

MicroSave India Focus Note 62

Revival: Responding to High Dormancy Levels in No Frills Accounts

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Background

Advocating financial inclusion, Reserve Bank of India's (RBI) Annual Policy Statement for the year 2005-06 notes:

"There are legitimate concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population. While commercial considerations are no doubt important, the banks have been bestowed with several privileges, especially of seeking public deposits on a highly leveraged basis, and consequently they should be obliged to provide banking services to all segments of the population, on equitable basis".

RBI, since then, has undertaken a number of measures to attract the financially excluded population into the financial system. Banks were advised to make available basic No Frills Accounts (NFA) with low or nil minimum balances and charges to expand the outreach of such accounts to the excluded population.¹ 'Know Your Customer (KYC)' norms were also relaxed so that the needs of rural households that cannot establish their identity or address formally could be accommodated.



In January 2006, banks were also permitted to use the services of a host of organisations as intermediaries in providing financial services by acting as Business Facilitators (BF) and Business Correspondents (BC).² In addition to these measures, the RBI announced a drive for financial inclusion to be initiated in every state, whereby the State Level Bankers' Committees and the Lead Banks would be responsible for promoting 100 per cent

financial inclusion in at least one district in their home state.

Current Status of No Frills Accounts

Even after so much interest taken by the central bank, only 59% of the adult population has access to formal bank accounts,³ implying that nearly 41% of the population is still dependent on either the semi formal or informal sector to meet their financial needs.

In the four and a half years to March 2010, about 50.6 million NFAs, with an outstanding balance of Rs.53.86 million, were opened by banks.⁴ However, evaluation of progress by an independent external agency at the behest of the RBI suggests that a significant number of new customers acquired by banks under the inclusion effort have remained dormant.⁵ Similarly, a report by the Skoch Development Foundation⁶ noted that only 11% NFAs are active. The customers' ability to transact on the newly opened accounts is severely limited because of physical and psychological distance between the customer and the bank branches.⁷ A study conducted by *MicroSave*, demonstrated that most of the financially excluded target customers have opened NFAs simply to receive wages under the National Rural Employment Guarantee Act (NREGA) or other government benefits like pension and scholarships.⁸ Poor households are either unaware of the various options NFAs offer or, for the vast majority, visiting bank branches to use these accounts for small transactions is simply too expensive, time-consuming, and generally a too unpleasant and frustrating experience to pursue. Banks have done little to incentivise their BC's

"Bank me khata nahi ho toh tankhwaah nahi milegi isliye khata khulwaya" (If you do not have a bank account, then you won't get the wages. That's why we opened bank accounts.)

"Bank me sahib log ke paas time nahi hai, woh log gussa karte hain agar bheed pahuch jaati hai" (Bank officials don't have time. They get angry if a large crowd reaches bank to transact.)

"50 rupiya jama karane jao aur 100 rupiya kharcha karo" (One has to spend Rs.100 to deposit Rs.50.)

actively promote the use of the NFAs by the customers. Hence, most of these accounts remain dormant as shown by the following graph from *MicroSave's* recent study.⁸

¹ RBI circular dated December 13, 2005 on Financial Inclusion through NFA

² RBI circular dated January 25, 2006 '[Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents](#)'

³ [Text of speech by Smt. Usha Thorat, Deputy Governor, RBI at the HMT-DFID Financial Inclusion Conference 2007](#)

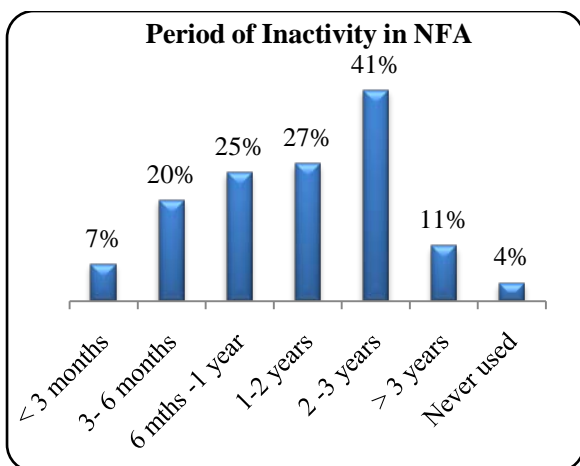
⁴ [RBI Annual Report, 2009-10](#)

⁵ RBI circular dated January 22, 2009 "[100 per cent Financial Inclusion - Evaluation by External Agencies- Broad Findings](#)"

⁶ Kochhar, Sameer, "[Speeding Financial Inclusion](#)", Skoch Development Foundation, 2009

