
Exploring Reasons for Dormancy in No Frills Savings Accounts In Tamil Nadu

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ACKNOWLEDGEMENT

Exploring dormancy in No Frills Accounts in Tamil Nadu would not have been possible without the support of institutions based in Tamil Nadu. On behalf of *MicroSave*, we would like to extend our sincere gratitude to Indian Overseas Bank, Central Bank of India, Indian Bank, UCO Bank, Bank of India who played an important role in helping us reach NFA customers.

We also acknowledge the assistance of BWDA Finance Limited (BFL) in Kanchipuram and Cuddalore District, Guidance Society for Labour Orphan and Women (GLOW) in Vellore District in providing us access to their groups and client and a diversified sample for this study.

Finally, we would like to express our sincere gratitude to all the *Panchayat* officials, *Makkal Nala Paniyalars* and staff members from the above mentioned organisations for their cooperation and assistance.

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List of Commonly Used Abbreviations

Abbreviations	Expanded Form
BC	Business Correspondent
FGD	Focus Group Discussion
MFI	Microfinance Institution
NFA	No Frills Account
NGO	Non Government Organisation
NREGA	National Rural Employment Guarantee Act
NREGA	National Rural Employment Guarantee Scheme
PAR	Product Attribute Ranking
PI	Personal Interviews
RPR	Relative Preference Ranking
SHGs	Self Help Groups
SHPI	Self Help Promoting Institution

Introduction

No Frills Accounts and ‘Financial Inclusion’

In 2005, the Reserve Bank of India (RBI) encouraged banks¹ to make No Frills Accounts ‘accessible to vast sections of [the] population.’² No Frills Accounts (NFAs) are basic, low-cost bank accounts for transacting and saving money. They require no or a very low minimum balance and in most cases, they charge no fees. They are intended mainly for customers without bank accounts who need greater security and reliability for payments and savings.

The RBI's circular is entitled “**Financial Inclusion**,” and covers “...*the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost*”.³

Offering poor people safe and affordable financial services has been an important priority in India for many years. NFAs are simply the latest in a long line of government-promoted initiatives. However, the term “financial inclusion” is new and marks a convergence of Indian thinking with international trends. NFAs are India's equivalent of an array of such accounts for the financial excluded in Britain, France, South Africa, Chile, Benin, and the Ivory Coast, among others. Financial inclusion derives from “social inclusion”. The idea behind all forms of inclusion is a new approach to both the problems and the politics of poverty, deprivation and social isolation.

Financial Inclusion and Microfinance

The successes of microfinance and its international recognition have also helped financial inclusion. Microfinance has “proved that the poor are bankable” (in the words of Muhammad Yunus). The revenue potential has attracted many new players with mixed results.⁴ One outcome is fairly certain: microfinance will grow beyond its initial focus on credit for micro-enterprises. Where legislation allows, MFIs now offer savings, insurance and remittance services. These bring microfinance ever closer to the vision of financial inclusion. The authors of *Portfolios of the Poor*⁵ define the three important challenges facing MFIs and their clients as follows:

- Managing money on a day-to-day basis;
- Coping with emergencies; and
- Building sufficient capital (through loans or saving) to buy assets and pay for life-cycle events.

¹The note went to “Scheduled Commercial Banks”: this means most banks (the state-owned State Bank of India and its eight associates, the 19 nationalised banks, 45 foreign banks, 32 private sector banks, and the co-operative banks). The regional rural banks (RRBs) were excluded from this initial advice, but were included in subsequent financial inclusion policies.

² Reserve Bank of India, Circular on Financial Inclusion, November 2005

³ Recommendation of the Committee on Financial Inclusion, January 2008

⁴ [India Focus Note 60: Speculation on the Future of Financial Services for the Poor in India](#), [India Focus Note 53: Tapping the Underserved: Formal and Semi-Formal Financial Institution Partnerships](#), [India Focus Note 43: Commercialisation of Microfinance in India - Is It All Bad?](#), [India Focus Note 42: Microfinance in India - Built on Sales Targets or Loyal Clients?](#)

⁵ Collins, Murdoch, Rutherford and Ruthven, New Jersey, 2009, and New Delhi 2010

To achieve these goals, the *availability of appropriate financial tools* is critical. Easy ways to deposit even small sums of money encourage savings. Flexible insurance policies encourage planning ahead for health and other emergencies. The microfinance community recognises that for people to manage money effectively, they must have accounts that address illiteracy, inconvenient bank branches, irregular income, health problems, personal emergencies, and protection for assets, however small. The test of India's No Frills Accounts moving forward will be how effectively they can work to improve these and other issues.

Dormancy

The goals outlined above have limited meaning, however, if NFA customers open accounts and then don't use them, or use them in limited, infrequent ways. This question of "dormancy" troubles service providers in many other parts of the world as well, but India reports unusually high levels.⁶ Minimal account activity and dormancy raise questions for financial inclusion longer term. Will the business correspondent model⁷ and mobile banking interfaces encourage more customers to actively use these accounts? Are No Frills Accounts the wrong offering? Or, is dormancy merely an initial and unavoidable aspect of customer adoption that will disappear in time? In this report, and in similar analyses in other regions, *MicroSave* will attempt to define both the problems and possible solutions.

⁶Most notably **Kochhar**, Sameer, "[Speeding Financial Inclusion](#)", Skoch Foundation, 2009.

⁷ In the business correspondent (BC) model, which was promulgated by the Reserve Bank of India in 2006 through a series of circulars allowing NGOs/MFIs set up under Societies/ Trust Acts, Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, section 25 companies (but not Non-Banking Financial Company) and Post Offices to act as Business Correspondents. Business Correspondents will be involved in disbursement of small value credit, recovery of principal / collection of interest, collection of small value deposits, sale of micro insurance/ mutual fund products/ pension products/ other third party products and receipt and delivery of small value remittances/ other payment instruments. See [Annexure 2](#) for details.

Summary and Conclusions

The study team

MicroSave conducted the Tamil Nadu portion of NFA dormancy research in October 2010. The study team, led by Akhilesh Singh, included Alphina Jos, Denny George, Shivshankar V. and Stanley V Thomas.

Study Outline

MicroSave's principal objective for this study was to explore the reasons behind the reportedly high rates of dormancy in No Frills Accounts in the state of Tamil Nadu. A secondary objective was to understand customer perceptions and why Tamil Nadu NFA customers generally limit their account use to withdrawals only - and why NFAs are not used for saving. The first phase was conducted for the Skoch Foundation at various locations in U.P, Delhi and Rajasthan with detailed findings.⁸In earlier studies,⁹*MicroSave* has analysed this problem from the banks' and micro finance institutions' points of view - focusing specifically on their business correspondents (BCs) in rural areas. In this study, however, *MicroSave* looks at customers with special attention to customers' motivations -why people open NFAs, how they perceive these accounts, and most important, why so many only use them to receive government payments and appear disinterested in NFA-based savings and other services.

Background

Indians have opened approximately 50.6 million NFAs with balances of Rs.53,680 million (Rs53.68 billion) in the past five years.¹⁰ They opened these accounts mostly at local bank branches, but also via business correspondents, and in some cases, via mobile and other remote technology enablers. A 2009 Skoch Foundation report indicated that only 2.77 million (11%) of these accounts are currently active.¹¹ For too many, the fundamental objective of an NFA - easier, inexpensive access to banking - is clearly not working or at least not yet. This new *MicroSave* study is designed to assess the underlying reasons for these discouraging results so that policy makers, bankers, and other stakeholders can revisit these accounts in order to improve their chances of success.

MicroSave has been closely involved with banks, business correspondents and technology providers for NFAs for the past five years. This is already a familiar and important research topic, and a challenge that *MicroSave* looks forward to helping to resolve.

Defining Dormancy

The time period of inactivity that qualifies an account as "dormant" is open to interpretation. As there is no clear consensus for the present, *MicroSave* will note in this study the duration of relevant activity/inactivity rather than impose yet another definition. (For RBI and individual bank definitions, please see detailed descriptions on page 15.)

⁸The summary of the first phase NFA study is available at <http://www.microsave.net/static/content/nfrmi>

⁹ See for example India Focus Note 18 "[MFIs as Business Correspondents – To Be or Not to Be?](#)" and India Focus Note 24 "[Making Business Correspondence Work in India](#)" and India Focus Note 32 "[Making Business Correspondence Work - Crossing the Second 'Break-Even'](#)" – all available on http://www.microsave.net/india_focus_notes

¹⁰"RBI Annual report 2009-2010", most recent figures available, plus <http://www.thehindubusinessline.com/2010/07/06/stories/2010070651451900.htm>

¹¹Ibid, Kochhar, Sameer, etc.Skoch Foundation

The Research Methodology and Sample

MicroSave uses a variety of interview techniques for market research, including focus group discussions (FGDs), product attribute ranking (PAR), relative preference ranking (RPR), and personal interviews (PI). In this study, *MicroSave* used all four with target NFA customers, ex-customers, bank staff and business correspondent staff.

We conducted interviews with staff and customers of seven banks (ICICI Bank, Indian Overseas Bank, Indian Bank, UCO Bank, Central Bank of India, Pallavan Grama Bank and Bank of India), and a business correspondent (GLOW) in five Tamil Nadu locations in order to include the following:

- NFAs provided and served directly by a bank with no business correspondent
- NFAs serviced via a business correspondent
- NFAs offered to the general public
- NFAs required for rural workers receiving wages from the National Rural Employment Guarantee Scheme under the National Rural Employment Guarantee (NREGA, as it is also commonly known) and for other beneficiaries of government programmes
- NFA manual transactions at bank branches or with BCs
- NFA electronic transaction via e-/m-banking systems (portable point-of-sale devices and mobile phones)

The *MicroSave* research team interviewed 411 respondents in 52 sessions. In addition, *MicroSave* also interviewed bank staff, BC staff, *Gram Sevaks*, *panchayat* staff and Self Help Promoting Institution (SHPI) staff (22 respondents in 14 sessions). This sample is not statistically representative of NFA account holders nationally, but is sufficiently large to provide reliable insights and a strong base for further work.

Respondents' Profile

Two out of five respondents in this study are illiterate and almost one-third depend on agriculture or other wage labour. The sample was 90% female and almost 70% fall between age 26 and 45. The high number of women respondents can be attributed to the fact that the meetings were scheduled by the banks and the MFIs with their women customers. Most of the respondents are part of some SHG group and *Gram Sevaks* helped in getting touch with the respective respondents.

Findings

- **Reasons for Opening an NFA.** While exploring why clients opened no frills accounts, the majority of the respondents said that that they opened an NFA because it is pre-requisite for taking work under NREGA. People also noted that having an NFA gives them a facility where they can save small amounts of money, while some looked at it as medium through which they can avail credit from banks, which otherwise is difficult. Other responses that came up as a reason for opening an NFA were: to receive wages under NREGA, or some were influenced by someone (opinion leader, bank, MFI, BC and *Panchayat* staff), or it was opened to avail government benefits – such as pensions etc. Some clients looked at an NFA as a medium through which their savings will grow with accrued interest, while some wanted an NFA to manage their day to day expenses and others expected to be able to clear cheques received. Opening a normal bank account is a very tedious process, with stringent KYC norms, whereas clients found opening NFAs largely hassle- and cost-free, with no minimum balance.

- **Objective in opening an NFA fulfilled?** When asked whether their objective of opening the NFA was fulfilled or not, majority of the respondents mentioned that their objective of opening the account was only partially met. One of the reasons for this is that many clients opened an NFA to get work under NREGA where their wages will be credited to their account. In Tamil Nadu, it was observed that in some areas the wages are still being disbursed in the field because the workers find it difficult to go to the banks due to the list of reasons mentioned in the ‘dislikes’ below. The amount will be credited in their NFA only in cases where the worker does not collect his/her wages within 24 hours. Again, another reason was that people had high expectations from NFA, where they expected to receive ATM/debit card and cheque book; so when these things did not happen, respondents feel that the objective of opening an NFA is only partially met.
- **First bank account?** For 60% of the respondents, NFA is their first personal account and their first bank experience, while the rest had prior experience of banking.
- **Levels of understanding.** Majority of the respondents (61%) understood the basic features of a NFA. However, for about 13% of the respondents the top of mind issue for NFA was the cost of opening the bank account. This amount was the money required to get a biometric card (Rs.200 in case of FINO – ICICI biometric card serviced by GLOW); and in other cases the mandatory minimum deposit that was to be deposited, at the insistence of bankers, to open a NFA.
- **Frequency of transactions.** For those respondents who use their accounts, most of them use the account only occasionally, or once in a month, whenever the wages are credited to the account. The general tendency is for people to withdraw the whole amount as soon as it is credited, as they feel that the account is owned by the government and they will lose any balance that is left in the account. In some cases people find it very difficult to go to the bank and spend a whole day to withdraw their wages and they have raised this issue with the *Makkal Nala Paniyalar (Gram Sevak)*. In many such cases the wage is distributed at the work place itself, and if the recipient is absent, only then is the wage for these workers deposited in the NFA account – this rarely happened. Hence, in such cases the NFA accounts were rarely used. Some expect to use the account more when they are better acquainted with the various offerings; others have used it only once since the account was opened.
- **Likes.** Respondents appreciate the overall safety and security of a bank account, especially to protect their savings; the low cost and relative ease of opening an NFA, particularly the simplified authentication/KYC requirements; the flexible conditions for deposits and withdrawals; and good service and quicker transaction time, most notably when BCs and doorstep service are involved. Though respondents appreciate the security provided by a bank account, very rarely do they save in a bank account due to the reasons cited in dislikes below.
- **Dislikes.** Respondents’ list of concerns includes: time and cost of travelling to and from the bank for transactions; inconvenient business hours; postponed passbook entries (immediate reconciliation would be preferable); account information available only in English; and discontinuation of BC services in certain locations.

In places where Self Help Groups (SHGs) function well, some people prefer saving with SHG rather than saving in an NFA for the following reasons:

- SHGs give better interest rates than an NFA (the interest earned on internal lending is distributed among the SHG members which is more than NFAs offer).
- It will be easy to get credit from banks and other lending organisations if a person is part of an established SHG.
- The proximity of SHGs, which operate in respondents' villages, unlike bank branches which are far off.
- Unlike a bank, in case of an SHG there are fewer forms to be filled and they get assistance from other members while filling forms and other documents.
- People understand the SHG procedures better than that of a bank, which they feel are not friendly to NFA holders.

Ranking of attributes. When asked to rate the attributes which matter most to them when making a decision to save, respondents rank their personal trust in the bank or financial institution as most important; and government recognition of or affiliation with the organisation as second. Third is the safety and security of their money, followed by branch proximity, staff behaviour, familiarity with the bank or financial institution, flexible deposit frequency (mainly with respect to opportunities for unrestricted deposit of any amount of money), flexibility for withdrawals, loan availability, and finally, the interest they will earn on their savings.

