

Connecting the Dots: Putting Risk, Customer Protection, and Financial Capability in Perspective

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India – A Nascent Market for Digital Financial Services (DFS)

India is a country committed to Financial Inclusion. The recent policy-push under the PMJDY programme and India's commitment to [Better Than Cash Alliance](#) shows this intent. However, because of its sheer size and geographic and ethnic diversity, providing access to finance, especially at the base of the pyramid, becomes a challenge. The [ANA India Survey](#)¹ report states that

“India is a country with 1.2 billion people, 28 states, 100+ Agent Network Managers (ANMs), five major telecoms, 27 public sector banks, 23 private banks, and 100+ rural and cooperative banks participating in delivery of Digital Financial Services (DFS)”¹

The ANA India report further states that even though India may compare well with other countries on different parameters, *“it must be clearly understood that these metrics often mask large variations across multiple dimensions”*.

The Reserve Bank of India advised banks to open “no frills” accounts way back in 2005, and there have been a number of enabling ([but sometimes conflicting](#)) regulation and policy-pushes after that. However, the growth in active bank accounts has been slow and beset with a number of issues leading to [account dormancy levels of almost 48%](#).²

And the experience of DFS, for both agents and the customers they serve, has been extremely mixed. There has been high churn-out amongst agents, who are often poorly trained, supported and remunerated; as a result, customers, who like the convenience of a local DFS outlet, are often unsure about its reliability.

¹ Agent Network Accelerators Survey, India Country Report 2015, *Helix* Institute of Digital Finance

² Intermedia, Wave II report

Gayatri Devi's Dilemma

Gayatri Devi lives in Ghumka village in Chhattisgarh. She takes care of an extended family of eight. Her husband works in a cloth mill in Gujarat, and comes home once in 6 months. He sends money every month for household expenditures, some of which Gayatri deposits at the agent point in her village. Women are not allowed to go too far from their houses, so she has never seen a bank branch in her life. The nearest bank branch is 7 kilometres away from her village.

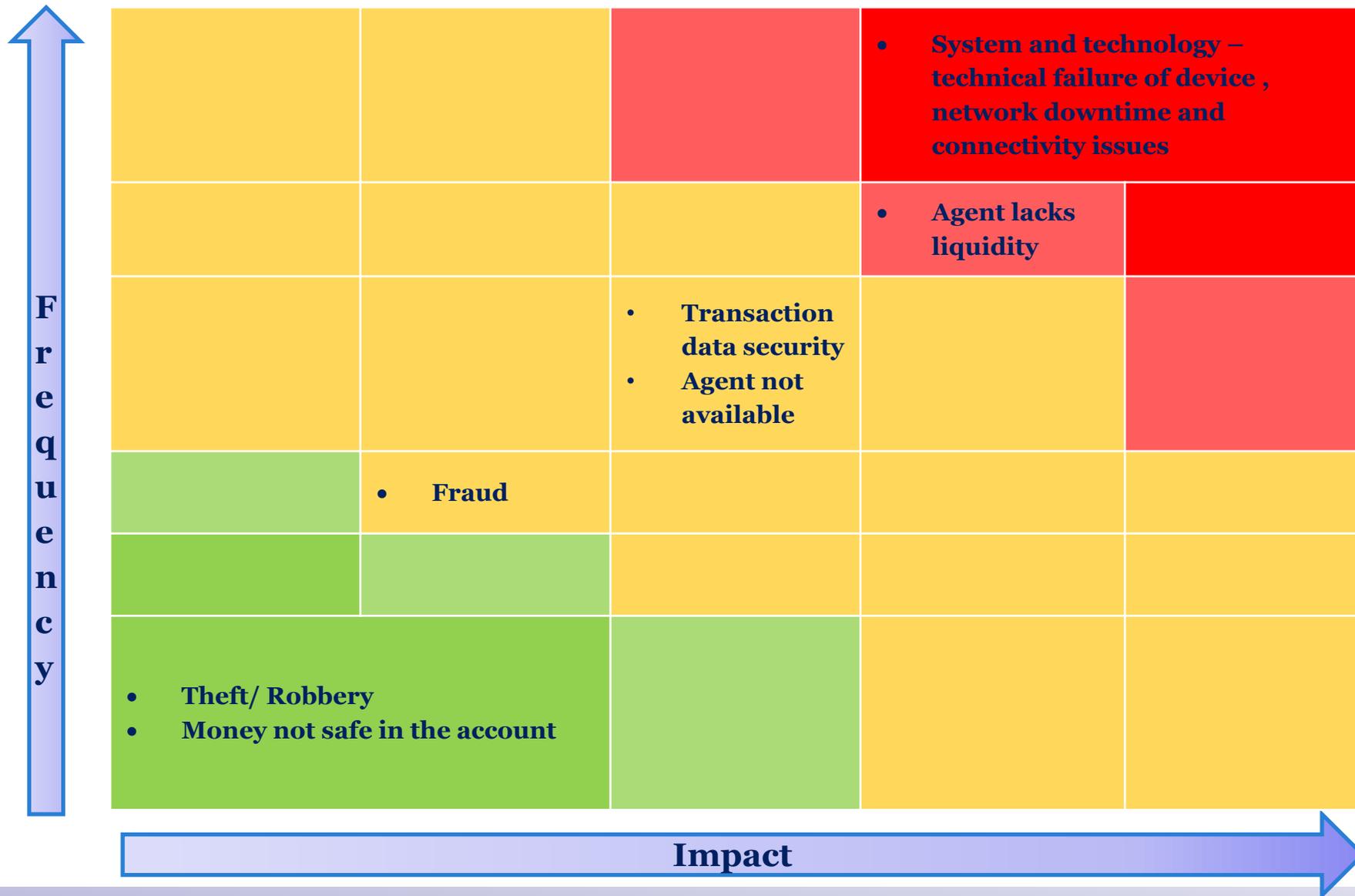
Gayatri opened her account five months ago, but she still has not received a passbook, despite repeated follow-up with the agent. She wants to repair her house and needs a loan to do so. She asked the agent about the process of accessing a loan, but he had no information about options for credit.

