

Financial Inclusion Through Digital Financial Services

A Guided Tour ... Linked To Resources

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 - Regulatory and policy enablers
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- **Challenges and Lessons Learnt**
 - Getting the strategy right
 - Addressing operational challenges
 - Overcoming barriers to adoption
 - Regulatory and policy challenges

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY...1

- Financial services are a ubiquitous need, but the urban rich have easy and universal access with wider options, compared to the low-income group who are forced to accept informal, expensive and riskier means to fulfill their financial needs.¹
- While the need for a mix of financial products including credit, savings, insurance, remittance, social & welfare receipts, pension and so on, is well established, the demand for specific services can vary widely.²
 - *Key influencers of demand and willingness to pay are demographics, literacy levels, social-dynamics, local enablers and inhibitors, availability of informal and alternate channels (together with their cost and convenience), adaptability to change, comfort with technology, and other exogenous and endogenous factors.*
- At the same time, the demand and the supply of financial services for the poor is imbalanced, with supply being acutely constrained by lack of viability and sustainability of current business models.
- Evolving and newly emerging business models, rapid technological innovations and state initiatives have greatly facilitated supply conditions to improve and for the providers to consider building market-led self-sustaining alternatives to extend banking and other financial services to the excluded.
 - *The policy environment has evolved and (using a mix of loose and tight regulations and taking a controlling, direction setting or mentoring approach):*
 - *Provided suitable incentives and disincentives to promote financial inclusion.*
 - *Enabled banks to extend outreach through third party agents and agent network managers.*
 - *Widespread penetration of mobile technologies and their integration with banking infrastructure has enabled banking services outreach in a low cost and efficient manner through mobiles phones. Advances in biometrics and its integration with POS terminals has enabled substitution of bank personnel by technology, supported by less qualified agents, enhancing security and lowering costs.*
- The financial services sector is also gaining insights from the experiences of consumer goods and mobile services industries, which have achieved far greater outreach and penetration of their products and services by :
 - *(a) understanding consumer needs and staying connected as the needs evolve; (b) designing products that adequately address those needs and create a customer pull; (c) leveraging and riding on deep, wide and resilient, third party distribution networks, that are sustainable due to economies of scale, by offering common ‘infrastructure rails’ for multiple products to ride on; (d) effectively branding, marketing and promoting at various levels, often jointly with value-chain partners, to first create awareness then market push and eventually consumer bonding and trust.*

EXECUTIVE SUMMARY....2

- As a consequence diverse business models have emerged, however very few have attained critical mass or achieved viability. Most are floundering and trying to grapple with sustainability. With larger players – governments, major banks, MNOs, central banks and large agent networks - becoming more active in electronic forms of delivery of financial services in emerging markets, business models will continue to evolve.
 - *These are various motivations for being in the market. Apart from a real-intent towards financial inclusion, these could be - compliance to regulations, preventing customer attrition, finding new revenue opportunities, establishing an additional channel, market differentiation, riding on social payouts, becoming a technology provider and so on.*
 - *Accordingly the business models could be (a) bank-led (b) MNO-led (c) large-agent network led (d) handset manufacture led (e) large corporation-led or (f) a suitable marriage between these.*
 - *The jury is out on which one will succeed - more likely it would be several of them and differ by markets. However the challenges faced in this journey so far and the lessons leaned can stand in good stead as the various models are tested, rolled out and scaled.*
- It is essential to develop a robust and effective strategy from the outset. There may always be an opportunity to correct the strategy later, but that could come at a great cost and pain. Important considerations that can contribute to a sound strategy are:
 - *A business model that is market driven, scalable and profitable to ensure sustainability in the long run.*
 - *Products that are appropriately designed, offering real value to consumers, with apt mix to enable cross and up selling in due course. A single or dual product strategy might not scale and carries too much risk.*
 - *Carefully planned and thought through alliances, partnerships and even vendor support with clear synergies.*
 - *Proven, scalable, secure and cost-effective technology with adequate longevity.*
- Financial inclusion confronts enormous barriers to adoption, some of which can be better dealt with by leveraging the wealth of knowledge and experience from diverse initiatives. The key guiding principals are to stay focussed on:
 - *The consumer needs and expectations around - accessibility, proximity, simplicity, product relevance, ability to transact in low values, promise of adequate returns, pricing according to willingness to pay, establishing trust, ensuring portability, interoperability and safety.*
 - *The agent needs around viable returns, liquidity management, operational handholding, marketing, speed of response, security and keeping them motivated through a diverse range of incentives.*

EXECUTIVE SUMMARY....3

- As institutions traverse this road, there will also be many operational challenges to make the strategy work. These being around:
 - *Managing costs and striving to lower them across the value-chain.*
 - *Growing a customer base and agent network simultaneously to avoid the “chicken and egg trap”.*
 - *Enabling and leveraging the “network effects” to exponentially benefit those using the network of services.*
 - *Striving to achieve critical-mass and preventing the “sub-scale trap”.*
 - *Expanding and sustaining agent network and keeping them motivated for growth.*
 - *Branding, marketing and promoting to develop awareness and trust.*
 - *Managing supply chain, logistics and liquidity challenges.*
 - *Driving efficient integration and interoperability.*
 - *Ensuring physical security of cash and of the agents/transacting customers.*
 - *Investing in skill and capacity building to enable financial and technology illiteracy, overcome language barriers, develop selling and servicing skills, more so as financial products grow in number and complexity.*
 - *Managing risks, establishing controls and ensuring compliance.*
- State, regulators and central banks have a vital role in making financial inclusion pervasive and viable. Major challenges to be addressed are:
 - *Creating an enabling environment that encourages viability for the market participants in a market led approach, while staying focussed on the end objective of financial inclusion for all.*
 - *Driving a balanced approach between Anti Money Laundering/ Terrorist Financing versus consumer convenience around Know Your Customer (KYC) norms and processes.*
 - *Ensuring a level playing field across the multiple and very diverse market participants.*
 - *Driving consumer protection and safety.*
 - *Driving interoperability between players, systems and technologies.*
 - *Driving towards market forces determined (a) balancing of demand and supply and (b) product pricing, but suitably intervening when there is an imbalance.*

FINANCIAL INCLUSION: NEED & ENABLERS

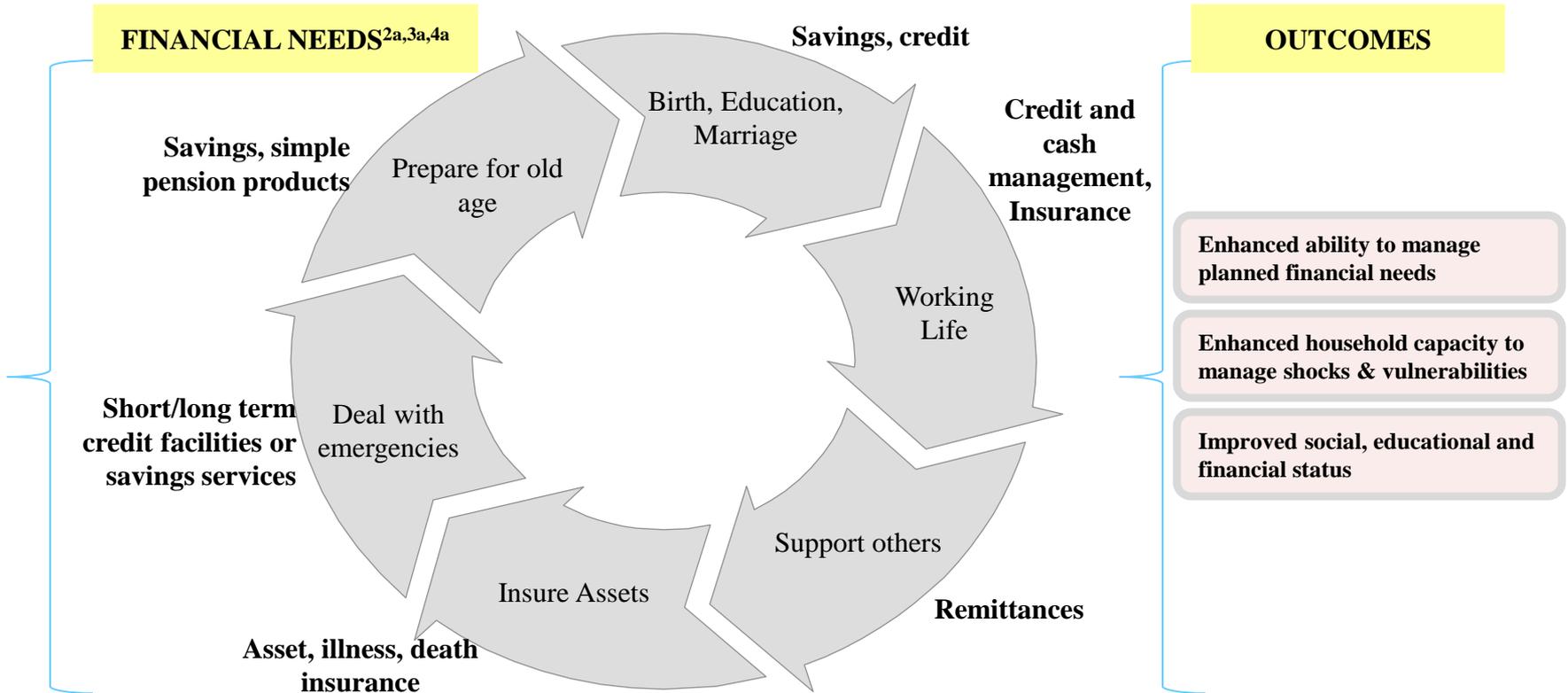
Financial Inclusion: Need & Enablers

- Demand Side Factors
- Supply Side Enablers
- Regulatory and Policy Enablers



Does low income population need financial products?

Access to financial services (in the form of savings, credit, insurance, transfers or welfare payments) is a fundamental tool for managing a family's well being and productive capacity, to smooth expenditure when inflows are erratic, to build surplus when the demand for expenditures is heavy (school fees, marriages, buying farm equipment) or to protect against emergencies. However only one-quarter of financial households have any form of savings with formal banking institutions.^{1a}



Over the years, many studies^{2a, 5a} have unequivocally established that the “unbanked” need and use a range of financial services (not just credit) and are willing to pay the “right” fee for these services.

1a: Mas, Ignacio and Siedek, Hannah, Banking Through Networks of Retail Agents. Focus Note May 2008 and Wright, Graham, Designing Savings & Loan Products, *MicroSave*, February 2010

2a: *MicroSave* Deposit Assessment in India, IFC study, March 2011 and India Focus Note # 67

3a: Mas, Ignacio (2010), New opportunities to tackle the challenge of financial inclusion

4a: See *MicroSave* India Focus Note # 60

5a: Source *MicroSave*, CGAP and Accenture Research

While high-income savvy customers are graduating to a “mobile life”,^{1b} the poor cherish the most basic features^{2b, 3b, 4b, 5b, 6b}

1 Mobile Banking

- Account statement, transaction history
- Wire transfer
- Real time assistance, ATM locator



2 Mobile Payments

- Pay for goods at a store (NFC)
- Bill pay, digital download, m-Commerce
- Funds transfer, international remittance
- Payment of goods to distributors, salary disbursement, social benefits



3 Mobile Life

- Ticketing for transport, car park, in-flight connection
- House/company access control
- Event, promotions, loyalty vouchers



Savvy & high-income group



Give Me Control and Choice

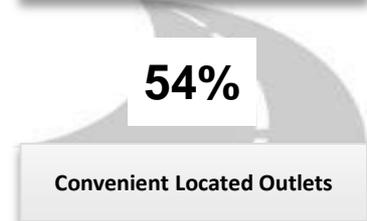


Help Me Help Myself



Know Me Everywhere

Low income group



However demographics, local enablers^{1c} and inhibitors play an important role in determining the demand for specific services

- Migration of poor to urban environments for better and steady wages is quite common in developing countries. This leads to the first and second generation migrants usually remitting money back to their split families or for reasons of cultural affinity.
- The need to move funds between individuals who are outside the banking sector in countries with low bank penetration like Kenya and Philippines is well documented.^{2c}
 - In Kenya M-PESA from Safaricom has leveraged this need to achieve significant take-up. In the Philippines, Smart Money and GCASH have enabled large amount of money transfers between urban and rural areas and overseas, leveraging the distribution advantages of MNOs.
 - In India, Eko has seen a rapid growth in mobile transaction volumes^{3c} in select corridors (New Delhi – Bihar) after launching domestic remittance product “*Tatkal*” from State Bank of India, a leading public sector bank with deep penetration.
- The phenomenal success of M-PESA^{4c} has been due to factors, specific to their context and not necessarily replicable, which is why a similarly resounding success story has not happened again ... yet.
 - Some of these factors were (a) migrant earning population with strong bonds to their rural homes; (b) limited or expensive alternatives for remittances; (c) a strong, dominant and respected brand in Safaricom with predominant (67%) market share; (d) enabling regulator that allowed Safaricom to venture into financial services; (e) techno-savvy Kenyan people who were keen to experiment with and adopt new technology and products.

- In agrarian economies dependence on weather, rainfall, landholding, market-demand enormously influence financial needs, such as for credit or insurance.
- Accessing State benefits that offer minimum wages or pensions for the elderly influence the need for financial services such as savings accounts or regular contributions into a pension plan.
 - Low income segments in South Africa use their bank accounts to receive salaries. For the unbanked, cash-out facilities are provided by government. This explains the low uptake of e-/m- enabled financial transactions.
 - On the other hand, in India, where few alternatives exist for the unbanked, FINO and SEED have witnessed huge volumes of pro-active client enrolments and electronic benefit transfers (EBT) transactions by rural beneficiaries receiving social payments - minimum employment wages (NREGA) or old age pension funds.^{5c}
- In Brazil, utility and other payments including welfare payments have been tapped by large banks using branchless banking methods.^{4c, 6c} Initially started and incentivised by the State for social and welfare payouts, the services gradually scaled and became mainstream financial services. The utility payments were regulated as a bank-service and hence became another catalyst. State also efficiently utilised resources in enabling the formation of a dominant agent network

Recognising client needs, their context, drivers & influencers and building financial services strategy on these is critical for succeeding in the long run.

Access, range, quality and cost of existing alternatives strongly determine the demand^{1d} of financial services from formal channels^{2d}

The existence (or otherwise) of alternatives, their accessibility, range of offerings, consumers trust in their quality and finally what they cost has a significant bearing on the market opportunity and acceptance of a new financial channel or product.

The attributes^{3d} consumers usually apply to assess alternatives are

- (a) Direct Costs
- (b) Indirect Costs
- (c) Safety
- (d) Reliability
- (e) Convenience
- (f) Liquidity
- (g) Opportunity Costs

- Alternatives could be formal, semi-formal (legal but not regulated) or informal^{4d}
- If good real alternatives exist, as in developed markets, it will be difficult to convince users to switch
- At the other extreme, if no alternatives exist, it becomes a challenge to establish a new service category in people's minds, resulting in slow acceptance, and requires heavy initial investments



MicroSave used its Cost-of-Cash Tool to determine the types of transactions that cause most “pain” or “stress” for customers dealing in cash. The findings^{5d} reflect relative important of four important considerations that weigh in the minds of poor people in their assessment of existing alternatives for various categories of financial services

- **Transaction Costs:** (costs incurred in carrying out the transaction (commissions, transport costs, late fee and so on, apart from actual transaction amount)
- **Time Spent:** (waiting, travel, transaction time, etc.)
- **Opportunity Cost:** (value of next best alternative, such as value associated with lost wages, lost sales, time for family/leisure)
- **Risk of Holding Cash:** (potential of cash lost, stolen, spent needlessly and so on)

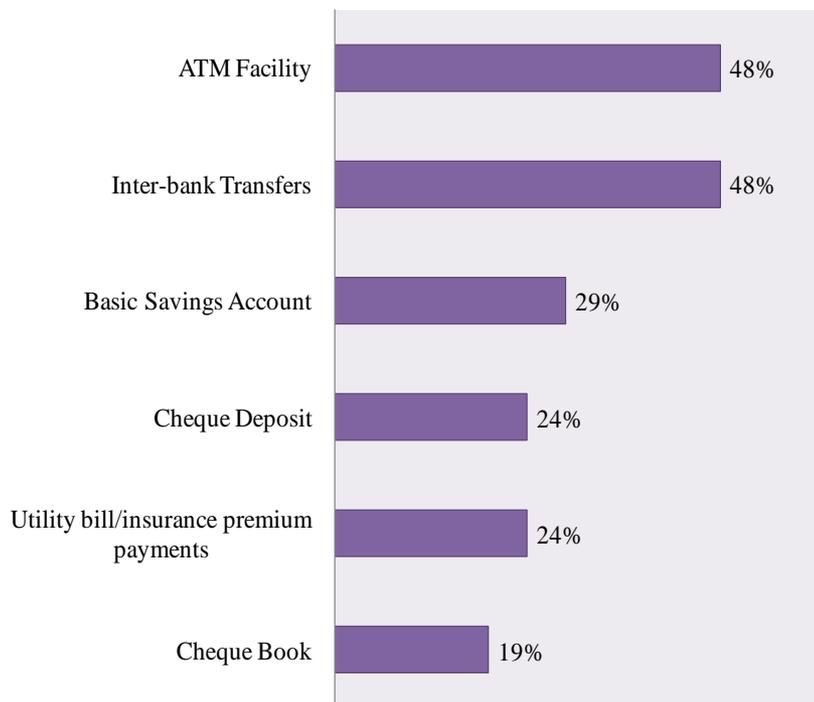
Utility payments were found to be low pain. Whereas high pain categories seemed to be (a) festival expenses (b) hospital expenses (c) household /food spent and (d) savings came out as other high pain transactions.

Financial inclusion business models that (a) offer a variety of savings options (b) allow easy and frequent savings possibilities (c) offer security and can establish consumer trust (d) are easy to access and simple to comprehend and (e) priced according to consumer perceived value, will invariably witness windfall demand^{6d}

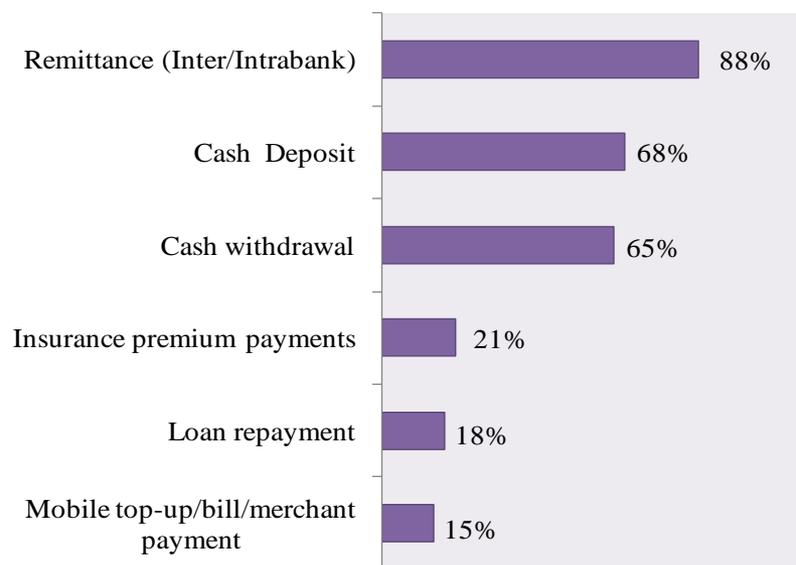
Consumer-pull is key!

Certain products like money transfers / remittances and welfare receipts have a natural pull. A deeper understanding of consumer aspirations and preferences is essential for the success of other products that do not have the benefit of a natural pull

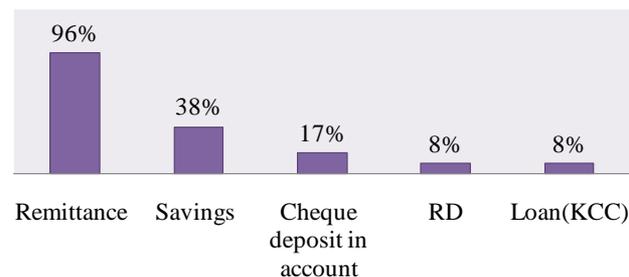
Services urban consumers aspire to^{1da}



Transaction preferences of urban consumers^{1da}

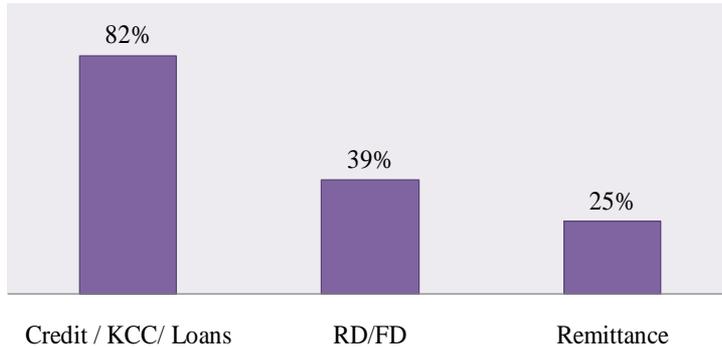


Agents' perception of urban consumers' needs^{1da}

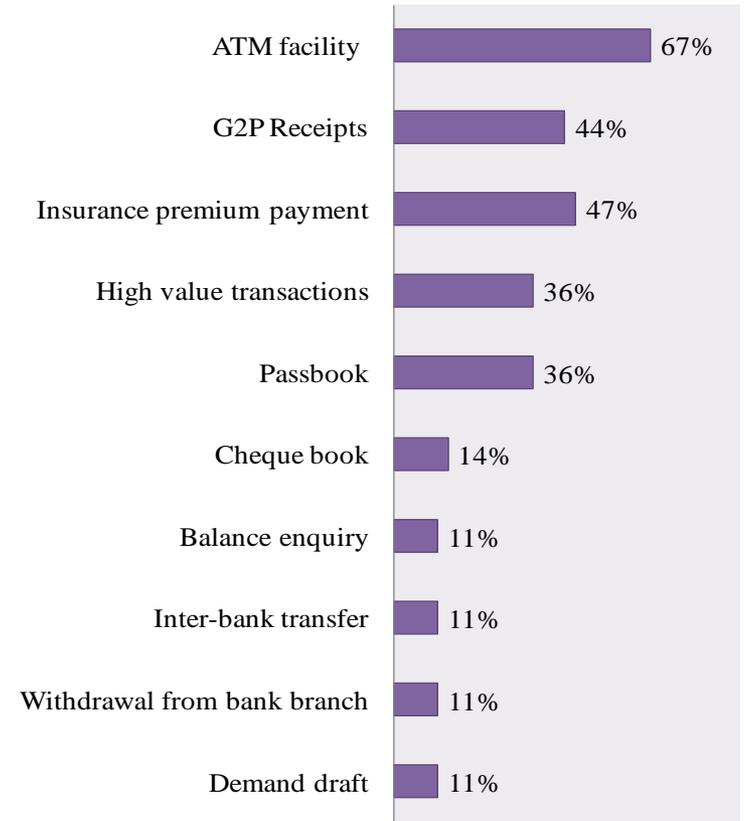


Rural consumers too are increasingly maturing – aspiring to multiple banking products and advanced services / facilities

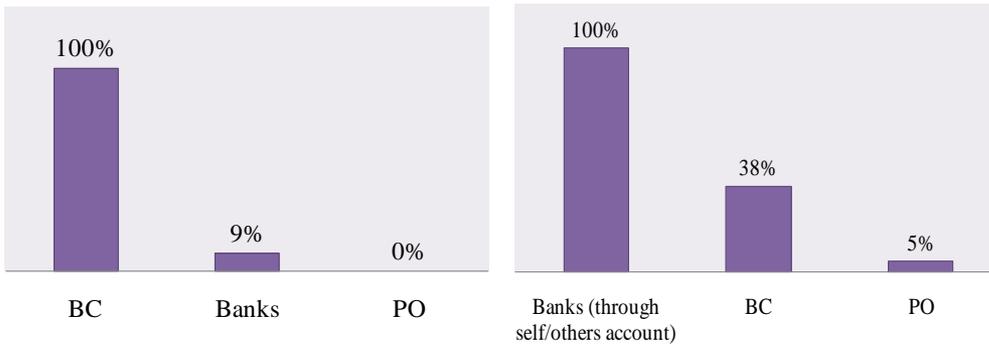
Banking products rural consumers aspire to^{1db}



Services rural consumers aspire to^{1db}



Channel preferences of rural consumers^{1db}



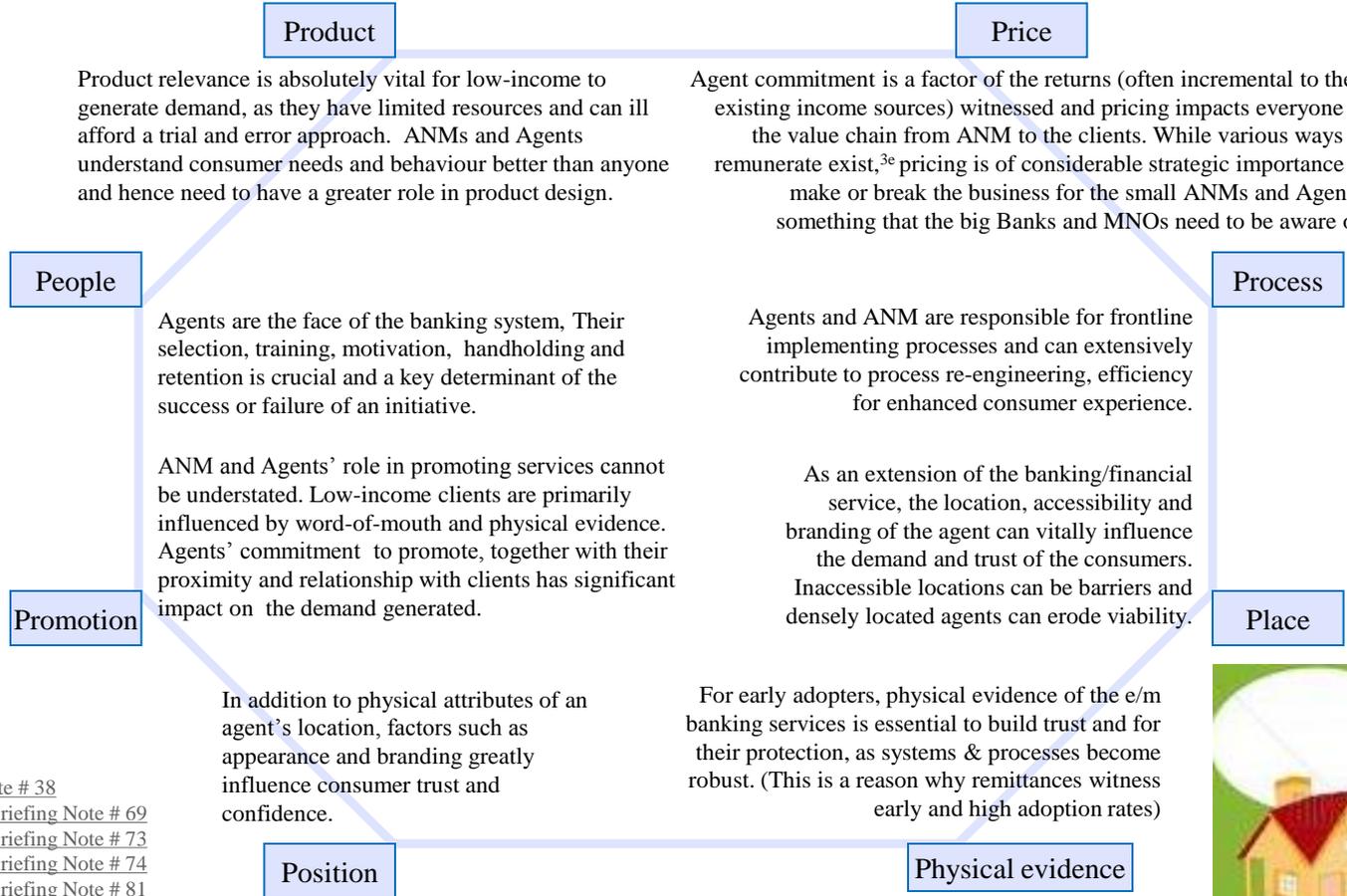
Welfare payments

Remittance receipts

Aspiration to access ATMs and cheque books and ability to discern channel preference for varied types of financial transactions (welfare payments versus remittance receipts) is evidence of rural consumers’ maturity and complex financial needs. This also call into question the commonly held belief that the poor need basic “financial education”.