- **Age of the account.** 13 % of the respondents had opened their NFAs three years back (before 2007) 26% between two to three years (between 2007 and 2008), 25% between 2008 and 2009 and the remaining accounts were opened in the past one year (2009 and 2010).
- **Accounts inactivity.** Of all those respondents who do not use their NFAs, the majority said that their accounts were inactive for quite some time. Of these, most said that their accounts had been inactive for the past two and three years; and another group of people said that they have not used it for more than three years.
- **Reasons for limited account use.** The reasons for inactivity in NFA could be attributed to both the level of service provided by the bank and problems faced by the clients. The following are the reasons for limited NFA use as a result of the level of service provided by the banks:
 - Recruitment of clients by promoting NFA as a pre-requisite for availing benefit under NREGA.
 - Failure to follow up by banks.
 - Undesirable bank staff behaviour.
 - People expect NFAs to be normal savings account where they will get debit cards and cheque books, but were dejected when they did not
 - Availability of alternatives to banks like SHGs.
 - Inconvenient bank working hours.
 - Longer transaction time and high transaction costs.¹²

The problems faced by the clients include:

- Lack of surplus income to save in multiple places.¹³

¹² See forthcoming reports on the “Cost of and Willingness to Pay for Savings Services Amongst the Poor in India” available on the *MicroSave* website www.MicroSave.net

- Lack of awareness about the use of NFA for receipt of social security pension and government benefits as well as NREGA payments.
- Lack of monetary incentive to save in NFAs – because the banks pay less interest than the SHGs.
- Distance of the bank branch from the respondents' houses.
- Apprehension about dealing with banks.
- Unavailability of credit from the banks.

Commentary: Marked Differences between the Research Areas

The figures given in these findings need to be viewed in the light of marked differences between the research areas, each of which was characterised by a different combination of provider, business correspondent (BC) and technology. This was a feature of the study design to understand the role of the different options.

The first location (Thirupattur) included a lower-middle income housing area on the outskirts of a large town, served by an NGO-run BC from offices some kilometres away, using smartcard technology. Many of these accounts are now inactive either because lack of proper service by the business correspondent or since the clients felt that No Frills Accounts offered only basic features (many wanted to be able to clear cheques or use their cards in ATMs or take loans, but were not able to do so). Furthermore, since the business correspondent was not very keen on continuing its partnership with the bank, the NFAs opened were not being serviced promptly, leaving the customers with inadequate service.



The second (Melmaruvattur) and the third locations (Panrutti) were semi urban areas served by major public sector banks. These banks opened NFAs directly for the clients with the help of *Gram Panchayats*. These NFAs were opened with the intention of crediting government benefits and NREGA wages directly into the beneficiaries' accounts. In these areas, clients alleged that they were forced to maintain minimum deposits of Rs.250 - 500 in order to open NFAs. The system of direct credit of government benefits and NREGA wages was yet to begin, and majority of the customers were yet to start using their accounts at all.

The fourth location (suburbs of Trichy) was a rural area and was served by a bank directly, without sophisticated technology. No Frills Accounts were opened to credit NREGA wage payments. The system of direct credit of government benefits and NREGA wages was yet to begin, and the majority of the customers were yet to use their accounts at all. Again, there were allegations about clients being forced by banks to pay a minimum deposit in order to open NFAs. Since ownership of an NFA was a pre requisite to access NREGA jobs, clients had no option but to pay the stipulated amount.

¹³ People generally save in SHGs, post offices, local chit funds and LIC, so they are hardly left with any surplus money to save in a bank

The fifth location (suburbs of Coimbatore) was a combination of rural and semi urban areas and was served by a bank directly, without any sophisticated technology. NFAs were opened to credit government benefits and NREGA wages directly into the beneficiary's account. But there were also clients who opened NFA with the primary intention to save, and they were using it optimally.

Preliminary Conclusion

Opening a No Frills Account only to receive government benefits is not the gateway into the financial system that RBI intended. Our interviews indicate that for many poorer customers, NFAs are merely an imposed - and not universally convenient - means for withdrawing wages earned through NREGA or for benefits in other government programmes. Even in this limited capacity, access to NFAs should be easier (not available only at a distant branch), and incentives to save should be more compelling. NFAs should also be perceived as irreproachably reliable and secure. The bank staff promoting them should be more attentive and respectful. The current reality is that the long and expensive trip to branches with other, priorities and an overwhelmed staff strongly discourages almost all modest deposits and NFA transactions. The branches do not promote or explain the benefits of small deposits and the NFA overall - perhaps because benefits are in fact minimal at present ... or more likely because they really do not want to have to serve the poor. In the same way that merely opening an NFA guarantees nothing for India's poor, the creating of such accounts and failing to offer viable and appealing services will do very little to further their financial inclusion.

Recommendations

NFA dormancy in Tamil Nadu and elsewhere may be improved with:

- The introduction of mobile or card/POS enabling solutions to ease the cost and inconvenience of distant branches.
- More attractive terms and conditions for savings, micro-insurance, mutual fund accounts, P2P and other payments, loans.
- More conspicuous focus on and promotion of security of NFA deposits compared with informal, non-bank savings alternatives.
- More collaboration efforts with utilities, employers and internal/external remittances.
- More business correspondents and other bank representatives to offer personalised service for illiterate and remote customers.
- Strong incentives for these bank agents and a well-managed, secure cash transport system to and from remote locations.

Background and Market Research Process

The Reserve Bank of India (RBI) and the Ministry of Finance, among others, want commercial banks to work harder to facilitate financial inclusion. However, scaling up the necessary bank systems and expanding branch and business correspondent services to enrol large numbers of customers is expensive and time-consuming. Five years after the first RBI circular, there is a general frustration that the high hopes for financial inclusion and basic bank accounts are proving so difficult to achieve in reality.

Estimates vary on the current number of basic No Frills Accounts,¹⁴ but these figures are less relevant than actual usage.¹⁵ As noted in this report's introductory summary, financial inclusion involves more active participation than simply opening an account to receive government benefits. Regular contributions to savings and longer-term asset planning and growth should be the strong focus for both customers and the bank representatives supporting them.

MicroSave has been working closely with banks, BCs and technology providers since the inception of financial inclusion via the NFA and has published research papers (India Focus Notes and Briefing Notes)¹⁶ on the operational, strategic and financial challenges involved. *MicroSave* remains strongly committed to the concept of financial inclusion and the progress possible through better understanding of customer and other stakeholders' needs. Not surprisingly, the needs of banks, business correspondents, agents, technology providers and the Indian government are not

This section outlines the background of the research work and the process adopted by *MicroSave* team in conducting the research.

Market Research Process

Preparation for the Research: September, 2010

- Research planning and coordination with banks, MFIs and business correspondents for the conduct of the research

Market Research: through October, 2010

- Support from seven banks and one business correspondent
- Participatory group interactions with end clients
- Individual interviews with bank / business correspondent staff and agents

Analysis and Consolidation

Consolidation and analysis of data was done during the weeks of 27th Oct – 4th November and 22nd to 26th November, 2010.

¹⁴The most widely accepted figure is the one given by RBI, says that 59% of adult population hold an NFA.

¹⁵BCs report that more than 80% of the saving account opened by their clients are inactive – Retreat report by College of Agricultural Banking(CAB) and ACCESS, May 2009

¹⁶[India Focus Note 04 - Electronic Banking: The Next Revolution in Financial Access?](#),
[India Focus Note 06 - Savings Services for the Poor – An Old Need and A New Opportunity for Microfinance Institutions in India](#),
[India Focus Note 18 - MFIs as Business Correspondents: To Be or Not to Be?](#),
[India Focus Note 24: Making Business Correspondence Work in India](#),
[India Focus Note 32: Making Business Correspondence Work - Crossing the Second 'Break-Even'](#)
[Briefing Note 06 - The Relative Risks to the Savings of Poor People](#),
[Briefing Note 07 - Are You Poor Enough? Client Selection by Microfinance Institutions](#),
[Briefing Note 69 - Incentivising 3rd Party Agents to Service Bank Customers](#),
[Briefing Note 73 - Managing Agent Networks to Optimise E- and M-Banking Systems \(1/2\)](#)

always compatible with the financially excluded population they hope to serve. The end result is a bank account that most poor people currently fail to understand or use.

In this report, *MicroSave* explores the reasons behind dormancy, and addresses questions about branch locations and access to them, security and trust, and better marketing for an account too many still find unappealing.

Research on the same issue has been already conducted by *MicroSave* in [Uttar Pradesh, Delhi](#) and [Rajasthan](#) and this part of the research programme was carried out in Tamil Nadu.

Disclaimer

Qualitative research is designed to look beyond the percentages to gain an understanding of the customer's belief, impressions and viewpoints. Gaining such insight into the hearts and minds of the customer is best acquired through tools like Focus Group Discussion and Participatory Rapid Appraisal with smaller, highly targeted samples. Qualitative research is not statistically representative, but is much more appropriate for research that seeks to understand complex human financial behaviour.

Graphic Presentation

In this study, responses of the research questions have been presented in two different ways – in some of the questions, individual responses have been captured; however, in other questions consensus responses from the group as a whole are captured. Individual responses are presented for the questions related to the respondent's profile, such as age, occupation, education and ownership of bank accounts etc. For the core research questions, group response is presented, as during a group discussion, it is very difficult to capture individual responses on the core questions. Such responses are captured only when a majority of group members reach a consensus.

While presenting the findings, we have shown the percentage of respondents for responses captured from individual respondents and percentage of sessions, when responses are captured from a group.

No Frills Savings Account

To achieve greater financial inclusion, the 2005 RBI Annual Policy Statement advised all banks to make available a basic banking 'no-frills' account. The proposed NFA would have either 'nil' or very low minimum balances and charges. RBI allowed banks to decide on other aspects of the account, such as restrictions on number of transactions, but advised transparency on all such policies. RBI also encouraged publicity in local media for the NFA: (Please see [Annexure 2](#) for more detail on the regulations and guidelines for No Frills Accounts.)

Objectives

The principal objective of this research is to understand the reasons for widespread dormancy or limited use (withdrawals only) in NFAs opened through public and private sector banks, RRBs and post offices.

This objective includes five specific issues:

1. Why people open NFA and whether or not the reason for doing so is fulfilled
2. Why they use the account and how often
3. How well they understand what else an NFA offers
4. What they like or dislike about the account and what suggestions they have for its improvement
5. What inhibits many of them from expanding the account to include savings and other financial transactions

Defining Dormancy

As per **RBI** circular number RBI/2009-10/202 DBOD. Leg. Number BC. 55 /09.07.005 /2009-10¹⁷, savings and current accounts should be treated as inoperative / dormant if there are no transactions in the account for a period over two years. Further, in terms of Paragraph 24.2 (vi), for the purpose of classifying an account as inoperative, both types of transactions i.e., debit as well as credit transactions, induced at the instance of customers as well as by third parties should be considered.

Different banks have devised their own ways of classifying accounts as dormant. For example, **ICICI bank**¹⁸ classifies an account as “inactive” if there are no customer-induced transactions for 15 months in the account and “dormant” if there are no customer-induced transactions for 18 months in the account. A customer-induced transaction is any credit or debit transaction made by a customer in his account through cheque, cash or cheque deposit, withdrawal or deposit through ATM, transaction through the internet, or transaction by standing instruction, ECS and EFT.

Bank of India accounts that are not operated upon for more than one year would be automatically tagged as “inoperative”/“dormant”; and such can be reactivated only by the depositor himself operating on the account.¹⁹

Indian Bank says that a customer is expected to operate the account continuously. Savings accounts in which there are no operations for a period of two years or more from the date of last operation (except by way of any charges debited or interest credited) shall be treated as inoperative accounts. Such inoperative accounts are liable for penalties/service charges²⁰

¹⁷<http://www.rbi.org.in/commonman/English/Scripts/Notification.aspx?Id=694>

¹⁸<http://www.icicibank.com/Personal-Banking/account-deposit/savings-account/terms-conditions.html#tc8>

¹⁹<http://www.bankofindia.com/sbcdrules2.aspx>

²⁰http://www.indianbank.in/pdfs/ccsbook/index_2_6.pdf

UCO Bank’s code of banks commitment to customers does not specify a time period after which the account will be classified as dormant account; instead it says that a dormant/inoperative account is a savings or current account which is not operated upon for a period specified by the bank. It also says that it will inform its customers when they open their account, what period of in-operation of the account would render the account being classified as dormant/ inoperative account. The customer will also be informed three months before the account is classified as dormant, inoperative or treated as unclaimed account and the consequences including the charges for reactivation thereof as per the tariff schedule of the bank²¹

Central Bank of India does not give a period of non-operation after which the account would be considered as dormant. It says, “Accounts which are not operated for a considerable period of time will be transferred to a separate dormant/inoperative account status in the interest of the depositor as well as the Bank. The depositor will be informed of charges, if any, which the Bank will levy on dormant/inoperative accounts. The depositor can request the Bank to activate the account for operating it.”²²

Definition for dormancy for the research

Rather than offer yet another definition of dormancy, in this research we discuss our findings on the length of time accounts have remained inactive. An account is considered inactive if there is no debit/credit transaction in the account for any given period. Credit of interest or debits of bank charges are not considered as transactions.

We use periods of 3 and 6 months in our analysis. These conservatively short periods allow us to gauge inactivity soon after account opening.

²¹http://www.ucobank.com/ctc_code.htm

²²<https://www.centralbankofindia.co.in/download/Policy%20on%20Bank%20deposits.doc>

Sampling Strategy

To meet the research objectives (please see page 13) and to ensure a better understanding of the various issues and possible differences in inactive/dormant accounts, *MicroSave* made an effort to include NFA customers across different geographies of Tamil Nadu with accounts in a variety of financial institutions. In order to ensure geographical coverage research locations (Coimbatore, Cuddalore, Kanchipuram, Trichy and Vellore) were selected based on where such organisations operate. Purposive sampling of locations and service providers was done to ensure equal representation of rural and urban clients and possible service providers.