A month ago, the agent stopped working and his shop is now usually closed. Even when it opens, the agent says that there is some issue with the server. She has lost trust in the agent and is now back to saving money at home, as the bank is too far away.

She feels that she is stuck in the system, as, unless the agent starts working again, she cannot even withdraw her money for the much-needed house repairs. Social norms prevent her from travelling and complaining at the bank branch, or even to the agent, as this would attract criticism from other male villagers, and her family may have to face the brunt of it. The only thing she can do for now is to wait for her husband to return and take up the issue.



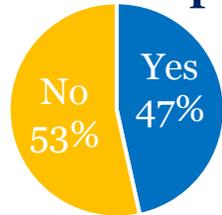
Key Perceived Customer Risks



India's Poor Are Particularly Vulnerable As They Access Digital Financial Services

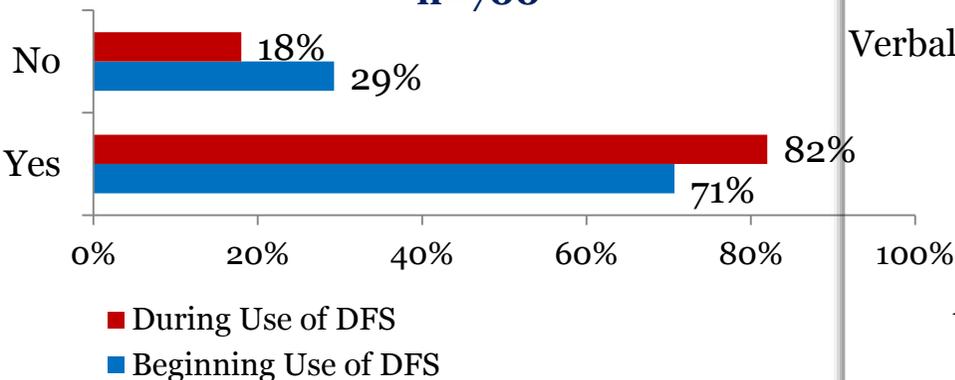
- Trust in DFS is low
- Dependence on agents is high