⁷ Thorat et al., "[Feasibility of Engaging Corporate Retail Networks as Business Correspondents of Banks - A Study](#)", September 2010

⁸ "[Exploring Dormancy in No Frills Savings Accounts](#)", *MicroSave*, India



Key Recommendations for the Revival of NFAs

Servicing the NFAs

Most of the banks make no concrete effort to ensure that the customers transact in their NFAs, and such accounts are opened largely to meet banks' targets. If transacting in such accounts is made easier, it would go a long way in building the trust of the customers and encouraging them to use the accounts on a regular basis. Also, reducing the distance of the transaction point from clients' doorstep would increase transactions. Customers are not able to use the account as the bank branch is quite far from their place and it costs a lot to travel to the bank to deposit money. Moreover, they also lose a day's work. Generally, the amount to be deposited is not big enough to motivate them to incur the travel and opportunity cost. If service is provided in the vicinity of their homes through the BC model, they can deposit even small amounts in line with their cash flows.

Routing Government Benefits Through NFAs

The channelling of NREGA payments and SSP (Social Security Pensions) through banks and post offices has seen very encouraging results across various states, and may enhance financial inclusion better than by just offering bank accounts. Unlike accounts opened simply to "encourage a savings habit", accounts used to transfer benefits see more transactions. These accounts also provide cash reserves to the bank, thus making banks more motivated to service such accounts. In some places, people tend to withdraw all payments as soon as their account is credited, but with experience, and education by bank staff, many account holders have started to maintain balances in their accounts. Convincing customers about the safety of money in such accounts also motivates people to save more. However, as the bank branches are too distant and are often crowded, such accounts should ideally be serviced properly by a dedicated BC agent. These benefit-linked accounts give people a reason to visit the BC, and develop a relationship with him/her, which may, later, motivate them to use other banking services too, offered by the BC.

Proper Targeting

In many areas studied by *MicroSave*, it appears that very few new accounts have been opened by financially excluded households. Most of the NFAs have been opened by households that already had access to savings accounts, as banks were in a hurry to meet their NFA targets. Such customers have high expectations from the NFA, and do not find it useful with its limited features. So, better targeting is required, otherwise the basic purpose of providing banking services to the excluded will not be met.

Promoting Other Facilities

The NFA should be promoted as a "bank account" rather than just a savings account, as this has a lot more value for customers. For example, most banks can offer overdraft facilities based on the RBI guidelines.⁹ State Bank of India, along with savings, offers remittance facility to all its NFA holders where they can easily remit money using their mobile phone.¹⁰ Some banks also offer cheque book and ATM-cum-debit card facility to NFA holders. These additional facilities should be prominently highlighted during the marketing of NFAs. This will help attract more customers and motivate them to use their accounts more frequently, in-turn generating additional revenue for the banks.

Creating Awareness

MicroSave's research showed that there is very little knowledge amongst the customers about the features of, and uses for, NFAs. There is a need for greater marketing and education. In addition to low cost solutions such as financial literacy campaigns through NGOs or as part of banks' product marketing, aggressive marketing support from RBI and Ministry of Finance can go a long way in creating awareness and motivating people to use NFAs. Sustained financial literacy campaigns may include printing and distributing the material available with the RBI,¹¹ NABARD and others.¹² Customers' concerns about the safety of their money means that the role of and security of the Deposit Insurance and Credit Guarantee Corporation should feature prominently. Also, low income customers like to receive tangible proof for each transaction. This can be in the form of a receipt or an SMS in case of mobile banking. Periodic bank statements may also help to win the confidence of customers.

Conclusion

Although there is high dormancy in the NFAs, these accounts represent a large potential client base. Banks need to work on designing innovative products, improved delivery mechanisms, and appropriate marketing and incentives for the BC model. Customers are willing to pay for the banking services offered by BCs¹³ and this user-friendly financial inclusion model can go a long way towards boosting the use of NFAs substantially.

⁹ RBI circular dated December 13, 2005 "[General Purpose Credit Cards and Overdrafts Against 'No-frills' Account as Indirect Finance to Agriculture Under Priority Sector](#)"

¹⁰ <http://eko.co.in/index.php> and *MicroSave* India Focus Note 68 SBI *Tatkal* From Cash to Cash Cow

¹¹ RBI Financial Education Initiative <http://www.rbi.org.in/financialeducation/home.aspx>

¹² <http://eko.co.in/images/File/EKo%20Comic.pdf>

¹³ Platt et al. "The Answer is 'Yes'- Cost & Willingness To Pay" *MicroSave*, 2011