MicroSave India Focus Note 97

How to Make Optimum Use of Agent Networks (1/2)

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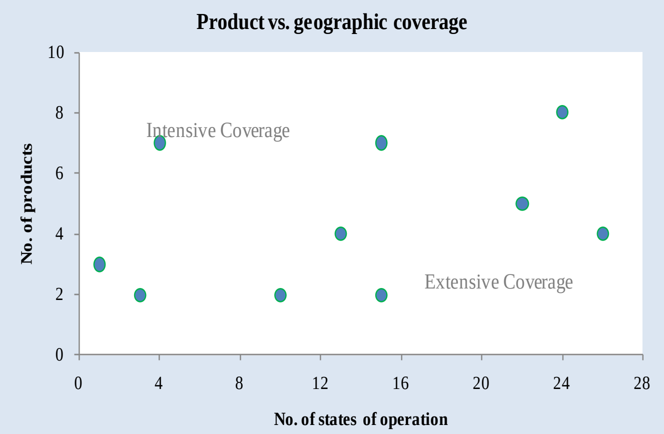
With more than 99 million no frills accounts (NFAs) opened so far and close to 110,000 BC outlets, India's financial inclusion industry is about to undergo a massive scale up.[1] The Ministry of Finance goal of 100% financial inclusion in the country has, thus far, been the primary reason behind these numbers and the large scale of business correspondent (BC) deployments. However, as these deployments mature and revenue from account opening dries up, a more compelling business case for agents, the backbone of these initiatives, will be required to keep them motivated and actively engaged.

In a recent survey conducted by *MicroSave* with 11 major business correspondent network managers (BCNMs) in India, the top four reported agent dormancy levels as high as 43%.[2] Based on *MicroSave* analysis of empirical data gathered from major BCNMs, currently, an average BC agent in India earns between Rs. 1,000-1,500 per month, which is far below their aspirations. *MicroSave* field research on agent networks in India shows that agents expect commission earnings in the range of Rs. 3,000-10,000 depending on rural-urban context.



BCNMs

Most BCNMs offer four or less products, but operating in more than 10 states.

From survey of 11 BCNMs conducted by *MicroSave*

As the graph shows, BCNMs still appear focused on increasing geographic coverage as opposed to providing intensive coverage with multiple product offerings in their existing areas of operation.

With limited products to offer, agent networks are currently under-used and consequently unprofitable. This Note explores opportunities for BCNMs to make their agent networks viable thus ensuring stability of deployments and a win-win value proposition for all the concerned stakeholders. An institution may choose between various opportunities available, depending on its operational context, to meet their agent's expectations. The Note highlights four broad options that BCNMs can explore to enhance their viability which are as follows:

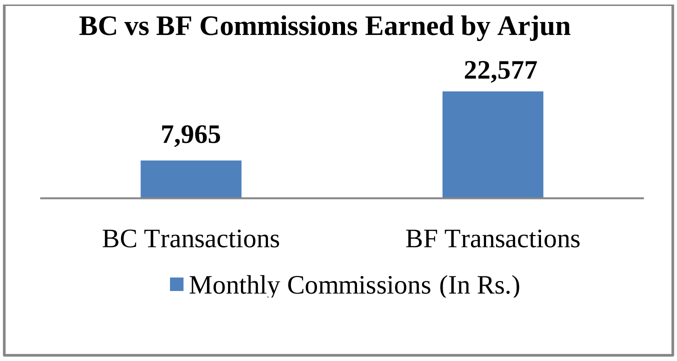
1. Selling and servicing asset and liability products of partner banks
2. Offering generic payments solutions
3. Offering tailor-made payments solutions for businesses
4. Selling third party products

1. Selling and servicing asset and liability products of partner banks

1.1. Opportunities as Business Facilitators

Although the concept of business facilitators (BF) is as old as business correspondents (both were outlined in the RBI circular of January 25th, 2006), the industry seems to leverage the opportunities in the latter more than the former. Both these roles complement each other well and can drive agent viability to great extent.