Low Awareness About Recourse Options

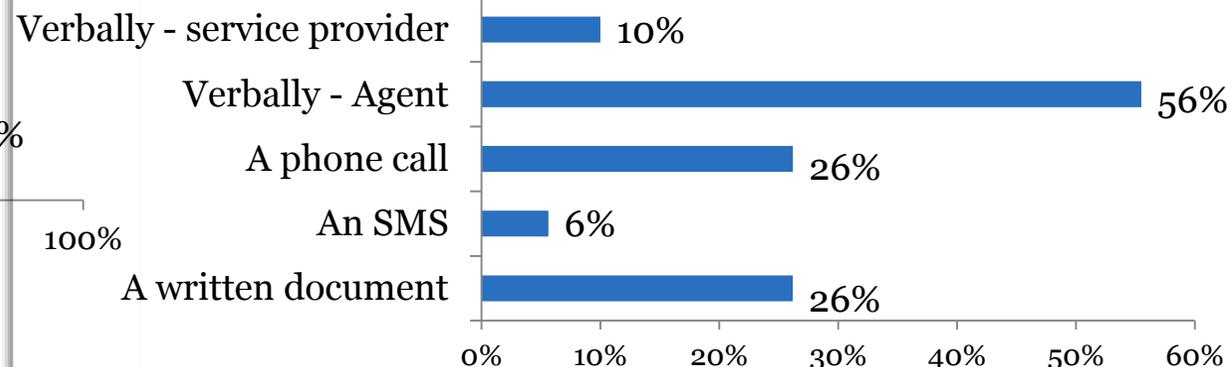


- 62% of people take agents' help to make a transaction
- 18% of people share account details with agents
- 98% of people believe agents would help them resolve any problems they have
- Two-thirds of customers do not fully understand the product terms and conditions, and pricing.
- Those that do understand T & C are most commonly dependent on agents for information
- Less than half know about recourse options
- To maximise commissions, agents may commit fraud
- Poor communication at the customer and the agent level will facilitate external frauds as DFS grows and matures in India

Information On Terms n=700



Means Of Communication About DFS n=574, multiple choice



Digital financial services in India are ripe for large-scale frauds and risks that may de-rail the financial inclusion agenda. We need to move fast to improve risk management structures, build in customer protection measures and work towards improving the financial capability of customers and agents.

Recommendations

Increase focus on customers and agent communication

- Ensure clear and formal communication with both agents and customers
- Focus on regular re-enforcement of earlier communication
- Clearly communicate any changes in terms and conditions as also the recourse mechanisms

Summary Findings

- Poor knowledge of customers' of terms and conditions of service, products & recourse
- Agents' knowledge is limited to a few products / processes
- Agents have poor functional knowledge of recourse mechanisms
- Communication between service providers and agents is informal (verbal)
- Poor knowledge increases vulnerability of customers

Recommendations

Improve supervision of agents

- Define recruitment and selection process for agents
- Implement a comprehensive and formalised system of monitoring
- Monitor agent performance, develop system for warnings, censure and penal action, including termination
- Establish and enforce minimum disclosure and transparency requirements for product features, pricing and terms of use

Summary Findings

- High level of trust of customers in agents for information on terms and conditions of service, products and recourse
- Nearly 50% of customers depend on agents for information
- High incidence of assisted transactions
- Low commissions to agents
- Instances of agent fraud / overcharging to increase profitability

Recommendations

Develop risk management framework for financial service providers

- Contextualise risk mgmt. framework to the Indian context, and as per state of evolution
- FSPs need to integrate risk management framework and train agents accordingly
- Development of indicators for monitoring risks
- Regular monitoring of risks and development of risk mitigation strategies

Summary Findings

- Risks, mainly operational in nature at this stage of development, are common in the Indian market (maybe because of limited transactional volumes, market has not graduated to the next level of risks)
- Little or no training to agents on risk management practices
- Most FSPs do not have a risk management framework; risk indicators not being tracked

Recommendations

Improve agent and customer support systems

- Monitoring visits to be more structured, with defined agenda / purpose.
- Monitoring visits to include discussions with customers
- Communication should be written and clear
- Training and certification of agents is a must
- Regular refresher trainings should be provided to all active agents

Summary Findings

- Monitoring visits to agents are rare and not all agents are covered
- Monitoring visits lack an agenda and are *ad hoc*
- Most communication is verbal, leading to poor recall
- Monitoring visits do not involve discussion with customers
- High levels of trust in the agent by customers – agents are often the first and only point of contact for the customer