Agent Network Managers (MFIs or BCs in India) and Agents^{1e,2e,3e} have a pivotal role in influencing demand for e/m banking

Agent Network Managers (ANM) and Agents can influence the demand for financial services due to several factors. Using an 8P framework^{3e, 4e}, these influences on demand are analysed below



Considerations, drivers and motivations for Agent Network Manager and Agents to promote e/m banking and their selection criteria are examined subsequently^{5e, 6e, 7e}

1e: CGAP Focus Note # 38
 2e: See MicroSave Briefing Note # 69
 3e: See MicroSave Briefing Note # 73
 4e: See MicroSave Briefing Note # 74
 5e: See MicroSave Briefing Note # 81

6e: See MicroSave India Focus Note # 38
 7e: See MicroSave India Focus Notes # 65, 66, 68

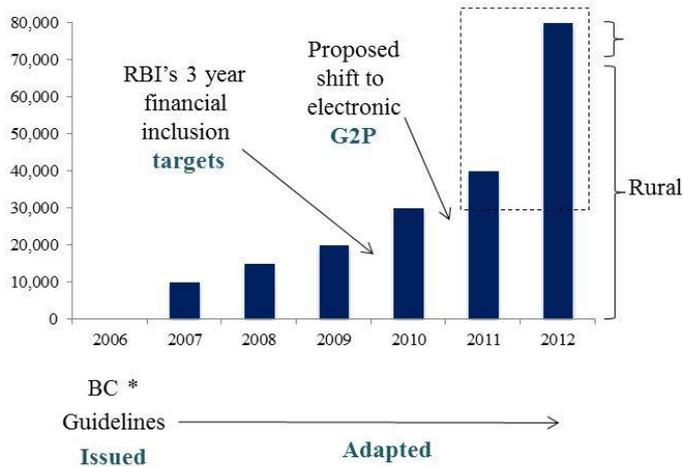
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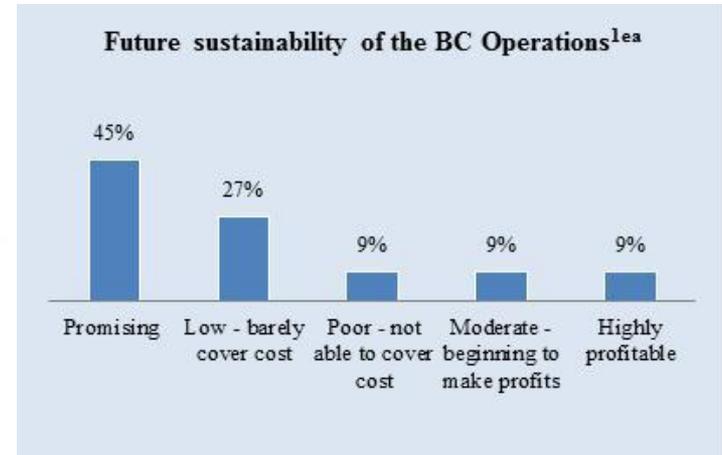
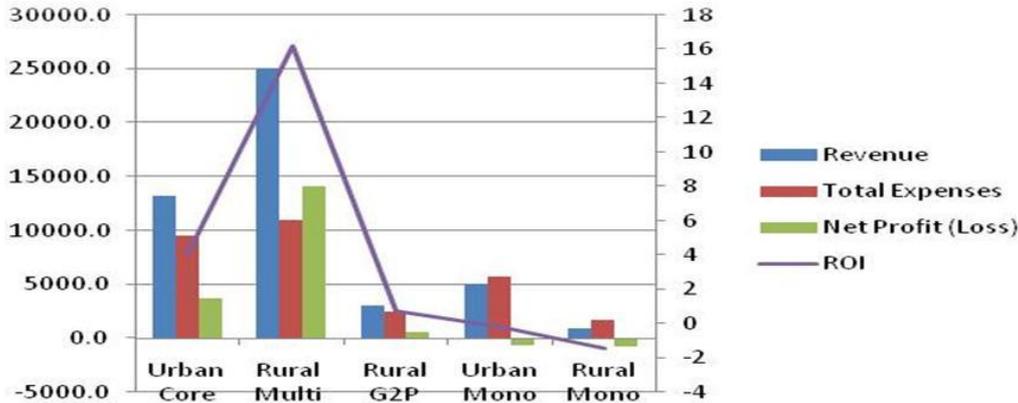
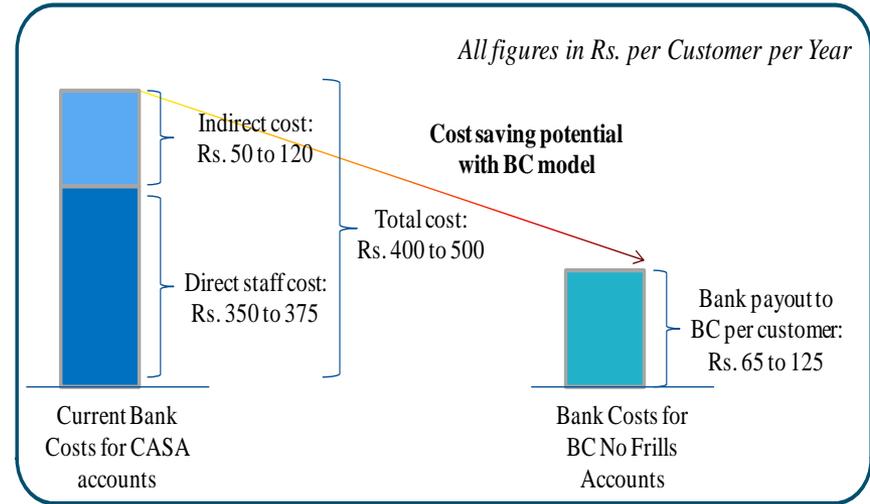


Lessons learned over the past several years is enabling new players to emerge and business models to improvise

Estimated (all India) Business Correspondent*
Customer Service Points



Hard economics^{2ea}



1ea: *MicroSave Survey* : State of Business Correspondent Industry in India – The Supply Side Story

2ea: *MicroSave Paper* : Why E/M-Banking Will Soon Reach Scale In India

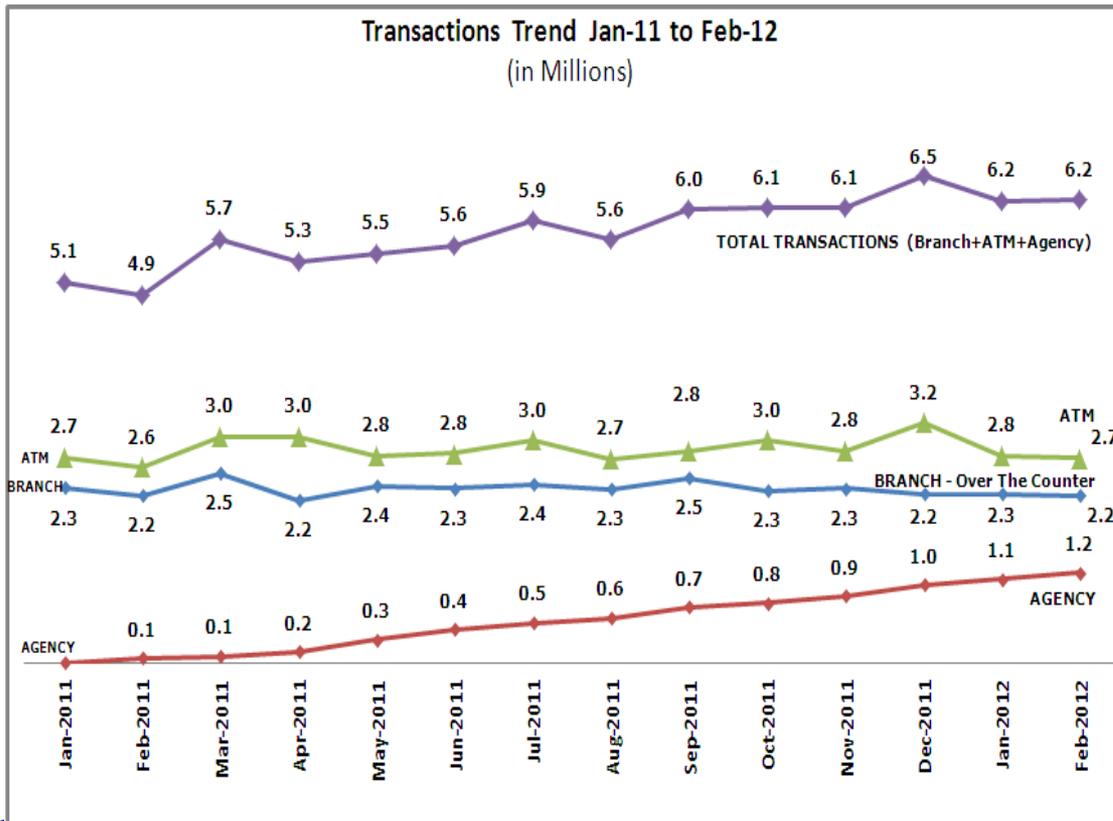
3ea: *MicroSave IFN 80 Driving Viability for Banks and BCs*

4ea: *MicroSave Rapid Agent Assessments and other Analysis*

Progressive banks and ANMs with optimistic outlook are following innovative approaches to address the BoP market

One Bank Is Already Showing Bank-led Models Can Work ... (1/2)

- Most successful e/m-banking systems continue to be MNO-led and thus payments/remittance dominated.
- *MicroSave* is working with this bank (on products, agent network development, training & monitoring, as well as marketing & communications) to change this ...

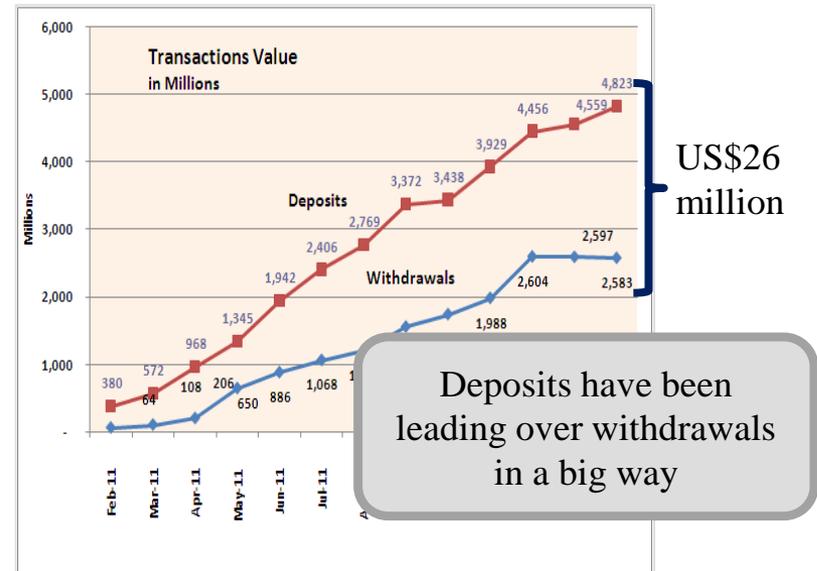
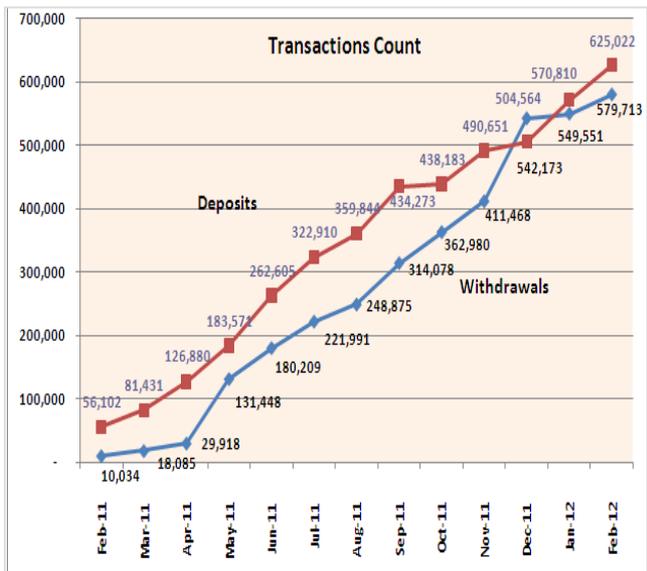


- Agency already 50% of branch transactions ...
- And all are additional transactions
- >700,000 accounts reactivated since the introduction of the agent-banking.
- Trend continuing, in Q1 2012 alone, 211,528 accounts were reactivated.

Progressive banks and ANMs with optimistic outlook are following innovative approaches to address the BoP market

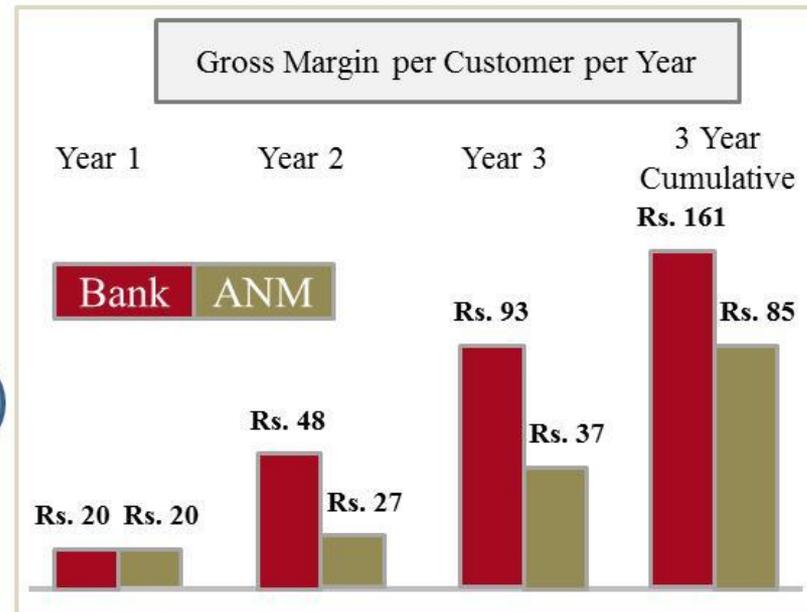
One Bank Is Already Showing Bank-led Models Can Work ... (2/2)

- And savings balances are growing
- Even before e/m-banking tailored products are introduced ...
- The future:
 - Products specifically designed for delivery through agents
 - Self-service pre-scored credit or credit secured by recurring deposit savings balances
 - Agents' role in loan processing, insurance sales etc. increased
 - Branch staff roles shifting from cash handlers to financial service advisers/agent managers



Offering the right product mix certainly holds promise for a viable business model by meeting consumer needs and aspirations

A viable proposition for bank and ANM



Product Mix	Year I	Year II	Year III
	Social Security Pension	Social Security Pension	Social Security Pension
	-	-	OD (10%)
	-	SHG (10%)	SHG (25%)
	-	Remittance (5%)	Remittance (15%)
	-	Group Accident Insurance (10%)	Group Accident Insurance (40%)

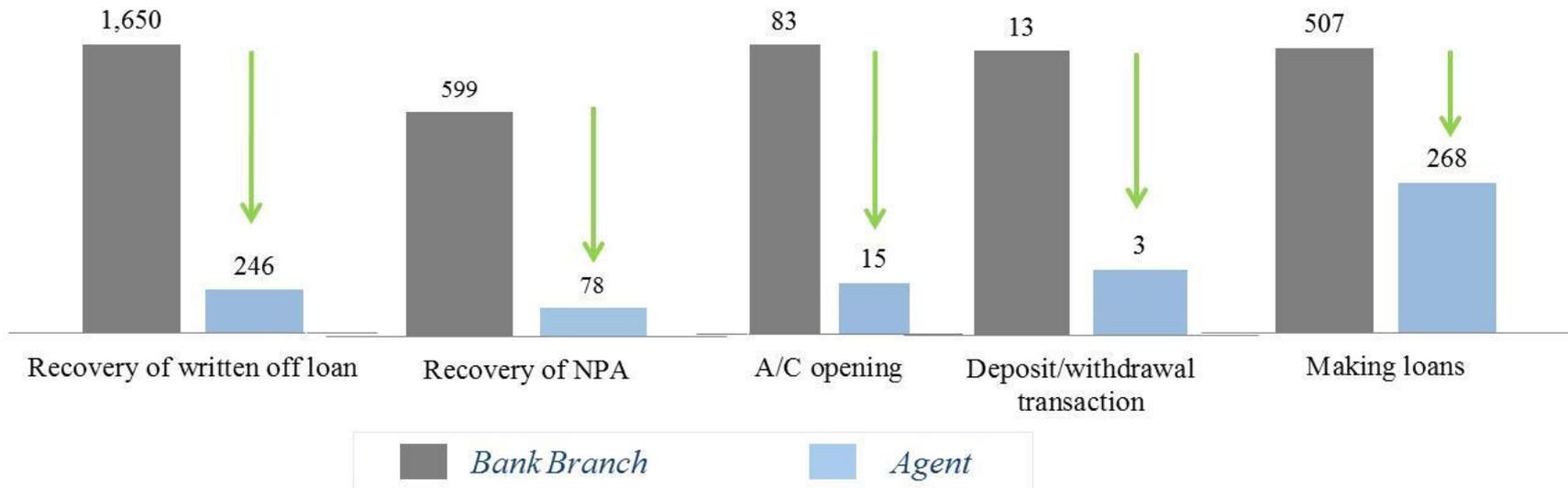
Source: BCNM Internal Estimates (All costs and revenues are per customer per year)

led: MicroSave Analysis

In addition, direct and indirect cost savings^{1ee} through branch-less banking are too significant to be ignored

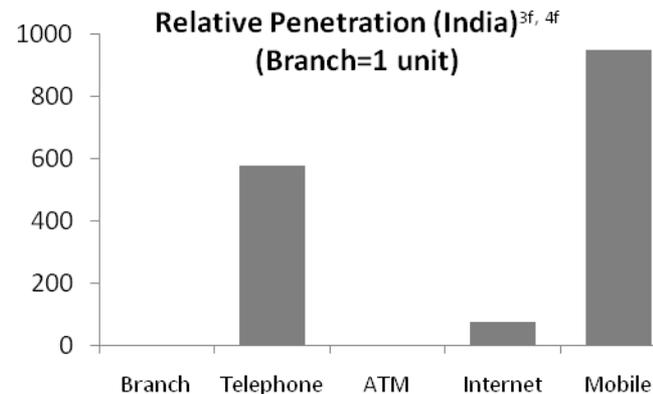
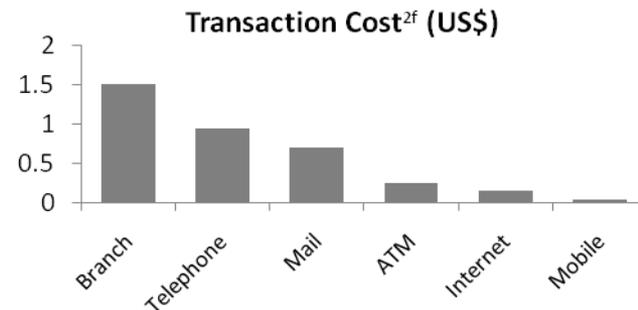
- *Cost savings opportunities for banks are obvious but not recognised yet. Certain banks are already achieving significant cost savings by leveraging the agents effectively for lead generation, business sourcing, supporting low-value/high-volume activities.*
- *These learnings can be handy for other banks to adopt branchless banking channels more effectively.*

Comparison of average cost per transaction (in INR for an Indian PSU bank)



Rapid technology evolution has aided smart, consumer friendly, yet viable, financial inclusion options become a reality

- Traditional banking and financial services were very capital and labour intensive limiting focus^{1f} on few high value low volume transactions carried out by high net-worth customers.^{2f}
- Technology for banking has rapidly evolved and scaled, allowing remote anytime, anywhere availability of secure financial services to become commercially viable.
- The benefits however still remain accessible to a limited segment of urban literate technology-savvy customers and banks are yet to adopt to the low-value, high volume transactional needs of the poor to be served in low density, remote environments.
- The interplay of banking technologies with mobile technologies, that have much wider penetration, hold new promise of financial inclusion for the masses.
 - Apart from simply leveraging mobile phones for basic and advanced banking, innovation in this space is reaching new levels such as allowing mobile technology to transact through ATMs or using SIMs to operate credit/debit card POS machines on mobile networks.
 - M-PESA's mobile payment service introduced non-card based ATM withdrawals to meet the unique needs of certain customers (like withdrawal of salary, welfare payments involving large sums at the end of the month) that merchants could not meet easily.^{5f}
 - Leveraging M-PESA's 'rails', many product and business model innovations and adaptations have been possible. – but have not yet realised their full potential^{5f}
 - SMART Money in Philippines issues co-branded debit cards to its mobile banking customers to enable access to rapidly growing ATM and POS network across the country, offering great convenience and benefits.^{6f}
- Many other innovations are in early stages and few of them might evolve and achieve scale to benefit the cause of financial inclusion:
 - UIDAI's *Aadhar* project is using finger-print and iris recognition technologies to rollout unique identification for 700 million people in India. This has the potential of addressing the severe challenges associated with identification of individuals for financial services.^{7f}
 - Interbank mobile payment system (IMPS)^{8f}, a service developed by NPCI offers instant interbank electronic fund transfer through mobile on 24x7 basis.
 - Mobile ATMs are being adopted by several institutions and undergoing constant innovation.
 - RFID and NFC based technologies integrated with mobile technologies are evolving.



Multiple technology options available today hold the promise of supporting financial inclusion at scale



A comparison of technology options follows

1f: [Banking The Poor, The World Bank, 2009](#)

2f: [See MicroSave Briefing Note # 21](#)

3f: [RBI Report on trend and progress of banking in India 2009-10](#)

4f: [TRAI: The Indian Telecom Service s Performance Indicators, January 2011](#)

5f: [See MicroSave Briefing Notes # 93, 94 & 95](#)

6f: [See MicroSave Briefing Note # 80](#)

7f: [See MicroSave India Focus Notes # 69 & 70](#)

8f: [See MicroSave India Focus Note # 61](#)

Comparison of technology options^{1g} and their potential in enabling financial inclusion at scale

Technology Features	Mobile ^{2g} (USSD)	Mobile ^{2g} (SMS)	Mobile Apps	Mobile (STK)	POS (Card) ^{2g, 3g}	Mobile ATM	Voice IVR
Ubiquity	Supported by most basic to smart phones.	Supported by most basic to smart phones.	Needs data capabilities and high memory on phone.	Constrained by SIM card memory and distribution.	Low for banking usage.	Very low penetration	At trial stage
Complexity / Usability	High volume transactions are of few types only. Needs ability to read/write numerals and characters.	Needs ability to read/write numerals, words and characters.	Users should be fairly literate and technology savvy.	Some degree of literacy required. At times supported by school going children.	Complexity is usually around biometric recognition.	Users literacy required	No need to remember PINs or hold smart cards
Security & Trust	More prone to human errors	More prone to human errors	Security can be embedded		Biometric authentication	Can print receipts	Voice authentication not yet proven
Cost	\$20 onwards ^{4g}				\$400+ (device)		
Ability to Scale	Also high priority format						
Overall							

Success stories from other industries^{1h} in distributing low value high volume goods/services are being applied to financial services

- Fast moving consumer goods industries have traditionally been leaders in:
 - (a) developing products that address the unique low costs, low volume needs of the low income group;
 - (b) enabling distribution reach for these products to be available in the remotest of geographies; and
 - (c) enabling the very remotely located poor to get the same product experience as their urban-rich counterparts.
- One time use shampoo sachets and coca-cola^{2h} bottles priced at 2 to 10 US Cents are classic examples of successful product design and distribution.
- The second wave of distribution success has been industries falling in the value-chain (buyers to sellers) of agro-sector, which is often the prime occupation of rural masses.
- They set-up local kiosks/channels to dis-intermediate existing channels (often unofficial) and enable better price-discovery or to prevent information arbitrage.
- In some environments^{3h} retail channels such as pawnshops are prolific and also have the experience of managing liquidity.
- The third wave has been driven by mobile operators developing paper vouchers of very small denominations and subsequently electronic airtime top-up of any-value, providing the flexibility of paying for mobile services as per cash at disposal.^{3h}
- With a large distribution network, often riding on the existing consumer goods or agricultural products, mobile services are available at the neighbourhood store in almost every village.