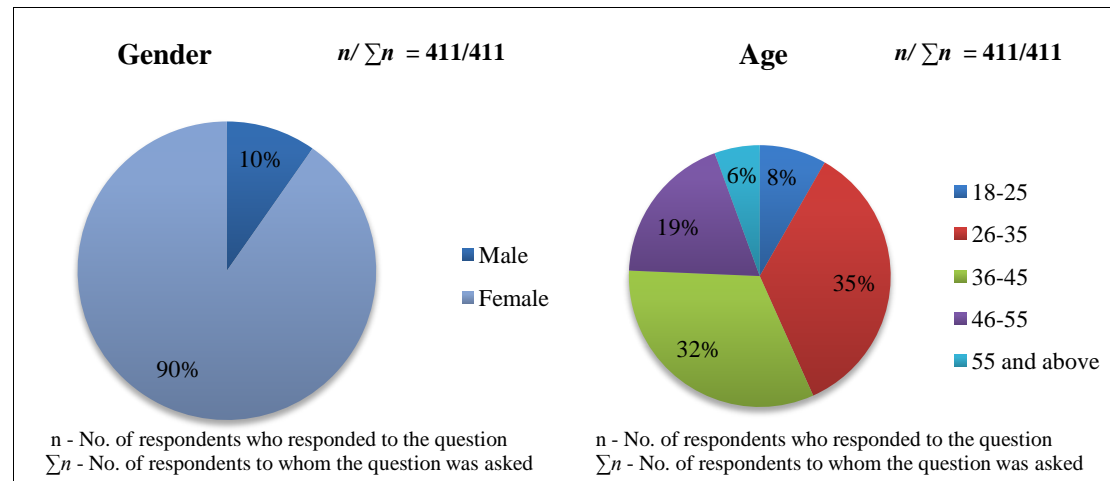
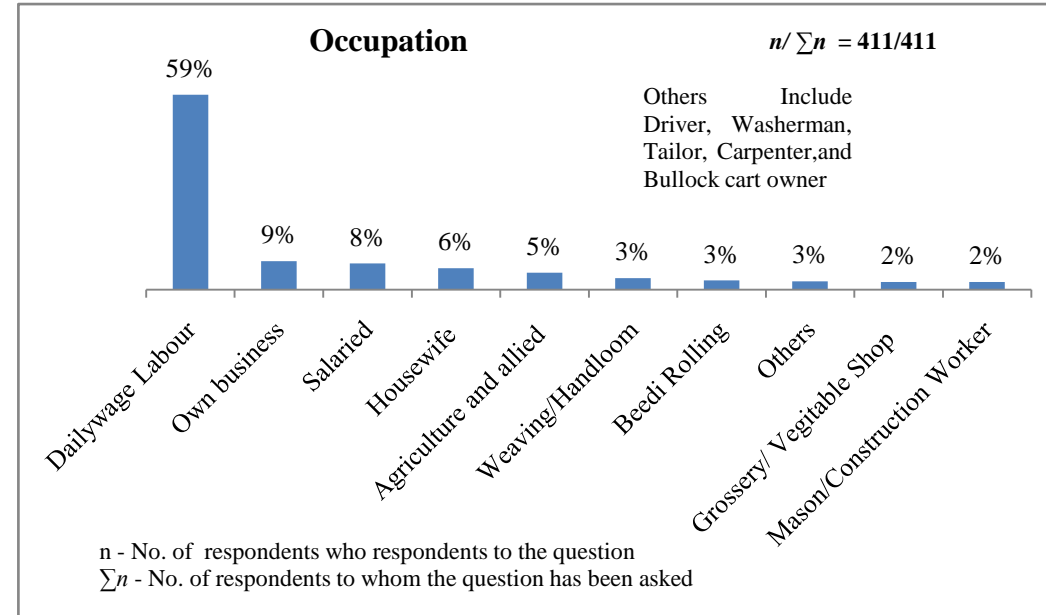
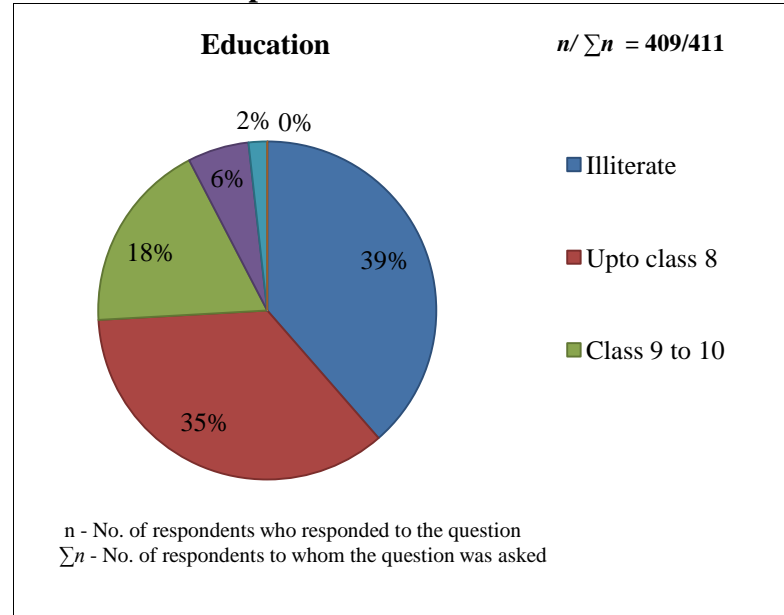
Place	Organisations visited
Coimbatore	Bank of India
Cuddalore	Indian Bank, Pallavan Grama Bank, UCO Bank
Kanchipuram	Indian Overseas Bank, Central Bank, Indian Bank
Trichy	Bank of India
Vellore	ICICI Bank BC: Guidance Society for Labour Orphan and Women (GLOW)



Tools Used

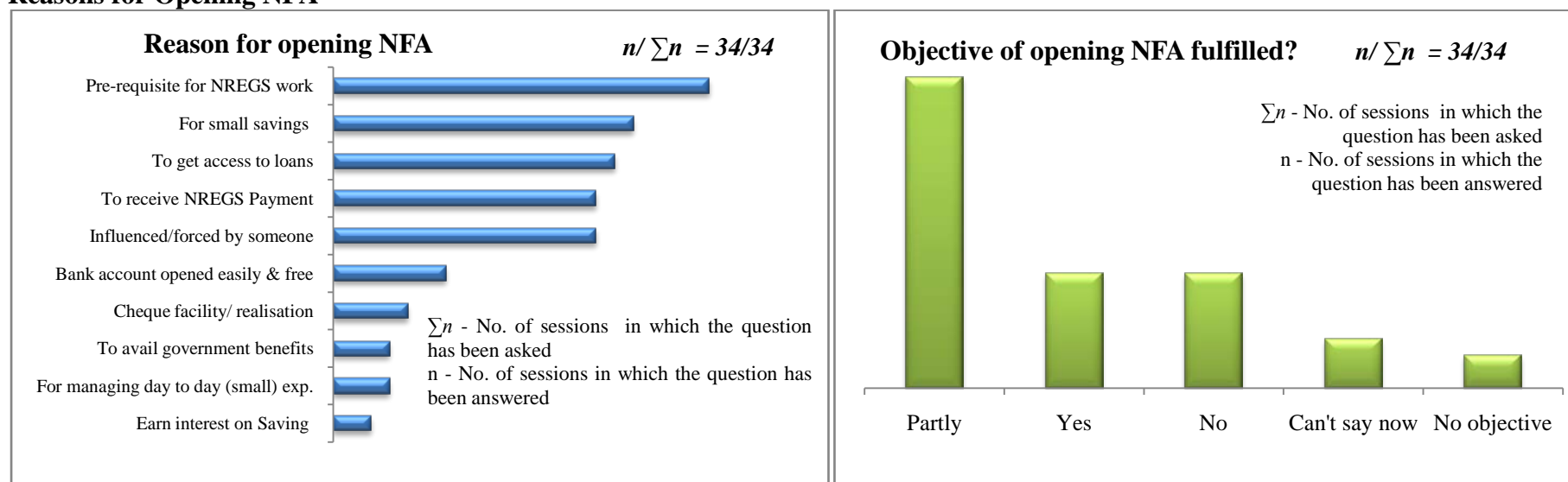
Tools Used	No. of Sessions	No. of Respondents	Purpose of the Tool
Focus Group Discussion (FGD)	32	261	Focus Group Discussions (guide attached as Annexure) were held with the customers and staff/agents to understand their views on NFA and the reasons for dormancy.
Product Attribute Ranking (PAR)	10	73	Product Attribute Ranking was used for finding out what participants view as key attributes of savings services, how relatively important each is and the reasons for these opinions.
Personal Interview/ Discussions with Staff	14	22	To understand how the staff of these organisations perceive NFA and to understand staff view of client experience with NFA, their reactions, perceptions and suggestions.
Relative Preference Ranking (RPR)	10	77	Relative Preference Ranking was used to see how clients and potential clients perceive financial service providers and the components of the financial services they provide.
Total	66	433	

Profile of the Respondents



The majority of the respondents were women and only 10% of the sample consisted of male respondents. The majority of the respondents were women because the organisations through which we conducted the research had more women clients. Most of them were in the age group of 26 – 45 years and were daily wage labourers, agricultural labourers or house maids. Most of the respondents were illiterate (39%), though almost an equal number had attended primary and middle level of schooling.

Reasons for Opening NFA



While exploring why clients opened No Frills Accounts, the majority of the respondents said that they opened an NFA because it is pre-requisite for availing work under NREGA. People also wanted an NFA so that they can save small amounts of money, while some looked at it as medium through which they can avail credit from banks, which otherwise is difficult. While the other responses that came up as a reason for opening an NFA is: to receive wage under NREGA, or some were influenced (or forced) by someone (opinion leader, bank, MFI, BC and *Panchayat* officials), or it was opened to access government benefits, like pensions etc.. Some clients looked at an NFA as a medium through which their savings will grow with accrued interest, while some wanted an NFA to manage their day to day expenses and for clearing cheques received. Opening a bank account otherwise is a very tedious process, and KYC norms are stringent, whereas an NFA can be opened easily without much hassle, without charge and with no minimum balance. The causes that motivate clients to open accounts are explained in more detail below.

“Bookuillana 100 naal vela tharamattom nu sonnanga” (They said that without the book [bank pass book] we won’t get work under NREGA)

When asked whether their objective of opening the NFA was fulfilled or not, majority of the respondents mentioned that their objective of opening the account was only partially met. One of the reasons for this is that many clients opened an NFA to get work under NREGA where their wages will be credited to their account. In Tamil Nadu, it was observed that in some areas the wages are still being disbursed in the field because the workers find it difficult to go to the banks due to the list of reasons mentioned in the ‘dislikes’ below. The amount will be credited in their NFA only in cases where the worker does not collect his/her wages within 24 hours. Again, another reason was that people had high expectations from NFA, where they expected to receive ATM/debit card and cheque book, so when these things did not happen, respondents feel that the objective of opening an NFA is only partially met

Motivation of People To Open NFAs

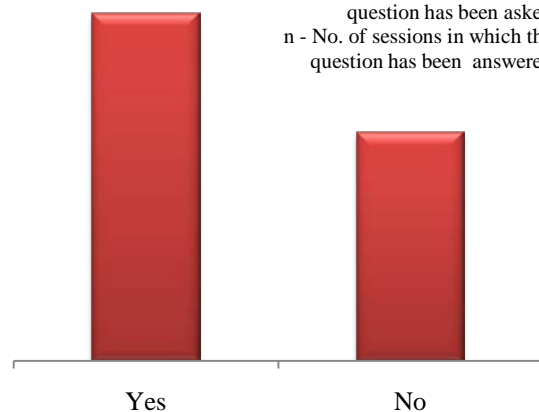
- **Influence of *Panchayat* staff, Banks and BCs:** In most of the cases, people were asked to open NFAs by *Panchayat* staff and *Makkal Nala Paniyalar (Gram Sevak)* if they desire to work under NREGA. Hence people consider opening a No Frills Account as a prerequisite to get work under NREGA. Banks have also organised account opening camps where many people open their accounts.
- **Ability to make small savings:** People consider NFAs as an opportunity to deposit small savings as and when they have surplus income after meeting their expenses. Respondents also said that the account gives them the opportunity to save in small amounts, which they can withdraw along with the accrued interest, whenever there is a need.
- **Access to bank loans:** In some instances, opening of NFAs is linked to availing loan from banks. People open No Frills Accounts expecting loans from banks. and are disappointed when they realise that opening of an account does not guarantee a bank loan.
- **Access to NREGA payment:** People open NFAs because it is communicated by *Gram Sevak* that if the wages are not collected within 24 hours then it will be deposited in their account for which they need an NFA.
- **Ease of account opening:** People are motivated to open NFAs because of simple account opening procedures and simplified KYC norms. They noted that earlier it was very difficult to open an account without proper identification proof. But today, they can open NFAs with a proof of domicile in the village from the *Panchayat* office. Also, people mentioned that the time taken to open an account was relatively low in the case of an NFA. In some instances, where people were not required to maintain a minimum balance in their accounts, the idea of a zero balance account was welcomed by the public. (But the majority of the respondents who took part in the research mentioned that the banks, at later dates, required them to maintain a minimum balance in their account. When cross verified with banks, it seems that banks do so to maintain their branch float levels. The minimum balance communicated was in the range of Rs.250 to Rs.5,00 by different banks).
- **Ease of operation:** People who operate their accounts through Business Correspondents are happy because the service is provided in their neighbourhood. This helps them to avoid having to travel to the bank, to spend time at the bank and transportation costs. Respondents mentioned that they used to hesitate to go to banks to save if the surplus of income over expenses was low. If they were unable to get the money out of the house it was quickly spent. But now they have an opportunity to save at their door step, even if the amount is low.
- **To get facilities like ATM cards, cheque books and remittances:** People open NFAs to avail services like ATM cards, cheque book facility, money transfer etc. But they are disappointed when they discover that they cannot get these facilities with an NFA.
- **Access to government benefits:** People also access other government benefits like old age pension, maternity allowance, female child funds and scholarships through no frills accounts.

Experience with NFA

First bank account?

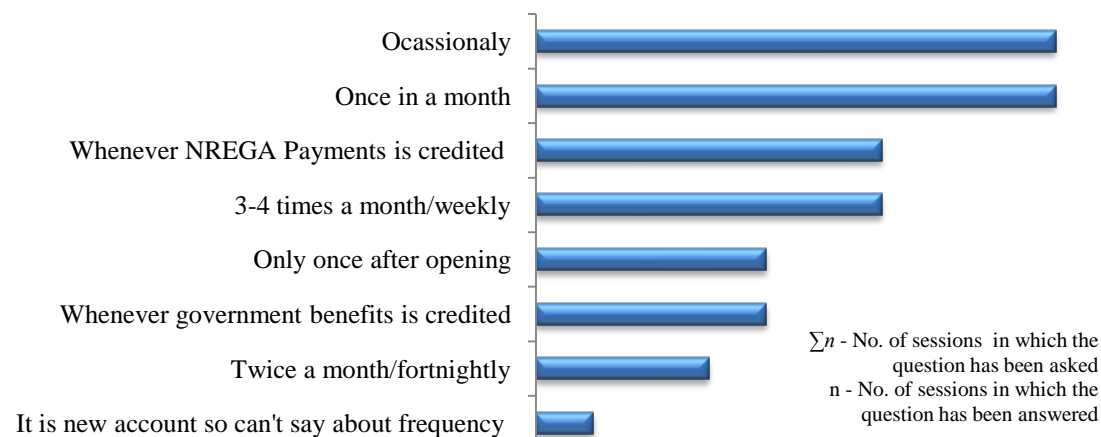
$n/\sum n = 44/44$

$\sum n$ - No. of sessions in which the question has been asked
n - No. of sessions in which the question has been answered



Frequency of NFA usage

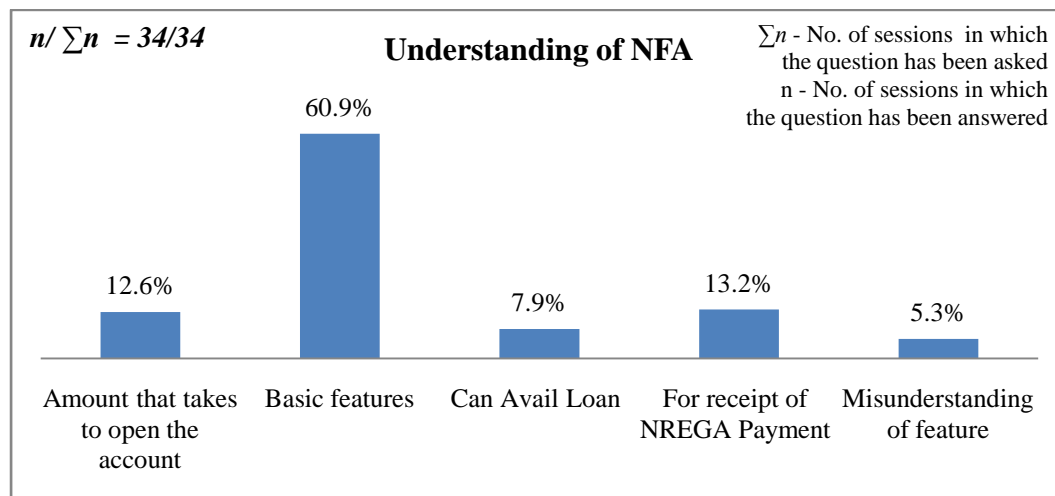
$n/\sum n = 27/27$



For majority of the respondents, it was their first experience in a bank and it was their first personal bank account.

