

## Policy Brief # 3

### Remittances: The Evolving Competitive Environment

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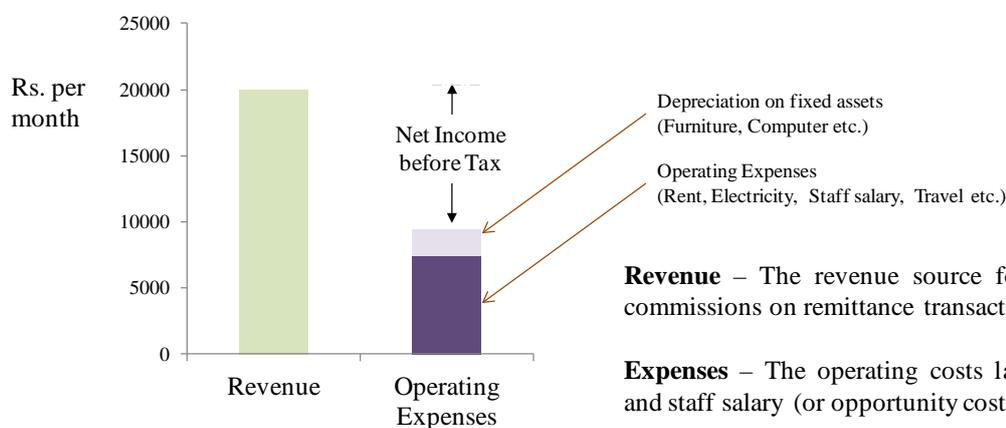
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#### Background

As the business correspondent model begins to mature, it is appropriate to review its progress – particularly in the context of the urban environments, where competition is breaking out and some clear trends are already emerging. This Brief examines the various facets of remittance product offerings, highlights some important aspects and issues around the different remittance models, agent economics, client protection and the way forward.

Consumer pull and economics have resulted in remittance products becoming a prime focus for an increasing number of business correspondence network managers (BCNMs) and agents. The business case for urban agents operating in areas where many migrants, in large numbers, live or work is quite favourable, as can be seen from the example of an average agent of a leading BCNM in the graph below.

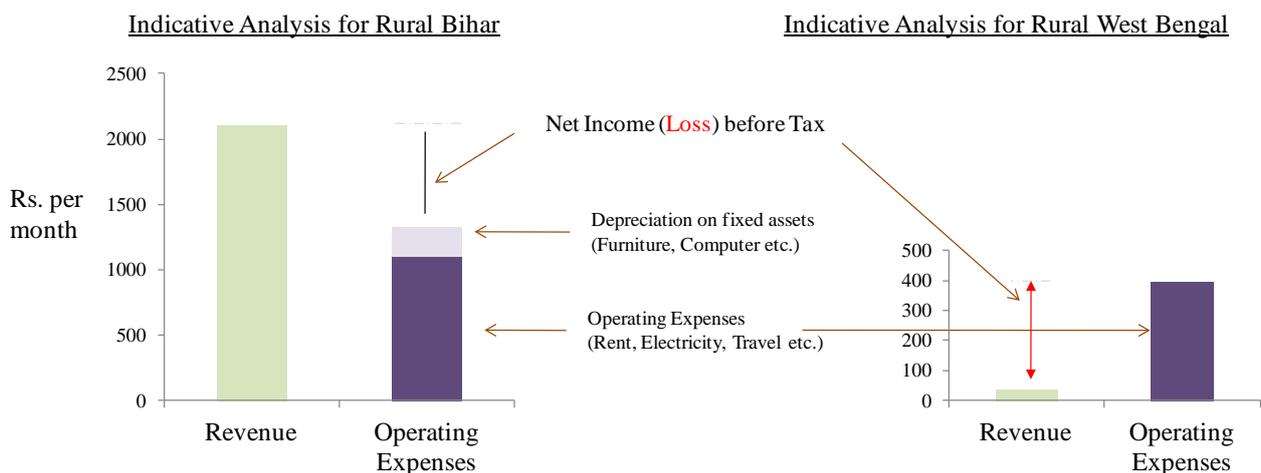


**Revenue** – The revenue source for CSPs is mainly the commissions on remittance transactions.

**Expenses** – The operating costs largely comprise rentals and staff salary (or opportunity cost of support staff)

Non P&L items include cost of capital.

However, the business case for rural agents is much more tenuous. They have fewer (and more dispersed) customers, essentially recipients of domestic remittances from urban centres. The gross revenues of rural agents are often only a tenth (or even less) of their urban counterparts. Even after apportioning operating costs across an agent's main business and the business correspondence activities, (excluding expectations of a salary by the entrepreneurial agents), it is difficult to make even the thinnest of margins. This can be seen from the analysis of two more agents from the same leading BCNM below and is discussed in more detail in [MicroSave Policy Briefing Note # 2 The State of Business Correspondence: Agent Networks in India as of March 2012](#).