The underlying common elements behind the success of these services have been

1. Products design and continuous innovation according to consumer needs
2. Extensive and efficient use of outsourcing and third party services achieve scale and optimize costs.^{4h}
3. Using the same distribution channel for aggregation of multiple goods and services to achieve critical mass to commercially sustain, even with low volumes for each product individually.
4. Laser focus on improving efficiency, productivity and brining costs down across the value-chain.
5. Leveraging technology to
 - (a) automate and dis-intermediate where feasible;
 - (b) enhance efficiencies (e.g. supply chain, inventory, operations); and
 - (c) establish remotely manageable checks and balances and controls.
6. Fiercely competitive environment

- Banks/FIs have the opportunity to ride the next wave by applying the insights gained and lessons learned from these services, for more cost-effective and sustainable distribution of financial services.
- Technology can enable the distribution points (agent networks) to become trusted remote extensions of banks, offerings similar financial services, tailored into suitable low cost products and with a higher-probability of being commercially viable.^{5h}
- Early evidence of this is visible in Brazil where now all municipalities are covered by formal banking system and in India, where for example, Eko has setup a network of over 1,000 agents in two of the states. This model is being also adopted in Bolivia, Colombia, Mexico, Pakistan, Peru, and South Africa.^{5h}

Financial Inclusion: Need & Enablers

- Demand Side Factors
- Supply Side Enablers
- Regulatory and Policy Enablers



Regulatory and policy frameworks have largely constantly evolved to enable e/m banking

'A chronology of the evolution of Indian regulatory and policy environment for financial inclusion'

1949 - 1966

- In 1949 Reserve Bank of India (RBI) was entrusted with the responsibilities related to the licensing of banks, branch expansion, liquidity of their assets, management and methods of working, mergers, reconstruction and liquidation.^{1j}
- The Indian financial system consists of commercial banks, co-operative banks and non-banking financial companies (NBFCs), with the State Bank of India and its associate nationalised banks and regional rural banks (RRBs) constituted under enactments of Parliament.
- In addition, semi-formal and informal mechanisms such as self help groups (SHGs) and rotating savings and credit associations (ROSCAs) came into being, through which the poor could access financial services.
- Whereas the commercial and cooperative banks could provide all banking services, the NBFCs could only provide credit (except a few (Sahara, Peerless) who have received special approvals to provide deposit services)

1967 - 1990

- The period from 1967 to 1980 saw the nationalisation of 14 banks (with deposits over 50 crores) in an attempt to use the scarce resources of the banking system for the purpose of planned development. This period was also characterised by rapid branch expansion.
- In 1972 the concept of 'Priority sector' was formed and from 1974 specific targets were laid out.

1990 - 2008^{5j}

- In the 1990s, the Government experimented with new models for improving financial access to the poorest segment through active involvement of NABARD.^{1j}
- In November 2005, the RBI asked banks to offer a basic banking 'no-frills' account with low or zero minimum balances and minimum charges to expand the outreach to low income groups.
- In 2006, the RBI permitted banks to use the services of non-governmental organisations, microfinance institutions (but not those registered as NBFCs), retired bank employees, ex-servicemen, retired government employees, Section 25 companies, and other civil society organisations as Business Correspondents (BCs) in providing financial and banking services.^{2j}
- In 2008, RBI announced the operative guidelines for mobile banking transactions.^{3j}

2009^{5j}

- Between April and November 2009, RBI further enlarged the scope of the BC model by increasing the maximum distance permitted between the place of business of a BC and the link bank branch, from 15 to 30 kilometres and by permitting banks to charge customers 'reasonable fees' for using services through the BCs, to improve their business case.^{1j, 4j}
- In December 2009, the RBI took additional big steps towards financial inclusion by (a) doing away with the need for a license for opening a bank branch in towns and villages with populations below 50,000^{1j} and (b) by enhancing the daily limits for mobile banking transactions from Rs. 5,000 to Rs 50,000 and allowing up to Rs 1,000 without end to end encryption.^{5j}

2010 - 2011

- RBI has further expanded and liberalised the Business Correspondent (BC) model by permitting 'for profit' companies to serve as BCs^{6j} and subsequently by allowing cooperative banks to use the services of BCs.^{6j}

1j: *MicroSave* Deposit Assessment in India, IFC study, March 2011

2j: RBI Circular on Use of Business Facilitators and Business Correspondents

3j: RBI Operative Guidelines on Mobile Banking Transactions

4j: RBI Circular on Increasing Distance Criteria for Business Correspondents

5j: RBI Circular on Enhancing Mobile Transaction Limits

6j: Update on Regulation of Branchless Banking in India, CGAP, 2010

7j: RBI Circulars on Financial Inclusion September 2010 and December 2010

However policy guidelines need to be consistent and should not lead to a deceleration of momentum gained after several years of efforts

‘A chronology of the evolution of Indian regulatory and policy environment for financial inclusion’

2011 - 2012

In August 2012, RBI issued guidelines for convergence of implementation of implementation of Electronic Benefit Transfer (EBT) Financial Inclusion Plan (FIP). The objective was to optimise the channels servicing the rural poor. Driven by diverse set of entities, a multiplicity of entities had received mandated over the years for different welfare schemes and Government payments. This obviously was sub-optimal and preventing any single entity to achieve scale and enough business volumes to be sustainable. This directive is a significant move towards optimising the delivery channel and bringing the various financial welfare programs under one roof.

2011 - 2012

In March 2012, RBI decided to permit interoperability at the retail outlets or sub-agents of BCs (i.e. at the point of customer interface), provided the technology available with the bank, which has appointed the BC, supports interoperability, subject to the following conditions:

- a) The transactions and authentications at such retail outlets or sub-agents of BCs are carried out on-line;
- b) The transactions are carried out on Core Banking Solution (CBS) platform; and
- c) The banks follow the standard operating procedures to be advised by the Indian Banks' Association (IBA).

2012 - 2013

In May 2012, RBI encouraged banks to set up ultra small branches (USB) that can be simple brick-and-mortar structures to support mobile agents. USB are required to have connectivity to Core banking to enable online transactions and printers for printing account details. Nearest bank officials are required to maintain cash, and supervise and monitor the USB.

2012 - 2013

In June 2012, with a view to achieving preparedness towards the implementation of EBT for routing MGNREGA wages and social security benefits including proposed cash transfers in respect of subsidies on Kerosene, LPG and Fertilisers, RBI has issued guidelines to banks to ensure opening of Aadhaar Enabled Bank Accounts (AEBA) of all the beneficiaries including those residing in villages with less than 2000 population.

2012 - 2013

In May / June 2012, under the guidance of Ministry of Finance, banks have adopted a new approach for selection of ANMs. This is based on a process of reverse auctions wherein the bidder quoting the lowest rate for cash management can be selected. All other pay-outs to the ANM are pre-defined. This is seen as a major retrograde step by the BC sector in India that could lead to several existing players being shut-down undemocratically and the efforts of the past six years getting completely washed out.

1ja: [MicroSave IFN 83 Financial Inclusion through E/M-Banking: The Regulatory Landscape in India](#)

2ja: [RBI Circular of August 2011](#)

3ja: [RBI Circular of March 2012](#)

4ja: [RBI Circular of May 2012](#)

5ja: [RBI Circular of June 2012](#)

6ja: [Reverse auction RFP process](#)

7ja: [Policy Brief 1](#)

Environment is witnessing tectonic shift driven by regulatory and policy interventions to better address client financial needs holistically¹ⁱ

- Intense competition, rapidly changing client expectations and at times crises situations are forcing microfinance institutions to overhaul their strategy towards clients, products offered, organisation structure, processes etc. and in some cases adopt a fundamental change in their way of operating.
- In countries like India, microfinance is witnessing emergence of third generation microfinance institutions that could be very different from their previous avatars.

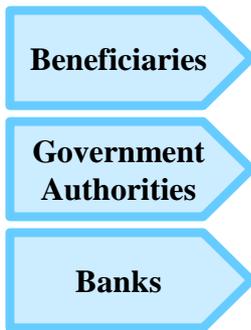
	First Generation	Second Generation	Third Generation
Operating Form	SHGs	NBFC or NBFC-MFIs	Banking Agents (BC in India) or a variant
Motivation ²³	Success of Social intermediation by SHGs and need of Financial intermediation for Banks due to their inability for outreach	A mission-driven social business, sometimes evolving into greed for quick returns	Survival in current environment and/or desire to offer a range of products/services
Operating Model	SHG lending	JLG lending	<ul style="list-style-type: none"> • Longer term vision • Delivering client value • Product innovation • Market differentiation • Transforming operating model (structure, systems, processes) • Agents for banks
Driver for Change ²ⁱ	<ul style="list-style-type: none"> • Regulatory push for priority sector lending • Banks' inability for direct outreach and need for compliance • Unprecedented credit • Loose regulations 	<ul style="list-style-type: none"> • Intense competition for the same clients (often served by 2-8 MFIs) • Regulatory restrictions • Growing client needs for diverse financial products and expectations around better service • Credit unavailability • Banks attempt for direct outreach 	

One such intervention is the ambitious *Aadhaar* project in India expected to take financial inclusion to the next level

- In India, in addition to the financial inclusion drive through banks, the Finance Ministry is now trying to create a unified payments structure for faster, secure and more efficient transfers to beneficiaries of various government schemes.
- The UIDAI is running several pilots in the country for electronic benefit transfer (EBT) for MGNREGA, old age pensions, etc. and for direct transfer of subsidy.
- This is the mammoth task of enrolling all beneficiaries to issue them a Unique Identification (UID) number or Aadhaar number. This is then linked to their existing or newly opened bank account through which they receive their government payments. The withdrawals happen through micro-ATMs managed by bank's business correspondents

IMPACT^{1ia}

The impact on the beneficiaries and government authorities/ banks is visible but the real benefits will be seen only when the project is scaled up



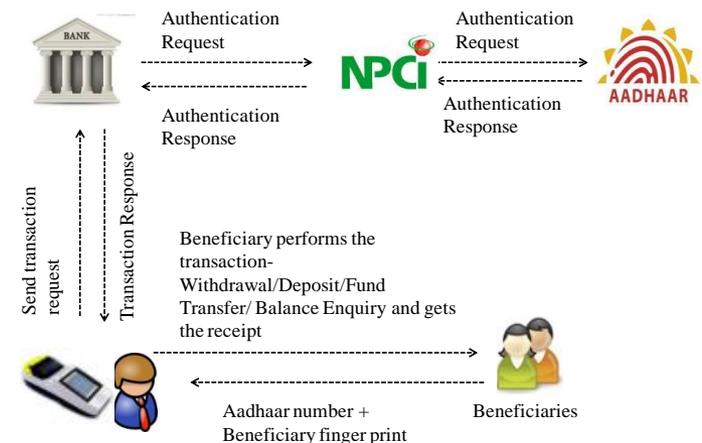
Timely payments; improved transparency and more secure payments with biometric authentication; increased convenience due to withdrawals through micro-ATMs; opportunity for savings in the Aadhaar linked bank account; can be used as a KYC proof; and reduced leakages in the payments

Better fund utilisation; better tracking of the schemes and total benefits provided to each beneficiary; and reduced leakages due to elimination of intermediaries

Decongestion of bank branches since payments are done through BCs; and faster accomplishment of RBI's financial inclusion mandates

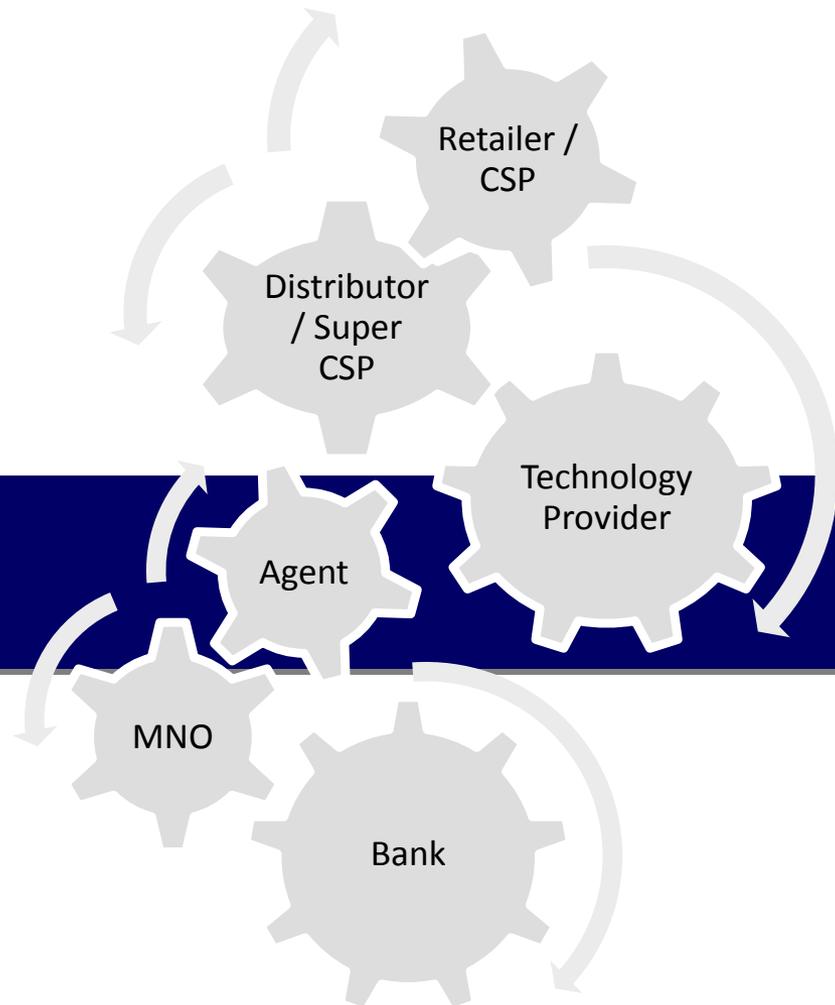
CHALLENGES^{2ia}

- Limited usage of Aadhaar number – Still not accepted by different authorities as a KYC proof
- Convergence of Government Programmes – Only limited government schemes have been integrated on a pilot basis and the real benefits will be seen only once all or most of these schemes converge on this platform
- Lack of Inter-bank Interoperability – As a result the beneficiary is still dependent on the agent of a particular BCNM's agent
- Intensive efforts required initially – The work load is high initially when bank accounts are to be opened and mapped with the Aadhaar numbers. This increases resistance from those involved

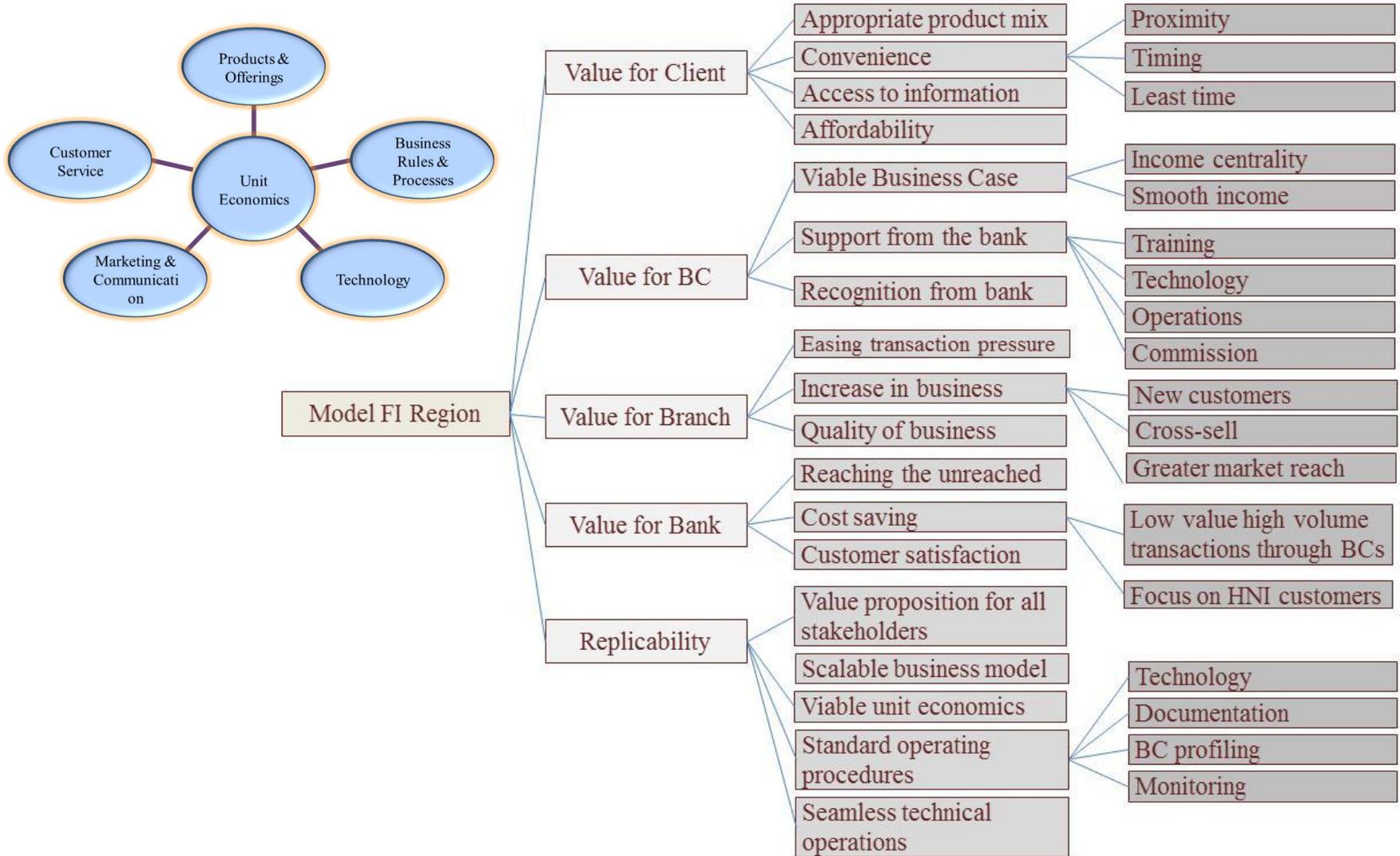




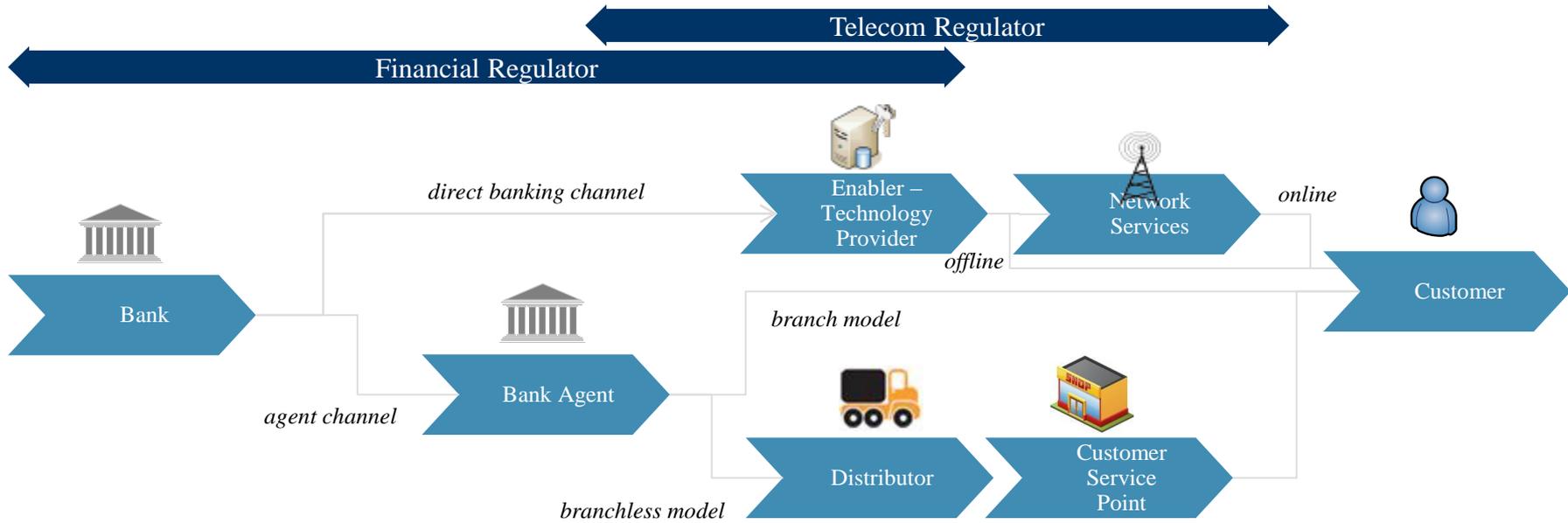
BUSINESS MODELS



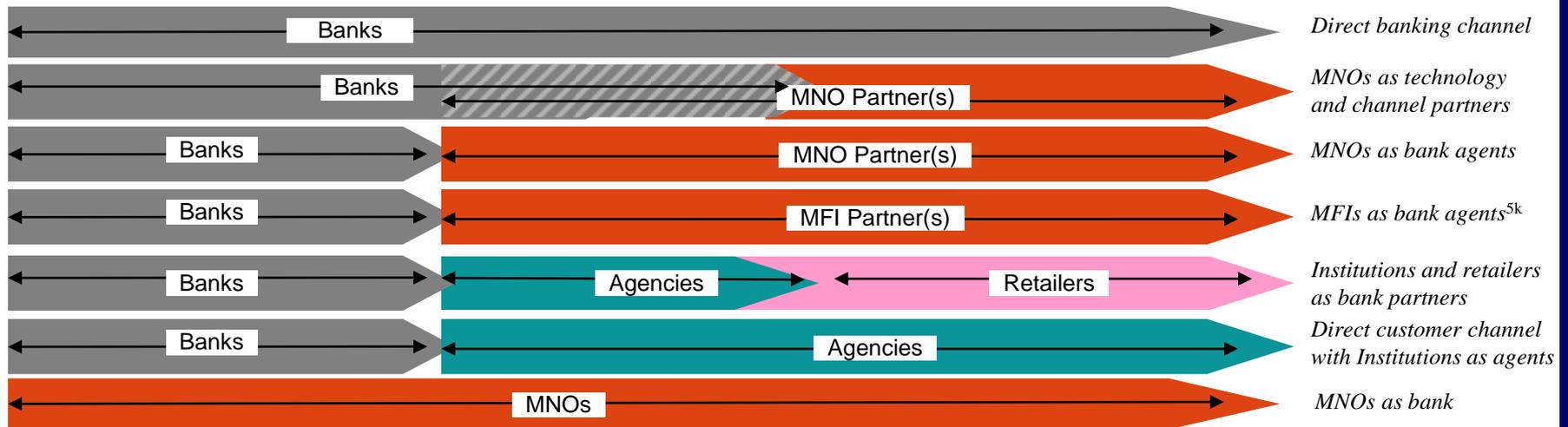
What would constitute an ideal business model^{1ib} for financial inclusion?



Microfinance value chain involves multiple players allowing several business model alternatives^{1k, 2k, 3k, 4k}

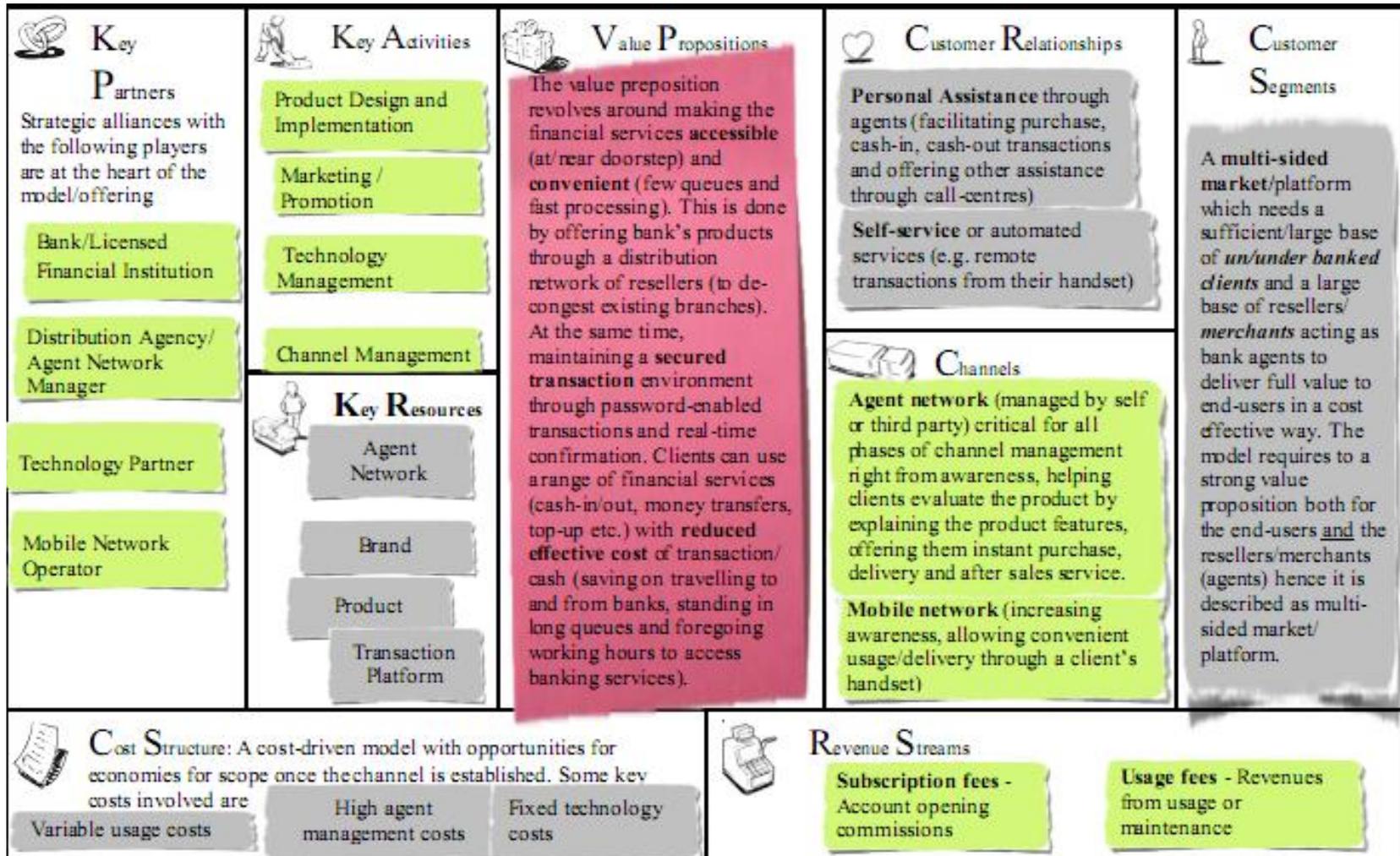


Possible Options (Regulations Dependent)



Building Business Models for Mobile Money

Business models, to a large extent determine 1) the costs incurred to deliver and 2) the value generated on a sustainable basis; with the difference between the two being surplus/deficit. This in turn determines whether the business will be sustainable or not.