With regard to the frequency of NFA usage, most of them use the account only occasionally, while some use it once in a month. This is because the respondents do not know all the features of an NFA as they are yet to start using their bank account fully. Others use it when their NREGA wage is credited. Usually, they withdraw the whole amount of credited. Some respondents have used the account only once since it was opened. It was observed that in many parts of Tamil Nadu the system of crediting NREGA payments in bank account is yet to start, though it has already been communicated by *Gram Sevaks* to the clients that the NREGA wages will be credited in the bank account if not collected within 24 hours at the place of work. Some respondents use their NFA only to receive some government allowance or benefit.

“Edhoaadukozhivithakailakaasuirukumappo bank povom” (When we sell our goats or chicken we will have money in hand and then we go to bank)

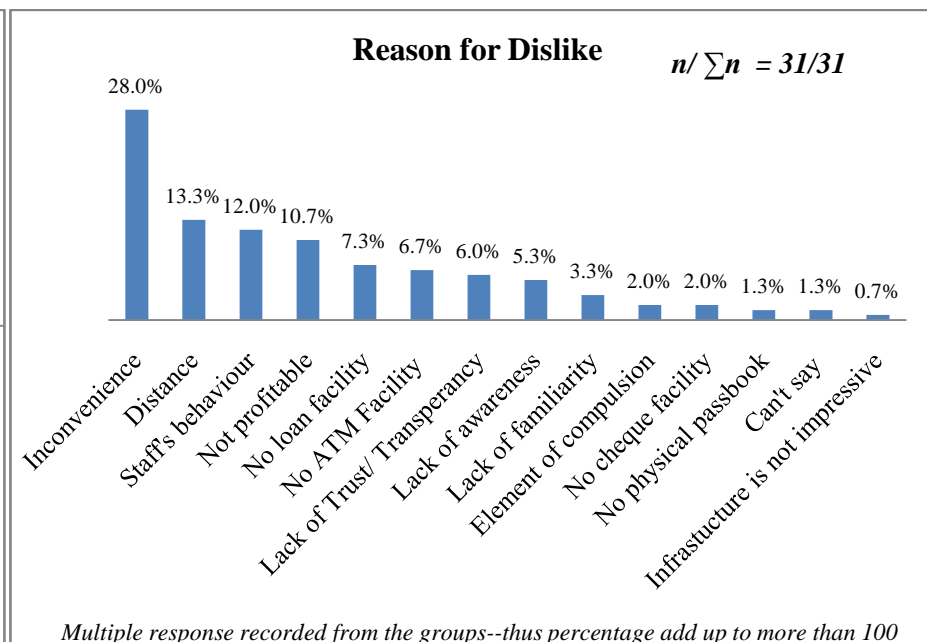
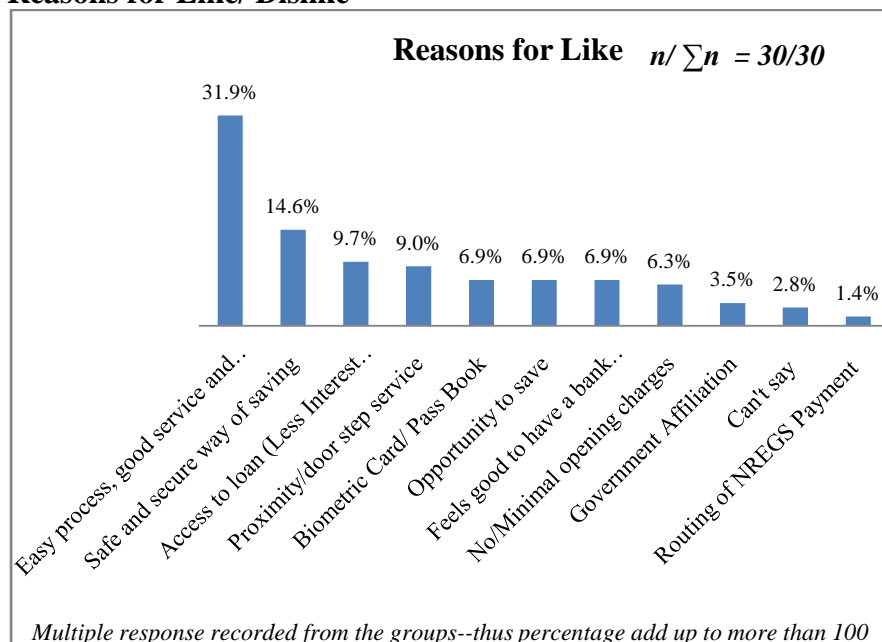


The majority of the respondents (61%) understood the basic features of their No Frills Account. For about 13% of the respondents the most important aspect of the NFA was the cost of opening the account. In some cases, this amount was the money required to get a biometric card (for example Rs.200 in case of the FINO – ICICI biometric card). In other cases this was the mandatory minimum deposit required by bankers to allow the opening of a No Frills Account.

“Saemikarathukuorunallavaipu” (This account is a good opportunity to save)



“Makkal Nalapaniyalar book pota than vela nu sonnaru... athanala 500 rupaikadanvaangi book potaen” (Panchayat staff said that only if you have a [pass]book you will get work. So I borrowed Rs.500 and opened a bank account)

Reasons for Like/ Dislike

Respondents were questioned about their likes and dislikes of the NFA. This was done so that, if possible, efforts could be made to improve the product to enable people to use it on a regular and continuous basis.

Around 32% of the respondents liked no frills account because of its easy processes including - ease of account opening; simplified KYC norms; time taken to open an account; flexible terms and conditions, particularly with respect to deposits and withdrawals; good service which includes lower transaction time; and negligible cost of opening the account. The other reasons for liking no frills account were safety and security in saving in no frills accounts, door step service, etc.

On the other hand clients were concerned about the following issues around no frills account:

- Inconvenience in operating the account, which included lengthy transaction time –when transacting at some banks; discontinuation of service by the BC; inconvenient business hours; information being provided in English; passbook not updated on the same day etc.
- Another major concern among NFA clients was the distance that they had to travel to conduct a transaction. Most of the clients felt that they almost had to forgo half a day if they needed to do a transaction at the bank.

“Thodarinthupannirunthanallairunthirukum...anaavangaippolam machine aeduthituvathilla” (It would have been good if we had continuously saved. But nowadays they don’t bring the machine)

Challenges for Financial Institutions

During the initial period after the RBI announcement allowing banks to appoint BCs to service savings account customers from BC outlets, the banks looked at it as a great opportunity to get more customers by rationalising costs. Prior to that, customers could not operate their accounts outside the branches (except for cash withdrawal and deposit at ATMs, or certain transactions via internet banking). By allowing the appointment of BCs, RBI provided an opportunity to the banks²³ to (a) acquire customers using agent channel, and (b) to offer (limited) cash deposit and withdrawal at places outside the bank premises.

The arrangement meant that banks could acquire and service low income customers at a lower cost than is incurred on doing this through its own branches. At the same time, banks would have access to low cost funds (deposits in savings accounts are considered to be one of the cheapest source of funds for banks). More aggressive banks saw this as an opportunity to cross sell other products to the target customer segment and push other related products like recurring deposits, agricultural and other low ticket loans.



Technology companies viewed this as an opportunity to cash in on the wave of euphoria for the new concept and started tying up with banks and developing innovative methods of transaction by a customer in his/her account. These were based on various technologies like mobile phones,²⁴ smart cards,^{25&26} biometric cards or a combination of these. Overall, all the stakeholders were very enthusiastic and almost sure about the success of the concept.

Challenges include:

- Educating the customer on the benefits of an account and the modes of transactions is a costly and time-consuming task, especially for people who have never previously done any banking transactions
- Banks found that the cost of customer acquisition and also of transaction is not as low as they had expected
- The initial volumes of customer acquisition and transactions were so low that it did not justify the costs being incurred by the banks (in terms of commission payout)
- Providing adequate remuneration to BC agents for the services they were offering on behalf of the banks proved challenging.²⁷ BC entities and agent outlets found the new line of business non-remunerative compared to their existing lines of businesses (most of the agents were chemists, retail shopkeepers selling groceries, airtime resellers or in similar businesses). They started losing interest and most of them became passive players -

²³Reserve Bank circular DBOD.No.BL.BC.58/22.01.001/2005-06 dated January 25, 2006

²⁴<http://www.eko.co.in>

²⁵<http://www.fino.co.in/aboutus.aspx>

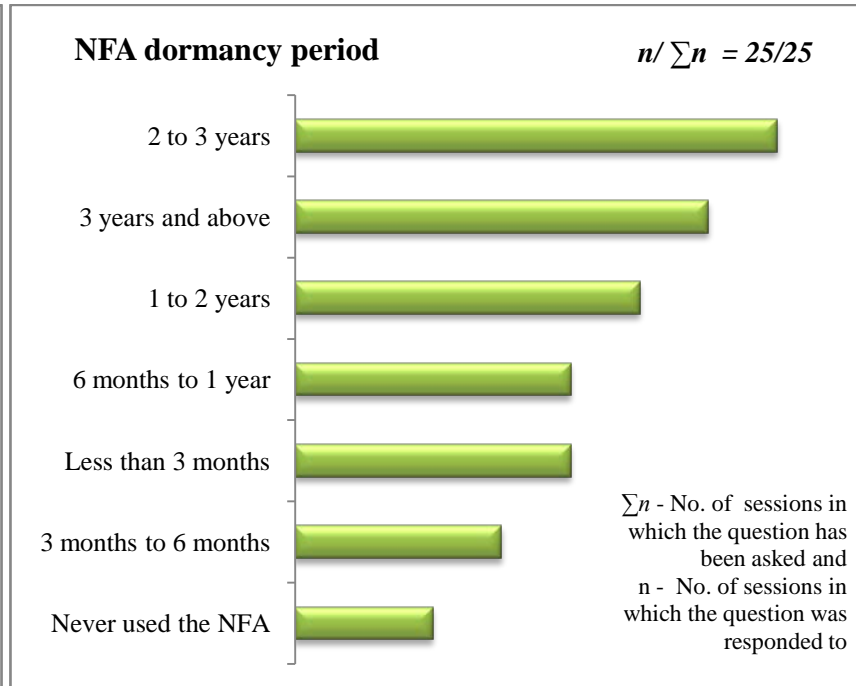
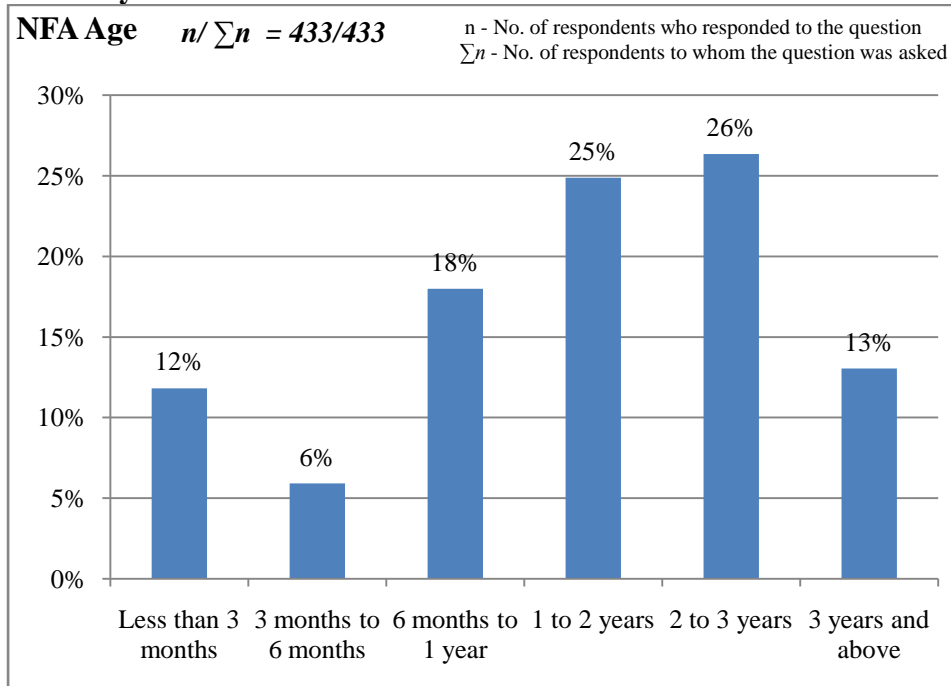
²⁶<http://www.alw.com>

²⁷Report of the working group (constituted by RBI) to review the business correspondent model, dated August 2009

entertaining those customers, who came for transactions, but not asking potential customers to enrol or sharing information on any new products launched. Banks that were counting on the relations and reach of the retailers suffered a setback. In addition, there were more complex issues that were important from the operations point of view and if not resolved, had the potential to jeopardise the whole concept. For example: many customers enrolled for account opening were (by definition) those who had never previously done banking transactions. Educating them on the benefits of the system, modes of transaction, services on offer and so on, was a costly and time-consuming task. Banks, BC entities and agents made some efforts towards this, but the exercise required more concentrated focus and considerably more time and resources than allocated.²⁸ Some BCs suspended their service as it was not remunerative enough to warrant the effort they were putting in.



²⁸Matthews Brett Hudson. “[Making Business Correspondence Work - Crossing the Second ‘Break-Even’](#)”, *MicroSave*, India Focus Note 32, January 2010

Inactivity in NFA

Most of respondents' accounts are at least 2-3 years old and in terms of usage of account, many have not used their account since opening them. They were either over-promised (in terms of availability of loan and other facilities) at the time of account opening, or opened their account during mass account opening campaigns. In case of ICICI Bank BC model (GLOW), respondents perceived the account as a normal ICICI Bank account and thought they would get similar facilities as regular ICICI Bank accounts. Since GLOW is not satisfied with the remuneration it receives for the services rendered, it has slowed down its BC operations, this has become difficult for the respondents. Also, it was observed that there was no other activity/ transaction done in the account except for withdrawal of the money (wages) deposited under NREGA. Since the respondents incur costs in terms of money and time, they prefer to save the money with them at home or more conveniently with SHGs. Some also felt that they are not being given interest on the deposit amount. Detailed reasons for inactivity are explained in next section.

