

# MicroSave India Focus Note #135

## Agent Dormancy: Impact on Customers

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[Pradhan Mantri Jan Dhan Yojana](#) (PMJDY), of the Government of India (GOI), aims to extend financial access to all households by providing them with a bank account. The programme also seeks to leverage direct benefit transfers (DBT), payments of social benefits, and subsidies, to create activity in these bank accounts. With a network of only [49,571 rural bank branches](#) to serve 650,000 villages, it was essential to have a well-functioning network of business correspondent (BC) agents, in the villages with the unbanked/under-banked population, to ensure success of the DBT programmes and of PMJDY.

While steady growth has been observed in the [number of agent outlets in villages](#), the high dormancy rates among BC agents continues to cause concern. *MicroSave's* nationally representative assessment of PMJDY, ([Wave III](#)) conducted in December 2015 (covering 42 districts across 17 states and 1 Union Territory, 1,627 agents and 4,859 customers), highlighted that 10% of agents contacted for interview were dormant at the time of the survey. BC agent dormancy has also led to inactivity in the accounts of customers who previously transacted at the dormant agents' outlets.

While different measures to improve the reach and quality of the network of BC agents are underway, the impact of dormancy of BC agents on customers has been largely undocumented. *MicroSave* recently conducted research to understand rural customers' perception of dormancy; the difficulties faced by them after an agent goes dormant; and their coping mechanisms, as they take their first steps to access formal financial services. The research was carried out in 12 districts across four states (Bihar, Gujarat, Madhya Pradesh and Uttar Pradesh) covering a sample of 20 dormant BC agents, 80 customers and other key informants, such as staff of Regional Rural Banks and local administrative authorities, including members of *Gram Panchayats*. The research employed a judicious mix of different research tools—self reported, participatory, observational and expert advice.

This Note analyses the impact of agent dormancy on the financial behaviour of customers while the next Note [“Agent Dormancy: Reasons and Remedial Measures”](#) focuses on the underlying reasons leading to agent dormancy and possible ways to address them.

### Impact on Customers

#### **Dormancy of accounts opened by the BC agent:**

In at least a few cases, officials at the link bank branch refuse to acknowledge accounts opened by the BC agent, as *valid* bank accounts. Transactions in accounts opened at BC agents are not allowed, and no explanation is offered. However, as an alternative, customers are asked

to open a new savings account at the branch in order to continue their relationship with the bank. Many customers who are dependent on G2P payments and inward remittances had to open new accounts. The rest were left with inaccessible, and thus dormant, bank accounts. The [Wave III report](#) says that 28% of PMJDY bank accounts are dormant while 29% of accounts have zero or nil balance. Account dormancy also means that customers are not able to access products such as insurance and/or the much-publicised overdraft facility.

**Inaccessibility of savings:** As a result of agent dormancy, customers are not able to access deposits in their accounts opened at the BC agent. When interviewed, branch staff were unable to confirm whether accounts opened at now-dormant agents could be operated at the branch or transferred to an alternative BC agent, citing technical hitches and the small savings balances in them. Often, branch staff do not permit transactions on accounts opened at the agent point at the bank branch on the pretext of decongesting branches. Disheartened with these developments, customers are now sceptical about accounts opened at agent outlets, as they feel that they have lost their deposits.

#### **Hassle factors associated with access to bank branch:**

Ease of access to financial services is one of the key factors impacting the transaction behaviour of customers – both in terms of frequency and volume. After an agent closes shop, customers have to travel as much as 6-8 kilometres to access the nearest bank branch/ATM, which is typically located in the feeder market (at the block level). Of this distance, typically, the customer has to cover two to three kilometres on foot to approach the main road before accessing public transport. A previous *MicroSave* research shows that post agent dormancy, customers incur [a cost between Rs. 30–100](#) (~USD 0.5–1.5) and that it takes 30–90 minutes to reach the nearest bank branch/ATM.



In addition to the direct time and cost involved in travel, customers also report significant waiting time at the branch, ranging from two to six hours. Similarly, the

waiting time at ATMs is also high, owing to lower concentration of ATMs in rural areas and recurring issues of power cuts and unavailability of cash. Findings from the research indicate increased travel and waiting time resulting in an average loss of Rs. 150 (~USD 2) for daily wage earners – a significant opportunity cost.