Business models are inspired and motivated by various factors and quite often financial inclusion is not one of them

Business Model Led by	Motivation	
Banks	<ul style="list-style-type: none"> • Compliance to mandate (Indian banks) • Risk mitigation through direct outreach (Indian banks) 	<ul style="list-style-type: none"> • Extending outreach (Tameer bank) • Market and product expansion and/or diversification (ICICI bank, Axis bank)
Agent Network Managers ^{11, 21}	<ul style="list-style-type: none"> • Branchless banking service model <ul style="list-style-type: none"> • Survival (as for MFIs in India) • Facilitating banks extend financial services (South America)³¹ • Incrementally enhancing revenue streams 	<ul style="list-style-type: none"> • Offering a healthy mix of financial services that other outfits might not be allowed
MNOs ^{41, 51, 61}	<ul style="list-style-type: none"> • Business diversification (Airtel) • Revenue stream enhancement (M-PESA) • Way to retain customers and enhance relationships (Airtel, Videocon telecom) 	<ul style="list-style-type: none"> • Reduce transaction cost • Saving on airtime commission • Additional electronic channel • Market differentiation
Technology Providers	<ul style="list-style-type: none"> • Leverage technical core competence (Atom) • Scalability through one-to-many construct (Eko) 	<ul style="list-style-type: none"> • Diversification leveraging technical platform or operating model (ngPay, Oxigen, Utiba)
Large Corporates ⁷¹ as Bank Agents	<ul style="list-style-type: none"> • Revenue stream enhancement (likely to be viable due to incremental costs) 	<ul style="list-style-type: none"> • Potential diversification into financial services sector or even become a bank
Others (Handset manufacturers or VAS players)	<ul style="list-style-type: none"> • Supplementary revenue stream leveraging technology, brand and so on (Comviva) 	<ul style="list-style-type: none"> • New opportunities for growth (Nokia Money)

11: See *MicroSave* India Focus Note # 18, 29

21: Kumar, Kabir et al (2010), CGAP Focus Note # 52

31: See *MicroSave* Briefing Note # 51

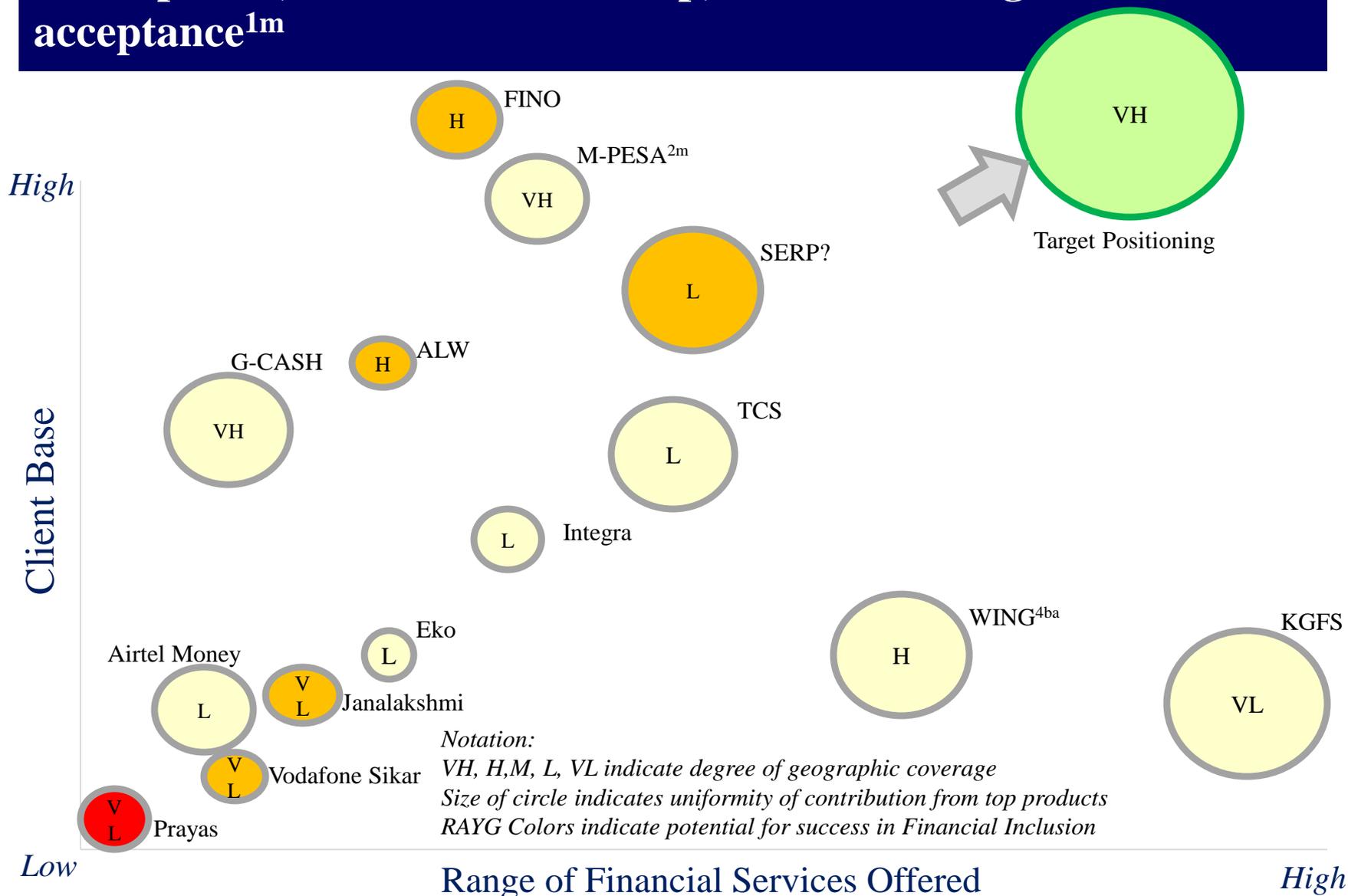
41: Leishman, Paul, Is There Really Any Money in Mobile Money?. GSMA

51: See *MicroSave* Briefing Note # 69

61: Kumar, Kabir, Mino, Toru, Five business case insights on mobile money

71: Feasibility of Engaging Corporate Retail Networks as BC of Banks, Gates Foundation Study, 2010

Institutions have adopted diverse strategic approaches to product development, roll-out and scale-up, with varied degrees of market acceptance^{1m}



1m: MicroSave Research

2m: Mas, Ignacio, and Radcliffe, Daniel (2010), Mobile Payments Go Viral: M-PESA in Kenya

3m: MicroSave BN 100 Can Bank-led Models Really Deliver on the Promise of Mobile Money?

Microfinance Institutions as Bank's Agents^{1ma}

Microfinance Institutions (MFIs) can potentially emerge as new intermediary with a significant value proposition to their client base, extending banking products through their existing infrastructure in remote rural areas

What do they have to offer?

They have experience in providing financial services to low income and rural populations and bring to the table the following strengths:

- Ready access to an established client base
- Experience in cash management
- Established internal audit and monitoring systems
- Existing field staff and local branches
- Client insights for new product development
- Client relationship management

What benefits will they get in return?

MFIs can get one or more of the following benefits:

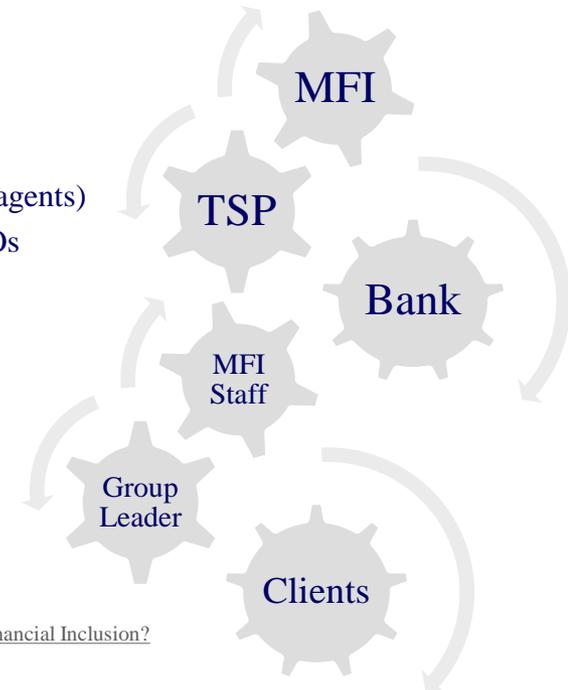
- Widen their product offerings for the clients and develop a relationship based approach vis-à-vis transactional association
- Disbursements and repayments electronically to reduce cost and risk of cash transactions / transportation
- Improved efficiency and accountability
- Additional revenue stream

• Challenges/ Threats

- Impact on group meetings and discipline
- Cannibalisation of the existing business
- Restrictive regulations (in India, NBFCs are not allowed to become bank agents)
- Business case for MFIs still unclear – it has been driven by banks or MNOs
- Mono-product approach by banks (no frill savings accounts in India)

• Strategic Considerations:

- Evaluation of strategic fitment
- Partner selection – bank and TSP
- Technology and operational readiness
- Channel development choices
- Staffing and operational requirements



Revenue models^{1mb, 2mb} vary considerably across the key market participants

Sources of Revenue:

Banks

- Account opening fee and annual maintenance fees
- Transaction fee (deposits, withdrawals, transfers, remittances, other benefits)
- Revenue share of social / welfare payments distributed
- Interest on credit advanced

Agent Network Managers

- Bank /MNO commissions^{3mb} (flat fee, percentage commission or geared/slab based) on
- Enrolments (savings, electronic benefit transfer [EBT], pension, insurance)
- Value or number of transactions (deposits, withdrawals, welfare payouts (EBT), transfers, payments, remittances)^{3mb}
- Maintenance of active accounts
- Value of balance outstanding (quarterly) or based on health of account
- Fee for marketing and promotions
- Minimum guarantees in certain markets (e.g. Banco do Brasil)^{4mb}

Technology Providers

- One time and recurring technology licensing fee from banks / State (in case of EBT)
- Bank commissions on enrolments (card disbursal)
- Bank commission on transactions carried out by bank agents
- Training and skill-building fee
- Device /Equipment (POS, Cards, Computers, Modems) maintenance fee

Agents

- Share of all or some of the commissions received by agent network managers
- Commission on airtime top-ups
- Impact to other offerings due to higher customer footfalls

Models that promote financial inclusion might not play-out well for players in the short-term. Market participants need to conduct adequate due-diligence around their cost structures and revenue models that best fit their strategy

Several approaches have evolved to price the services

Typical Pricing Models

	Pros	Cons	Illustrations
Flat rate	<ul style="list-style-type: none"> Easy to communicate and easily understood by consumers. <i>MicroSave</i> research in South Africa suggests consumers give greater weightage to tariff simplicity as opposed to actual pay-out. Encourages agents not to deny low value transactions, as commission fee does not vary. 	<ul style="list-style-type: none"> Works out more expensive for low-value transactions and penalises those customers. Can encourage mal-practices like forcing illiterate / gullible customers into doing multiple smaller value transactions. 	<ul style="list-style-type: none"> Standard bank State Bank of India (money transfers at branches)
Percentage	<ul style="list-style-type: none"> Does not disadvantage the customer doing low-value transactions, as relative fee for each transaction remains the same. Easy to communicate and simple to administer. 	<ul style="list-style-type: none"> Difficult for illiterate consumers to understand the arithmetic involved. May encourage agents to discourage or deny small value transactions, if their commission is also based on percentage. 	<ul style="list-style-type: none"> Airtel Money Vodafone M-PESA in Tanzania, later moved to tiered structure
Tiered	<ul style="list-style-type: none"> Most commonly used pricing model. Tries to balance out the pros and cons of fixed and percentage based models 	<ul style="list-style-type: none"> Complex to communicate to customers and to administer by agents. 	<ul style="list-style-type: none"> Vodafone M-Paise India
Hybrid	<ul style="list-style-type: none"> Entails fixed fee for low value transactions to cover costs and a percentage or tiered model for higher value transactions 	<ul style="list-style-type: none"> More complex than other models Tries to maximise value for banks or ANMs but not for customers. 	<ul style="list-style-type: none"> Vodafone M-Paise India

1mb1: *MicroSave* BN 106, Pricing Mobile Banking Services

2mb1: *MicroSave* BN 107, Pricing for E/M Banking

3mb1: Policy Brief # 4, Cost and Willingness to Pay

4mb1: *MicroSave* Rapid Institutional Assessments (RAAs)

See also: <http://www.mobile-money-gateway.com/mobile-money-webinar-1-effective-pricing-models-and-customer-willingness-pay> (webinar)

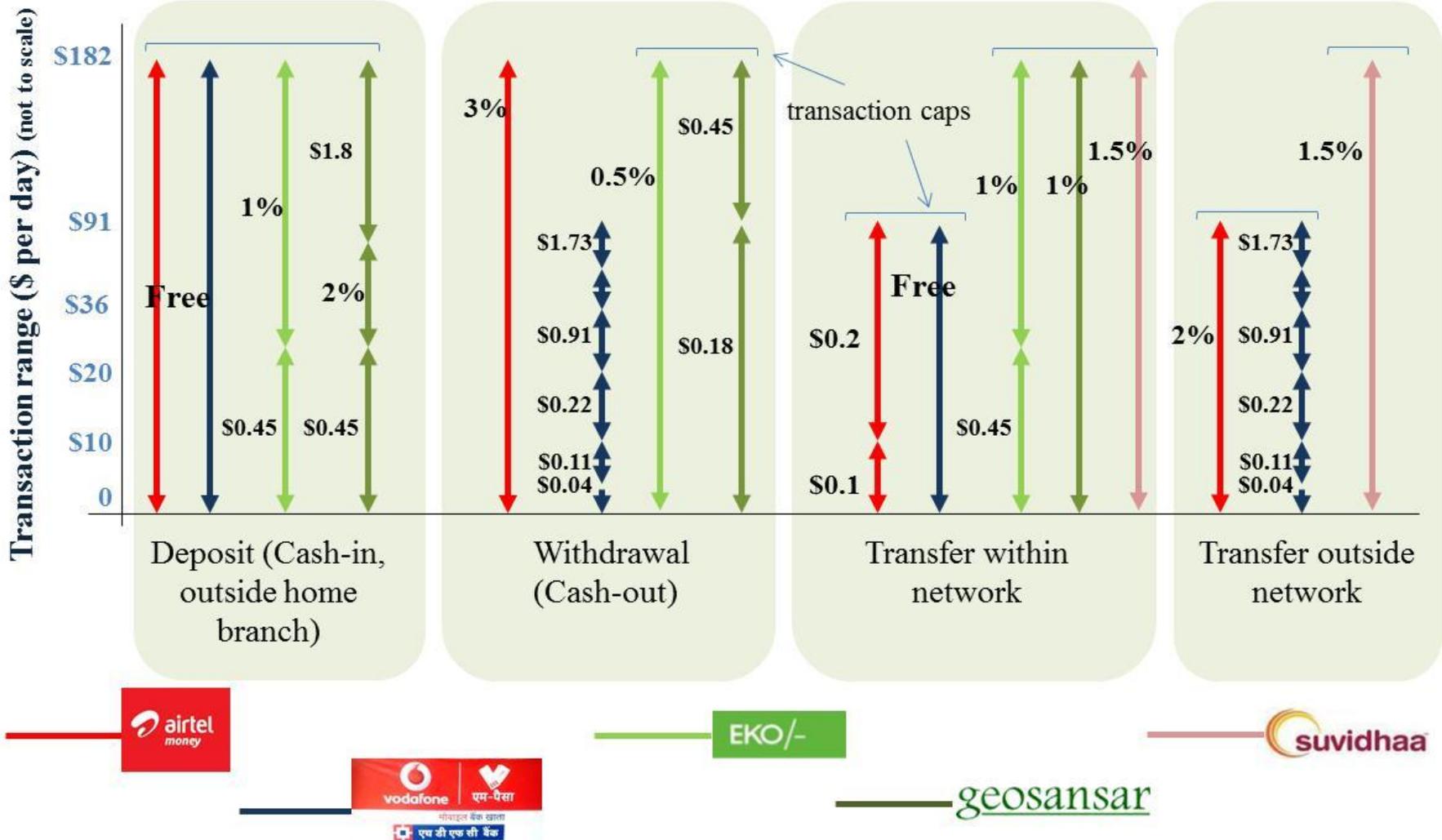
Comparison of Pricing Models

Transactions	Free		Flat		Percentage		Tiered / Hybrid	
	Global	India	Global	India	Global	India	Global	India
Cash In (home account)	7	9	1	-	4	-	1	-
Cash In (non home account)	-	2	-	-	-	-	-	-
Cash Out	1	1	4	1	1	5	7	2
Transfer within network	0	1	9	0	1	2	3	6
Transfer outside network	-	0	-	0	-	2	-	1
Bill payments	1	0	12	3	0		0	0

Market participants included for analysis in India: Airtel Money, ALW, Eko, Geosansar, Oxigen, Sub-K, Suvidhaa, TranServ, Vodafone M-Paise.

For global players, refer CGAP Branchless banking pricing analysis

Pricing Models and Tariff Structure Adopted by Indian BCNMs



Unit economics driven primarily by Agent viability is crucial^{1ka}

Revenue Sources

- Fee for customer enrolment / account activation
- Commission on transactions
- Fixed wages (performance linked or otherwise)
- Performance bonus
- State incentives
- Combinations of these

RoI Expectations

- Comparison with RoI of existing business.
- Salary / wages for similar profession as proxy.

Cost Heads

- | Capital Costs (Capex) | Operating Costs (Opex) |
|--|--|
| <ul style="list-style-type: none">▪ Equipment (one or more of mobile phone, computer, printer, biometric scanner)▪ Office furniture (for kiosk banking model) | <ul style="list-style-type: none">▪ Working capital for cash and e-float▪ Rent▪ Utilities▪ Staff salary▪ Internet / mobile usage▪ Travel▪ Stationary▪ Miscellaneous |

Factors Affecting RoI

- High working capital turnover
- Product relevance and diversity
- Support for marketing and Consumer awareness
- High staff productivity

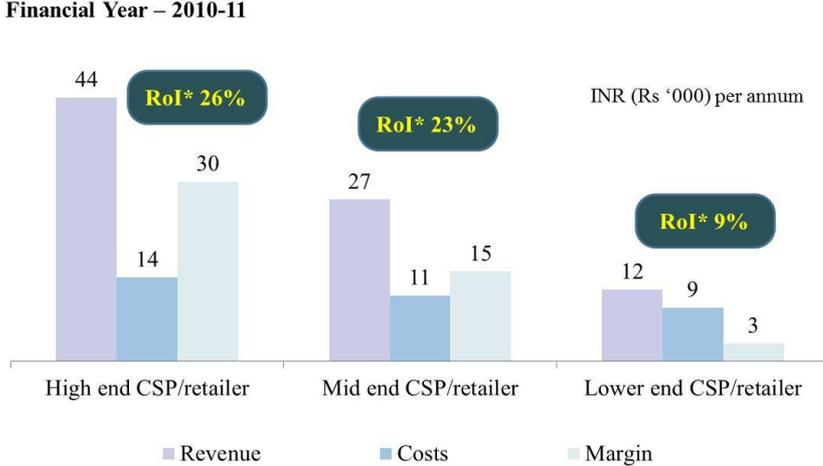
Potential Solutions

- ANMs can greatly assist agents arrive at optimal working capital deployment and turnover. Additionally if partner banks provide overdraft to agents, it significantly enhance their business case.
- Banks and ANMs play a key role in influencing the products offered versus consumer demand and agent preferences. There is often a significant mis-match, leading to poor consumer off take, affecting ANM and agent economics.(see illustrations later).
- Agents typically get limited support from ANMs or banks in generating consumer awareness for services or during new product/offer introduction. As with any new product, financial services for the poor need marketing assistance at local/regional level and channels need to be supported adequately by institutions providing these services.

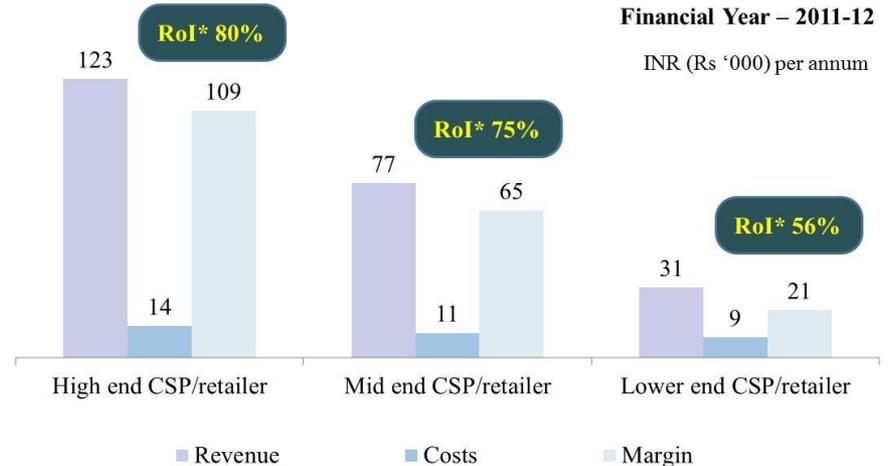
Illustrations of Urban Agent Economics (India)

Economics of agents of an ANM improved considerably within an year after consumer-pull products such as 'Tatkal' (Instant remittance were introduced)

Financial Year – 2010-11

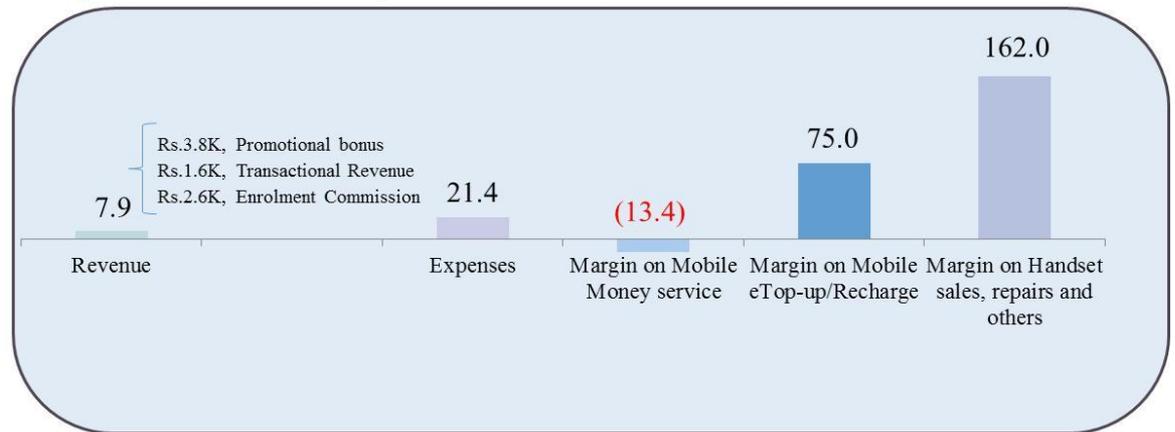


Financial Year – 2011-12



However for lack of appropriate consumer value-proposition, even the high-end agents of a leading MNO are struggling vis-à-vis the returns on sales of mobile top-up, handsets and accessories

High-end Retailer of a leading MNO



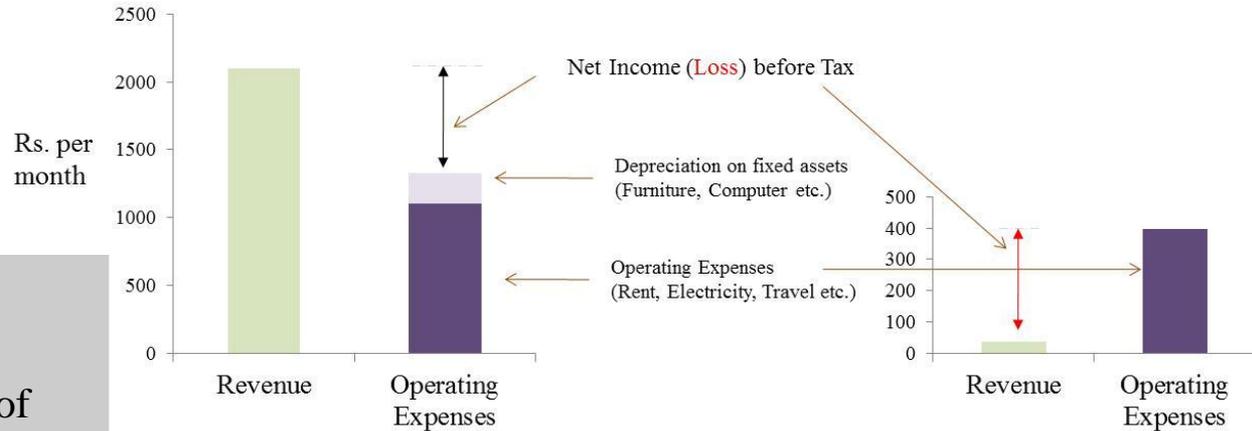
- 1md: [MicroSave IFN 71: Sustainability of BC Network Managers \(BCNMs\) in India: How are BCNMs Paid?](#)
- 2md: [MicroSave IFN 72: Sustainability of BC Network Managers \(BCNMs\) in India: Review of Commission Structures](#)
- 3md: [MicroSave IFN 73: Sustainability of BC Network Managers \(BCNMs\) in India: Business Scenarios and its Effects](#)
- 4md: [MicroSave Research - State of the BCNM sector in India – The supply side story](#)
- 5md: [CGAP Branchless banking pricing analysis](#)

Illustrations of Rural Agent Economics (India)

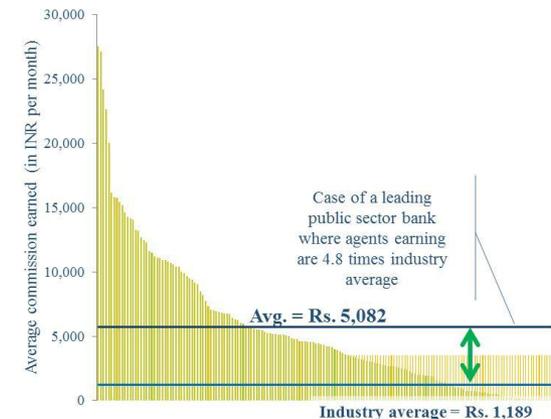
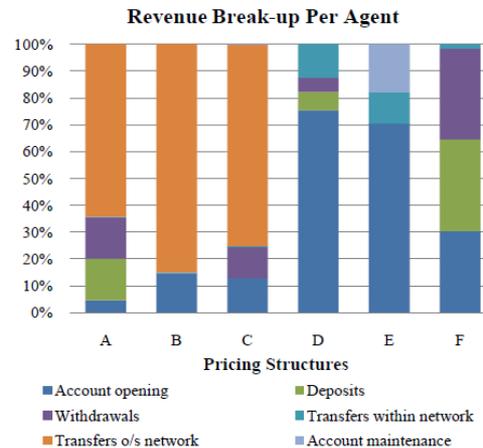
The revenue and profitability of rural agents varies considerably driven by multiple factors – geography, demographics, ANM revenue model, bank’s strategy and support, portfolio of bank and non-bank products offered, level of competition and so on.