“Avangaippolam machine aeduthituvarathilla” (Nowadays they don't bring the machine) – Case of GLOW

“Eppasambalam kidaikum nukathutuirupom. Vangurathusapidavum, selavukum than sariyairukum. Enka poi semipathu” (We wait thinking when we'll get the salary. What we get will only be enough for food and expenses. How can we save?)

Reasons for Inactivity in NFA

Banks and other financial institutions

- A. **Misdirected intention:** Many banks in rural areas open NFAs only to fulfil their RBI requirements for financial inclusion. During the study, *MicroSave* researchers noted little or no effort to motivate NFA customers about the account features. In many instances the customers are enrolled for NFA by promoting it as a pre-requisite to get work under the National Rural Employment Guarantee Scheme (NREGA) and wherein the wages will be credited to the bank account. The clients withdraw the entire amount as soon as it is credited to their account. They do not maintain any balance or do any other transaction other than withdrawing once in a month except for few people, who make it a point not to withdraw the whole balance because they are asked by the banks to maintain some balance to avoid charges.
- B. **Increased work pressure:** NREGA payments via NFAs have created a tremendous increase in workloads and time pressure in rural bank branches, especially those which serve a wide radius of surrounding communities. The overwhelmed branch staff have no time to service other account holders, including those with much higher bank balances. In such cases, sometimes, the branch staff discourage NFA holders from transacting.
- C. **Distant branches:** For many rural NFA customers, branches remain too far away for easy or affordable banking. A day of lost wages and travel costs discourage customers from using their NFA for anything beyond government payments.
- D. **Weak promotion by banks:** NFA was never sold as a savings account among the lower income groups. These accounts have been opened in bulk to accommodate NREGA payments with little or no mention by *Gram Sevak*, of other potential use. Therefore, NFA holders do not know for what all purposes the account can be used in addition to receiving NREGA wages.
- E. **Wrong promotion by BCs:** NFAs were promoted by some Business Correspondents as a normal savings account and customers expect to get full fledged banking services like cheque clearing, account to account money transfer, withdrawal from ATM/Debit card through an NFA.
- F. **Inability to customise:** The public sector banks lack flexibility to customise their account offerings to meet their rural customers' needs. Some banks like Corporation Bank and City Union Bank do offer customers the flexibility of small deposits and door-step collections, which most of the banks do not offer.



Customers

- A. **Lack of awareness:** Some customers are not aware of the services they can avail using an NFA. They just see it as a place where their NREGA wage is credited. Some clients dropped out or have become dormant because they felt that either very low or no interest is paid on such accounts.
- B. **Misinformation:** In some cases, clients were over promised about the features of the account before opening the accounts. This raised expectation levels and they stopped operating the account when these promises were not fulfilled. Because of these false promises, customers perceived it to be a “banking account” with all facilities available like cheque clearing, account to account money transfer, withdrawal from ATM/Debit card etc. When they did not get such banking facilities, the accounts became dormant.
- C. **Illiteracy:** Respondents hesitate to work with banks due to the difficulties involved in signatures and filling out lengthy forms.
- D. **Time taken at the bank:** Customers feel that they have to spend at least 3 to 4 hours at a bank to do a transaction. This was in addition to the time spent by them to travel to the bank.
- E. **Self Help Groups:** Customers feel that SHGs are a better option to save money when compared to banks for a variety of reasons. Most importantly, SHG meetings are conducted in their own village and they do not have to travel. The customers felt that when they visit a bank branch, they have to spend quite some time travelling and also at the bank as a result of which they lost a day’s wage, but in case of SHGs, there was no loss of wage as they could go for work as well as attend SHG meetings since the meetings are conducted in their own village. SHGs provide them with savings as well as credit services, while they have not yet got any loan from the bank. The availability of savings and credit in the SHG satisfies the customers’ needs.
- F. **Gold:** Some respondents feel that it is better to save in gold than in bank accounts, since gold price appreciates and gives a better return. Also, they would be able to use the gold in times of emergency.
- G. **Embarrassment in small savings:** Poor respondents feel embarrassed making only small deposits of Rs.100/200 in the bank. They have the impression that only large amounts of Rs.500/1,000 are appropriate for bank savings.
- H. **Insufficient surplus:** After settling their daily expenses, many claim too little is left to deposit in a bank account.
- I. **Discouraged by banks:** Bank officials do not appear to actively encourage the NFA clients to come to bank and save in the small amounts. Some have even limited NFA transactions to certain days in a week, so customers are unable to access their accounts whenever needed.



Important Product Attributes

Product Attribute Ranking was used to rank the different attributes considered to be important by the respondents while choosing a savings product. This was done at all the 5 locations with a total of 73 respondents in 10 sessions. Respondents were asked to rank the attributes they look for in a savings product in order of their relative importance. This helped in understanding the relative importance of each attribute in the minds of the respondents. The following table shows the ranking of the attributes people consider important while choosing an institution to save their money with.

- **Trust** - Respondents rank trust as the most important attribute. The respondents are of the opinion that trust in a brand or an organisation is very important for deciding whether to save with a particular organisation or not. People want their hard earned money to be in a safe and secure place and people's trust in an organisation is based on the reputation an organisation has. Respondents also want to ensure that they would get their money back when they need it. People have suffered losses in the past because of saving money with some private companies. Agents, if from the local area and are known to the people, can play a significant role in establishing trust in a brand.
- **Government Affiliation/backing** - Another important attribute which is closely linked to trust is whether a bank or an organisation has government affiliation/backing. Respondents do not always trust private companies because of bad experiences they themselves or their friends/relatives had in the past. The respondents prefer to save money with an organisation which has government backing.
- **Proximity** - This is related to another important attribute: distance. It matters to the customers how far they have to go to do a deposit/withdrawal transaction. If people have to travel some distance, then that translates into cost, time and effort for them and they always compare it to the amount of money they have got to deposit. Perceived physical distance in some institutions that employ agents is lower since they provide doorstep services, even if their offices are quite far.

Rank	Attributes for Savings Account
1	Trust
2	Government affiliation
3	Proximity
4	Staff behaviour
5	Familiarity
6	Deposit frequency
7	Flexibility in Withdrawal
8	Loan facility
9	Interest on deposit

Naanga phone panna avunga kasu eduthutu varanum. Oru government servant veedu veeda poga kudathu, Panchayat board office vantha pothum. – **If we call they should bring money. A government servant should not go from door to door, so it's sufficient if they come to the Panchayat office.**

- **Staff behaviour** - Staff behaviour refers to the way the respondents are treated while they visit a branch or when the bank's agent visits the client's home. They also want to be treated well irrespective of the amount they deposit. Since most of the respondents are illiterate they feel uncomfortable to visit a branch because they do not know what they should/should not do. In such cases staff attitude and behaviour towards such clients matters a lot.
- **Familiarity** - The respondents feel that they should be familiar with the organisation with which they save their money. Familiarity helps in building trust with regard to deciding where to save.

- **Deposit frequency** - The respondents prefer to have a flexible deposit frequency – where they can deposit any amount of money as and when they want and any number of times. NFA provides this flexibility to the clients, but the distance of branches and transaction time incurred at the bank restricts the usage of the account.
- **Flexibility in withdrawal** - The respondents want access to their savings during times of emergency. They prefer their money to be deposited in an institution that gives them the facility to withdraw their money anytime they need it.
- **Loan facility** - Respondents do not have enough savings to meet all their financial needs. Hence, they also depend on loans. Therefore, whenever they look for a place to save, they also look at what other facilities they get access to, in particular the availability of loan facilities.
- **Interest on deposit** – Since people have a wide range of options to save money, they also look for competitive rates of interest on their savings. This trend was observed in areas where there are multiple service providers.

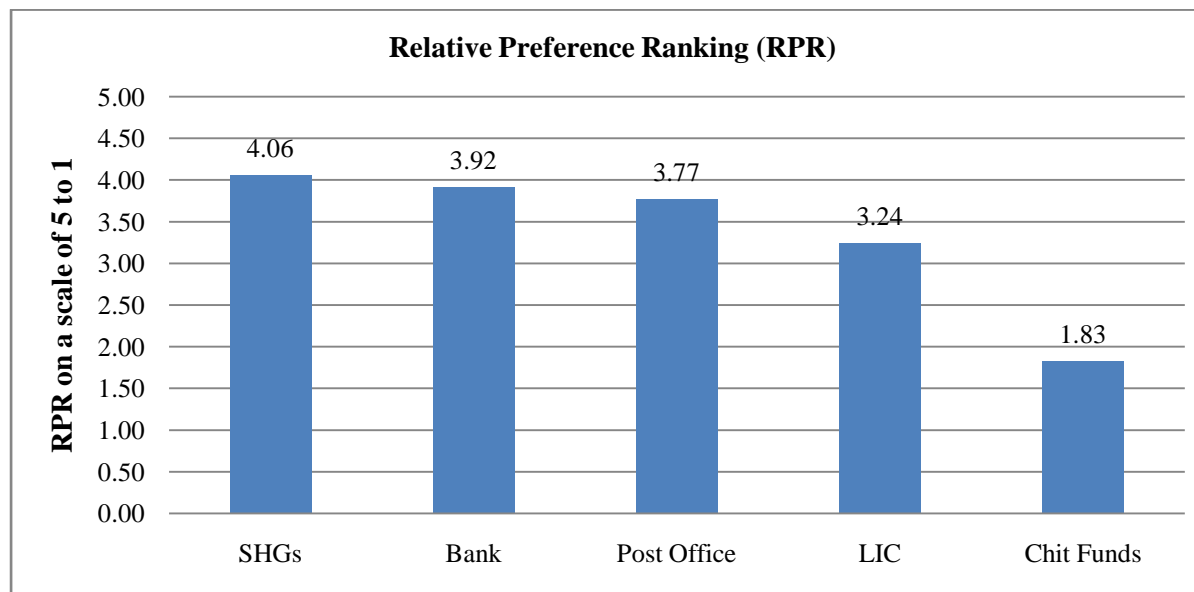
Comparative Analysis of Service Providers

Relative Preference Ranking (RPR) is a method for finding out how people view a variety of saving service providers compare with each other in terms of specific product attributes. Relative preference ranking was carried out in 4 districts (Coimbatore, Cuddalore, Kanchipuram, and Trichirapalli). The total no. of respondents who took part in RPR exercise was 85 in a total of 11 sessions. Respondents were asked to rank the attributes they look for in a savings product for every service provider in the order of their relative importance.

Relative preference also helps challenge pre-conceived notions about poor people's attitudes towards financial services, what matters to them, and why they have those preferences.

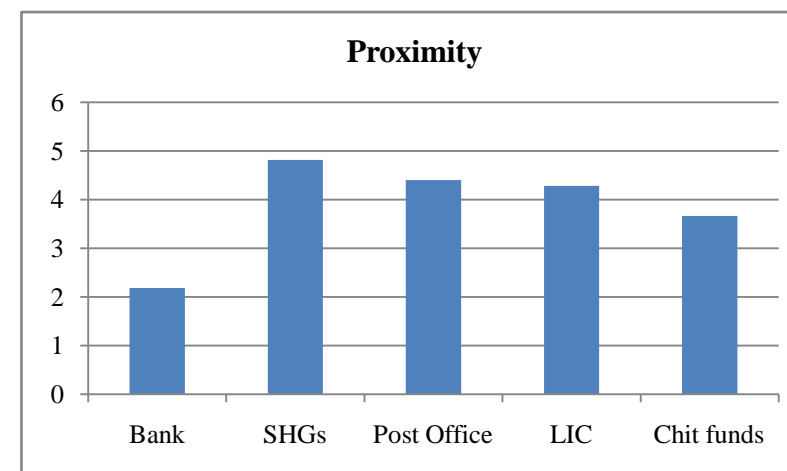
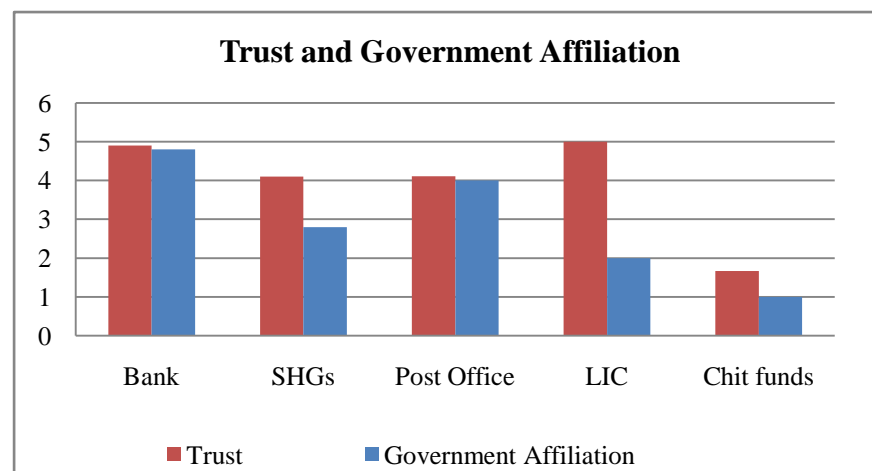
The major financial institutions that featured in the exercise were Self Help Groups (SHGs), Banks, Post Office, Life Insurance Corporation of India and Chit Funds.

The graph below shows the order of preference for financial institutions involved in savings.



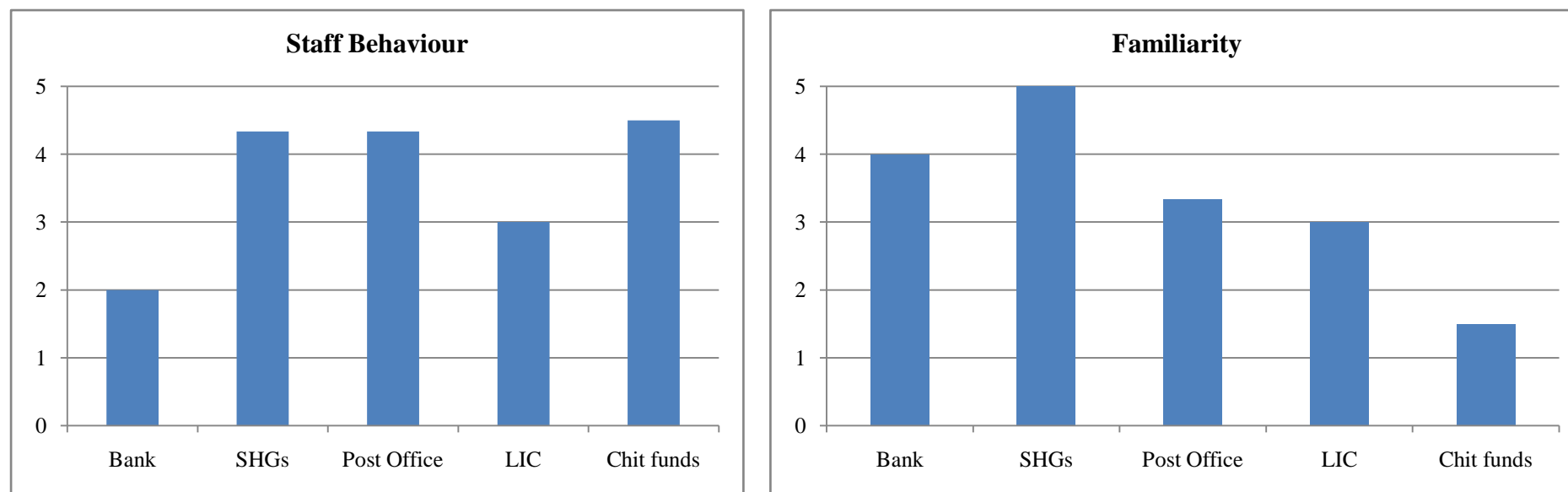
Participants were asked to rank the financial institutions they use for savings on the components of the financial services they provide on a scale of 5 to 1 (5 for maximum and 1 as minimum)

The reason for these preferences and the components based on which the ranking was done is explained in detail in the following sections.



