

MicroSave India Focus Note 64

Comparing Business Correspondent With Informal Saving Avenues

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Background

A variety of informal savings avenues exist in India. This Note focuses on comparing informal saving avenues with “Business Correspondent” (BC) services on a variety of attributes.^{1,2} The dimensions for comparison have been derived from respondents’ perception of qualities that should characterise an ideal saving avenue. These primarily include trust, frequency and convenience of small deposits, benefits such as rate of return, ease of withdrawal, security of the deposits, cost incurred, understanding of the procedures for accessing a particular saving avenue, and other product offerings such as credit. These factors have been derived from a wide variety of *MicroSave* research studies 2009-2011.³

Trust

The fact that a person saves money with a service provider implies that s/he trusts that provider. *Beesis* are deemed trustworthy not because of their structure, but by virtue of the leadership. A *beesi* is as strong as its leader; whereas *BCs* draws their trust by the virtue of their association with banks. *Friends/Relatives*, (hereafter referred to as “*relatives*”), and *moneylenders* are trusted because of their familiarity, length, and nature of association.

Risk of Losing Money

Informal savings avenues are fraught with the risk of the users losing money. With *relatives* and *moneylenders* this mostly arises out of fraud or refusal to repay parts of the dues or the entire amount. In *beesi* losses usually arise from foreclosure wherein some member(s) have not paid their instalments. With *BCs* the risk is seemingly lower since there is a perception that money, once deposited with the bank, will not be lost. However, even with *BCs* one cannot guarantee that there will not be loss of money from agent frauds – indeed these seem to be common with many other agent-based financial services.⁴

| Attribute (in order of importance) | BCs | Friends/Relatives | Saving with the Money-lenders | Beesi/Chit Funds |
|------------------------------------|-------------|-------------------|-------------------------------|------------------|
| Trust | thumbs up | thumbs up | thumbs up | thumbs up |
| Risk of losing money | thumbs up | thumbs down | thumbs down | thumbs down |
| Accessibility | thumbs up | thumbs down | thumbs down | thumbs up |
| Size of deposits | thumbs up | thumbs down | thumbs down | thumbs up |
| Frequency of deposits | thumbs up | thumbs down | thumbs down | thumbs down |
| Ease of withdrawal | thumbs up | thumbs up | thumbs down | thumbs down |
| Interest rate | thumbs up | thumbs down | thumbs down | thumbs down |
| Possibility of a loan | thumbs down | thumbs up | thumbs up | thumbs up |
| Cost of accessing the channel | thumbs down | thumbs up | thumbs up | thumbs up |
| Understanding of the process | thumbs down | thumbs up | thumbs up | thumbs up |

Accessibility

All of these avenues score positively on accessibility, which is a common strength of informal systems. However, some *BC* agents go personally to the customer everyday to take smaller deposits, thus giving an added advantage to the *BC* model. Furthermore, *BC* brings formal savings services to the doorstep of customers, who otherwise could or would not have accessed those services.

Size of Deposits

In alignment with the low earning and small saving capability of low-income customers, *BCs* allow deposits of smaller amounts. *Beesi* group members usually decide on the amount to be saved collectively, though the leader has a disproportionate influence over this. Small deposits are usually not kept with *moneylenders* or *relatives* due to hassles of accounting for smaller deposits.

¹ Each of these channels has a unique operational model and costing of their own. These channels allow savings of varied amounts starting from as low as Rs.10. Savings with friends/relatives is essentially keeping money with them for the purpose of saving and asking it when required, for further readings on *beesis*/chit funds and moneylender please see:

<http://web.williams.edu/Economics/neudc/papers/klonner1.pdf>, <http://www.ifmr.ac.in/sefc/publications/Chit-Funds-Innovative-Access-to-Finance.pdf>, <http://www.ifmr.ac.in/sefc/publications/Business-Logistics-of-Informal-Lending.pdf>

Reddy, Somashekara, “Diary of Moneylender” Economic and Political Weekly, July 21, 2007

MicroSave Studies [Deposit Assessment in India](#) and [NE Savings](#)

² The comparison for the service/ product attribute is done on the prominence basis. That is if the service channel provides the facility predominately. The thumbs up, thumbs down, and thumbs neutral is only a representative of degree of which a saving avenue stands on positive side of respective factor. Authors base these comparisons and explanations on the basis of their field work in UP, Rajasthan, and TN. An important fact to note here is that among the informal channels discussed in the note there is no standard format of operation.