Indicative Analysis for Rural Bihar (India)

Indicative Analysis for Rural West Bengal (India)



Agent economics improves considerably when they are allowed of offer/service relevant product mix and enabled to work as an extension of bank branches supporting asset and liability products, non-banking financial products and 3rd party offerings

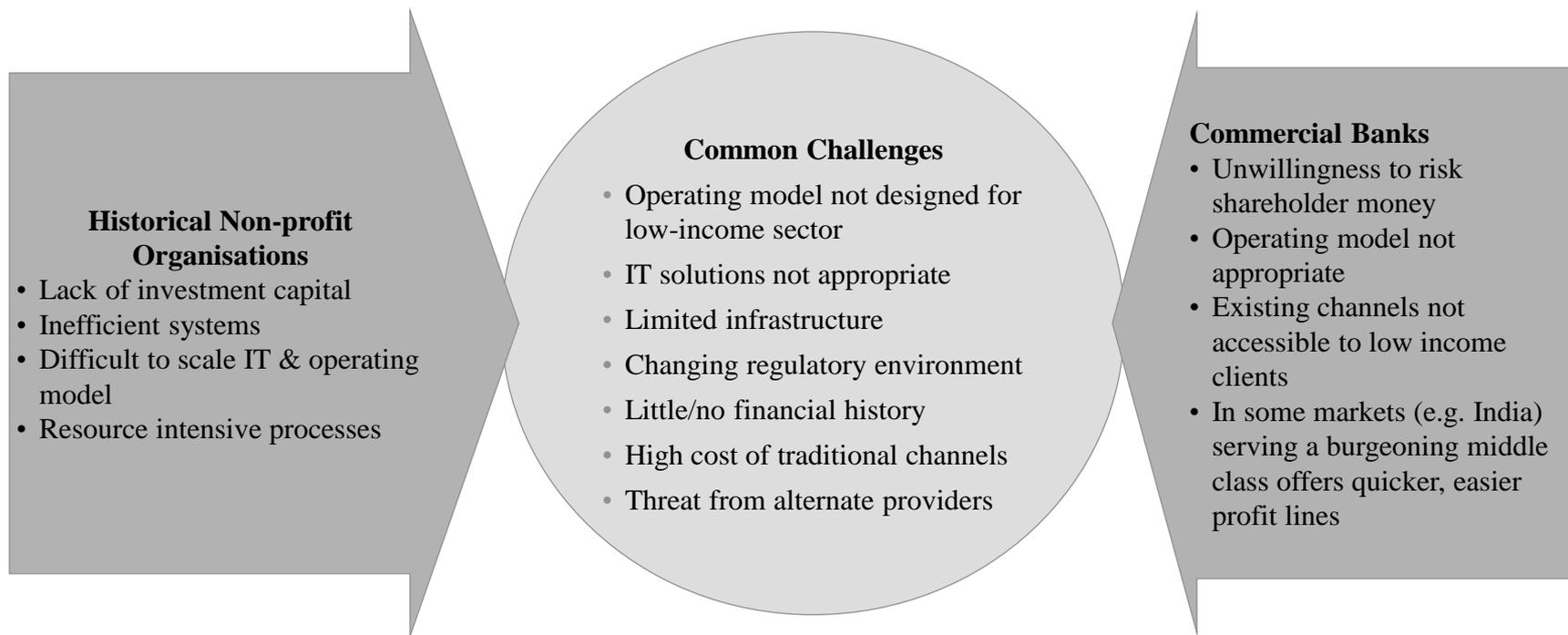


- 1md: *MicroSave* IFN 71: Sustainability of BC Network Managers (BCNMs) in India: How are BCNMs Paid?
- 2md: *MicroSave* IFN 72: Sustainability of BC Network Managers (BCNMs) in India: Review of Commission Structures
- 3md: *MicroSave* IFN 73: Sustainability of BC Network Managers (BCNMs) in India: Business Scenarios and its Effects
- 4md: *MicroSave* Research - State of the BCNM sector in India – The supply side story
- 5md: CGAP Branchless banking pricing analysis

CHALLENGES & LESSONS LEARNT

Challenges to Financial Inclusion^{1o, 2o, 3o}

- Financial inclusion faces a number of challenges ranging from the large number of resources traditionally involved in supporting small transactions, completing paperwork, providing outreach etc.
- High costs coupled with low returns have not made financial services for the poor an attractive proposition for commercial banks and profit making entities.



These challenges are now explored in more detail, along with the experiences gained and lessons learned in various environments

Challenges and Lessons Learnt

- Strategic Challenges
- Operational Challenges
- Overcoming Barriers to Adoption
- Regulatory and Policy Challenges



Need for market-led, scalable, profitable and sustainable and business models^{1p} for e/m banking

- Any approach to financial inclusion has to be market led and profitable to make it sustainable for the providers. In order to be beneficial to the masses, it also needs to be scalable to prevent localisation of benefits and to enable wider outreach.
- Identified below are key considerations for making the right strategic choices and for the business models to deliver.

Consumer focused & market-led

- Many financial inclusion initiatives are compliance driven (social add-ons), instead of being conceived as sustainable businesses.^{2p} This approach needs to undergo transformation and become market lead.
- Assessing and ascertaining market potential
 - First and foremost is to assess the market need and ascertaining demand and its elasticity.
 - Several failed financial products get launched with no market research or pilot, becoming a drag on the institution and establishing bad precedence.
- Identifying target market segment and innovating products according to consumer needs and expectations
 - Each market segment has its own needs that would drive adoption. These could vary by geography & demographics and exhibit dynamic behavior.
 - It is critical to align institution's strategy to target consumer needs and drive products/offerings development and delivery to address those (an obvious example: a pension product designed for a region with pre-dominantly youth population might turn-out a complete misfit).

Profitable

- Profitability is determined by factors like (a) Core or incremental business (b) Price taker or setter, particularly in a non-bank led model (c) Seller or buyer market (d) Transaction volumes and float^{6p}
- Everyone in the value chain must emerge profitable. In branchless banking, often banks determine commissions for their agents without linkage to real costs, which later leads to non-sustainable outcomes. The non-monetary benefits are important to keep sight of too.^{7p}
- Leveraging an ecosystem of partners (large banks/FIs, MNOs, special third-party service providers) to support development, deployment, technology, rollout and operations has higher likelihood of turning profitable faster instead of attempting to everything in-house.^{8p}
- Models founded on grants or funding with no expectation of returns, could be concept testing enablers, but unlikely to scale or have longevity.



Scalable^{5p}

- Agility and sustenance of business models is tested when they scale-up. Limitations to achieving scale could be around organisation, business-model, processes, technology and so on.
 - *FINO and KGFS adopted biometric technology for enabling financial services, however constraints in matching soiled finger-prints of working poor have forced work-around processes to be adopted to handle large volumes.*^{3p}
 - *M-PESA is struggling with a large suspense account generated because of erroneous transactions carried out by customers.*^{4p}
 - *Some BCs in India face the challenge of errant or non-delivery of SMS confirmation for mobile transactions, causing client anxiety. With growing volumes and yet to stabilize operations, customer service points erroneously carry out repeat transactions and carry the risk of losing large sums.*
- Ability to profitably achieve economies of scale is extremely critical and should be a key consideration during strategic decision making.

1p: [Mas, Ignacio \(2009\), The economics of branchless banking](#)

2p: [See MicroSave India Focus Note # 24](#)

3p: [See MicroSave India Focus Note # 47](#)

4p: [See MicroSave Briefing Note, # 94](#)

5p: [Mas, Ignacio and Radcliffe, Daniel, Scaling Mobile Money, Gates Foundation, September 2010](#)

6p: [See MicroSave Briefing Note # 51](#)

7p: [See MicroSave Briefing Note # 69](#)

8p: [See MicroSave Briefing Note # 70](#)

Challenges facing digital eco-systems in India

Cause	Effect
An incremental regulatory regime which gave little at a time to test the threshold at which electronic banking would take-off.	A shifting revenue model - from the initial focus on enrolments to G2P payments (for rural agents) and remittance transactions (for urban agents).
A top down approach with little emphasis on sustainability.	An evolutionary trend of BCNMs; the companies first off the block placed too much emphasis on flag planting and opening accounts.
A wide mandate for agents, a channel that is still evolving. Banks want agents as account opening and transaction points and the government wants them to do G2P payments.	While financial inclusion and payments systems and should coexist, the bulk mandates and the pricing structures have meant BCNMs moving from one to the next.
Banks' lack of belief that a sustainable model of financial inclusion can be found.	Banks focusing on BCNMs as vendors rather than partners – and looking for the lowest bidder in preference to the best value for money. Limited investment in the development of banks' capability in channel management; limited capex; and lower quality banking staff working on the issue
Perceived political risk of charging poor people for services that the middle and upper classes get for free.	Agent networks where the commercials do not add up for individual agents or for the network managers because there is inadequate compensation for both - with the exception of BC agents in metros and cities dealing with outward remittances

Sustainable models need favourable ANMs economics

Survival at stake with expectations of much needed support from banks

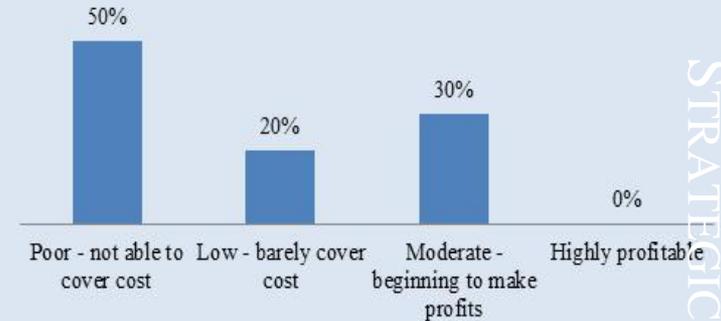
Cost Break-up



Fees and Commission

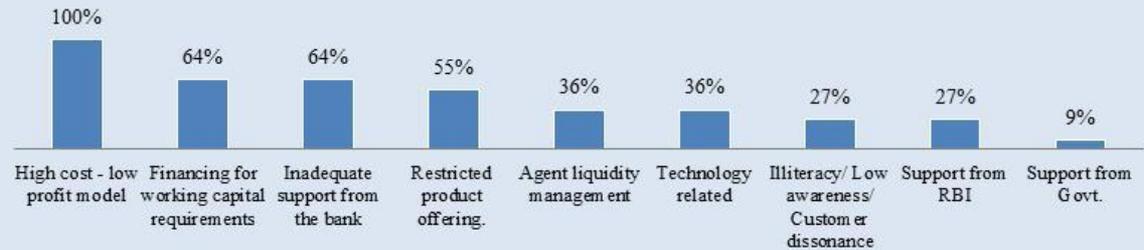


Current sustainability of the BC Operations

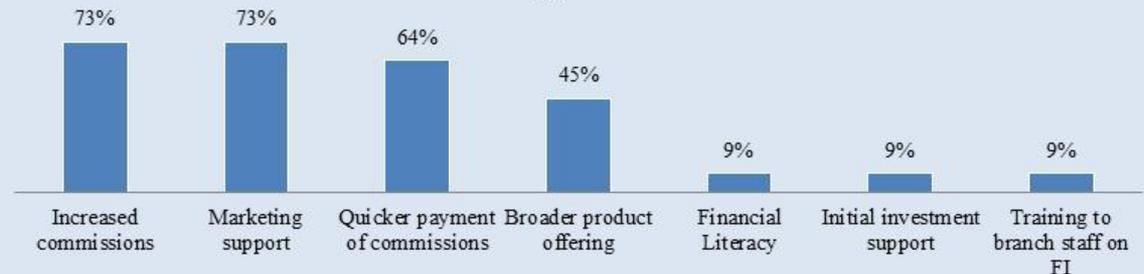


According to a survey of ANMs conducted by *MicroSave*, while a majority believe in the potential of branchless banking, 50% of them can barely cover their costs and less than 30% are anywhere close to making profits

Issues/constraints limiting the BC business



Areas of support from banks



1pa: MicroSave Research - State of the BCNM sector in India – The supply side story

2pa: IFN 80: Driving Viability for Banks and BCs

3pa: IFN 90: Taking Financial Inclusion to the Next Level

4pa: <http://view6.workcast.net/?pak=9828376799448427> (webinar)

MicroSave

Market-led solutions for financial services

Another very vital aspect is choice of the synergistic strategic partnerships, operational alliances and channel intermediaries^{1q, 2q}

- As the [previous value chain analysis](#) reflects, partnerships and alliances are critical and often inevitable.
- Partners and allies have a major role in making the business model work, but have the associated risk of becoming high entry or exit barriers.
- Enough due-diligence must therefore be carried out to determine the right fit. Pilot testing phase provides a good opportunity to test partnerships and ascertain synergies.^{3q}
- *Following are important considerations one should look for in potential partners and allies.*

Banks

- Commitment to financial inclusion
- Commitment to agent channel
- Reach and brand awareness^{4q}
- Alignment of product/go-to-market strategy
- Profitable commission structure
- Willingness for open and interoperable deployments

MNOs

- Complementary core capabilities
- Strategic intent for mobile money services
- Market position and customer base
- Brand and distribution reach
- Exclusive stores and dealer network
- Ability and willingness to leverage operational and technical synergies with airtime top-up

Technology Providers

- Initial and running costs
- Ease of integration with bank CBS
- Interoperability^{2q}
- Ease of use for clients and intermediaries
- Scalability
- Portability across channels

Agent Network Managers^{6q, 7q, 8q}

- Strategic synergies (customers, products, branding)
- Demonstrated microfinance credentials
- Client base and quality of relationships (connections with communities)^{5q}
- Alignment on client segment and geographical focus
- Resources and reach

Distributors / Resellers^{4q, 6q, 8q}

- Synergies with existing business
- Not driven by quick profitability
- Willing to invest in e-money and ability to manage liquidity
- Resources and reach
- Commitment and ability to train staff and retailers
- Technology savvy
- Location

Agents^{9q}

- Synergies with existing business
- Client trust & relationships
- Location
- Client footfalls
- Willing to invest in e-money and ability to manage liquidity
- Literacy level
- Relevant experience
- Longer-term commitment
- Early adopters

Some illustrations of partnerships and lessons learned [1 of 2]

<p>Banks</p>	<p>Banks</p> <ul style="list-style-type: none"> • IMPS in India is enabling bank interoperability for mobile banking services.^{1r} With 20 banks already on-board this can significantly leapfrog integration challenges in a country which has more than 400 scheduled and regional banks.^{2r} 	<p>MNOs</p> <ul style="list-style-type: none"> • MNOs and banks have extended their partnerships to the extent of holding stake or forming joint-ventures. • Telenor and Tameer Bank have had an excellent integrated partnership in Pakistan.^{3r, 4r, 5r}
<p>Agent Network Managers^{5r}</p>	<p>MNOs</p> <ul style="list-style-type: none"> • MFIs have the choice of creating developing their own service or wait until the infrastructure and services are created.^{5r} Each alternative has its pros and cons. • Developing an m-banking service needs significant investments, resources, planning and time and many regulatory, technological and operational barriers to be overcome before it can become sustainable. • MFIs can alternately consider existing infrastructure available from MNOs and leverage the financial wherewithal, distribution and brand reach that they offer. • However the sweet-spot of relationship based on complementing capabilities needs careful identification. <ul style="list-style-type: none"> • MFIs traditionally have the capabilities of managing cash / liquidity and credit delivery & recovery. • They also have strong community reputation, deep client relationships and understanding of their needs and wellbeing. This enables them to be more effective at relationship or consultative sales required for financial products, as against transaction sales (such as groceries or airtime). Many also have considerable rural outreach. • Most of these are not MNOs' forte. However, on the other hand, they can provide infrastructure (technology, existing distribution network and so on), marketing and operational support and scalability, but do not necessarily understand clients' financial needs. Their relationships are more transactional in nature involving airtime sales. • These complementing capabilities can form the basis of an alliance. • Potential options include MNOs setting up mobile banking platform for smaller banks, MFIs or agents. 	
<p>MNOs</p>	<p>Agent Network Managers</p> <ul style="list-style-type: none"> • In South Korea MNOs choose a bank agnostic approach, enabling all bank client to use the services.^{6r} • Vodafone partnered with a large MFI, First Microfinance Bank in Afghanistan, to leverage their strong grassroots connections to offer loan disbursements and repayments via the M-Paisa platform.^{3r} • Vodafone's radically different strategy in Afghanistan compared to in Kenya, demonstrates that even a proven and successful model needs adjustment according to local context and situation. 	<p>Agents</p> <ul style="list-style-type: none"> • Safaricom's M-PESA model in Kenya often uses airtime resellers who maintain the cash float • Globe Telecom in Philippines developed a successful alliance with distributors and microfinance operators (RBAP & MABS).^{7r} • Merchants might find salary or welfare payments involving large demands at the end of the month, difficult to support and hence direct bank or agent led model might work better for such segments.^{8r}

1r: See *MicroSave* India Focus Note # 61

2r: *RBI Report on trend and progress of banking in India 2009-10*

3r: See *MicroSave* Briefing Note # 68

4r: Kumar, Kabir, Tameer Microfinance Bank

5r: Kumar, Kabir et al, CGAP Focus Note # 45

6r: See *MicroSave* Briefing Note # 51

7r: See *MicroSave* Briefing Note # 71

8r: See *MicroSave* Briefing Note # 80

Some illustrations of partnerships and lessons learned [2 of 2]

Banks	Agent Network Managers <ul style="list-style-type: none"> Given banks' inability for extensive outreach they have explored varied partnership options. Agency models have done well in Brazil^{1s} and are starting to emerge in a big way in India.
Agent Network Managers^{5r}	Technology Providers^{2s} <ul style="list-style-type: none"> In India, Eko is both an agent and a technology provider to other bank agencies, with the ability to provide a complete mobile technology solution. Whereas Atom is a biometric POS device based technology provider to agencies.
MNOs	Technology Providers^{3s} <ul style="list-style-type: none"> MTN and mChek burn the mobile financial services software on the SIM to enable better distribution and access. MTN and mFino can also distribute the application "over the air". This is however limited to GPRS handsets and needs literate technology savvy agents or clients. Often 16k SIM card capacity constrains this.

1s: [CGAP \(2010\), Branchless Banking Agents in Brazil](#)

2s: [See MicroSave Briefing Note # 68](#)

3s: [See MicroSave Briefing Note # 51](#)

Agent Selection

Considerations for Agent Selection

Quality of CSPs	Improving the quality of CSPs is more important than growth. Quality will determine whether clients benefit, whether costs can be covered and whether confidence can be built. Higher quality CSP networks should provide a more solid foundation for Banks, BC companies and customers to build on. ^{1sa}
Viability of the business	Agent selection must consider many aspects key to the viability of the business, such as the capacity to scale up and the ability to manage cash. ^{2sa}
Client preferences	Client preferences for agent attributes are perhaps more important than other considerations, since these will be one of the main factors driving transactions. Organisations wanting to adopt agency banking models should take cognisance of this and exercise adequate due diligence in identifying key characteristics that clients desire and selecting agents according to those traits. ²

Attribute	Indicator
<i>Easily verifiable</i>	
Education	<ul style="list-style-type: none"> • Verification of educational certificates • Test of literacy and book-keeping abilities
Domicile	<ul style="list-style-type: none"> • Proof of residence • Feedback from clients and villagers
Property Ownership	<ul style="list-style-type: none"> • Physical verification of shop / store • Verification of property documents
Availability	<ul style="list-style-type: none"> • Self reporting by potential agents combined with field observations • Feedback from clients or shopkeepers
Proximity	<ul style="list-style-type: none"> • Physical location verification of the shop versus where most clients reside or work
<i>Qualitative / Subjective</i>	
Character	<ul style="list-style-type: none"> • Credential checks from clients, villagers, and community leaders covering the agent and his/her family, their profession, economic status, acceptance by villagers etc.
Behaviour	<ul style="list-style-type: none"> • Feedback from clients
Speed of Delivery	<ul style="list-style-type: none"> • Feedback from clients

Important Attributes for a Potential Agent



1sa: *MicroSave* IFN 66 What Do Clients Want in EM Banking Agents

2sa: See *MicroSave* Briefing Note # 109, Incentivising E/M Banking Agents

3sa: CGAP: National Survey of Branchless Banking in India

Agent Selection : Individual versus Institutional BCs

- Following parameters can be used by the bank for selection of agent model and BCNM partner:
 - Customer relationship*: Appointing individuals as BC agents is less popular today, but many banks continue to follow this approach in certain districts. For instance, about 25% of the SBI BC agents in India are individual agents. Some banks also directly appoint business facilitators (BFs), agents who help clients with the documents and the application process to open accounts or apply for loans.
 - Customer acquisition*: ANMs currently represent the only route to scale up quickly, achieve numbers and cover multiple geographies. Additionally, some ANMs, 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 ANMs for ICICI Bank and SBI, respectively.
 - Control*: As the number of individual agents rises, it could over stretch branch staff or necessitate additional resources dedicated to BC support functions (as Equity Bank is successfully doing in Kenya).
 - Resource*: GSMA report analysed the costs of MTN Uganda’s first two years of mobile money operations into three categories: Fixed Costs 43%; Step costs 12%; Variable Costs 45%
- Appointing individuals as BC agents is less popular today, but many banks continue to follow this approach in certain districts. For instance, about 25% of the SBI BC agents in India are individual agents. Some banks also directly appoint business facilitators (BFs), agents who help clients with the documents and the application process to open accounts or apply for loans.

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		

Client's Perception of BC: Individuals and BCNM		
Parameters	BCNM	Individual BC
Trust and Customer Relationship	☹	☺
Quality of Service Delivery	☺	☹
Consumer Protection	☺	☹
Cash Availability	☺	☹
☺ ☹ ☹: Satisfied, Indifferent, Dissatisfied Client		

Technology^{1t} can be a major enabler or handicap. It should be proven, scalable, secure, cost-effective with enough shelf-life^{1t}

Suitable

- A key driver for choice of technology is suitability to the business model – clients, agents, products offered, policy compliance.
- No one size fits all and a technology working well in one context or environment might be a misfit for a similar purpose in another environment.

- GCASH and SMART find menu driven formats to have proven very user friendly, whereas due to illiteracy reasons, these had limited uptake in India. Eko has instead found USSD to be more promising.
- A combination of mobile and POS/card based solutions might work better in fulfilling the unique needs for certain demographics.^{3t} If a technology infrastructure is more prevalent, it is effective to ride on it (e.g. card infrastructure in South Africa).

Cost Effective

- Technology constitutes a large component of cost of delivery of financial services and hence extremely important to be managed well.

- USSD & SMS formats exhibit the promise of being more cost-effective, provided other considerations can be met.^{1t}
- MNOs prefer SIM based solutions, which apart from being more cost-effective for them, allow market differentiation and client “stickiness/retention” through a walled-garden approach.

Secure

- Security needs to be viewed from 2 perspectives (a) technology security and (b) human ignorance or negligence.
- Technology has evolved considerably and offers reasonable secure and idiot-proof solutions, provided the right processes in place.

- POS with biometrics has worked out better where authentication becomes vital, as with government payments .
- In South Africa a bank using USSD2 has not faced a single case of fraud vis-à-vis ATM and POS which can be hacked more easily
- Economies with lower literacy levels face the challenge of client ignorance or negligence. Needing assistance to fulfill financial transactions they end up disclosing PINs and passwords.

Proven & Scalable

- Technology frequently limits a business model to scale and must be a key consideration.
- Market demands can be unpredictable and institutions struggle to respond. Technology and processes often limit the much-needed and rapid scale-up or down. (Telenor witnessed a demand of 2.0 million clients within weeks of launch of service)^{4t}
- Adopting proven technologies can mitigate these risks with the added advantage of lower costs driven by the benefits of volumes and scale.

- Apart from mobile, other technologies are new and untested. POS, while proven for credit/debit card transactions, is a new concept when married with bio-metrics and is continuing to witness teething challenges.
- Several institutions and technology providers are experimenting with completely new technologies like voice IVR or mobile ATMs, which are nascent and yet to be proven at any scale.