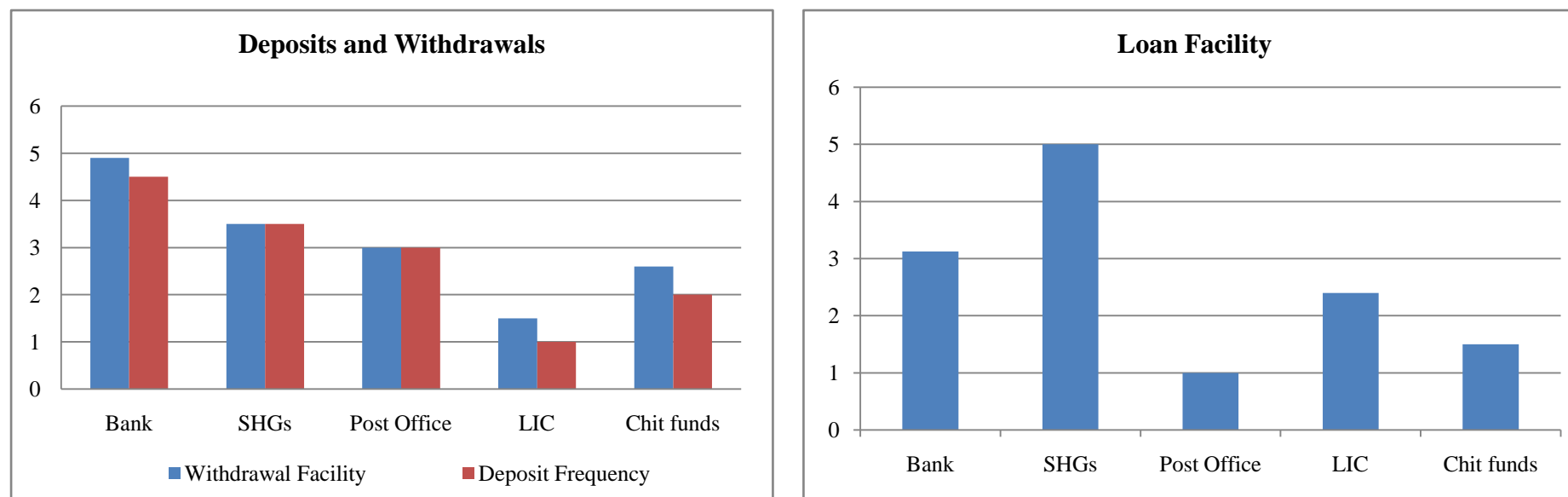
Trust: Banks are the most trusted avenue for saving. People consider that their money is safe in the bank because they are monitored by government and even if something goes wrong with banks, government will stand as a guarantee for their money. SHGs are also a trusted avenue for saving among clients because they are present within the village and are run by clients themselves. But at the same time some respondents feel that one of the drawbacks of SHG is that they are not monitored by any external agencies. So it could result in frauds or misappropriation of funds by the group's leader or by the literate members of the group. Post offices are the oldest known saving avenues in villages. Since post offices are also associated with government, people trust post offices over other financial institutions.

Proximity: With respect to proximity SHGs are ranked the highest. As mentioned above, SHGs are present within the village and it is easy to operate SHG accounts. Even post office, LIC and chit funds are also ranked high with respect to proximity because of their localised presence. Banks are ranked the lowest because of the long distances that must be travelled to reach banks



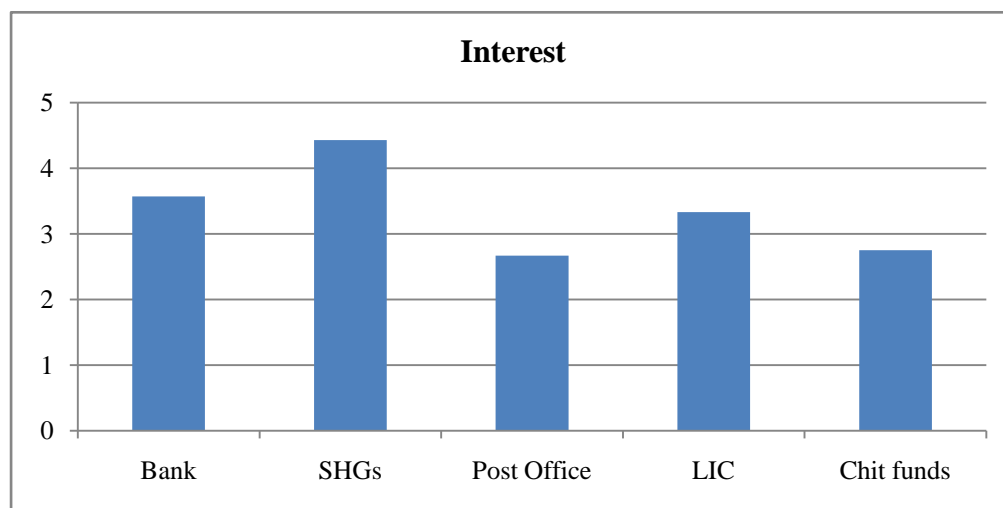
Staff Behaviour: Chit funds were ranked the highest with respect to staff behaviour. It was majorly observed that chits funds operate within the village and the people who run the chit funds usually come from the village. Hence clients are conformable dealing with local people and they are also easily approachable. SHGs were also ranked high on staff behaviour because they are run by clients themselves. Another interesting observation is that respondents are relatively more comfortable in operating post office accounts than bank accounts even though both involve similar levels of documentation. It is because respondents feel that post offices are generally less crowded and the staff assist the clients with their queries promptly.

Familiarity: SHGs are considered to be the most familiar institutions when it comes to savings because of the fact that it is locally run by the members themselves. Banks, post office and LIC are also familiar to clients because they some of the oldest institutions. Also, respondents opined that traditionally they have seen people from the village saving in these institutions. Although chit funds were locally run, because people have seen others having a bad experience with chit funds in the past, they chose to rank chit funds low with respect to familiarity.



Withdrawal and Deposit: Banks rank high with respect to withdrawal and deposit facility. The regular saving bank accounts offered by banks does not have a lock in period whereas in other saving options, the savings cannot be withdrawn as and when desired because of specific lock in periods. But with banks, respondents feel that they have the liberty to withdraw their savings whenever they need it. The flexibility of making any number of deposits and in any amount also works in favour of banks. In SHGs people do not have the liberty to withdraw their savings as when they require and when it comes to deposits, some SHGs accept any denomination of deposits, while some do not as they have a minimum fixed amount that need to be deposited. In post office, the recurring deposit product (which is the most well-know and popular product among rural/low income segment clients) does not allow them to withdraw their money as and when they need it. This is the reason for post office being ranked lower than SHGs and banks.

Loan Facility: The availability of loans works as the major incentive for low income households to save. SHGs offer easy loans on the basis of the savings that the group members deposit. Respondents are of the opinion that people will save more in banks if banks start extending easy and quick credit facility to clients. Though chit funds provide loans to its clients respondents are of the opinion that they can take loan only once during a tenure and hence they chose to rank it low.



Interest: Interest offered on deposits is one of the most important drivers for saving. People save in SHGs which is lent internally and it fetches high interest which is shared equally among the group members. Hence people consider saving in SHGs as the most lucrative option. Saving in banks is also considered profitable but at the same it is to be noted that not all clients have a fair idea about the interest rates offered by banks for their savings. Relatively LIC and chit funds are ranked lower than other institutions. Post office was ranked the lowest when it comes to interest offered on savings.

Case study 1: Role of banks in making No Frills Account a success

Parvathi (45) is an illiterate woman who works as a daily wage labourer. When there is rain she works in the field as an agriculture labourer and during summers and winters, work which she gets under NREGA is the only ray of hope to run her family. Although Parvathi's earnings are limited, she tries to keep aside some part of her earning as savings. Even though she is a member of the local Self Help Group, Parvathi wanted to have a bank savings account for a long time. Thanks to the RBI's directives to banks on No Frills Accounts, in April 2009, Parvathi got an opportunity to open a bank account with one of the leading public sector banks with the help of the Panchayat Assistant. Along with Parvathi, 48 other people from the same panchayat also opened No Frills Account in the same bank.

Parvathi, now a proud bank account holder, mustered all her courage to go to the bank to make a deposit of Rs.50 which with great difficulty she had kept aside from her small income. Parvathi was going to a bank for a transaction for the first time in her life. With mixed feelings and great expectations she stepped on to the bank premises. Since it was her first experience in a bank she needed some assistance. She approached a clerk and enquired how to make a deposit in her account. Clerk was deeply engrossed in his day to day work and after a couple of minutes gave a rude look at Parvathi and asked her to fill the pay-in slip and stand in the queue. Failing to understand what a pay-in-slip meant, Parvathi once again asked him what a pay-in slip meant and where she could find it; for which Parvathi received a reply from clerk, "**Kaila Kaasunarayairundhakovil la poi podu, inga en vara**" (If you have surplus money in hand then go and put in a temple hundi. Why do you come here?). She never visited a bank branch again.



This is not an isolated experience. Most of the respondents in Cuddalore and Trichirapalli District also complained about similar experiences in bank branches. Respondents complained that there was absolutely no response from the branch staff whenever they made any query at the bank. They also suspect that the bankers' attitude change for the worse when they see a NFA pass book.

Laudarsami from Panrutti area of Cuddalore district said, "**Indha book kailairndhaveorumaadriyapaakaraanga**" (Bankers look at us differently if we are holding a NFA pass book)

Some of the clients think helping illiterate customers through basic banking procedures is too much to expect from a banker. But they also have serious concerns with bankers' attitude. K. Kaantha (37) a daily wage earner in Panrutti area of Cuddalore district has an NFA to receive NREGA payments. Kaantha also makes small savings in her account. Occasionally, she finds her account balance getting reduced marginally. When the banker was questioned about it, he sarcastically told her, "**Athellam Computer saapduduchu**" (Computer has eaten your account balance!!) Likewise NFA clients have serious concerns about the transparency in banks. It is observed that only in very few instances clients' queries are promptly addressed by banks.

Kannan (64) a daily wage labourer in Trichirapalli District shared his experience at the bank branch with us. *Kannan* spent almost 30-40 minutes in the cash counter queue to make a deposit. At last, when he reached the counter, the cashier immediately drove him away from the counter and called the next person since *Kannan* had omitted to mention the date in the pay in slip. After filling in the date, he was once again made to stand through the queue for another 30-40 minutes. After all this, *Kannan* once again reached the counter and this time the cashier accepted the deposit money, but refused to punch in the details of the transaction in the pass book and asked *Kannan* to come the next day. *Kannan* who considered entry in passbook as the only proof of his deposit had to lose another day's wage just to get his passbook entry done.

“Date potueduthutuvaa... KelambuKelambu...nikkathainga”! (Mention the date and come... move... move and don't stand here!)

While these are the concerns people have with respect to bank staff behaviour, another alarming concern is the mandatory minimum deposit that bankers ask clients to deposit to open an NFA. Most of the banks communicate a mandatory deposit which needs to be made to open a No Frills Account. This practice was observed in both in Kanchipuram and Cuddalore districts.

“Makkal Nala Paniyalar book pota than vela nu sonnaru... athanala 500 rupaikadanvaangi book potaen”. (Panchayat Staff said that only if you have book you will get work. So I borrowed Rs.500 and opened a bank account.)

Anbuselvan, a Panchayat Assistant mentioned that in 2009 he opened 49 No Frills Accounts with a public sector bank. But since the accounts were dormant the bank manager closed all the 49 No Frills Account and instructed him that in the future No Frills Accounts will not be opened with zero balance and all accounts will be opened only with a mandatory deposit of Rs.500. *Pandiyan* feels that bankers do so to maintain the float level of their branch.



Case study 2: Need for clear communication to make NFA work effectively

Dilshad (38) is involved in *beedi* rolling from home. Dilshad opened a No Frills Account in December 2009. Since the opening of the account, Dilshad has not made any transaction in the account and the reason for not transacting in the account was that she actually never knew that she could save through the biometric card. She always understood that she required the biometric card to avail loan from the Business Correspondent. Soon after getting the card she also received a loan from the microfinance wing of the business correspondent. This made Dilshad think that the objective of receiving a card is to avail loans from the business correspondent.

Dilshad said, “*Card vaanginaoreymasathilaye loan kedachuduchu*” (Within one month after receiving the card, I received the loan!)

There were other cases of client miscommunication/ misunderstanding about No Frills Account as well. Jayanthi (31) is an agricultural labourer and her only reason for opening a No Frills Account through the business correspondent was to receive a loan. Due to certain problems Jayanthi was not sanctioned a loan. The result was that on one hand Jayanthi was disappointed that despite spending Rs.200 (for getting the biometric card), she did not have access to a loan and on the other hand despite holding a No Frills Account, she was completely unaware of the utility of it or its features or attributes. While Jayanthi is just one example, there are many others who do not use the No Frills Account because they were unaware its features.



Jayanthi said, “*Card vandhuoruvarushamaaguthuanainnum loan aye kedaikala*” (It has been one year since I have received the card but I am yet to receive a loan)

There were also cases where clients had misunderstanding or had rather high expectations from the account due to the lack of clear communication while opening the account. Padma (38) runs a vegetable store in Thirupattur Town. She uses the NFA to deposit the surplus profit that she generates out of her business. When the card was issued to her, she was under the impression that the card can also be used in an ATM to withdraw cash. Soon after the receipt of the card she realised that the card cannot be used as an ATM card but was she hopeful that soon she will be issued with an ATM card and a “secret PIN”. Since Padma is

not comfortable in transacting in a group, she is waiting for the day when she can do her first transaction in her account through an ATM!

Padma said, “*Secret number vandhathum use pannalam nu bathiramavachuirukaen*” (I am keeping this card safely so that I can use it when I receive the ATM secret number)

While these were some specific cases, there are multiple instances of miscommunication where people are not even aware of the basic functionalities of an NFA. In the course of the research, the team did not come across even a single respondent who is aware of the OD facility that is available on an NFA. Apart

from this, clients are not aware of the percentage of interest that is offered on their savings deposit. Some even do not know that an NFA is a zero balance account. Since it was communicated to them that they need to maintain a particular amount as balance, many think that the amount communicated is the minimum balance. There are also instances where clients believe that holding an NFA pass book would guarantee them 100 days work under NREGA.