### Three Ways To Remit

With the obvious business potential from remittances, innovation by banks and BCNMs has led to three common approaches being followed.

**Direct to Core:** This allows remitters to deposit into a “non home” branch account of the recipients leveraging online access to the core banking systems. SBI’s ‘*Tatkal*’ is a major example of this approach. Remitters, who need not even be SBI account holders, can deposit cash through an agent appointed by the bank, instead of having to visit a bank branch.

**Account to Account Transfer:** This requires both the sender and the recipient to hold accounts with the same bank, albeit through a business correspondent (BC). It is similar to P2P transfers at banks, with the difference that transfers are done from BC agent locations through no frills savings accounts.

**Interbank Transfer:** The account to account model enables transfers within a specific bank (or its BCs). A variant of this model allows even inter-bank transfers. The providers use national electronic fund transfer technology (NEFT) to enable this service.

**Direct to Core:**<sup>1</sup> Eko, Oxigen, A Little World/Zero Mass Foundation and others experienced significant success with the State Bank of India’s (SBI’s) *Tatkal* remittance product, which allows the transfer of money into ‘non home’ SBI accounts anywhere in India. Market demand for this product is reflected in the growth BCNMs have witnessed. For example, the remittance transactions at Eko’s outlets increased by 36% to 398,386 in Oct-Dec 2011 from 292,739 in July-September 2011. The value of transactions also grew by 38% to Rs.1.6 billion (US\$36.7 million) in the last quarter of 2011 from Rs.1.2 billion (US\$26.5 million) in July-September 2011.<sup>2</sup>

**Account to Account Transfer:** Banks have launched/piloted variants of P2P money transfer products. Some examples include Vodafone-HDFC Bank’s M-Paisa, Idea-Axis Bank’s Idea My Cash, Nokia-UBI’s erstwhile Nokia Money, and SBI-Eko account to account transfer. Most business correspondent network managers (BCNMs) are offering this service in their product mix.<sup>3</sup>

**Interbank Transfer:** Interbank transfer method leverages the NEFT (National Electronic Fund Transfer) infrastructure used by the mainstream banks. The remitter is often required to follow two steps. First, a one-time registration of the account/payee in the bank’s system using details of bank account, IFSC code, etc.; and second, send money to the registered account/payee. FINO with UBI<sup>4</sup> and Oxigen with Yes Bank are two examples of BCNMs offering this model. Under some BC models like *Suvidhaa*, in partnership with Yes Bank,

<sup>1</sup> The channel is also known as D2C deposit.

<sup>2</sup> See *MicroSave India Focus Note 68 “SBI Tatkal: From Cash To Cash Cow”*

<sup>3</sup> *MicroSave’s* internal studies on BCNM assessments. UBI may now offer Nokia Money in new avatar as Nokia pulled out of mobile banking services recently to concentrate on their core business.

<sup>4</sup> Now even non-FINO customers can make these transfers without depositing into an account at the sender’s end. They use the sender’s mobile number as their unique ID.

the sender is only required to register with a valid identity proof and the inter-bank transaction is a one step process, as long as the IFSC (Indian Financial System Code) of the recipient bank is known.<sup>5</sup>

### Remittance Market Dynamics: *Market Share*

BCNMs offering SBI-*Tatkal* services are losing market share to new players that offer transfers via NEFT since:

- ✓ With the increasing competition, higher margins are currently available for NEFT transfers
- ✓ Multi-bank deposits are possible through NEFT
- ✓ Transaction limits are higher (up to Rs.50,000, US\$1,000)
- ✓ Retailers find this product more attractive as it gives them access to a larger customer base as they are not restricted only to the customers of one bank
- ✓ SBI's conservative policy on appointing new agents, which has limited the growth of the agent network offering *Tatkal* services.

### Remittance Market Dynamics: *Increasing Competition and Pricing Differentials*

The remittance market has become highly competitive, with a number of players offering similar products. The new entrants are trying to compete on price and offering these products at lower price points. However, pricing is still not a critical factor influencing customer decisions. This is because the customers are not fully aware of the pricing of different services, and not many BCNMs have clearly communicated pricing through signage/posters/boards. Overcharging customers using arbitrage opportunities is common place. Agents offer both *Tatkal* and NEFT - they perform transactions using NEFT with a lower cost to them, but charge the higher *Tatkal* price to customers. As customers become aware of the pricing, it will become a critical factor influencing customer decisions.