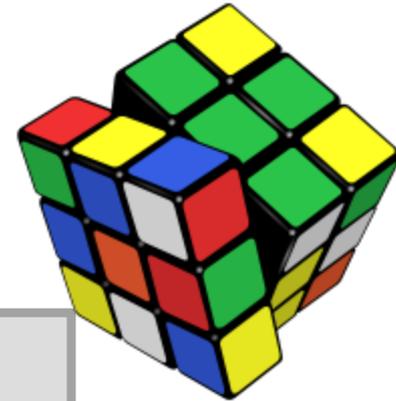
Longevity

- Every technology has a shelf-life and eventually becomes obsolescent or is succeeded by the next generation.
- Cognisance of the lifecycle stage is pertinent for strategic decisions around technology

- With 3G and 4G networks growing rapidly and a strong emphasis on http with Java and Android handsets, one must watch out for the trends in USSD, SMS and STK, and manufacturers/providers strategy around them. USSD1 has already evolved to USSD2.
- MNOs have greater flexibility and deeper pockets to drive the technology decisions. Smaller institutions can explore suitable synergistic partnership with them.

Challenges and Lessons Learnt

- Strategic Challenges
- Operational Challenges
- Overcoming Barriers to Adoption
- Regulatory and Policy Challenges



Mobile money deployments need to get from zero to critical mass very quickly to avoid sub-scale trap^{1u}

- Mobile money deployments have predominantly remained sub-scale, despite considerable efforts around the world and support from enormous body of knowledge.
- Inability to reach a critical mass of customers causes deployments to remain stuck in “sub-scale trap”. This can be attributed to three factors – (1) “Network effects”, (2) Chicken-and-egg-trap (2 sided market) and (3) Trust

Network effects: The value of a financial deployment to a customer is directly proportional to the people actively using the service. It can greatly accelerate momentum when critical-mass is reached but it can also inhibit early adopters when there are few users.

Chicken-and-egg trap: Attracting providers (resellers/retailers) and users concurrently to enable providers to experience enough market potential and for customers to have enough outlets/servicing points.

Reaching critical mass enables building trust through the experience of others and therefore helps draw more customers.



What can be done to address sub-scale trap?

Building and incentivizing the distribution channel to promote the service and support building customer trust

Channel Push

Market push to create top-of-the-mind awareness about the services

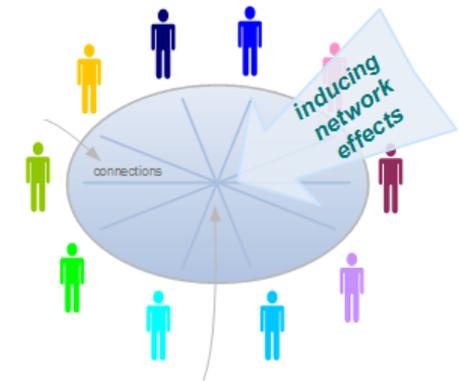
Marketing Pull

Creating a compelling push for customers to try, get comfortable and use the service

Customer Value Proposition

Achieving “Network Effects” to exponentially amplify the value delivered to the users

- Despite the hype, even ten years after the initial mobile banking / payments platforms appeared on the horizon, financial inclusion landscape has not been transformed.
- Some interesting developments to ponder are:^{1v}
 - *Voice calling is still the dominant usage of mobile phones or telephone because one can call any other number around the world (irrespective of called party’s network provider, technology type, phone type and so on)*
 - *Mobile phones have succeeded in certain environments (e.g. low volume, large value transactions that are less complex, take less time to execute but have better payout, domestic remittances)*
 - *Card penetration in low income markets, though still at one-fourth the levels of mobile penetration, has grown rapidly and doubled in many emerging markets.*
 - *Visa, Mastercard or American Express cards issued by any bank or payment service provider have global acceptance on any acquiring POS/ATM infrastructure.*
 - *ATMs and bank branches have witnessed substantial growth. In many countries, one can now transact at any bank ATM with no additional charges, irrespective of the card issuing bank..*
- “Network Effects”^{2v} partly explains these developments. Network effects enable the utility of a network service to grow exponentially as more users connect to the network and make use of the service.
- Underlying considerations that can enable “network effects” are:
 - Standardisation: Voice calling, SMS and Credit/Debit cards are inter-operable across any provider due to common standards, policies and procedures having been developed and accepted.
 - *Apart from the role of various agencies to develop common regional or global standards for mobile financial services, smaller institutions can benefit by adopting existing open-standards instead of developing custom approaches (e.g. MFIs in India are increasingly leveraging technology service providers (TSPs) for their platform needs. Eko has adopted universal USSD standards for their underlying technology.)*
 - Rapidly scaling deployments by adding providers and beneficiaries (resellers, retailers, consumers) as quickly as possible. This enables beneficiaries to witness and avail benefits, causes stickiness and propels growth with word-of-mouth referrals.
 - The phenomenal growth of social-networks (Facebook, Skype, Youtube and so on) demonstrates the need for “user participation” in building and improving networks.





Identifying distribution channel^{4w}

- In a branchless model, channel's role is vital. They own client interactions and relationship, with limited control and influence by the institution.
- Distribution structure is heavily dependent on the business model, products offered, client trust and convenience. For large geographies like India, a three-tier structure is desirable. Institutions appoint resellers (capabilities listed earlier) who manage a set of retailers or customer service points (CSPs).
 - *Possible choices being grocery retailers (often also selling airtime), pharmacies, fuel-stations, school teachers, post-men, village-heads, salesmen*
- Post pilots or trials, channel coverage should be timed and scaled to take advantage of "network effects".^{4w} It should be optimised to ensure adequate access to clients, while preventing cannibalisation amongst one-another.

Enabling Intermediaries

- Intermediaries should be adequately enabled by providing signage, marketing material, technology support (mobiles, POS, connectivity), stationary etc..

Incentives

- Distributors/resellers and more so retailers are nearly entirely driven by profit motivation and hence remuneration and incentives go a long way in building a healthy committed channel.
- Channels favour & promote products that are less complex to handle. Marginal RoI (on time and capital) for financial products should equate or exceed prevailing RoI expectations.^{6w} Incentive design needs factoring these.
- Commission need to be structured differently for generating
 - *Greater client value (e.g. active accounts, last 6 month contribution),*
 - *Incentivizing channel push for certain products (savings, insurance)*
- Non-monetary incentives can include:
 - Bank or mobile money branding leading to greater footfalls and higher client spend
 - Ease (even preference) in access to funds (e.g. retailer loans) and other institutional products.
 - Capacity building support received for sales and client management.
 - Assistance in liquidity (cash and e-float) management.^{7w}

Training and Skill Building

- Financial services are foreign to most agents (except some who might have experience with credit or insurance) and even more so for distribution channels.
- Initial and ongoing training and constant skill-building are therefore key to successful operations. The complexity and range of financial products handled, complexity of fulfillment processes and staff attrition influence the quantum and periodicity of training needed.

Operational Handholding

- Apart from training, channel needs handholding in a variety of ways. Simplification of operations can aid this:
 - Developing check-lists and process guides
 - Reducing process complexity by automation or through re-design
 - *For Eko, agent (CSP) supported remittance transaction s involves a simple two step process. Some retailers have innovated on deposit forms and capture only minimal information from clients.*^{5w}
 - *South Africa is another example of process automation and user friendliness for account opening, usually taking five minutes.*^{3w}
- Other areas where channel needs operational support is around cash and e-money management,^{7w} technology challenges, branding and marketing, communication etc.

Motivating^{6w}

- Like any new business, the market response and uptake for financial services could dramatically vary during the growth phase. However, being a new kind of business, agents might more rapidly become vary and disappointed, and thus need constant motivation.
- Institutions should be equipped with strategies to motivate, which could include clear channels of communication, quick response to operational issues, greater transparency in operations, knowledge & information sharing, periodic promotions & campaigns, empathy, in-store support.

1w: [Mas, Ignacio and Siedek, Hannah, Banking Through Networks of Retail Agents, Focus Note May 2008](#)

2w: [Mas, Ignacio and Ng'weno, Amolo, Three Keys to M-PESA's Success](#)

3w: See [MicroSave Briefing Notes # 69, 71, 73 and 74](#) and [Focus Notes # 64, 65, 66 & 67](#)

4w: See [MicroSave Briefing Note # 81](#)

5w: See [MicroSave India Focus Note # 68](#)

6w: See [MicroSave Briefing Notes # 73, 74 and 82](#)

7w: [Mas, Ignacio and Kindall, Jake \(2009\), Bridging the Cash: The Challenge of Maintaining Liquidity , GSMA](#)

Branding^{1x}, Market Messaging and Communications

- Branding, market messaging and communication plays a significant role in the success of any product or service, more so for the poor and illiterate due to their over-dependence on fewer channels (primarily word-of-mouth) and disadvantageous position due to information asymmetry, lack of ability to make inferences or to validate, or to read between the lines on their own.^{2x}
- Need for scalability warrants a consistent understanding of the offerings, pricing or other communication across all direct and indirect channels that influence not only customer choices/ decisions, but also one-another. This aids building trust with the channel, supports longevity of relationship and of-course, therefore influences customer acquisition and retention.

Challenges ^{3x}	Lessons Learned
Failure to create a winning product	<ul style="list-style-type: none"> • Many a times the best of marketing campaigns will not work is the product lacks value proposition for customers as well as channel • In India, the majority of NFAs remain inactive despite marketing efforts by some BCNMs because it lacks value proposition. Remittances on the other hand has become the star product despite minimal marketing
Failure to create a winning message	<ul style="list-style-type: none"> • Very often establishing or enforcing trust^{1x} becomes central and suitable messaging can be built around that. [Clients of KGFS trust their newly launched pension product because it is backed by Government of India]. • Simplicity and ability to connect with client needs is extremely important for market messaging.^{2x} <ul style="list-style-type: none"> • M-PESA used a simple “<i>Send money home</i>” for years to market and promote their services.^{3x} • On the hand the word-of-mouth messaging around certain social payments in India (NREGA, old age pension) has become so deep-seated that clients withdraw the entire sums paid-out, at the first opportunity, without even attempting to assess the benefits of retaining some savings.^{3x}
Overcoming limited customer knowledge and trust	<ul style="list-style-type: none"> • Association with a large brand as partner provides the additional opportunity of benefiting from marketing promotions and campaigns (across diverse media and geographic levels).^{3x} <ul style="list-style-type: none"> • SBI, Eko’s partner, is the largest public sector bank in the country and is well leveraged for branding and signage. • PFRDA, the pension regulator in India promotes pension products through advertisements in national and regional media, benefiting the partner (aggregators), who would neither have the brand salience nor the wherewithal for similar marketing efforts • MNOs extensively use direct SMS campaigns to build awareness and send targeted messages. • GCASH, SMART Money and M-PESA successfully use television campaigns, billboards and various other advertising channels to create awareness and to promote the advantages of their mobile money services.^{5x}

1x: [Mas, Ignacio and Ng’weno, Amolo, Three Keys to M-PESA:s success, Gates Foundation](#)

2x: [See MicroSave Briefing Note # 102](#)

3x [See MicroSave Briefing Note # 103](#)

2x: [Rung, Greg and Ventura, Arnaud, Beyond Payments, PlaNet Finance](#)

3x. [See MicroSave Briefing Note # 104](#)

3x: [Mas, Ignacio and Morawczynski, Olga, Designing Mobile Money Services,](#)

[MIT Press](#)

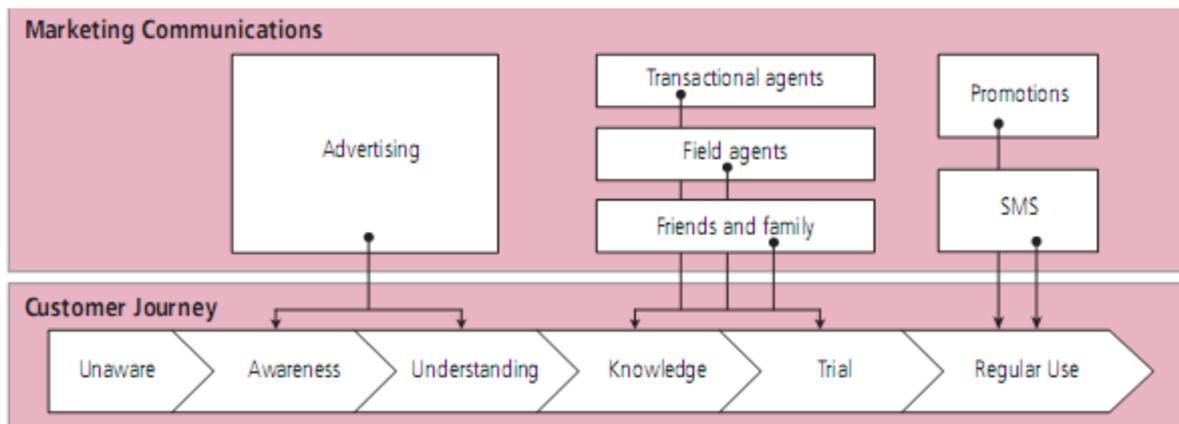
4x: [See MicroSave India Focus Note # 47](#)

5x: [See MicroSave Briefing Note # 71](#)

Branding, Market Messaging and Communications

Challenges	Lessons Learned
Selecting the right marketing promotional activities	<ul style="list-style-type: none"> The right mix of below the line (BTL) and above the line (ATL) marketing activities need to be selected. BTL has been observed to be effective when it comes to customer acquisition, however, they are cost intensive in terms of training/ re-training of promoters. They may turn ineffective if the incentives (for promoters and agents) have not been strategically designed to promote desired behavior. ATL activities to advertise on a mass scale should be used only when the basic infrastructure of agent network and technology are in place. These are costly and should be taken up only after checking ground preparedness to service the customer inflow <ul style="list-style-type: none"> MTN Uganda initially made the mistake of conducting extensive ATL campaigns without having a robust agent network. Airtel Money (in India) carried out advertisements on national television while there was lack of basic knowledge about the product and processes at the agent level
Limited marketing budgets	<ul style="list-style-type: none"> A thorough cost-benefit analysis needs to be done for all branding and marketing efforts. This should be done taking into mind the future revenue stream expected from the customers. Word of mouth marketing needs to be leveraged to lower costs Direct and indirect costs (management costs, costs of re-training promoters) should be considered while doing any such analysis
Lack of adequate customer service	<ul style="list-style-type: none"> The role of marketing and communication cannot end once the customer has been acquired and started using the product. To ensure regular usage it is critical to provide good customer service This can be done by establishing direct to customer helpline, and structuring agent incentives to ensure compensation for future regular usage in addition to customer acquisition

Stages of usage of an e/m banking customer →



Different marketing strategies will be required for each customer as they move through the process of being unaware to regularly using the product. ^{6x}

Framework for Making Customer Journey Delightful

- Lightly modified by *MicroSave* from awareness to ongoing activity (CGAP) -



OPERATIONAL CHALLENGES

Product features/ Pricing	Does the service meet a customer need at a competitive price?		Are tx fees perceived to be too expensive?	Are tx fees perceived to be too expensive?	Do customers see ongoing value in using product?
Marketing	Does the customer understand the value of the service?				How often touch customers with reminders/incentives?
Agent Network		Locations appropriate? Are agents incentivized to sign up the "right" customers?	Do agents hold cash or float? Locations appropriate?		Agent service consistent?
Customer Service		Can customers find agents?	If there is a problem is it resolved quickly and satisfactorily?	If there is a problem is it resolved quickly and satisfactorily?	How often touch customers with reminders/incentives?
User Experience		How long and painful is the sign-up process?	Does the customer know how to transact? How long and painful is the tx process?	How long and painful is the tx process? How easy is the user interface to use?	
System Network		Do network outages hinder sign-ups?	Do network outages hinder transactions?	Do network outages hinder transactions?	Do network outages hinder transactions?

Well designed products^{1y} aligned to consumer perception of value can act as “anchor” for the business to take roots

- Certain financial products stand-out in their appeal to consumers due to their ability to address specific needs of the poor and at price-points that are perceived to be value generating.
- Focusing on these products can support building the much needed critical mass rapidly. Illustrations of some products that can be drivers of early adoption and usage in various situations are below:

Domestic Remittances & Payments^{2y, 3y}

In many environments domestic remittances have been a driver for early adoption and even attaining critical mass for the following reasons

- Address a key pain-point for migrants, commercial remittances or bill payments
- Expected outcomes are apparent and verifiable in real-time creating trust.
- Sharp market messages can be developed to target clearly identified segments.
- Cost effective compared to the usual hawala and informal channels.
- Bill payments constitute another category of transfers witnessing demand due to subsidization from utility companies.
- Examples – M-PESA, Eko, Brazil

Electronic Benefit Transfers (EBT)

Social or welfare payouts,^{4y} wherever provided, are a sought after product and rapidly emerging as a business driver for several institutions

- Electronic benefit transfers (EBT) have a massive customer pull, being regular cash receipts.
- Due to State push, as in India, EBT commission structures are attractive for institutions to establish their business foundation and subsequently cross and up-sell other services.
- Client payout is regular and often higher compared to payouts through intermediaries or unofficial channels.
- Examples – FINO, SEED, ALW

Insurance^{5y, 6y, 7y}

In certain markets insurance is witnessing high growth

- Clients perceive a wind-fall return for certain insurance products like accident insurance, if structured well.
- In India life insurance policies are used primarily by poor people as long term savings mechanisms
- Factors impacting offtake include
 - Client trust
 - Local institutions’ ability to assess product-segment fit and drive growth
 - Insurance company’s marketing and branding support
- Examples - KGFS

Savings^{3y, 8y} / Recurring Deposits

Few formal channels currently offer savings products like recurring deposits. Most of the demand is met through intra-household, family & friends and informal channels

- Informal savings options are quite widespread despite the risks associated.
- Clever providers (e.g. Sahara) have developed unique service models like door-step service supported by enormous scale and staff commitment to sustain low cost operations.
- Informal saving groups led by women exist in some low-income countries.
- Formal institutions wanting to use saving deposits as anchor products would need to ride on other product volumes to achieve a sustainable business proposition.
- Examples – Sahara, West Africa^{3y}

The following aspects need to be considered:

1. Appeal of a financial product can vary considerably according to the demographics, local conditions and existence of alternatives. While there might be underlying similarities across environments, cognisance of the segment needs being targeted and designing the products accordingly is desirable.
2. Poor need a mix of various financial services to address their needs, as does any other segment. The focus on flagship/anchor products should therefore not be an end in themselves, but more as a stepping stone to sustainability, post which other products, with perhaps lesser customer appeal can be offered.^{1y}
3. Charging structure for products must be carefully considered. When and how much to charge for a service or transaction needs basing on customer perception of the value. Addressing questions like why will customer pay for opening an account or for deposit or withdrawal transaction might vary in different situations and would help structure the right pricing arrangement.

1y: See *MicroSave* India Focus Note # 65

2y: Mas, Ignacio *Realizing the Potential of Branchless Banking*, October 2008

3y: Mas, Ignacio, *Seeking Fertile Grounds for Mobile Money*, September 2009

4y: Rotman, Sarah (2010), *The forced marriage between social protection and financial inclusion*

5y: *How Technology can Improve Insurance for the Poor?*

6y: GSMA, *Will Mobile Money Bring Microinsurance to the Poor?*

7y: McCaffrey, Michael, *Mobile Money in Pacific Islands*

8y: *The Next Challenge: Channelling Savings through Mobile Money*

But the product offerings have been limited, some ANMs may have partial (or no) control over the product offerings

- Other than cash-in/ cash-out, typically, the service providers offer four main payment offerings – Air-time Top-ups, P2P Transfers, Bill Payments, Bulk Payments (in descending order of relative usage)^{1f}
- **Both non-bank and bank led models have their limitations** – while in the former the MNOs have been reluctant to offer complex financial service, in the latter, ANMs have little or no control over the products and bank have till now not shown much intent to offer a wide range of products

With a variety of hurdles to cross – channel management, partnerships, technology, regulations, etc – the importance of product development has diminished.

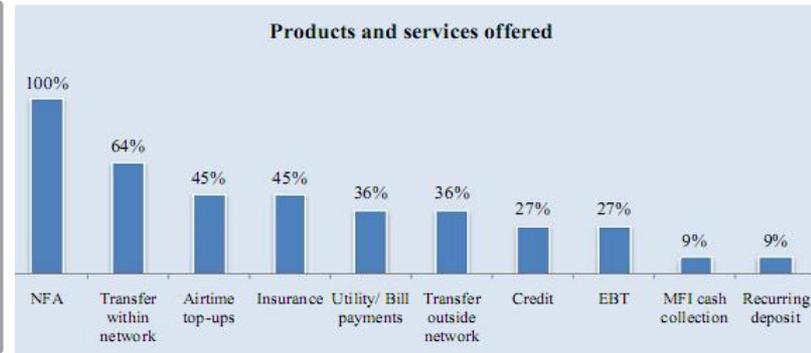
Most players are struggling to bring the basic offering – a m-wallet or a no-frills savings account (NFSA) to the consumers and try to achieve scale. This is despite of the proven fact that the poor are willing to pay for well-designed quality products^{2ya}



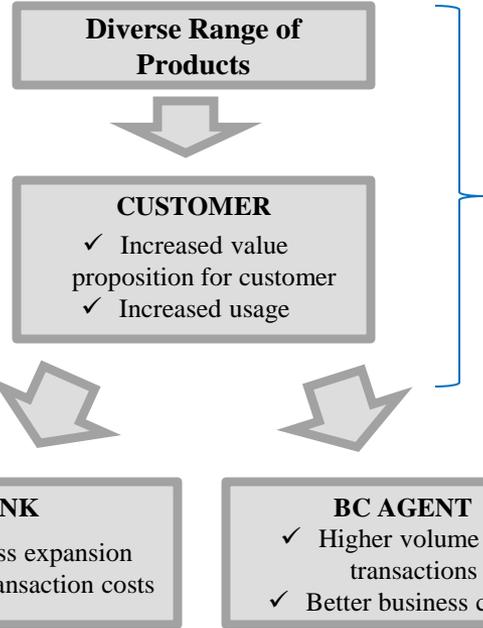
- As a result, while the customers have been acquired, majority remains inactive. A GSMA survey of 52 mobile money providers, only 16% of the registered users were active in June 2011^{1ya}
- Many deployments have tried to replicate the success of M-PESA without understanding the customer needs to identify the killer product or take a multi-product approach to cater to different financial needs and customer segments. For instance, M-PESA could barely get off the ground in Tanzania
- In Kenya many financial institutions have tried to ride the M-PESA rails (Equity bank's M-KESHO, I&M Bank's M-PESA Prepay Safari Card), in the hope to achieve M-PESA like success^{3ya}

In India, the BCNMs are focused on increasing geographic coverage as opposed to providing intensive coverage with multiple product offering. This is partly driven by the push from RBI to open No-Frills Savings Account.^{4ya}

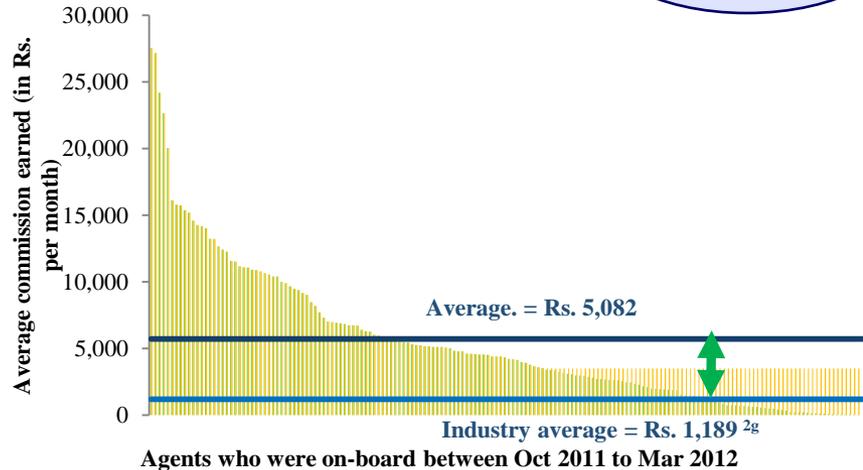
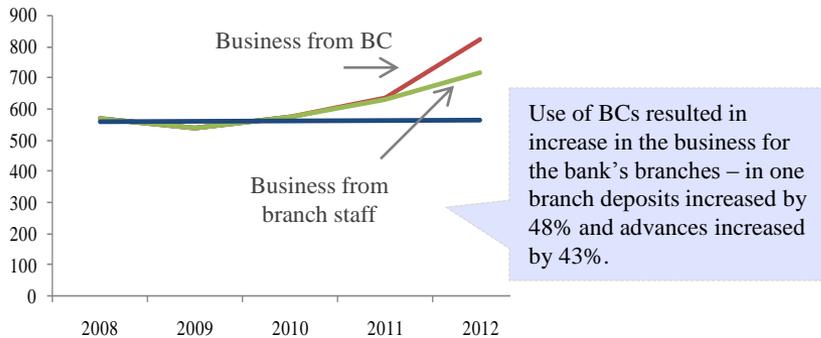
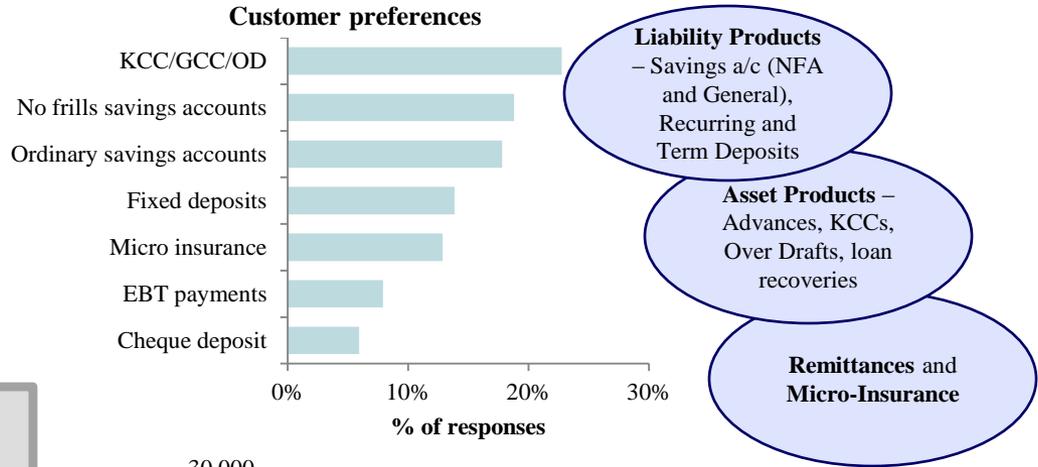
- Based on a survey of eleven BCNMs in India, only few have innovated to offer third-party products like insurance, bill payments and airtime top-ups.
- *MicroSave* researches have repeatedly highlighted the demand for products such as recurring and fixed deposits, and credit through this channel. However, these are yet to be offered by most banks.