Arjun, a BC of State Bank of India (SBI) in Assam, is evidence of how income from BF activities can supplement income from BC activities and enhance viability of a BC outlet.



As the figure shows, 74% of Arjun's commissions come from his BF role of referring loan clients to SBI.

[1] Reserve Bank of India Monetary Policy Statement 2012-13 by Dr. D. Subbarao

[2] Kapoor R. et al, State of Business Correspondent Industry in India – The Supply Side Story, March 2012

A [Rapid Agent Assessment](#) of the BCNM that manages Arjun's agency revealed two profiles of agents. The first were agents who were already BFs, and were referred to BCNM to act as BCs. The second were those who were chosen by BCNM to act as BCs, and later on went on to play the role of BFs as well. All these agents were earning a minimum of Rs. 5,000 per month. The BCNM takes 30% of total commissions paid for providing infrastructure and operational support.

In another study conducted by *MicroSave* on the agent network of a large public sector bank, the average revenues per agent/month came out as Rs. 5,716 (based on empirical data for a sample of 170 agents) – five times the national average of RS.1,189. The revenue break-up of these revenues was particularly instructive. Loan referrals contributed 43% of their total revenues, while deposit mobilisation via time deposits contributed 34%. Commissions from NFA activities contributed a meagre 3% of total revenues. The study highlights the importance of having a broader product basket in driving agent viability.

SBI commission schedule for business facilitation

Services Offered	Commissions (BCNM/Agent)[3] (in Rs.)
Regular Saving Bank a/c	Rs.20 per a/c
Current a/c	Rs.25 per a/c
Recurring Deposit a/c	Rs.25 per a/c
Account maintenance fees	50 Paisa per a/c
Demand loan	0.25% of loan amount
Overdraft against gold	0.25% with max Rs.100
Term Loan -Agri/SME	0.75% of sanctioned amount on first disbursal and 0.25% if account is regular after 1 year
Cash Credit	0.75% on 50% utilisation and 0.25% if account regular after one year
Recovery for Non-Performing Assets	10% of recovered amount

1.2 Leveraging CSC Infrastructure

Under the national e-governance plan, government aims to provide G2C and B2C [4] services through a network of more than 100,000 customer service centres (CSCs) in the country. Leveraging the CSCs infrastructure can be a significant opportunity for agents and BCNMs alike.

The experience of AISECT (All India Society for Electronics and Computer Technology) and NICT (Network for Information and Computer Technology) in Madhya Pradesh highlights the effectiveness of such a delivery model. As on March (2011),[5] about 73 NICT CSCs offer BC services, and 250 NICT CSCs offer BF services, in 13 districts of Madhya Pradesh. NICT agents earn a minimum of Rs. 3,000 per month by offering these services. In some cases agents have earned as much as Rs. 50,000 in a month, by pushing BF services, including loan and credit card processing.

Front-end technology interface and connectivity issues may restrict some of the existing BCNMs from venturing into this space. Nevertheless, organisations like Srei Sahaj that have been given significant mandates[6] to set-up CSCs have tied up with banks to offer BC services and are considering BF opportunities in some geographies, in their efforts to enhance revenue and overall profitability of these centres.[7]

Conclusion

This Note discussed the need to optimise use of agent networks and enhance their business case through product diversification. There can be a substantive upside from offering business facilitation services and leveraging CSC infrastructure for the same. The next Note ([India Focus Note 98](#)) highlights other services (i.e. generic/customised payments solutions and selling third party products) that can support agent economics.

[3]Where the agent is directly appointed by bank, the entire commission accrues to him. Where the agent is promoted/managed by a BCNM, he/she receives 70%-80% of such commissions, while residual is taken by BCNM.
[4]Tax returns, passport, driving license, land records, property registration, birth/death certificate, agri-commodity pricing, employment exchange etc.
[5]http://www.mit.gov.in/sites/upload_files/dit/files/Financial_Inclusion_through_CSCs_28_02_2011.pdf
[6]Estimated to be around 30% of all national mandates
[7]Indeed some Srei Sahaj agents have already entered into BF arrangements with banks in their individual capacity.