Exploring Risk, Client Protection, and Financial Capability

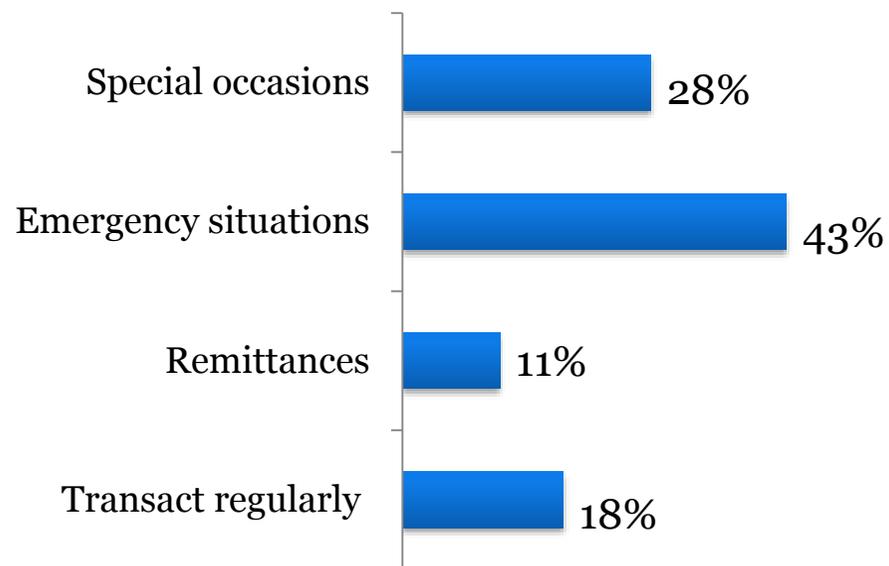
India – A Nascent Market for Digital Financial Services (DFS)

The Government of India [entered the Guinness Book of World Records](#) in early 2015, when more than 120 million accounts were opened under PMJDY. This, at least on paper, created a scenario of universalisation of access to a bank account with 100% of households being financially included. However, [46%](#)¹ of the accounts opened have no balance, suggesting high levels of dormancy even in accounts opened under PMJDY.

Two important observations, mentioned both in the Intermedia Wave II report and ANA India survey, are worth noting at this stage: 1. the [level of awareness](#) about mobile money in India is at about 6%¹ and only 0.3% have ever used this service; and 2. this [lack of awareness](#) among customers is the biggest impediment to growth in DFS Business.² To put this into perspective, in Kenya (perhaps the world leader in DFS), [75% of the population](#)³ uses mobile money services.

Our field research highlights two contradictory facts which further indicate the emerging nature of DFS in India. While 85% of the customers said that they would recommend DFS to others, they mainly treat it as a back-up option.

The qualitative research showed that while customers appreciated the accessibility and ease of use of DFS, they did not really trust it enough to use it regularly.



¹ Intermedia India Country Page

² Agent Network Accelerators Survey, India Country Report 2015, Helix Institute of Digital Finance

³ Global Findex data, World Bank

Indian context reflects a number of conditions highlighted in the *MicroSave* paper on [fraud](#).¹ The paper notes that weak processes, poor compliance monitoring, and poor customer awareness are key enablers of fraud. Our research shows that all of these are present in the India.

At present, there are not many reported risks or loss of funds; however, based on current conditions, these are likely to emerge as the system matures and grows.

Furthermore, customers' high trust in, and dependence on, agents for knowledge, conducting assisted transactions, and limited recourse, may lead to a number of agent-perpetrated frauds like:²

- Unauthorised access to customer's transaction PIN
- Imposition of unauthorised customer charges
- Split withdrawals (thus increasing commissions earned)

Box I

Customers' blind trust in agents facilitates fraud – as one of the leading agent network managers (ANMs) in India found out.

The ANM was facing some technical problems, as they were upgrading their system. This resulted in some of the transactions not being completed.

An agent of the ANM used this as an opportunity. He told his customers that the service was down and collected their deposits, promising that the amount would be credited in their accounts once the system was up and running.