Need to offer a wide range of services to ensure strong value proposition for all players^{1g}



In addition to the liability and payments product, asset products need to be added to enhance the revenue line for banks and BCs



Bringing costs down across the value chain



- High cost of service delivery has been a major inhibitor for financial services to reach the low income masses and continues to be a significant challenge.
- Some considerations that can aid a lower cost model are outlined below

Standardisation

- Standardisation supports both “economies of scale” and “network effects”.^{1z}
- In addition to initial investments, it also helps better manage operational costs due to availability of multiple alternatives.
- The spin-off benefits include better service, quality, convenience and so on for the consumer and for the entire value chain.

Making Costs Variable

- As with any business, moving to variable cost structures enables flexibility to scale-up and down with much less pain and costs.
- Fixed costs can be made more variable by
 - Outsourcing functions like technology, and support functions like HR, finance, customer care, agent network training etc.
 - Leveraging third-party distribution/resellers for sales and marketing
 - Exploring complementing alliances (e.g. for better geographic coverage, diversity etc.)
 - Sharing resources across multiple providers to distribute fixed costs across a wider base. This could include credit bureau, sharing mobile or POS banking platform, sharing core-banking or riding on the same distribution network.^{3z}

Adopting Proven Approaches

- Innovative mobile payments providers have been in the market for over ten years and re-inventing the wheel for new entrants will always be an expensive proposition.
- Institutions would do well to assess existing models and choices and adopt. They would also get benefited from scale or incremental innovations that larger players bring about.

Economies of Density and Scope^{2z, 4z}

- With a small addressable market per agent, they need to (a) achieve economies of density by acquiring as many customers as possible and (b) capture a larger share of customer wallet by offering multiple services and targeting large transaction volumes

Disintermediation^{5z}

- Reducing the supply-chain links between the producer and consumer of services obviously brings costs down
- An important trade-off is needing a large number of agents to expand reach and generate awareness and the need to disintermediate to manage costs.
- Technology can often achieve this trade-off, by enabling goods and services to reach the last mile directly, as is the case with electronic air-time and gradually being adopted for financial services.

1z: See *MicroSave* Briefing Note # 80, 81

2z: Mas, Ignacio (2009), *The economics of branchless banking*

3z: Mas, Ignacio *Realizing the Potential of Branchless Banking.*, October 2008

4z: Leishman, Paul, *Is there Really any Money in Mobile Money?*, GSMA

5z: Pickens, Mark et al, CGAP, *Agent Management Toolkit*

Agent training is a vital and often ignored area that can lead to operational inefficiencies, customer dissatisfaction and high costs, unless attended to

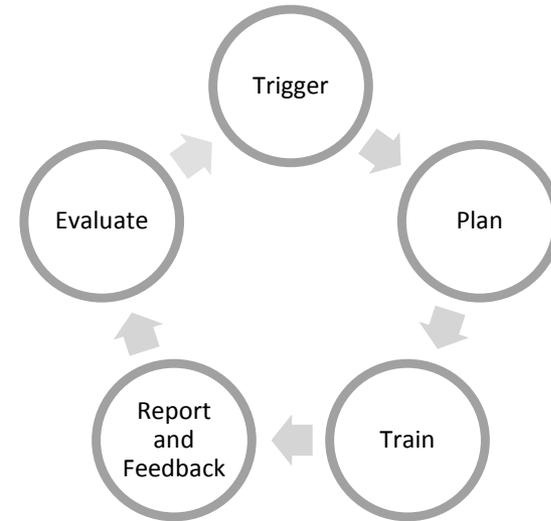
- Appropriately designed and delivered training is essential to ensure that the agents understand and follow his/her responsibilities as a service provider for a reputed financial institution. A well structured and monitored training programme ensures that reputation, compliance and operation risks are minimised.

Challenges	Lessons Learned
Designing the right type of agent training program	<p>Factors that must be considered before designing a training program for agents are:</p> <ul style="list-style-type: none"> • <i>Agent Willingness</i> - length and location of the training must balance the agents' needs with the operational requirements and quality. On-the-job training to agents by the ANM field staff in agent locations can be explored. • <i>Cost of Training</i> - ANM should develop a detailed policy on the training preparations and delivery. Standardising these aspects helps managing budget requirements. • <i>Desired Outcomes</i> - Expected results of the training must be decided. Monitoring system needs to be implemented to track performance and take corrective measures • <i>Duration of Training</i> - ANM should decide on the duration of a training based on the availability of agents • <i>Resources Available</i> - The ANM may decide to conduct training in-house – centralised or decentralised - or decide to outsource it, based on the availability of competent staff and adequate financial resources
To keep the training in sync with Customer's Need	<p>Following topics must be included in the training:</p> <ul style="list-style-type: none"> • Documentation training: will help in filling out the forms etc. • Banking products: this will in help recommending customers appropriate banking services • Customer service and other soft skills
To keep the training in sync with Agent's Need	<p>Following topics must be included in the training:</p> <ul style="list-style-type: none"> • Emerging Trends in the Market • Banking and E/m-banking Operations • Technology Platform and Troubleshooting • Soft Skills Training • Compensation Structure
To keep agents up-to-date with the information	<p>Regular, refresher trainings are organised as well, to keep agents up-to-date with new developments in the technology, regulations and the model as a whole.¹</p>

Effective training of the agents can greatly aid in seamless day to day operations

Implementing Agent Training^{7z}

Activity	Inputs for Implementation
Organise a core training team	<ul style="list-style-type: none"> Define the roles and responsibilities of the team for developing the curriculum and also identify personnel to conduct the trainings at various levels and at regular intervals.
Develop a training curriculum	<ul style="list-style-type: none"> The training curriculum should be based on a detailed training needs assessment system for agents. This should seek out feedback from customers, agents, internal audit staff and middle management (and perhaps inputs from the bank partner). The curriculum should define training needs and objectives. It should also clearly explain the expected outcomes from a training programme. The curriculum would typically include topics such as financial inclusion, banking, the transaction process, compliance, technology, customer service and support, compensation structure and agent support systems.
Frequency of training	<ul style="list-style-type: none"> The training plan of an ANM should specify the frequency of core training and subsequent follow-up trainings. The training could be planned as core training and refresher (+ advanced topics) trainings at regular intervals.
Monitoring the impact of training	<ul style="list-style-type: none"> An assessment tool and process should be designed to monitor the impact of the training and identify areas for improvement. The system should also cover the process on how modifications are made.



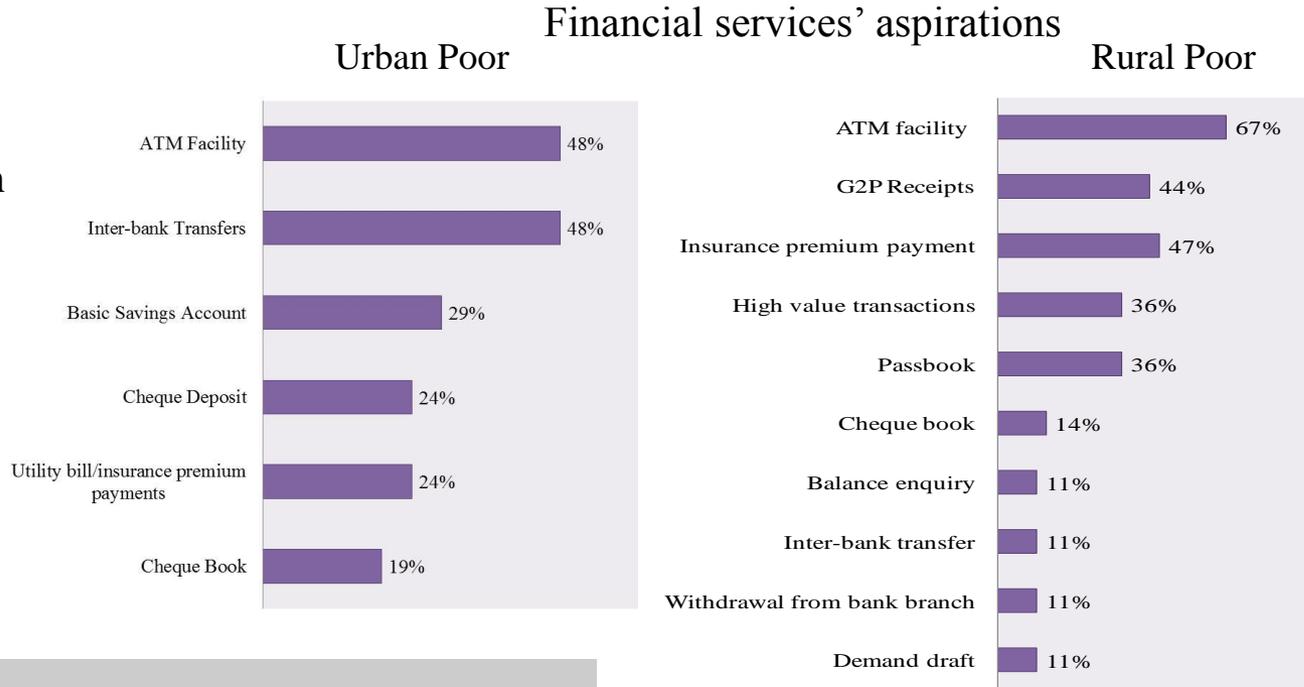
Circle of Training

To ensure proper implementation of the complete training process, it is good to follow the circle of training.

- **Trigger:** To start the training process, a trigger must be set outside the training department (may be in the team which looks after agent recruitment). For refresher trainings, the trigger might be the training software which automatically generates the list of agents to be trainee
- **Plan:** Decide time, duration and venue of the team and communicate the same to the trainees and concerned staff
- **Train:** Training should be conducted using adult learning principles, and feedback should be collected at the end of training from all the participants. After the training, a test must be conducted and scores of the same should be submitted.
- **Report and Feedback:** Trainer should send a training report and feedback forms to the training department where all the feedback is collated and then shared with the trainer
- **Evaluate:** Training test scores can be used to analyse the areas where the trainees might still need support. Those areas can be emphasised in the refresher training

Need for greater integration and interoperability is acute

Greater integration and interoperability of branch-less banking is an acute need of both urban and rural consumers. Several of them expressing it as aspiration to have access to ATMs or a need for greater convenience

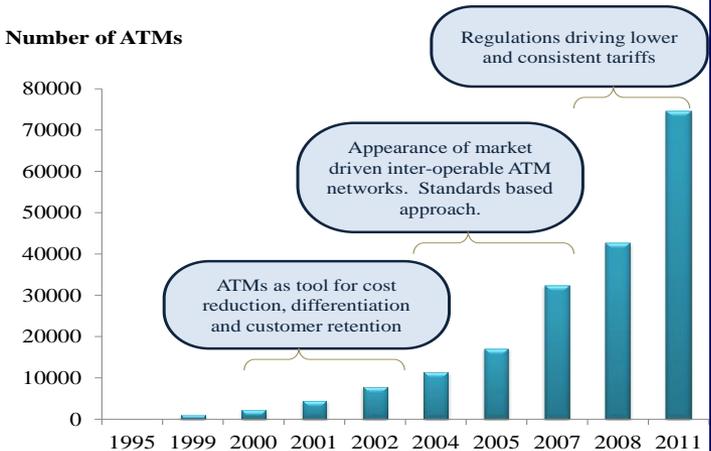


Branchless banking can adopt lessons from the way other banking and payments channels have witnessed exponential growth – particularly ATMs and merchant payments using EDC* terminals. Interoperability and ease of integration driven by adoption of standards and in-turn scale economies have aided growth and adoption.

1za: See *MicroSave* Briefing Note # 80, 81

2zaa: Mas, Ignacio (2009), *The economics of branchless banking*

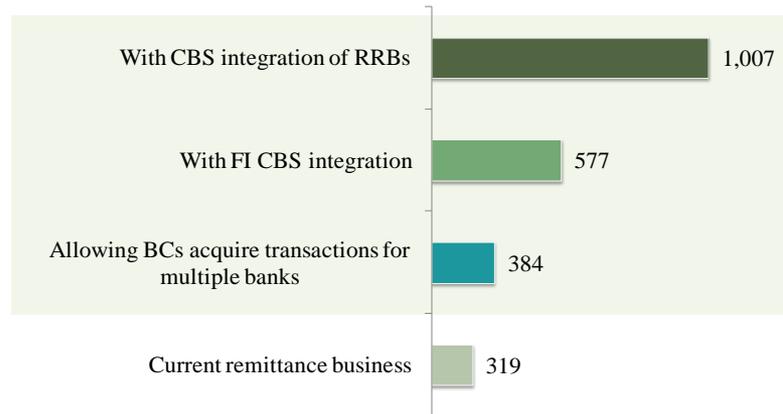
Number of ATMs



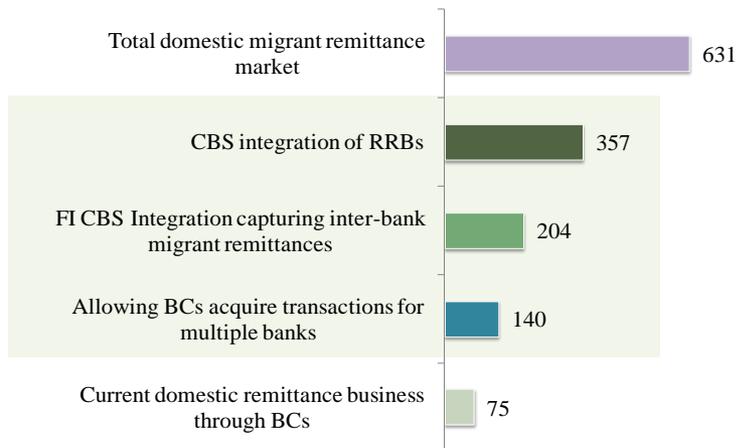
BC Channel Integration Makes Considerable Business Sense for Banks and ANMs

Potential opportunities for banks and ANMs in Urban India enabled through greater integration and inter-operability.

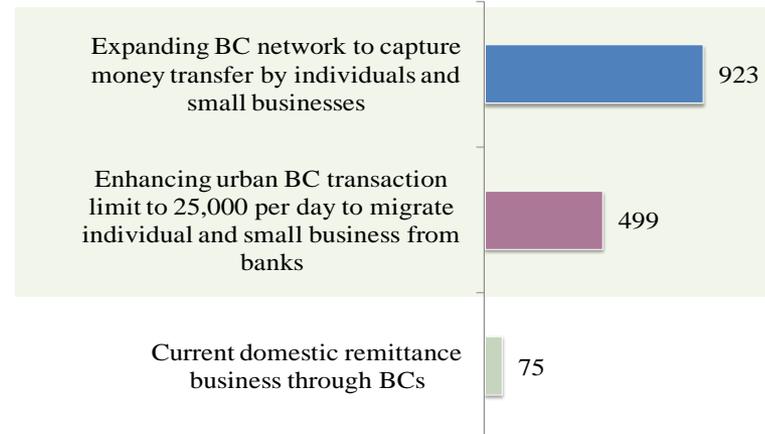
Potential opportunity for Banks (Rs. Billion p.a.)



Potential opportunity for BCs (Rs. Billion p.a.)



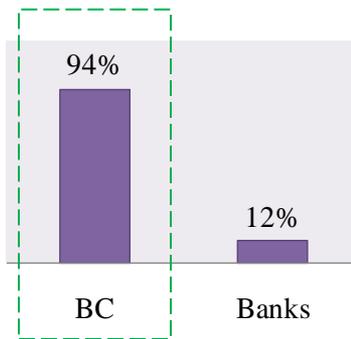
Potential opportunity for BCs in non-migrant transfers (Rs. Billion p.a.)



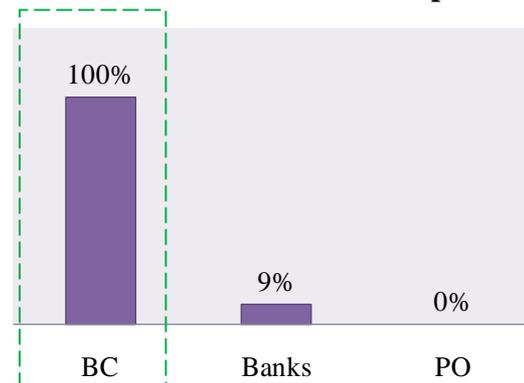
BC Channel Integration Makes Considerable Business Sense for Banks and ANMs

Rural consumers have a considerably greater preference for availing financial services directly through BCs vis-à-vis banks or post offices. They would prefer all G2P payments to be serviced by BCs

Channel preference for MGNREGA receipts

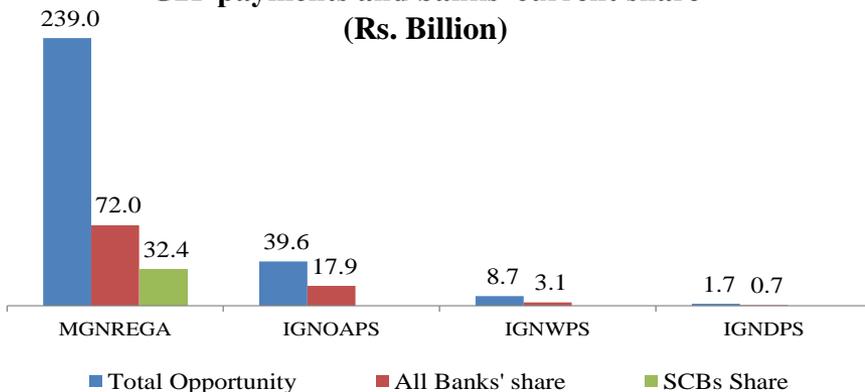


Channel preference for other welfare receipts

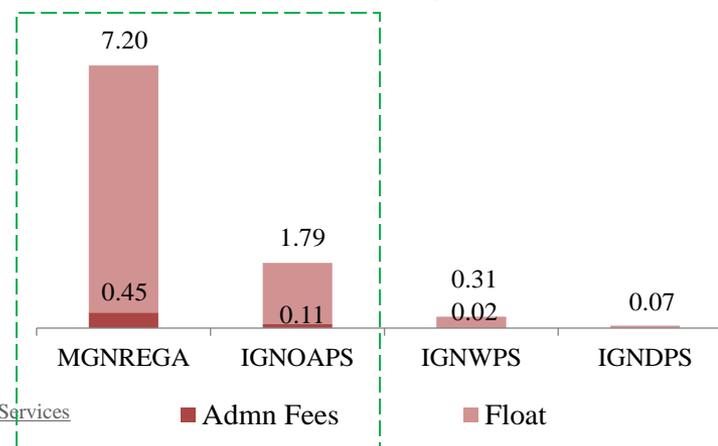


Additional revenue potential for banks & ANMs in Rural India enabled through greater integration and inter-operability to service G2P payments

G2P payments and banks' current share (Rs. Billion)



G2P payments – Revenue potential for banks (Rs. Billion)



Challenges and Lessons Learnt

- Strategic Challenges
- Operational Challenges
- Overcoming Barriers to Adoption
- Regulatory and Policy Challenges



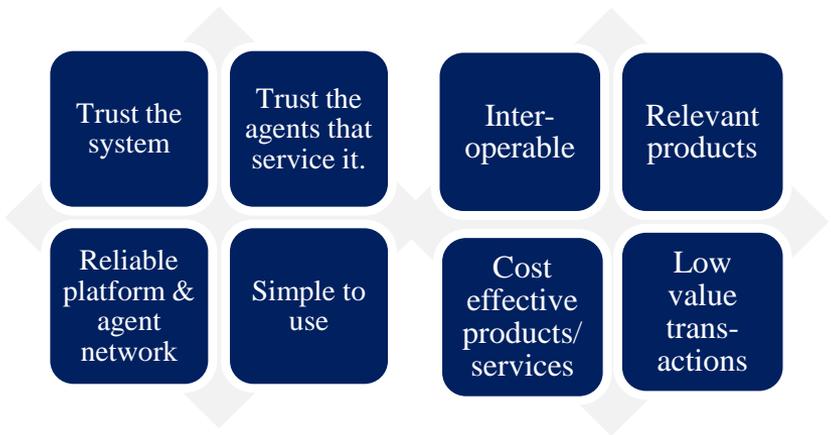
But dormancy remains a common problem

In a recent CGAP survey, 64% of mobile money managers indicated that less than 30% of their registered users are active. The survey also indicated that active rates of even less than 10% are not uncommon.

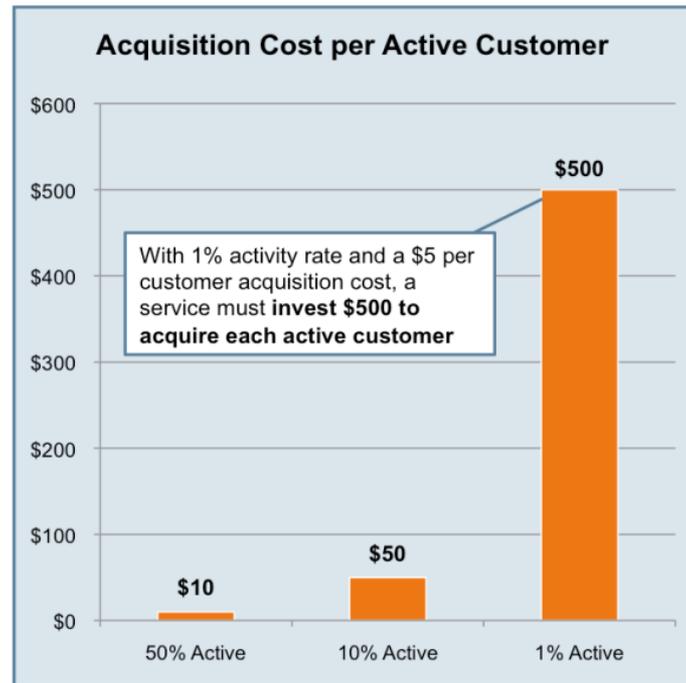
The financial implications of this are profound.

Overcoming dormancy requires:

Liquid, well incentivised agents delivering high quality customer service (backed by an effective call centre)



ABL/BTL marketing and communications in clear, concise client language backed by promotions to drive transactions



Challenges That Lead To Dormancy



While challenges to consumer adoption remain, there are several success stories providing great learnings [1/3]

Consumer Need & Expectations ^{1aa, 2aa, 3aa}	Barriers and Challenges	Lessons Learned
Trust and Safety	<ul style="list-style-type: none"> • Often a compromise trade-off has to be accepted between proximity, liquidity and safely and each might not be addressed in equal measure (e.g. transacting at a bank might be more secure and liquid but loses out on proximity, whereas transacting at a shop-round-the-corner might not be equally secure). • Low levels of financial and technology literacy and lack of trust with e/m banking channels to handle money.^{4aa} 	<ul style="list-style-type: none"> • GCASH, SMART Money and M-PESA majorly benefited from the strong national branding of Globe Telecom, Smart Communications and Safaricom^{4aa} • Trust is established through community relationships and proven track-record. KGFS village branches are trusted by locals more than nationalised banks. • Brand equity and salience goes a long way in building awareness and consumer trust.
Accessibility and Proximity ^{5aa}	<ul style="list-style-type: none"> • While cash is ubiquitous, access to bank branches and ATMs is severally limited. Some poor households do not have access to even mobile phones. • Banks locations and timings are both usually inconvenient to the poor. 	<ul style="list-style-type: none"> • Even though customers might not have access to personal mobile phones, Eko's agents usually act as facilitators using their mobile devices for carrying out transactions on behalf of customers.
Liquidity ^{6aa, 7aa, 8aa}	<ul style="list-style-type: none"> • Managing liquidity of cash and e-money is a significant challenge to deal with at various levels across distribution. • For a given outlet or reseller, customer demographics might drive excess demand for either cash or for e-money, depleting stock quickly and needing replenishment (e.g. demand for e-money at the remitting end of a corridor or due to loan repayment through m-banking channel or demand for cash for social payments). 	<ul style="list-style-type: none"> • Selecting agents with prior experience of handling large amounts of cash is helpful. Partnering with financial institutions like banks too eases liquidity management. • Selecting multiple agents in an area not only helps overcome “network effect” and provide footprint for client coverage, it also helps manage liquidity better. M-PESA has 24,000 agents today and Eko had over 1000 agents in operation. • A three-tier model with super distributors can greatly aid liquidity management as they try to achieve optimization within their territory • Other options include routing very high value withdrawals through a branch or an ATM (as in case of M-PESA).

