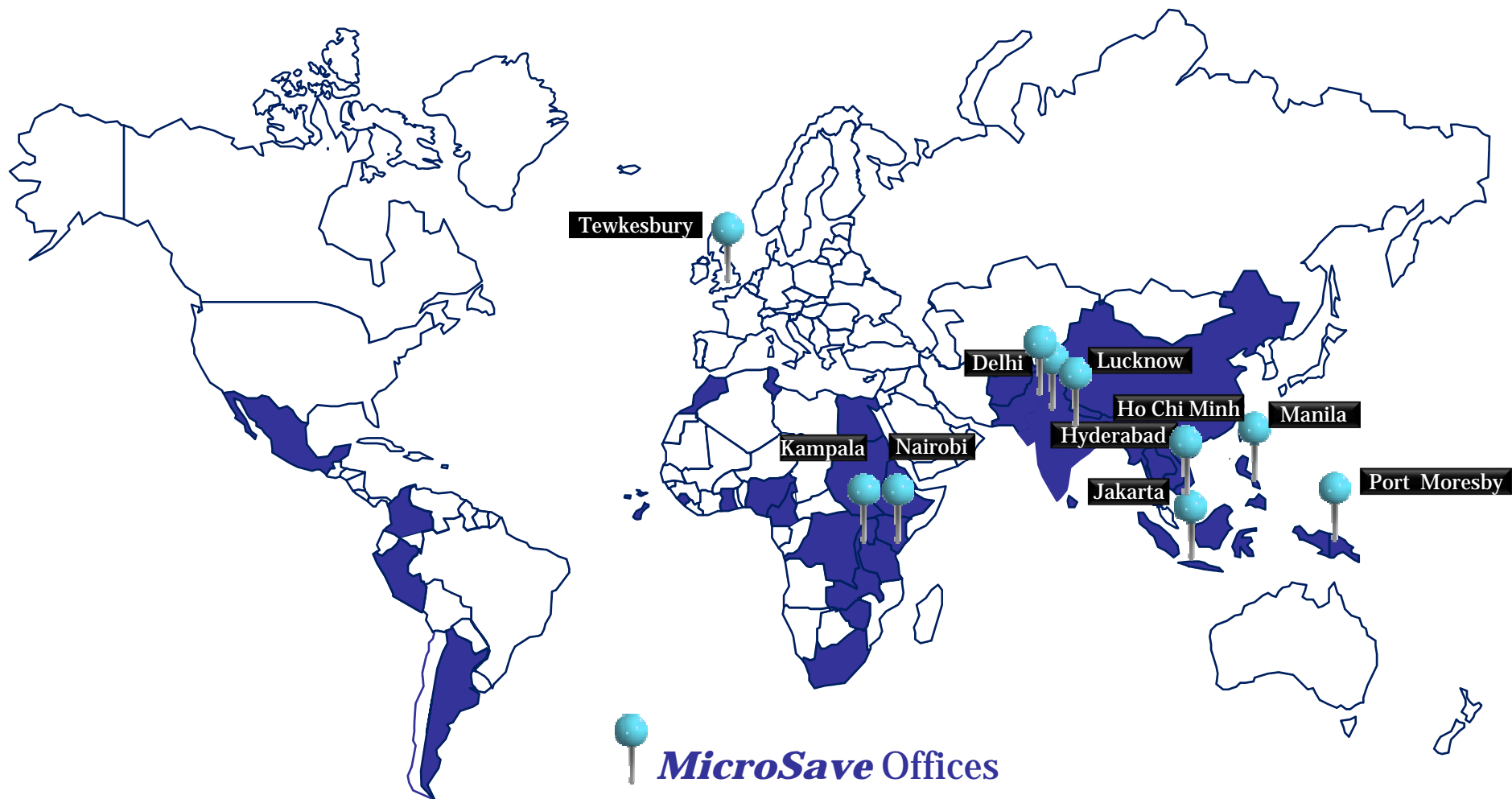
Final Words

Government mandates have been instrumental in driving the service providers to increase the supply of services to the customer. However, mandates can only push the cause of financial inclusion to an extent.

Strong value proposition for customers is the key to drive the usage. While the BSBDA and the money transfer services lure customers towards banking, many of the customers are dissatisfied with the transaction limits. Customers also feel a gap between the demand and the supply of financial products. Strong value proposition combined with **financial literacy efforts** can do wonders for the industry.

Most of the agents join this business to make an extra income. For non-dedicated agent commissions need to look at as a supplement to his existing income, and whether the FI products will offer him a reasonable return on time invested. Commission structure becomes even more important for dedicated agents. The **commission structure** persists to be a major pain point for all types of agents, other than those who are facilitating OTC remittances.

Robust channel monitoring and support system (which may be automated) will help increase the channel satisfaction levels and reduce dormancy amongst the agents. Reduced dormancy will in turn improve the customers' trust in the channel.



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