MicroSave India Focus Note 77

Individual or Institutional BCs: The Banker's Perspective

Alphina Jos and Minakshi Ramji

September 2011

Introduction

This India Focus Note is the second of a two-part series which provides some perspective on how individual and institutional BCs are perceived by clients and banks. This Note approaches the question from the bank's perspective. The appointment of business correspondents (BC) in India has followed one of two approaches: individual BC agents (direct individual) or using business correspondent network managers (BCNMs). This Note examines how banks might choose between the two approaches, by using the following decision parameters:[1]

1) Customer Acquisition and Outreach
2) Customer Relationship and Retention
3) Control: Monitoring and Support
4) Resources

This Note serves as a starting point for discussion and decision-making for banks interested in entering the BC business, and for BCNMs interested in partnering with them.

1) Customer Acquisition and Outreach

All banks have the responsibility to achieve Reserve Bank of India (RBI) financial inclusion mandates and hence opt for the BC model to increase outreach.

Through the individual agent route, banks will be able to achieve only limited extension of banking services. Banks may consider employing individual agents in numerous locations, but this would entail significant human resource and monitoring costs.

On the other hand, BCNMs currently represent the only route to scale up quickly, achieve numbers and cover multiple geographies. Additionally, some BCNMs, such as NGOs, MFIs and corporate houses with large retail networks, come with the added advantage of having an existing client base. Vodafone and Hindustan Unilever (HUL), both having a strong rural presence, have signed on as BCs for ICICI Bank and SBI, respectively.

2) Customer Relationship and Retention

Under the BC model, banks' image and reputation are at risk, as they effectively license their brand to these BC agents. Unsurprisingly, banks feel some trepidation to hand this over to BC, since customer relationships are such a crucial part of banking.

Informal conversations with bankers reveal that many banks generally prefer to appoint individuals directly as agents, giving the bank greater control of what happens on the ground. This is particularly true of banks with a broader outreach. These banks feel that their branch staff knows the community well enough to choose and appoint the right individuals as BCs.

However, the risk with individual BC agents of migrating away from their area of operation or stopping BC business is high. Banks would then need to replace the agent and find ways to serve clients in the interim. With BCNMs also, this risk exists but is lower as it is the BCNM's responsibility to replace the agent. Some BCNMs, such as Eko, have back-up plans, such as help-lines that clients can call for the nearest available agent, if the usual one is unavailable.

Bank's Perception of BC: Individuals and BCNM		
Parameters	**BCNM**	**Individual BC**
Customer Relationship and Retention	☹	☺
Customer Acquisition and Outreach	☺	☹
Control: Monitoring & Support	☺	😐
Resources	☺	☹
☺ 😐 ☹: Satisfied, Indifferent, Dissatisfied		

3) Control: Monitoring and Support

Theoretically, the individual agent model should allow banks to control the system better. Yet under this model, banks must supervise and monitor these individual agents on their own, from often over-worked, branches. As the number of agents rises, this could over stretch branch staff or necessitate additional resources dedicated to BC support functions (as Equity Bank is doing in Kenya). However, Indian banks have not yet fully committed to this model as a business opportunity and do not have separate field teams.

A BCNM monitors the BC agent activities on behalf of the bank, allowing the bank to maintain a bird's eye view of the monitoring and support process. BCNMs should also have robust reporting structures. However, banks have to ensure that the right systems and resources are in place to protect the client and the bank from any abuse.

---

[1]The choice of these four parameters is based on informal discussions with banks in India over the past year, the results of *MicroSave* research on Agent Networks in Gujarat and Uttar Pradesh and on the risk concerns described in Thorat, Srinivasan et al (2010). "Agency Network Management – Feasibility of Engaging Corporate Retail Networks As Business Correspondents of Banks – A Study." and *MicroSave* IFN 66: What Do Clients Want in E/M-Banking Agents.

The pressure on banks to supervise BCNMs increases with scale. Several exercises conducted by *MicroSave* underscore the need to provide agent support, frequent field visits and to maintain open communication channels. While providing technical assistance to one existing BCNM, *MicroSave* found that agents want frequent visits from BCNM staff, refresher training, and much closer involvement from the BCNM. While the BCNM was able to take steps to mitigate these concerns, a bank managing its own BC operations directly may not be in a position (or willing) to take up these additional responsibilities. Also, BCNMs should be much better placed to help banks achieve growth targets without losing too much in quality control.

4) Resources

For banks, the BC model is a way by which they can extend outreach, while keeping the demands on financial and human resources to a minimum. A recent GSMA report[2] analysed the costs of MTN Uganda's first two years of mobile money operations into three categories:

a. ***Fixed costs*** (including marketing, field agency costs, SIM upgrade fees for non-mobile money customers, agent handset subsidies, fixed m-wallet provider fees and agent POS merchandising) were 43% of the total.
b. ***Step costs*** (including management staff and back-office staff) accounted for 12% of the total.
c. ***Variable costs*** (primarily customer registration commissions, agent commissions, and per-customer technology licensing fees) were 45% of the total.

When managing individual agents, it is the bank's responsibility to oversee the activities directly, involving considerable time and resource costs (perhaps requiring full-time individuals in branches). If a bank has a small number of individual agents, these may be easier to monitor directly. For instance, the staff of a bank with just two to three agents around its service area, may be able to effectively manage their agents and clients. On the other hand, if BC agents are spread out and large in number, the bank may realise that the cost of coordinated supervision, monitoring and support, including operating costs, human resource costs, and technology costs is not worth the effort. Thus, for large scale roll out of branchless banking, the individual BC agent model may not work.

When these branchless banking functions are outsourced to a BCNM, this is likely to relieve the bank of extra work and costs. A strong example of such functions is agent training, which demands significant resources and yet varies greatly over time in terms of activity. BCNMs usually have dedicated staff that plan and implement training in the field. SEED and Eko are BCNMs that provide proprietary training to their agents. Yet, another BCNM, Grameen Koota Development Trust, goes even further and trains both agents and customers on using the mobile banking platform.

Conclusion

A bank can make use of the parameters in this Note, customer relationship, customer acquisition, control, and resource availability to help in the decision-making process on which agent model to use and in the actual selection of agents or the BCNM partner. Banks must decide if they have the resources to monitor and manage the agents directly and closely enough to ensure success.

Many of the larger Indian banks work in remote areas and may see the need to use third-parties to extend their reach even further. On the other hand, a smaller bank such as a regional rural bank (RRB) with only a few branches, might consider appointing individuals, since it may know the area in which it operates well enough to do this effectively. Other banks have chosen the middle path by both managing individual agents directly and using a BCNM, whose responsibilities are limited and primarily related to managing the initial selection and training or managing just certain tasks, like liquidity for agents (but not the entire agent operation). Some larger banks in South Africa, for example, have chosen this middle path to manage concerns related to reputation and control risks.

Alternatively, some agent network structures evolve over time. When Safaricom launched M-PESA in 2007, it had direct contractual relationships with all its 1,200 agents.[3] Top Image, a marketing firm, was hired to train and monitor agents. Over time, the existing agents began sub-contracting to other agents. At one point, these sub-agents formed almost 50% of M-PESA's total network. Ultimately, M-PESA chose to formalise this relationship due to concerns over the customer experience and now takes an active role in training and monitoring these sub-agents. Thus, M-PESA's relationship with its agents has evolved over time from a direct relationship to a tiered approach which has led to enhanced outreach.

---

[2] "Is There Really Any Money in Mobile Money?", Paul Leishman, GSMA Mobile Money for the Unbanked.

[3] CGAP's Agent Management Toolkit: Building a Viable Network of Branchless Banking Agents