Institution	System	Enrolment Charges	Transaction Fees as of December 2011
Eko	SBI- <i>Tatkal</i>	None	Up to Rs.1250 = Rs.25 Rs.1251-Rs.5000 = 2% of value Above Rs.5000 = Rs.100
Suvidhaa	NEFT	Rs.25	1.5% of value
FINO	NEFT	None	Up to Rs.25,000 = Rs.40; Rs. 25 for UBI
Oxigen	SBI- <i>Tatkal</i>	None	Same as Eko
Nokia Money	SBI- <i>Tatkal</i>	Activation charge via SMS/IVR = Rs.30; Activation through application = Free; ATM Card = Rs.100	Cash withdrawal at agent = Rs.25; Cash withdrawal at UBI ATM = 5 transactions free, thereafter Rs.18/transaction; P2P transfers = 3% of value

Note: Assuming an average transaction size of Rs.5000 for the target segment  
Suvidhaa = Rs.50; FINO = Rs.40; Eko = Rs.100

### Remittance Market Dynamics: *BCNM-Agent-Customer Influence*

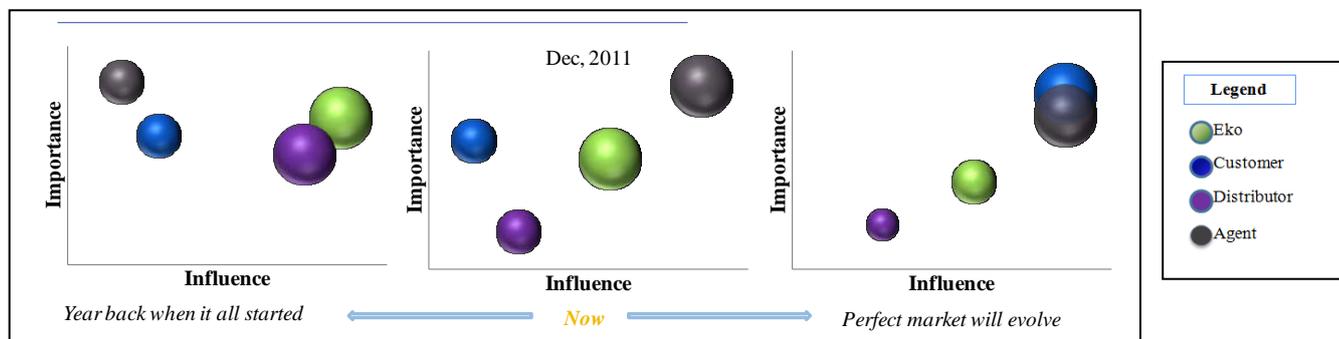
With the highly competitive market and high levels of demand, the stakeholders involved have differing and evolving levels of influence and power. The graphs below show the shift in relative influence and importance of various channel stakeholders over time. A year back when *Tatkal* started, Eko was the only service provider offering this product. At that time Eko had a greater control over its retailers (agents) and distributors (or “super agents”). The distributors also had an important role as they were instrumental in gaining access to new markets.

New service providers offering remittance products are now directly targeting the retailers/agents in the areas where incumbents, like Eko, are already working and have educated the market. Since the retailers/agents now have choice, they are becoming increasingly important and also (at present) have the most influence on the market. Customers are still not aware about the choices available and thus are not

<sup>5</sup> IFSC is 11 character code assigned by RBI to identify every bank branches uniquely to facilitate NEFT system in India.

making informed decisions especially based on factors such as price. Indeed this provides opportunities for the supplementary charges for “express” or “guaranteed” services that are common.

In the near future, however, it is expected that the customers will have access to more service providers and will become more aware about the choices and prices available. In such conditions, it is expected that the customers will start making decisions and thus will be most influential. See diagram below.



Note: Bubble size shows overall influence/importance in the market

**Remittance Market Dynamics: Entry Barriers for Agents**

The entry barriers for agents to sign up for service providers vary, but overall are low.

- ✓ Limited security deposit
- ✓ Most of the agents targeted already have the required infrastructure (mobile or desktop, internet connection, etc.)
- ✓ Eko and Oxigen require police verification as part of the due diligence process

Service Provider	Security Deposit	Other costs
Eko	Non-refundable = Rs.6,000 Refundable = Rs.15,000	None Police verification
Suvidhaa	Non-refundable = Rs.7,500 CSP get e-balance of Rs.750 in return	Internet charges of Rs.300-500 p.m.
FINO	Refundable = Rs.50,000 CSP get e-balance of Rs.50,000 in return (and an option of OD of additional amount of Rs.50,000 from the bank)	Internet charges of Rs.300-500 p.m.
Oxigen	Non refundable Rs.15,000	Internet charges of Rs.300-500 p.m. Police verification

**Remittance Market Dynamics: Agent Commissions**

Institution	Enrolment	Transaction Commissions as of December 2011		
Eko (monthly)	None	Up to Rs.1250 Rs.1251-Rs.5000 Above Rs.5000	Rs.5 Rs.10 Rs.15	
Suvidhaa (Real-time)	Rs.10	0.3% of value		
FINO (Monthly)	None	Rs. 8 per transaction		
Oxigen (Monthly)	Rs.10		Direct	Through distributor
		Up to Rs.2000 Rs.2000-Rs.5000 Above Rs.5000	Rs.10 Rs.15 Rs.22	Rs.8 Rs.12 Rs.18

As of December 2011, commissions offered by FINO and Suvidhaa for NEFT enabled transactions were higher than those offered Eko and Oxigen for SBI *Tatkal*. Oxigen was offering higher commissions for SBI *Tatkal* than Eko. This is clearly the beginning of a price war for agents.