1aa: *MicroSave Deposit Assessment in India, IFC study, March 2011*

2aa: *Mas, Ignacio (2009), The economics of branchless banking*

3aa: See *MicroSave IFN # 62* and *Briefing Note # 47*

4aa: See *MicroSave Briefing Note # 71*

5aa: See *MicroSave India Focus Note, # 37*

6aa: See *MicroSave Briefing Note # 78*

7aa: *Mas, Ignacio and Kindall, Jake (2009), Bridging the Cash: The Challenge of Maintaining Liquidity, GSMA*

8aa: *CGAP, (2010), Branchless banking agents in Brazil*

While challenges to consumer adoption remain, there are several success stories providing great learnings [2/3]

Consumer Need & Expectations ^{1ab}	Barriers and Challenges	Lessons Learned
Simplicity ^{2ab}	<ul style="list-style-type: none"> • Consumers are intimidated by technology complexity especially where they have a direct interface (ATM, mobile) • Product complexity aggravated by absence of association with consumer drivers (e.g. a pension product with a complex lifecycle, whereas consumers desire a simple pension payout mechanism) • Compared to swiping a card or signing a form, using mobile phones for banking or payments is still clunky – be it SMS, USSD enabled or menu driven. • Simplicity and security are difficult to accomplish together and a compromise is often made. (M-PESA customers face the issue of losing money by wrongly transacting to an incorrect account)^{3ab} 	<ul style="list-style-type: none"> • Agent/CSP enabled models in India, despite limitations of reach are overcoming technology barriers facilitating adoption. • Repeated use of new technologies helps clients become familiar and this can be suitably incentivized. Wizzit, Safaricom and SMART enabled clients to experience and experiment with their services, by lowering entry barriers and offering attractive promotions.^{4ab} • Early innovators in mobile financial services having achieved reasonable scale, are now focusing on simplicity, customer convenience and delight.^{5ab} • To overcome the challenge of widespread illiteracy and innumeracy, and to enhance customer protection, institutions are trying various approaches (a) enabling agents to carry out transactions for clients (Eko CSPs), (b) linking numbers back to mobile phone book (G-CASH), (c) Using paper forms as requests/transaction proofs to safeguard (Eko, G-CASH).^{8ab}
Portability	<ul style="list-style-type: none"> • Certain client segments like migrant labour value portability of products. This is a major challenge today as standards are yet to emerge and most institutions follow an individualistic silo approach. 	<ul style="list-style-type: none"> • National initiatives can support the objective of portability. In India, PFRDA, the pension regulator offers pension products that are expected to be ported across the country, thereby providing support to migrant clients.
Inter-operability	<ul style="list-style-type: none"> • Lack of standards and limited collaboration between players is currently a key barrier to inter-operability between approaches. Often inter-operability is not possible even within the different systems of large banks. 	<ul style="list-style-type: none"> • NPCI in India has taken a major step ahead in enabling inter-operability between banks for mobile banking. Introducing a common switch (IMPS)^{6ab} that connects 20 large and small banks today, working on common standards and processes, allows clients to transfer funds between any of partner banks. Similar to RTGS and NEFT that allow real-time settlement between banks, and could go a long way in providing the much needed fillip to mobile banking.
Ability to transact in low value	<ul style="list-style-type: none"> • Inability to handle large volumes of low value transactions at low cost, is one of the significant barriers to financial exclusion. 	<ul style="list-style-type: none"> • Airtime top-up in very small denominations have demonstrated the possibility of offering a similar proposition for financial products.^{7ab}

1ab: See *MicroSave* Briefing Note # 47
 2ab: See *MicroSave* India Focus Note, # 37
 3ab: See *MicroSave* Briefing Note, # 94
 4ab: See *MicroSave* Briefing Notes # 69, 82

5ab: See *MicroSave* Briefing Note # 80
 6ab: www.npci.org.in
 7ab: *MicroSave* Deposit Assessment in India, IFC study, March 2011
 8ab: G-CASH Presentation at CGAP Annual meeting

While challenges to consumer adoption remain, there are several success stories providing great learnings [3/3]

Consumer Need & Expectations	Barriers and Challenges	Lessons Learned
Promise of Returns	<ul style="list-style-type: none"> • Clients (even illiterate ones) have an expectation of return from financial instruments. A quick comparison is also made to cost of and returns from available alternatives (e.g. unofficial channels, less trusted and higher-risk instruments and so on) 	<ul style="list-style-type: none"> • Before subscribing to savings instruments, low income customers seek to compare the returns provided. • A pension product study^{1ac} exhibited near uniform client expectation of value of monthly benefit anticipated at old age. Insurance products are more readily accepted, as the potential returns are easily comprehensible.
Affordability / Perceived Value ^{4ac}	<ul style="list-style-type: none"> • While consumers have demonstrated willingness to pay for financial services, it is quite dependent on their perceived value. • Clients may be willing to pay for certain events (e.g. remittance, insurance) but not for certain other transactions (e.g. account maintenance or [often but not always] deposits). • Likewise they might pay even more than normal tariff if they perceive a trade-off with speed or proximity or availability of alternate channels.^{4ac} 	<ul style="list-style-type: none"> • Even small sums of money are of greater value for the financially excluded segment. Initial and on-going costs should therefore be aligned to value perceived from the financial instrument.^{5ac} • In South Africa banks charge a 1% fee for cash-in. Whereas SMART and GCASH cover the cost of cash-in transactions, making it free for client.^{2ac} • Well designed pricing is considered to one of the top reasons for M-PESA's success. It does not charge clients for opening an account or making a deposit, but all other transactions are chargeable according to the value-perceived and willingness to pay. • Remittances often witness early adoption and large volumes (Kenya and now India) because alternate channels cost more and are less secure.^{3ac}
Product Relevance ^{6ac, 7ac}	<ul style="list-style-type: none"> • Product relevance and preferences could vary dramatically and must be^{3ac} adequately researched in the target community; and comprehensively tested prior to large scale rollout. • Sustaining product usage post-acquisition is a constant challenge and a poor customer experience leads to drop-outs.^{9ac} 	<ul style="list-style-type: none"> • M-PESA realised during pilot testing that its platform was not well suited for micro-lending using group based approach.^{8ac} • In Colombia bill payment was found to be a preferred product.^{3ac} • Mature services obviously have the opportunity to add new offerings to keep the growth momentum or maintain market lead through differentiation and customer “stickiness”. M-PESA has been successfully expanding its product portfolio to include international remittances, salary payments, purchasing goods, utility payments and even withdrawing cash from PesaPoint ATM.^{3ac}

1ac: *MicroSave* Research of Dhanei KGFS

2ac: See *MicroSave* Briefing Note # 69

3ac: See *MicroSave* Briefing Note # 82

4ac: See *MicroSave* India Focus Note # 67,

and Briefing Note # 96

5ac: *MicroSave* Deposit Assessment in India, IFC study, March 2011

6ac: See *MicroSave* India Focus Note # 47

7ac: Pickens, Mark (2011), *Focus on Product Pricing and Agents to Drive Adoption*, CGAP

8ac: See *MicroSave* Briefing Note # 47

9ac: See *MicroSave* India Focus Note # 62

Good Practices Case Study: State Bank of India

Focus on consistent branding, promotions and awareness creation



- SBI Tiny is an sub-brand and leveraged consistently.
- SBI LHO and branches regularly support BCNMs in local promotions and awareness building efforts.
- Local branches promote BCs by displaying signage with their address / contact details.

Reasonable customer charges adjusted according to market demand



- While deposits and withdrawals are free, non-home account transfers are charged at market competitive rates, ensuing BCs have a business case.
- Tariffs are reviewed and modified according to demand and competitive pricing.
- Branches divert low value transactions to BCs.

Online or mobile based, card-less front-end solutions for authentication



- SBI primarily uses online or mobile based solutions. Lead times for enrolment are low.
- System stability is high and failures are infrequent.
- Exploring options of technology consolidation and standardisation instead of multiple TSP partnerships.

Diverse range of products including consumer pull driven



- Push for remittance with real-time transfer to win customer trust and generate demand.
- BCNMs and BCs work closely with local SBI branches to target new segments (such as salary payments for workers in industrial areas).

Good Practices Caselets

Faced with challenges of a rapidly growing agent network, Equity Bank (Kenya) put in place a comprehensive Agent Management System for better control over its operations. *MicroSave* assisted the bank to come up with the system which tracks macro and micro level activities, provides tools (templates, reporting formats, forms) and also provides monitoring and feedback mechanism.

M-PESA in Kenya has 140 lakh customers supported by 24,000 agents who use their mobile phone to use basic banking services.

In India, Eko offers SBI mini saving account to over 2 lakh customers, who have made remittances worth Rs. 1,349 Crore through Eko in the last 15 to 19 months.

Oxigen provides a centralised contact centre experience for its BCs and customers where they can log their complains/queries through a call, e-mail or an SMS.

Eko, another prominent BCNM, provides separate toll-free calling lines for its BCs and customers to ensure easy accessibility to each segment.

HDFC Ergo is successfully offering its insurance products through FINO's BCs. Mobile and DTH recharge are offered by Oxigen, Beam and Suvidhaa. Pension products are offered by KGFS and Sub-K.

Union bank, Yes Bank & Equity Bank offer ATM cards to NFA holders. Some offer it as add-on at customer request, for a charge.

Challenges and Lessons Learnt

- Strategic Challenges
- Operational Challenges
- Overcoming Barriers to Adoption
- Regulatory and Policy Challenges



Regulatory requirements or lack of clarity by the central bank remain key barriers to implementing mobile banking^{1ad, 2ad}

Regulatory Challenges	Illustrations of Solution Approaches	
<p>Restricted access to payment systems: In several countries like India or South Africa only a bank can participate in savings related financial products, whereas credit can be offered by a wider cross-section of institutions.</p>	<ul style="list-style-type: none"> In India banks have been enabled to use intermediaries called business correspondents in providing financial and banking services 	<ul style="list-style-type: none"> In some countries electronic money can be differentiated from a bank account eliminating the need for a bank license.
<p>Anti Money Laundering: Preventing anti-money laundering and terrorist financing requires the financial institutions to have direct customer interactions and adherence to KYC norms. Documentation barriers are being lowered by accepting higher level of risk for financial inclusion, nevertheless challenges still remain.</p>	<ul style="list-style-type: none"> UK and South Africa have done away with face-to-face interactions as long as banks or their agents can mitigate identity fraud. The regulator in South Africa has allowed for KYC documentation in electronic format in turn accelerating processes and enabling better management of AML risks^{2ad} 	<ul style="list-style-type: none"> In India, KYC norms or documentary requirements for no frills savings accounts have been relaxed for the bank's agents.^{3ad}
<p>Security Considerations: Ensuring adequate security for the illiterate masses with limited prior exposure to financial services, is a challenge and certain central banks have developed rich guidelines / policies to address security concerns.</p>	<ul style="list-style-type: none"> In India, RBI mandates two-factor authentication for e/m banking transactions. Bio-metric and increasingly iris based authentication is used, although yet to be proven. 	<ul style="list-style-type: none"> Security for USSD and SMS transactions can be enhanced by using a secure channel, whereas SIM toolkit based solutions can have embedded security.
<p>Technology Patents: Mobile technology is often patented and this might either add to cost or act as barrier to scale</p>	<ul style="list-style-type: none"> Inter-operable standards such as ISO-8583 compliant are increasingly being adopted 	
<p>Risk management: Basel risk management principles for electronic banking also apply to mobile phone banking and should be understood if financial institutions offer international settlement</p>	<ul style="list-style-type: none"> Central bank in Philippines has made significant contributions to regulatory frameworks and in developing exemplary models (including customer protection) for other regulatory dealing with similar issues^{4ad, 5ad} 	<ul style="list-style-type: none"> Bolivia and Uganda are other examples of environments benefiting from timely and appropriate policies ranking amongst the top ten best legal and regulatory frameworks for microfinance.^{6ad}

Policy environments need to facilitate creation of a level playing field for providers while ensuring consumers are well protected

Regulatory Challenges	Illustrations of Solution Approaches
<p>Customer Protection^{1ac, 2ac} With large number of consumers experiencing financial services for the first time, and market information asymmetries puts them at disadvantage, more so when products are complex. Consumers are at risk of being exploited and this could lead to market failure^{3ac}</p>	<ul style="list-style-type: none"> • Consumer advocates have helped remove biases favoring financial service providers. • Active consumer participation in open fora with various stakeholders has assisted collective consumer voice to be heard and their interests to be protected. • Consumer education plays a significant role in preventing information asymmetry. Governments, local bodies, SHGs have a major role in consumer awareness and education, provided through public and social campaigns. • In Peru creation of consumer protection commission and financial ombudsman have aided substantial reduction in complaints.^{4ac}
<p>Level Playing Field: During the nascent phase of regulatory evolution, policy discrepancies exist. At times there is even emphasis on protecting certain participants. This needs to evolve to a level playing field for all actors in the financial services value-chain, to enable fair and equitable play and healthy co-existence.</p>	<ul style="list-style-type: none"> • The business correspondence regulations in India allowing banks to deliver services through third party agents currently favour the banks, allowing them to radically change the rules of the game, putting the agents at their mercy and at great risk. • Whereas Brazil has achieved a universal access by enabling partnerships between banks and third – party agents. • Agent regulations^{5ac} differ considerably and in certain environments pose significant barrier to agent growth. <ul style="list-style-type: none"> • In Tanzania business-licensing requirements impose an additional tax burden on agents • In Philippines, agents required compliance training certification possible only in the capital Manila. • In India, regulations for agents (Business Correspondents) are evolving and force considerable dependence on partner banks and technology providers, at times leaving little room for innovation or product alignment to market needs. • In the long-run, balancing the role of the policy makers with the market forces becomes desirable to promote competition. • Banking regulations also dictate the extent to which MNOs/MVNOs can participate in the mobile money business. These could range from loose regulations (as in Kenya) at one extreme, to special requirements for e-money accounts (as in Philippines), to the other extreme where only banks (or their agents) are allowed to offer mobile financial service offerings (India, Brazil).
<p>Interoperability Regulations:^{6ac} Interoperability regulations can act a significant barrier or stimulator</p>	<ul style="list-style-type: none"> • Interoperability is a must to bring costs down, take advantage of “network effects”, achieve critical mass and enable financial inclusion to take roots. However interoperability regulations take time to emerge due to initial barriers such as lack of proven technology, yet to be proven business models or lack of real impetus for financial inclusion. This causes multiple localised standards and frameworks to mushroom independently further inhibiting interoperability.

1ac: See *MicroSave* Briefing Note # 73

2ac: CGAP, A Delicate Balance: Consumer Protection

3ac: See *MicroSave* India Focus Note # 42, 55, 57, 58

4ac: Hannig, Alfred and Jansen, Stefan, *Financial Inclusion and Financial Stability*, December 2010

5ac : Mas, Ignacio, *Seeking fertile grounds for mobile money*, September 2009

6ac: Mas, Ignacio, *GCAP Blog: Interoperability Regulations*

Steps^{1af} that large players can take to enhance financial inclusion through e/m banking technologies



Teaming Up!
(striking the balance between Vendor/Provider and Partners)^{2af}




Take Active Role in Standard Setting

Benefits

New and enhanced market opportunities	Scale and Critical Mass
Ability to expand customer base and retain existing customers	Cost Savings
Increased profitability, Better RoI	Viability and Sustainability
Standardisation and Reinforcement of standards	Interoperability ^{3af} and Longevity
Increased Confidence and Security	Investment Protection in legacy systems according to standards
Increased Leverage and Power to Negotiate	Independence (from Devices, MNOs, Technology Providers)



Active teaming-up of leading Banks, MNOs and Agents can overcome several barriers and challenges that fragmented players face, while the regulators actively drive policies that enable a harmonised play for the various market participants and protecting consumer interests

APPENDIX

Bank Operating Models

Approaches for banks entering the microfinance market



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Accenture Research

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Comparison of products, reach and client base as of early 2011 [1 of 2]

Institution	Financial Products	Client Base	Geographical Coverage	Contribution from second and third largest products
M-PESA ^{1ba}	<ul style="list-style-type: none"> • Money transfer • M-KESHO savings product • Airtime purchase • Utility and mCommerce payments 	13.5 million	country-wide	Low
G-CASH ^{2ba}	<ul style="list-style-type: none"> • Money transfer • Micro-credit payments and repayments • Airtime purchase • Utility and mCommerce payments 	about 2.0 million	country-wide	Medium
ALW ^{3ba}	<ul style="list-style-type: none"> • EBT • No Frills Savings Account • Loans 	3.0 million enrolments	10 - 12 states	Very Low
WING ^{4ba}	<ul style="list-style-type: none"> • Remittance • P2P transfers • Bill payments • Payroll management • Airtime purchase • Loan repayment 	0.1 million clients	Country wide	High
FINO ^{5ba}	<ul style="list-style-type: none"> • EBT • No Frills Savings Account • Loans 	31.4 million enrolments	309 districts and 12,400 transaction points	Very Low
SERP ^{6ba}	<ul style="list-style-type: none"> • Loans • Community Investment Fund • EBT • Livelihood opportunities 	11.0 million SHG members	22 districts	High

1ba: www.safaricom.co.ke

2ba: www.globe.com.ph/gcash

3ba: www.alittleworld.com

4ba: www.wingmoney.com and *MicroSave* Briefing Note # 73

5ba: www.fino.co.in

6ba: www.serp.ap.gov.in

Comparison of products, reach and client base as of early 2011 [2 of 2]

Institution	Financial Products	Client Base	Geographical Coverage	Contribution from second and third largest products
Eko ^{7ba}	<ul style="list-style-type: none"> • EBT • Mini Savings Account 	0.1 million enrolments. 0.5 million transacting clients	pockets of 2 states, 900 agents	Very Low
IFMR, KGFS ^{8ba}	<ul style="list-style-type: none"> • Personal Accident Insurance • Loans • Savings Account • Pension • Mutual Funds 	0.14 million enrolments	3 districts, 100 branches	High
SEED ^{9ba}	<ul style="list-style-type: none"> • Kiosk FI • Mobile Agent FI • EBT 	1.5 million	17 states	Low
Airtel Money ^{10ba}	<ul style="list-style-type: none"> • mCommerce 	?	1 state	Medium
GFS ^{11ba}	<ul style="list-style-type: none"> • Credit • Home Loans • No Frills Savings Account • Insurance 	0.45 million enrolments	182 branches	Medium
Janalakshmi ^{12ba}	<ul style="list-style-type: none"> • Loans • No Frills Savings Account 	0.04 million enrolments	Few urban centres	Very Low

7ba: www.eko.co.in

8ba: www.ifmr.co.in; <http://capitalpartners.kgfs.co.in/>

9ba: www.seed.net.in

10ba: www.airtelmoney.in

11ba: www.gfspl.in

12ba: www.janalakshmi.com

Participant Definitions

Term	Assets / Capabilities	Roles
Banks	<ul style="list-style-type: none"> • Banking license and infrastructure • Ability to facilitate credit, clearing, and settlement • Regulatory compliance expertise 	<ul style="list-style-type: none"> • Strategies • Agent oversight and quality control • Offer banking services via mobile • Hold float or accounts in customers' names • Ensure compliance with financial sector regulation • Provide branding and marketing support
Agent Network Managers (Super Agents, MFIs or Business Correspondents in India)	<ul style="list-style-type: none"> • Entrepreneurial skills and energy • Critical channel between banks and agents • Provide strategy, operational support, handholding and resolving issues • Ability to invest and scale • Ability to bring together the ecosystem of Banks, Technology platforms, Agents, other third parties • Ability to manage operations and fulfil processes. • Branding and marketing 	<ul style="list-style-type: none"> • Manage core operations • Fulfil back-end processes for the Agents • Manage liquidity and fulfil cash management process • Review and fulfilment of account opening procedures, including customer due diligence (KYC etc.) • Report suspicious transactions in accordance with AML/CFT requirements • Provide branding, marketing and promotional support to Banks • Identify potential new opportunities • Support regulatory compliance
Agents (Mobile Agents or Retailers)	<ul style="list-style-type: none"> • (Physical) Points of presence • Customer trust • Knowledge of customer usage habits and needs 	<ul style="list-style-type: none"> • Perform cash-in and cash-out functions • Handle account opening procedures, including customer due diligence • Accept mobile payments • Build customer trust

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Microfinance Podcasts

1ca: [Mas, Ignacio: M-Banking. Part 1, MF Podcast # 35](#)

- Ignacio Mas, Senior Advisor, CGAP speaks about riding external networks (retail infrastructure) to enable branch-less banking extended outreach and viability and a case for using enabling technologies such as mobile banking to establish trust and consumer confidence. He also discusses several regulatory and business approaches being experimented with.

2ca: [Mas, Ignacio: M-Banking. Part 2, MF Podcast # 36](#)

- In this podcast, Ignacio Mas contrasts the lack of business case and challenges for agents versus drivers and opportunities for MNOs and banks to offer mobile banking services.

3ca: [Mas, Ignacio: M-Banking. Part 3, MF Podcast # 37](#)

- Ignacio Mas speaks about the complexities of rolling out branch-less banking services and challenges around cash management, technology, business choices, marketing, products, interoperability, partnerships and the acute need for achieving volumes and scale for making branch-less banking viable.

4ca: [Mas, Ignacio: M-Banking. Part 4, MF Podcast # 38](#)

- In this podcast, Ignacio Mas, talks about why mobile operators are in a strong position to drive mobile banking, following varied models including direct or in cooperation with banks. He also contrasts the approaches that bank-led and MNO-led models would typically follow and their implications.

5ca: [Richardson, Brian, M-Banking. WIZZIT, South Africa, MF Podcast # 47](#)

- Brian Richardson, Managing Director, WIZZIT, South Africa speaks about the bank-led model that WIZZIT follows, to address the fundamental challenges that clients face of (a) accessibility (b) affordability and (c) availability, using the power of the mobile to reach the unbanked.

6ca: [Rizza Maniego-Eala: M-Banking. Globe Telecom, Philippines, MF Podcast # 49](#)

- Rizza Maniego-Eala, President, G-Xchange, Inc. – Globe Telecom, Philippines speaks about G-CASH value proposition, services and challenges faced.

7ca: [Ali Abbas Sikander: M-Banking. TAMEER, Pakistan, MF Podcast # 50](#)

- Ali Abbas Sikander, Group Executive Director TAMEER, Pakistan talks about their branch-less banking strategy, focus, partnership with MNO and challenges around establishing agent network and the access technology using POS terminals.

8ca: [Samuel G. Kamiti: M-Banking. Equity Bank, Kenya, MF Podcast # 51](#)

- Samuel G. Kamiti, General Manager, Alternative Business Channels, Equity Bank, Kenya speaks about focus on reaching modern banking to the poor and unbanked leveraging mobile phones. He talks about service features such as operator neutrality, 24x7 availability, client convenience all at low costs.

9ca: [Nick Hughes: Vodafone Group, M-PESA, Kenya. M-Banking, MF Podcast # 65](#)

- Nick Hughes, Head of International Mobile Payment Solutions, Vodafone Group on mobile payment service M-PESA in Kenya highlighting its features, differentiators, reasons for vast uptake and implications for channel/partners. He also talks about plans for taking the product to multiple markets.

10ca: [M-Banking for Sustainable Financial Inclusion, MF Podcast # 73](#)

- Graham A.N. Wright, Programme Director *MicroSave* speaks about the value proposition of m-banking for the poor and Abhishek Sinha, CEO Eko speaks about their business model of using retail distribution network as agents and shares experiences and challenges Eko is facing while delivering m-banking services and the key success factors.

11ca: [Tazari, Micheal, Branchless Banking and Technology. Role of Regulators, MF Podcast # 77](#)

- Michael Tarazi, Senior Policy Specialist, CGAP speaks about the major obstacles for branchless banking and the role of regulators in dealing with ‘non-bank actors’ and in enabling e/m banking solutions.

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12ca: [Zafar, Roshaneh, Using Technology for Better Client Service and Deposit Mobilization, MF Podcast # 81](#)

- Roshaneh Zafar, Managing Director of Kashf Foundation, Pakistan speaks about client segmentation and product design according to their needs for savings and the role of technology in e/m-banking and microfinance.

13ca: [Rutherford, Stuart on “Portfolios of the Poor”. A conversation with Graham A.N. Wright, MF Podcast # 100](#)

- Stuart Rutherford, co-author of “Portfolios of the Poor” in a conversation with Graham A.N. Wright, Programme Director *MicroSave*, shares his opinions on the potential of e-banking and m-banking for microfinance industry and talks about the financial inclusion success story of Grameen-2 in Bangladesh.

14ca: [Cook, Tamara, Efforts by Banks. Part 1. Mobile Money – Mobile Banking Series, MF Podcast # 121](#)

- Tamara Cook, Program Officer, Bill & Melinda Gates Foundation speaks about potential solutions for two major problems that bankers face - of getting the cost of serving clients down, and of reaching people living far away from branches.

15ca: [Cook, Tamara, Efforts by Banks. Part 2. Mobile Money – Mobile Banking Series, MF Podcast # 122](#)

- Tamara Cook, Program Officer, Bill & Melinda Gates Foundation speaks about the experience of Opportunity International Bank of Malawi extending banking services to the poor through innovative low cost delivery models.

16ca: [Ng’weno, Amolo, Kenya Experience – Beyond M-PESA. Mobile Money – Mobile Banking Series, MF Podcast # 123](#)

- Amolo Ng’weno, Deputy Director, Bill & Melinda Gates Foundation, talks about M-PESA leveraging its transaction rails to provide other services such as loan repayments, M-KESHO and so on, going beyond remittances. She also speaks about the enablers such as regulatory environment, focus on marketing and the role of the agent network.

17ca: [Radcliffe, Daniel, Speed to Scale. Part 1. Mobile Money – Mobile Banking Series, MF Podcast # 124](#)

- Daniel Radcliffe, Program Officer, Bill & Melinda Gates Foundation, talks about the fundamental factors like ‘network effects’, ‘two sided market or chicken and egg trap’ and ‘trust’ that affect the growth and success of retail payment systems.

18ca: [Radcliffe, Daniel, Speed to Scale. Part 2. Mobile Money – Mobile Banking Series, MF Podcast # 125](#)

- Daniel Radcliffe, Program Officer, Bill & Melinda Gates Foundation, describes the importance of (a) identifying the right products (b) above and below the line marketing and (c) agent incentives and motivation to heavily promote the services, in enabling retail payment systems become viral and reach a critical mass of customers in a short period of time.

19ca: [Mas, Ignacio: Liquidity Management. Mobile Money – Mobile Banking Series, MF Podcast # 126](#)

- Ignacio Mas, Deputy Director, Bill & Melinda Gates Foundation, talks about the importance of cash and liquidity management to the success of a mobile money deployment and how providers can use innovative ways to manage cash through effective products, efficient store cash rebalancing methods, suitable agent rewards and incentives and by driving adequate volumes.

20ca: [Veniard, Clara, Agent Networks. Part 1. Mobile Money – Mobile Banking Series, MF Podcast # 127](#)

- Clara Veniard, Associate Program Officer, Bill & Melinda Gates Foundation, compares a bank-led agent approach with a retail payment or mobile money system on factors like product focus and approach to scale, drawing on contrasts between Brazilian and M-PESA models.

21ca: [Stark, Evelyn, Why We are Evolving to Marketing and Products. Mobile Money – Mobile Banking Series, MF Podcast # 130](#)

- Evelyn Stark, Senior Program Officer, Bill & Melinda Gates Foundation talks about the vital importance of marketing in successful mobile-money deployments.

22ca: [Christen, Bob, BMGF Strategy – Focus on Savings. Mobile Money – Mobile Banking Series, MF Podcast # 131](#)

- Bob Christen, Director, Bill & Melinda Gates Foundation. talks about the strategic need for savings, the challenge of achieving dramatic reduction in costs. Mobile banking and electronic payment platforms play a central role in this process.