Case Study 3: Is opening of No Frills Account a pre-requisite for availing benefits under NREGA?

Chellamma (60) from Trichy is a daily wage labourer under the National Rural Employment Guarantee Scheme. Her monthly income is in the range of Rs.1,000 to Rs.1,500. Her first bank account was opened in November 2009 by Bank of India. She was told by the *Gram Sevak* that opening a bank account is mandatory to get wage under the National Rural Employment Guarantee Scheme.

“Booku illana vela tharamattomendrusonnanga”. (They said without the account we won’t give you work.)

Chitra (28) also has a similar story to say. She did not have a bank account since she did not have the required KYC documents. A No Frills Account was opened for her in October 2010 with Bank of India when she was part of the mass recruitment for work under the National Rural Employment Guarantee Scheme. It was communicated to her that it would be easier for her to get a bank loan if she has a bank account and the same is also required for getting wage for work done under National Rural Employment Guarantee Scheme. She feels that her money is safe in the bank, but feels that the interest that she gets is very less. She hopes that she will get a loan from the bank where she has her account.

Rajammal (45) and *Ramaata* (38) from Coimbatore are involved in work under the National Rural Employment Guarantee Scheme. When they do not have work under NREGA, they work in the fields as well as house maids. They have migrated to Coimbatore from Karnataka; therefore, they do not have an identity proof or a local address proof. They wanted to open a bank account of their own, but could not because of requirement for a valid identity as well as address proof. While being recruited for work under NREGA they were told that opening a bank account is compulsory under the scheme as the wage would be credited to the account. Both of them are glad that now they have a bank account of their own, but they do not understand why a bank account is necessary for getting work under NREGA. They feel that wages should be given to them directly as they did not have time to go to the bank. Both of them see a bank account more as a channel for getting credit rather than as a savings option because they end up spending whatever they earn. Moreover, going to the bank is a cumbersome process.

Dhanalakshmi (50) from Coimbatore opened her first bank account with Bank of India under NREGA a year back. Again, *Dhanalakshmi* opened an NFA as it was being promoted as a pre-requisite for availing work under NREGA. She does not save much money in her bank account; her only transaction at the bank is withdrawing the wage at the end of the month. She prefers not to go to the bank as she feels awkward and does not understand any banking procedures. This does not mean that she does not save money; she is an active SHG member, where she saves as well as avails loan from the SHG. She feels more comfortable in an SHG as all the members are known to each other and the meetings are conducted within the village.

The cases above clearly point to the way in which NFA is being promoted while people are being recruited for work under NREGA. Most financially excluded poor people would be delighted to be able to open a free bank account, but whether they will use it or not depends on the utility they derive from the account. Promoting NFA as a pre-requisite to get work under NREGA is unlikely to be the right approach as this represents coercion rather than choice and



this is likely to overshadow the communication of the benefits the accounts offer the clients. Clients will not use the service unless they derive some value/benefit out from it. By making it a pre-requisite, banks may achieve their target of “**financial inclusion**”, but with no subsequent impact. Banks and the institutions promoting NFA need to focus on the value proposition for the clients, and all communication has to be transparent and comprehensive.



Case Study 4: Maruthamalai - NFA at its best!

Nalini (22) from Maruthamalai, Coimbatore does data entry work. She is a B.Com graduate and also holds a diploma in IT. She is also the group leader of an SHG. Before opening an NFA she already had a savings account with Bank of India. She is aware of the benefits of an NFA. As part of the SHG, the various members of the group have their own NFA bank account for the group.

According to *Nalini*, the people in her area do not have proper KYC documents, so even though they wanted to have an individual bank account of their own, they could not get one. NFA helped them to get a bank account as the KYC is relaxed in case of an NFA. *Nalini* says that, most of the people in Maruthamalai are involved in some kind of small business or the other because Maruthamalai is a place where many pilgrims visit the local temple there.

During the pilgrim season, people put up tea stalls, small shops selling fancy items, toys etc, *idli* shops, *pan beedi* shops, flower shops etc. So there is a good flow of income during the pilgrim season. Even otherwise people from nearby localities keep visiting the temple often. These kinds of shops are a source of income for many women in Maruthamalai. Women like *Poonga* (39) who runs a fancy store, *Vijaya* (40) who runs a fruit and vegetable stall, *Jaya* (49) who runs a *kirana* store and many others say that they can save at least Rs.100 per day. But the issue is they do not have time to go to a bank and deposit money since they will lose out on business. They say that on an average they can easily keep aside Rs.3,000 per month as savings. These women are quite entrepreneurial and they are aware of the features and benefits of NFA.

In Maruthamalai most of the NFAs in Bank of India have balance - on an average about Rs.50. however, these accounts see few transactions. The balance could be even more, says *Nalini*. She says, “Most of the people here have shops, if someone comes and collects deposits from us, then we can save at least Rs.3,000 per month”. She also said that there are other banks like City Union Bank and Corporation Bank which provide a daily collection service for deposits, and that it would be good if such services are provided for NFA holders. What is important for them is trust on the person who would collect the deposit. In their opinion either an agent or Bank of India’s sales executive should collect their deposits, preferably the bank’s staff. *Nalini* also says that her group members who run shops do not get time during the weekends to go to a bank, as during weekends even more people visit Maruthamalai and that means more business. In such a case people save money at home with the intention of depositing it in a bank sometime later and it largely ends up getting spent.

Maruthamalai is a classic example where people know the benefits of having an account as well as want to save – either on a daily basis or on a weekly basis depending on their income pattern. These people have a bank account, but they do not have the time to go and deposit money in the bank. Here, there is no need for NFAs to be sold to the people, in fact people are enquiring about NFAs and want to have an account. In such cases these savings can be mobilised either by having a BC or a deposit collector. Again, while appointing a BC, trust is one important attribute that has to be considered with careful attention.



Recommendations

Using BC channel for delivering financial products and services : Banks can expedite the process of employing business correspondents to deliver financial products and services to the unbaked and under-banked clients. Involving a BC will solve many issues that customers face with regard to the distance they have to travel to the bank, inconvenience, time, cost and wage loss. A BC will be able to provide either doorstep service or could also be a neighbourhood shop where people can drop in at their convenience and do banking transactions. This will reduce the high footfall of NFA customers and pressure on the bank staff especially when NREGA wages are credited. It will lead to a distribution of clients across various BC agents resulting in better customer service and experience.

Charging customers a nominal service fee for BC services: As per a study conducted by *MicroSave* in Tamil Nadu more than two-thirds of 307 respondents claimed that they are willing to pay for convenient banking services closer to home.²⁹ Since, RBI has allowed banks to charge clients for BC services, charging the clients a small service charge will help in making the business correspondent model a more viable business proposition. This will be a win-win situation for the clients, banks and the BCs. Clients get convenient banking services at a nominal fee, bank staff can focus on relatively more pressing requirements and the BCs' remuneration will commensurate with the services they deliver.

Introduction of technology solutions: Introducing mobile based or biometric smart card based solutions will help to serve a large number of customers in a cost effective and seamless manner. Technology solutions like mobile banking will empower customers to do transactions at their convenience anytime, anywhere. It will address the concerns that clients have with regard to distance, time wastage, cost incurred, security and trust.

Providing a bouquet of services: Clients can be encouraged to effectively use their bank accounts by providing them other value propositions like savings in the form of recurring deposit, micro-credit, remittances, airtime top-ups and utility bill payments. Linking a number of financial products and services to the savings account will encourage clients to use the account regularly. This bouquet of financial products and services can be effectively linked to the mobile phone as well as the biometric smart card.

Marketing and financial literacy: It is not a technology solution that is being marketed; it is a benefit that empowers a customer that needs to be marketed. For financial inclusion, below the line marketing activities prove to be more effective and intangibility of electronic money can be made tangible through physical evidence like brand and logo. Association with a reputed brand drives customer adoption rather than the type of technology employed. Financial literacy also plays a very important role in helping the customer understand the benefit that they derive from having a bank account when compared to the risks and pain involved in traditional and informal methods of saving.

²⁹ See [Cost and Willingness to Pay in Tamil Nadu](#)

Annexures

Annexure 1: Observations at Different Locations

Organisation	ICICI Bank BC: Guidance Society for Labour Orphan and Women (GLOW)	Indian Overseas Bank	Central Bank	Indian bank	Pallavan Grama Bank	UCO Bank	Bank of India
Places Visited	Vellore District (Thirupattur, Ambur)	Kanchipuram District (Acharapakam), Kanchipuram District (Melmaruvattur)	Kanchipuram District (Acharapakam)	Kanchipuram District (Melmaruvattur), Cuddalore District (Panrutti)	Cuddalore District (Panrutti)	Cuddalore District (Panrutti)	Coimbatore, Trichy
Client Profile	<ul style="list-style-type: none"> - Daily wage labour - Agri and allied business - Small shop/ business - Teacher - Bullock cart workers - Masons/ construction workers - Housewives - Beedi rolling - Weaving & handloom - Driver 	<ul style="list-style-type: none"> - Own business/ shop - Agricultural labourers - Daily wage labourers - House maid - Mason/ construction workers - Weaving & handloom 	<ul style="list-style-type: none"> - Agricultural labourers - Daily wage labourers - House maid - Own business/ shop - Agri and allied business - Private job - Mason/ construction workers 	<ul style="list-style-type: none"> - Agricultural labourers - Daily wage labourers - House maid - Own business/ shop - Tailor - Agri and allied business - Housewife - Private job - Mason/ construction workers - Weaving & handloom - Driver - Washer man 	<ul style="list-style-type: none"> - Agricultural labourers - Daily wage labourers - House maid - Private job - Driver 	<ul style="list-style-type: none"> - Agricultural labourers - Daily wage labourers - House maid 	<ul style="list-style-type: none"> - Own business / shop - Daily wage labourers - Agricultural labourers - Agri and allied business - Housewives - Private job - Weaving & handloom

Organisation	ICICI Bank BC: Guidance Society for Labour Orphan and Women (GLOW)	Indian Overseas Bank	Central Bank	Indian bank	Pallavan Grama Bank	UCO Bank	Bank of India
Motivation for opening NFA	<ul style="list-style-type: none"> - Influenced/forced by someone from the BC - For small savings - Earn interest on saving - Accessing loans - Flexibility of deposits and withdrawals - Doorstep service - ATM card 	<ul style="list-style-type: none"> - Influenced/forced by someone from the community/MFI/Bank - NREGA payment - Prerequisite for work under NREGA 	<ul style="list-style-type: none"> - Influenced/forced by someone from the community/MFI/Bank - For small savings - Earn interest on saving - NREGA payment - Prerequisite for NREGA work 	<ul style="list-style-type: none"> - Influenced/forced by someone from the community/MFI/Bank - For small savings - Prerequisite for NREGA work - Accessing loans - NREGA payment& other government benefits - DD facility /Cheque facility/realisation - Could easily get a bank account 	<ul style="list-style-type: none"> - Influenced/forced by someone from the community/MFI/Bank - For small savings - NREGA payment& other government benefits - Prerequisite for NREGA work - Cheque facility/realisation 	<ul style="list-style-type: none"> - Prerequisite for NREGA work 	<ul style="list-style-type: none"> - Influenced/forced by someone from the community/MFI/Bank - For small savings - payment& other government benefits - Prerequisite for NREGA work - Accessing loans - NREGA - Could easily get a bank account - Cheque facility/realisation
Awareness Level	<ul style="list-style-type: none"> - Account features - Many think that NFA is an initiative undertaken by the BC - Many think that opening NFA is a prerequisite for 	<ul style="list-style-type: none"> - Basic Account Features - Not aware of the zero balance facility and interest rate - Think NFA is a prerequisite for NREGA job allotment and 	<ul style="list-style-type: none"> - Basic Account Features - Not aware of the zero balance facility and interest rate - Think NFA is a prerequisite for NREGA 	<ul style="list-style-type: none"> - Basic Account Features - Not aware of the zero balance facility and interest rate - Think NFA is a prerequisite for NREGA job allotment and 	<ul style="list-style-type: none"> - Basic Account Features - Not aware of the zero balance facility and interest rate - Think NFA is a prerequisite for NREGA job allotment and 	<ul style="list-style-type: none"> - Basic Account Features - Not aware of the zero balance facility and interest rate - Think NFA is a prerequisite for NREGA 	<ul style="list-style-type: none"> - Basic Account Features - Not aware of the zero balance facility and interest rate - Think NFA is a prerequisite for NREGA job allotment and to receive wages

Organisation	ICICI Bank BC: Guidance Society for Labour Orphan and Women (GLOW)	Indian Overseas Bank	Central Bank	Indian bank	Pallavan Grama Bank	UCO Bank	Bank of India
	getting loan from the BC	to receive wages	job allotment and to receive wages	to receive wages	to receive wages	job allotment and to receive wages	
Reasons for inactivity	<ul style="list-style-type: none"> - Lack of physical evidence of the bank - Discontinuation of service by the BC - Perceive it as a non-profitable option because of low/no interest is paid - Expectation to continuous access to loans and ATM facility which is absent - Hesitation to deposit small amounts of money either due to fear or embarrassment 	<ul style="list-style-type: none"> - Distance, delay in transactions, opportunity cost and non friendly staff behaviour. - Lack of credit facility - No inflow of cash into the account - SHGs act as a substitute 	<ul style="list-style-type: none"> - Distance, delay in transactions, opportunity cost and non friendly staff behaviour. - Lack of credit facility - No inflow of cash into the account - SHGs act as a substitute 	<ul style="list-style-type: none"> - Distance, delay in transactions, opportunity cost and non friendly staff behaviour. - Lack of credit facility - No inflow of cash into the account - SHGs act as a substitute 	<ul style="list-style-type: none"> - Distance, delay in transactions, opportunity cost and non friendly staff behaviour. - Lack of credit facility - No inflow of cash into the account - SHGs act as a substitute 	<ul style="list-style-type: none"> - Distance, delay in transactions, opportunity cost and non friendly staff behaviour. - Lack of credit facility - No inflow of cash into the account - SHGs act as a substitute 	<ul style="list-style-type: none"> - Distance, delay in transactions, opportunity cost and non friendly staff behaviour. - Lack of credit facility - No inflow of cash into the account - SHGs act as a substitute
Demand from Customers	<ul style="list-style-type: none"> - Loan access - ATM-Debit card facility - Pass book - Interest should be 	<ul style="list-style-type: none"> - Better staff behaviour & support - Loan facility - Door step service 	<ul style="list-style-type: none"> - Better staff behaviour & support - Loan facility - Door step service 	<ul style="list-style-type: none"> - Cheque facility - Better staff behaviour & support - Loan facility - ATM-Debit 	<ul style="list-style-type: none"> - Better staff behaviour & support - Loan facility - ATM-Debit card facility 	<ul style="list-style-type: none"> - ATM-Debit card facility - Door step service 	<ul style="list-style-type: none"> - Cheque facility to be provided - Better staff behaviour & support - Loan facility

Organisation	ICICI Bank BC: Guidance Society for Labour Orphan and Women (GLOW)	Indian Overseas Bank	Central Bank	Indian bank	Pallavan Grama Bank	UCO Bank	Bank of India
	<ul style="list-style-type: none"> offered/increased on the saving - Remittance facility - Introduction of structured saving products 	<ul style="list-style-type: none"> - Interest should be offered/increased on the saving - Decrease transaction time - Routing of NREGA payment 	<ul style="list-style-type: none"> - Interest should be offered/increased on saving - Specific staff member to help with documentation 	<ul style="list-style-type: none"> card facility - Open branch in nearby location - Door step service - Interest should be offered/increased on saving - Increase customer awareness - Introduction of structured savings products - Specific staff member to help with documentation - Routing of NREGA payment 	<ul style="list-style-type: none"> - Open branch in nearby location - Interest should be offered/increased on saving - Decrease transaction time - Specific staff member to help with documentation - Routing of NREGA payment 		<ul style="list-style-type: none"> - ATM-Debit card facility - Door step service - Decrease transaction time

Annexure 2: Policy guideline around No Frills Accounts**No Frills Accounts**–Key Features as per various RBI circulars³⁰

The RBI has asked banks to make a basic banking “no-frills” account available for low-income individuals, with either zero or low minimum balances and charges. The nature and number of transactions in such accounts would be limited as per the offering bank policy, but the details should be made known to customers in advance in a transparent manner. The RBI has also urged all banks to give extensive publicity to such “no frills” accounts to enable financial inclusion.