However, only Suvidhaa offers real-time crediting of agent commissions.

Nonetheless, these differences in

commission rates have had significant impact since service providers are now have specifically targeting the same areas as well as agents. This has led to significant agent churn and movement amongst service providers.

### Remittance Market Dynamics: Technology

Eko seems to have an edge in terms of technology compared to competition. Its USPs are:

- ✓ Real-time and anytime transactions (after banking hours and on Sundays)
- ✓ Easy to operate and less complex as compared to kiosk/web-based transfers
- ✓ Confirmation SMS after each transaction

By comparison, NEFT transactions are more complex for an agent as they requires IFSC code, branch name, etc. which are not easily available with all customers. It often takes 5-10 minutes to search for the code and complete the transaction – although if they can remember the code it could be faster.

Service Provider	Platform	Time To Effect Txn.	Txn Time For The Agent
Eko	Mobile based–USSD	Real time	3-5 minutes
Suvidhaa	Web based (expected to launch Suvidhaa Mobile)	3-4 hours	10-20 minutes first time 3-5 minutes thereafter
FINO	Web based	24 hours	10-15 minutes first time 3-5 minutes thereafter
Oxigen	SBI Kiosk Banking (Direct access to core banking system)	Real time	5-10 minutes

NEFT transactions are also processed on a batch basis by the banks, thus leading to some delay in effecting the transaction.

An advantage of POS terminal and web-based platforms (Suvidhaa, FINO and Oxigen) is that agents can access details of transactions and a summary of their commission account and like this facility. They can track their revenues on a daily basis (including tax deductions). In case of transaction failures, they can instantly check its status on the portal. When a transaction fails, it is reflected on the agent’s system within 5 working hours.



*“Agar commission dikh raha hota hai, din ke last mein 100, 150, to banda motivate ho jata hai ki aur better karu”*

(If we can get to know that we have earned Rs.100-150 at end of the day, then we will be motivated to do better).

– Gurubaksh Singh, Eko agent and now Suvidhaa distributor, Okhla Phase II

## Recommendations / Way Forward

- It is essential that banks not just allow, but actively encourage, product diversification to create a viable business case for agents and a substantially improved customer value proposition. This is discussed in detail in [India Focus Note 65 Successful Banking Correspondents Need a Compelling Product Mix](#). Remittance products provide excellent springboards for diversifying the products available at agents as discussed in [MicroSave India Focus Note 79 Graduating SBI Tatkal Customers](#).
- The regulator has clearly indicated that banks are responsible for ensuring transparency and fairness in pricing of products and services offered. Banks need to pay significantly more attention to enforcing this through their business correspondent networks. This might be possible through enhanced monitoring, control systems and processes, and frequent audits of BCNM operations and at times conducting third party reviews / assessments.
- There is a clear and pressing need for greater financial education and product/service marketing both at the national level and at the operational level.
  - At the national level the Reserve Bank of India and the Ministry of Finance need to endorse and promote the business correspondent model – this was started by the “Swabhiman” campaign – but little has been done post that. Business correspondent agents are still often not known and trusted – a challenge that is amplified by the growing level of churn amongst agents, particularly in rural areas. (See [MicroSave Policy Briefing Note # 2 The State of Business Correspondence: Agent Networks in India as of March 2012](#)).
  - At the operational level, few banks are promoting awareness through provision of marketing materials, or in many cases even the referrals from local branches. These need to gather momentum as they are so essential for agents to become viable and sustainable.

Both the national and operational efforts need to emphasise the importance of clearly displayed pricing/tariffs to allow and encourage informed choice by clients.

- As a variety of products are rolled out, banks and their business correspondent network managers will need to start differentiating agents between those that are trained and authorised to sell a variety of financial products (sales agents) and those that are only doing cash in/out transactions (cash merchants). These are necessarily two very different types of agents in terms of education, training, responsibilities and monitoring requirements.
- Business correspondent network managers will need to begin to measure and manage the satisfaction of their agents if they are to ensure loyalty and reduce churn. This requires a concerted and systematic effort. See [MicroSave Briefing Note # 110 Managing Channel Satisfaction in Agent Banking](#) for a discussion of how this might be done.