³ *MicroSave* Studies: [Savings Systems in the North East of India](#), [Dormancy in No Frills Accounts](#), Agent Network, Cost and Willingness to Pay, [Deposit Assessment in India](#). The list of factors is not exhaustive and is chosen per author’s experience.

⁴ <http://www.indianexpress.com/news/bank-agent-flees-with-customers-savings-probe-on/776926/>

Frequency of Deposits

Matching the income cycle of daily wage earning customers BCs provide options for daily deposits, thus scoring positively on this parameter. With *beesis*, deposits can be made only on fixed dates. With *relatives and moneylenders* the frequency of deposit could be frequent or irregular – depending up on the proximity; the customer's and *relative's* or *moneylender's* comfort; and the customer's cash flow.

Ease of Withdrawal

The BC model allows customers to withdraw money as and when required. With *Beesi*, one withdraws only when one wins the auction or lottery that governs payout, which typically only happens once in a month. In some *beesis* where there is no auction, the leader needs to be informed beforehand and the leader has to agree. In addition, the chances of getting money on the due date become bleaker if other members win the auction or come up with emergency demands on the date of auction or lottery. It is not certain that *moneylender* will be available at all times to entertain withdrawal requests. Also, one can not be sure with *moneylenders* and *relatives* that a request to withdraw will be met on time and/or fully and this also depends on the cash availability with the *moneylender* or *relative*.

Interest Rate

As an extension of the bank, BCs provide around 3.5% annual interest, whereas in some (auction) *beesis* members earn from the member taking the lump-sum at a lower value or by paying an extra margin, which in turn becomes earning of group. In some rare occurrences villagers have reported earning interest from *relatives* and *moneylenders*, but typically they do not pay interest.

Possibility of Availing a loan

One can avail loans of varying sizes from *beesi*, *moneylenders* and *relatives* with varying degrees of negotiation. The association with a *beesi* provides a member a lump-sum amount, which is similar to getting a loan, only in this case the repayments are possible both pre and post loan. In a few cases *moneylenders* were found to have kept some savings and then provided a loan on the basis of these savings. At present BCs can only provide support to the lending process and are not authorised to approve and disburse any loan or overdraft. Nonetheless, where banks are offering overdrafts on no frills accounts, the loan is paid and repaid through the BC channel.

Cost of Accessing Channel

There is no cost involved in using the *relatives* or *moneylenders* to save. Becoming a bank customer through a BC, might require paying no or a small fee, however there are costs attached to fulfilling the

requirements such as photographs, KYC documentation, photocopies etc. While some BCs like Eko charge an account opening fee from customers, FINO does not charge any fee for account opening.⁵ Moreover, RBI has now allowed banks to charge “reasonable” fees for accessing services through the BC model, so costs for using BC will escalate. Some *beesi* groups charge a membership fee, while others do not.



Understanding of the Process

Users of *beesi* are most comfortable in terms of understanding the procedures and terms and conditions – as they are the ones managing the operations and functions. In the case of *relatives* and *moneylenders* there is no specific process involved, but users are usually aware of the customs and hidden protocols associated with these avenues. The involvement of technology intimidates illiterate customers and complicates the BC procedures. This coupled with banking rules, makes the BC process even more complex for them.

Conclusion

MicroSave's research has demonstrated that BCs fare better compared to banks given the challenges and costs associated with accessing formal banking services.⁶ Informal savings avenues form a major part of financial services used by low income households.⁷ The BC model seems to be able to deliver better quality financial services than some of the more common informal avenues. It scores well on important aspects like trust, security, accessibility and flexibility – both in terms of frequency and amounts of transactions.

The fact that BCs link low income households to formal financial services better than informal and currently available formal channels, opens a gateway to offer other financial services like remittances, insurance and, of course, credit products to the bottom of pyramid market.⁸

⁵ Eko (www.eko.co.in) and FINO (www.fino.co.in) are BCs to public and private sector banks in India.

⁶ *MicroSave India Focus Note 63: “Why People Do Not Use Banks – A case for BC”*; Platt et al. “The Answer is ‘Yes’- Cost & Willingness To Pay” *MicroSave*, 2011

⁷ Collins et al. “Portfolios of the Poor”

⁸ Understanding Remittance Networks, *MicroSave*, 2011 (Forthcoming) *MicroSave India Focus Note 61: “Interbank Mobile Payment System: Will It Catalyse Financial Inclusion?”*