Simplification of KYC Norms

The RBI has also eased the “know your customer” (KYC) norms to keep the procedural hassles involved in opening a bank account to the minimum. This is to enable those belonging to low-income groups to open bank accounts without documents of identity and proof of residence. In such cases, banks can take the individual's introduction from an existing account holder on whom the full KYC procedure has been completed and has had satisfactory transactions with the bank for at least six months. The photograph and address of the prospective account holder need to be certified by the person who introduces him/her.

Banks also can rely on certificates of identification issued by the intermediary being used as BC, Block Development Officer, and head of village panchayat, Postmaster of the post office or any other public functionary, known to the bank. These simplified KYC norms are applicable for those who intend to keep balances not exceeding Rs.50,000 in all their accounts taken together. The total credit in all the accounts taken together should not exceed Rs.100,000 in a year. While opening accounts as described above, the customer should be made aware that if at any point of time, the balances in all his/her accounts with the bank (taken together) exceeds rupees fifty thousand (Rs.50,000) or total credit in the account exceeds rupees one lakh (Rs.1, 00,000), no further transactions will be permitted until the full KYC procedure is completed

No Frill Accounts offered by the Banks

At the instructions given by the RBI, many of the banks (public and private) started offering no-frill saving bank accounts to underserved people with their own guidelines developed based on the RBI circular.

The following are some of the salient features in “No-Frills” accounts offered by both private and public sector banks.

- Eligibility - only individuals in their own name or in joint names can open the account. Generally, a customer will not be allowed to open more than one basic banking No Frills Account. Some banks restrict this account only to under privileged segments (PAN holders / affluent customers will not be allowed to open account under this scheme).
- Know Your Customer (KYC) - Introduction from another account holder who has been subjected to full Know Your Customer (KYC) procedure. The introducer's account with the bank should be at least 6 month old and should show satisfactory transactions. Photograph of the customer who

³⁰ RBI/2005-06/135 Know Your Customer Guidelines- Anti-Money Laundering Standards, August 23, 2005

RBI/2005-06/204, [Financial Inclusion, November 11, 2005](#), RBI/2005-06/288, Financial Inclusion by Extension of banking services –Use of BFs and BCs, January 25, 2006

proposes to open the account and also his address needs to be certified by the introducer or any other evidence as to the identity and address of the customer to the satisfaction of the bank.

- Minimum Balance for opening account: some branches are offering this account with Zero initial balance while some banks are offering at a very low minimum initial balance.
- Charges on non-maintenance of minimum balance: No Charges on non maintenance of Minimum Balance
- Rate of interest: many banks are applying the same interest rate what they are offering to Savings Bank account with some condition on a minimum balance to be maintained.
- Number of withdrawals: Maximum number of withdrawals is restricted to certain number by each of the banks (for e.g. SBI offers 30 transactions per half year while ICICI restricted the number of transactions to 12 per quarter and customer will be charged Rs.50 for additional transactions).
- Issue of Cheque Book- many of the banks are not offering cheque book to the account holders
- Immediate credit of outstation cheques- in many of the banks the account holders are not be given this facility
- Conversion to regular SB/CA- allowed
- A quarterly statement of account will be given to the depositor on demand. Duplicate statement of account may be issued to the account holder with a charge of Rs.10/- per page.

Using BC/BF for No Frill Accounts³¹

With the objective of ensuring greater financial inclusion and increasing outreach of the banking sector, RBI in January 2006 permitted banks to use intermediaries as Business Facilitators (BF) or Business Correspondents (BC) for providing financial and banking services. RBI has suggested to the banks to implement certain actions based on the recommendations of the working group to review BC model during August 2009. Overall, the data reveals that out of 50 public sector and private sector banks, only 26 banks have reported appointing BCs, through which 88.60 lakh No Frills Accounts have been opened as on March 31, 2009.

As per the extant guidelines, the following entities can act as BCs of banks:

The banks may engage the following individuals/entities as BC.

- i) Individuals like retired bank employees, retired teachers, retired government employees and ex-servicemen, individual owners of kirana / medical /Fair Price shops, individual Public Call Office (PCO) operators, agents of Small Savings schemes of Government of India/Insurance Companies, individuals who own Petrol Pumps, authorized functionaries of well run Self Help Groups (SHGs) which are linked to banks, any other individual including those operating Common Service Centres (CSCs);
- ii) NGOs/ MFIs set up under Societies/ Trust Acts and Section 25 Companies;
- iii) Cooperative Societies registered under Mutually Aided Cooperative Societies Acts/ Cooperative Societies Acts of States/Multi State Cooperative Societies Act;

³¹Report of the working group to review the business correspondent model August 2009 and RBI/2009-10/238 dated November 30, 2009

iv) Post Offices; and

v) Companies registered under the Indian Companies Act, 1956 with large and widespread retail outlets, excluding Non Banking Financial Companies (NBFCs).

While appointing individuals as BCs, banks have to ensure that these individuals are permanent residents of the area in which they propose to operate as BCs and also institute additional safeguards as appropriate to minimize agency risk.

Payment of commission/ fees for engagement of BFs/BCs

Banks were permitted to pay reasonable commission/ fee to the BFs and BCs and were advised that the rate and quantum of the same may be reviewed periodically. It was also stipulated that the agreement with the BF/ BC should specifically prohibit them from charging any fee to the customers directly for services rendered by them on behalf of the bank.

With a view to ensuring the viability of the BC model, banks (and not BCs) are permitted to collect reasonable service charges from the customer in a transparent manner under a board approved policy, relook at the compensation structure of BCs to effectively ramp up the use of the BC scheme for banking penetration and use BC model to deliver other services including small savings, micro-credit, micro-insurance, remittances etc.

Capacity building of BCs

In order to strengthen the capacity building of BCs/BFs, the Indian Institute of Banking and Finance (IIBF) is offering a certification course and NABARD vide circular dated July 24, 2009 has advised the banks that support in the form of meeting a part of the costs will be provided from the Financial Inclusion Fund to the successful candidates, subject to certain conditions. Banks may develop suitable training modules in the local language/s, in order to provide proper attitudinal orientation and skills to the BCs.

Risk mitigation

Banks were advised that as the engagement of intermediaries as BFs/BCs involves significant reputation, legal and operational risks, due consideration should be given by banks to these risks. They should also endeavour to adopt technology-based solutions for managing the risk, besides increasing the outreach in a cost effective manner. It was stipulated that the arrangements with the BCs shall specify:

- Suitable limits on cash holding by intermediaries as also limits on individual customer payments and receipts;
- The requirement that the transactions are accounted for and reflected in the bank's books by end of day or next working day; and
- All agreements/ contracts with the customer shall clearly specify that the bank is responsible to the customer for acts of omission and commission of the BF/BC.

Addressing Grievances

Banks were advised to constitute Grievance Redressal Machinery within the bank for redressing complaints about services rendered by BFs /BCs and give

wide publicity about it through electronic and print media. It has also been stipulated that the name and contact number of designated Grievance Redressal Officer of the bank should be made known and widely publicised. The designated officer is to ensure that genuine grievances of customers are redressed promptly. Banks were also advised that their grievance redressal procedure and the time frame fixed for responding to the complaints should be placed on the bank's website. Further, if a complainant does not get satisfactory response from the bank within 60 days from the date of his lodging the complaint, he will have the option to approach the Office of the Banking Ombudsman concerned for redressal of his grievance/s.

Compliance with Know Your Customer (KYC) Norms

The banks were advised that compliance with KYC norms will continue to be the responsibility of banks and since the objective was to extend savings and loan facilities to the underprivileged and unbanked population, banks may adopt a flexible approach within the parameters of guidelines issued on KYC from time to time. It was also clarified that in addition to introduction from any person on whom KYC has been done, banks can also rely on certificates of identification issued by the intermediary being used as BC, Block Development Officer (BDO), head of Village Panchayat, Post Master of the post office concerned or any other public functionary, known to the bank.

Oversight of operations of BC

With a view to ensuring adequate supervision over the operations and activities of the BCs by banks, it has been stipulated that every BC will be attached to and be under the oversight of a specific bank branch to be designated as the base branch.

Geographic coverage of the bank/bank branch/agent

The distance between the place of business of a BC and the base branch, ordinarily, should not exceed 30kms in rural, semi-urban and urban areas. In metropolitan centres, the distance could be up to 5kms. However, in case a need is felt to relax the distance criterion, the matter can be referred to the District Consultative Committee (DCC) of the district concerned for approval. Where such relaxations cover adjoining districts, the matter may be cleared by the State Level Bankers' Committee (SLBC).

Appointment of sub-agents

It has been advised that in case the duly appointed BCs of banks desire to appoint sub-agents at the grass root level to render the services of a BC, banks have to ensure that the sub-agents of BCs fulfil all relevant criteria stipulated for BCs and the BC appointed by them carries out proper due diligence in respect of the sub-agent to take care of the reputation and other risks involved and the distance criteria from the base branch. It has also been made clear that where individuals have been appointed as BCs, they cannot in turn appoint sub-agents.

Monitoring

Banks have been advised that the implementation of the BF/BC model should be closely monitored by controlling authorities of banks, who should specifically look into the functioning of BF/BCs during their course of their periodical 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.

Annexure 3- FGD Guide- Clients

<p>Welcome - Thank you for coming – we are grateful for your time. We are from an organisation called MicroSave. MicroSave is a research organisation which helps financial institutions design products and services for those who do not get adequate access to prompt and affordable financial services. We try to ensure that the clients' voices and ideas are heard by the institutions which provide financial services.</p> <p>We are trying to understand the use of zero balance/NREGA accounts offered by Banks, NGOs, MFIs and other companies. We seek your opinion to understand the reasons for usage and dropouts. Result of this study will be used to support banks and MFIs in providing better quality services/products to their clients.</p> <p>Your names and any personal information will be kept confidential – so please feel free to express your opinions. Answers you provide here are neither right nor wrong. Every opinion is important.</p> <p>We would very much like to record (take notes) of these discussions to help us remember them and so that we do not miss any of the issues and ideas you give us. As a first step we should introduce ourselves. My colleague will prepare the name-tags to help us remember your names.</p>	
<p>Warm up Question:</p> <ol style="list-style-type: none"> How long you have been living in this area? What are the main occupations of the people in your area? How long you have been operating the NFA? 	
Questions	Related Probes
4. Why did you open the NFA?	<ul style="list-style-type: none"> Probe whether the objective is fulfilled Probe for multiple accounts for households and why?
5. How frequently and for what purposes do you use the account?	<ul style="list-style-type: none"> Reasons for low or high frequency Probe the reasons why they are not using for other purposes
6. What do they know about NFA and where from?	<ul style="list-style-type: none"> Probe around Product, Price, Place, People, Process (Training/workshop), Positioning, Promotion and Physical Evidence? Probe whether they were pushed or pulled
7. What do you like or dislike about it?	<ul style="list-style-type: none"> Probe for reasons for liking or disliking Probe: We have heard that many of the people are not using these accounts what could be the reasons Probe if they have any suggestions for its improvement (What about loans)
8. What other financial services do you use?	<ul style="list-style-type: none"> Probe about variety of service provider/devices like formal, semiformal and informal (We may need to prompt giving examples) Probe how NFA is comparable with other financial services
9. What kind of people do you think NFA will suit more?	<ul style="list-style-type: none"> Probe: how this accounts will go with different economic status
<p>Closure Thank you for your contributions in this discussion. Do you have any questions/comments for us?</p>	

Annexure 4- FGD Guide- Staff

<p>Welcome - Thank you for giving us an opportunity to talk to you – we are grateful for your time. We are from an organisation called MicroSave. MicroSave is a research organisation which helps financial institutions design products and services for those who do not get adequate access to prompt and affordable financial services. We try to ensure that the clients' voices and ideas are heard by the institutions which provide financial services.</p> <p>We are trying to understand the use of zero balance/NREGA accounts offered by banks, NGOs, MFIs and other companies. We are seeking opinions of clients, staff involved, and BC agents to understand the reasons for usage and dropouts. Result of this study will be used to support banks and MFIs in providing better quality services/products to their clients.</p> <p>Your names and any information that you will share will be kept confidential – so please feel free to express your opinions. Answers you provide here are neither right nor wrong. Every opinion is important.</p> <p>We would very much like to record (take notes) of these discussions to help us remember them and so that we do not miss any of the issues and ideas you give us.</p>	
<p>Warm up Question: How long you have been working with – This organisation? On NFA (for how long your organisation has been offering NFA) What are the client profiles you deal with (in terms of income levels, occupation, gender and age etc.)?</p>	
Questions Why did their clients open the NFA?	Related Probes Probe whether the objective is fulfilled (from clients perspective) Probe for multiple accounts for households and why?
What are the features of your NFA and what are the reasons for choosing that?	Probe for rationale for choosing the feature
How frequently and for what purposes do they use the account?	Reasons for low or high frequency Probe the reasons why they are not using for other purposes
What are the clients' awareness level regarding NFA and where from?	Probe around Product, Price, Place, People, Process (Training/workshop), Positioning, Promotion and Physical Evidence? Probe whether they were pushed or pulled
What do they like or dislike about it?	Probe for reasons for liking or disliking Probe: We have heard that many of the people are not using these accounts what could be the reasons Probe if you have any suggestions for its improvement (What about loans)
What other financial services do they use?	Probe about variety of service provider/devices like formal, semiformal and informal (We may need to prompt giving examples) Probe how NFA is comparable with other financial services
What kind of people do you think NFA account will suit more?	Probe: how this accounts will go with different economic, literacy status and age.
Closure Thank you for your contributions in this discussion. Do you have any questions/comments for us?	