Some customers also reported instances of theft while travelling to/from the bank branch/ATM. To mitigate the risk of theft, customers take measures such as visiting the bank branch/ATM during daytime and re-routing their travel, even if it means travelling longer distances.

As a result, customers use a bank branch/ATM once in 45–60 days, as compared to transacting at the agent point, once in 7–15 days. The limited interaction means that smaller savings/withdrawals are precluded; opportunities to make the customer aware about other products are not available, since bank staff do not have the time to do so.

*“How much effort is one supposed to make to deposit some money into a savings account? The account opened by the agent is not operable at the bank branch. For accounts opened at the branch, it takes a minimum of five hours to make a deposit if the server is working. The cashier does not help fill the deposit slip and wants me to look for outside help”, says a customer.*

**Lack of empathy:** Most rural hinterlands are served by branches of regional rural banks (RRBs) and/or public sector banks (PSBs) which are, more often than not, *understaffed*. This results in limited interaction of bank staff with customers, thereby minimising personal touch, one of the advantages of an agent outlet.

Customers noted that they never experienced challenges on account of their illiteracy while dealing with agents. They were served promptly and all their queries resolved (in most cases) – through a “single window” at the BC point. However, after the agent closed down, customers are required to run from one counter to another at a bank branch and are often subjected to rude and indifferent conduct of branch staff. Their inability to fill forms, due to their illiteracy, has also become a major challenge in dealing with banks.

A majority of rural branches have limited infrastructure in terms of sitting/waiting areas, availability of water and electricity supply. After spending considerable time in travel, customers are wary of the inconvenience at bank branches. In one unfortunate instance reported in Samastipur district in Bihar, two customers died due to dehydration while waiting at a bank branch, which was packed with over 300 customers.<sup>1</sup>

**Poor service:** There is clear consensus among customers that branch staff provide preferential treatment, based on the socio-economic status of customers and the type of transaction. For instance, deposit transactions are given priority over withdrawal

transactions. Similarly, Kisan Credit Card (KCC) customers are allowed to jump queue over other customers waiting for withdrawal/deposit transactions.

Long wait times are often coupled with denial of transactions at a bank branch because of server downtime and other technical glitches. Customers also reported instances of a “convenience fee” being demanded by middlemen, guaranteeing minimal wait time for transactions. The findings indicate distrust among customers and bank branch compared to a BC agent. (See also “[Connecting the Dots: Putting Risk, Customer Protection, and Financial Capability in Perspective](#)” for a description of the level of trust in, and dependence on, agents in India).

*“Bank khaatey ke faayde toh bahut hain, par yeh khaatey hum jaise mazdoor warg ke logon ke liye nahin baney hain. Hamrey liye toh haath main hi paisa theek hai”* (Although a savings bank account offers a lot of benefits, these accounts have not been designed for farm labourers like me. It is better to have cash in hand), says Mahendra, a farm labourer from Pailakisa village in Sitapur district, Uttar Pradesh.

**Behavioural shift towards “cash”:** The research shows that with access to a functional BC, customers were able to save an average of Rs. 150–300 (~US\$ 2–4) a week in their bank accounts, (presumably) through reducing unnecessary expenditure. After closure of the agent point, customers are no longer able to continue with the daily/weekly savings encouraged and facilitated by the BC agent.

The findings indicate that around 65% of the customers covered under the research sample now have to try to save in cash, at home and/or in other informal instruments. When customers visit the branch, they withdraw a relatively large amount from their savings account to justify the time and cost of travel to the branch. Their account balances, thus, diminishes rapidly, as small savings are gradually discontinued because of the challenges and costs of reaching branches.

Overall, the closure of BC agents (both static and mobile) has led to dormancy of customers’ savings accounts, and, in many cases, financial exclusion of customers. Furthermore, agent dormancy has led to significantly reduced levels of trust in formal banking channels due to the poor quality of service. This erosion of trust is likely to make efforts to financially include the masses significantly more difficult in the future, even when more reliable agents (or even more welcoming bank branches) are available. Ultimately, dormancy has a pervasive impact on the financial behaviour of customers diminishing savings, and shifting them towards cash.

<sup>1</sup> We tried to verify this news but could not; however, more than one agent mentioned this incident. Whether the rumour is true or false, grapevine chatter like this also does not help the cause of financial inclusion.