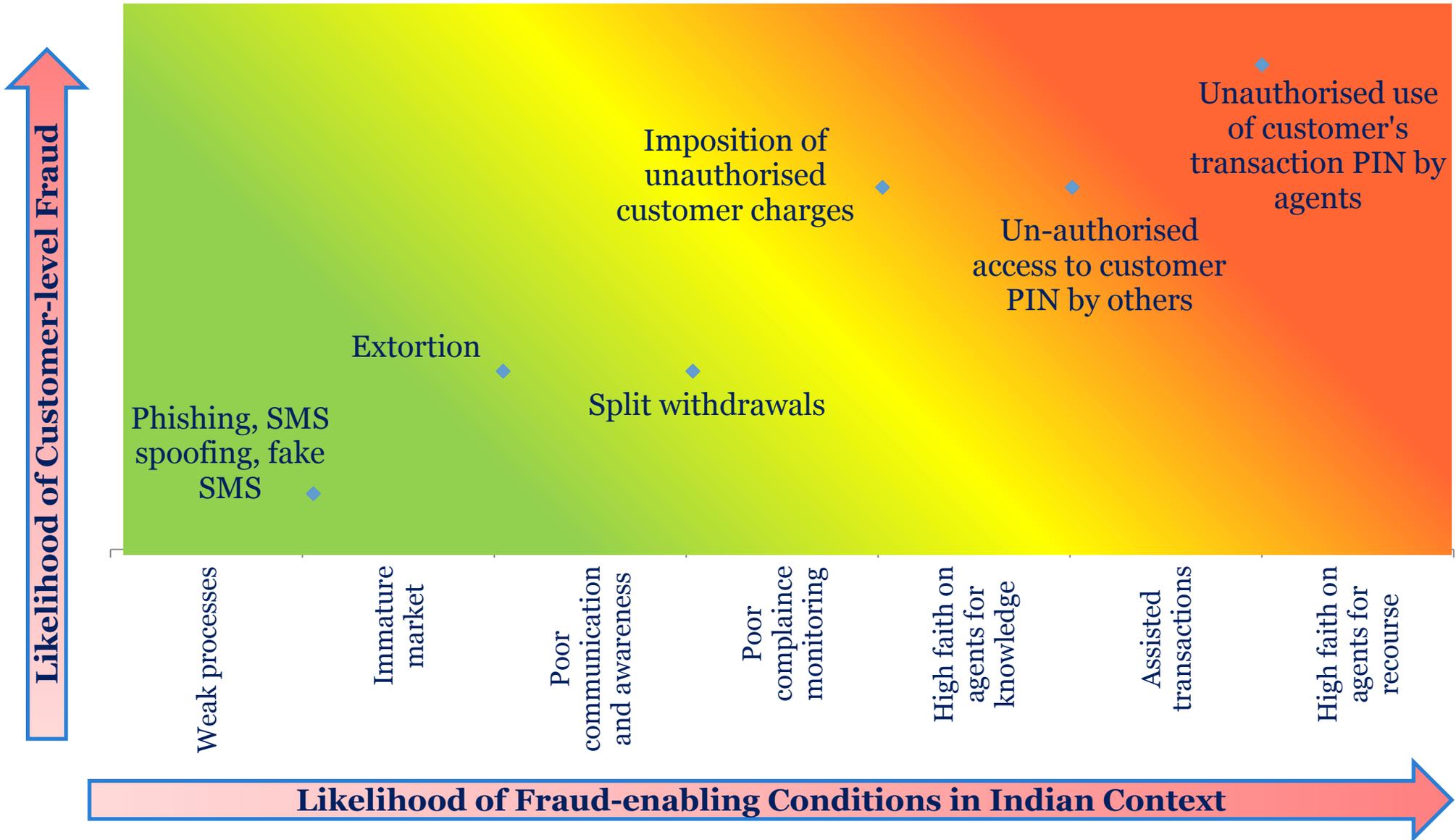
He did this for five days, during which he collected nearly Rs. 500,000 (\$7,692) and fled with the money.

¹ Fraud in Mobile Financial Services, Joseck Mudiri, *MicroSave*, 2012

² *ibid.*

Risk – Where Might it Lead in the Indian Context?

(2/3)



Risk

Apprehensions About Risks in DFS Are Increasing

Risks in DFS are varied and a [growing area of attention and assessment](#).¹ At the same time, digital payments and broader digital financial services introduce added complexity, with new participants constantly entering the market, new products regularly introduced, and value-chain dynamics in constant flux.

In our research we covered all types of risks that customers and agents face. It is important to note that fraud is just one facet of risk.

There is a growing body of literature on risks in DFS, and these concepts are largely related to customer protection issues. From a customer protection perspective, both [Alliance for Financial Inclusion](#)² and [SMART Campaign](#)³ have defined risks and vulnerabilities in DFS.

In our research, we also explored risks from the customer protection perspective. Essentially, this involves going a step further than just listing risks that agents and customers face, and analysing the medium to long-term impact on the uptake and usage of DFS.

¹ Assessing Risks in Digital Payment FSPs, Special Report, BMGF, 2015

² [Consumer Protection in Mobile Financial Service](#), AFI, March 2014

³ [Potential Risk to Clients when using Digital Financial Services: An Analysis Report to Inform the Evolution of the Client](#)

Protection Standards, SMART Campaign, September 2014

Summary Findings

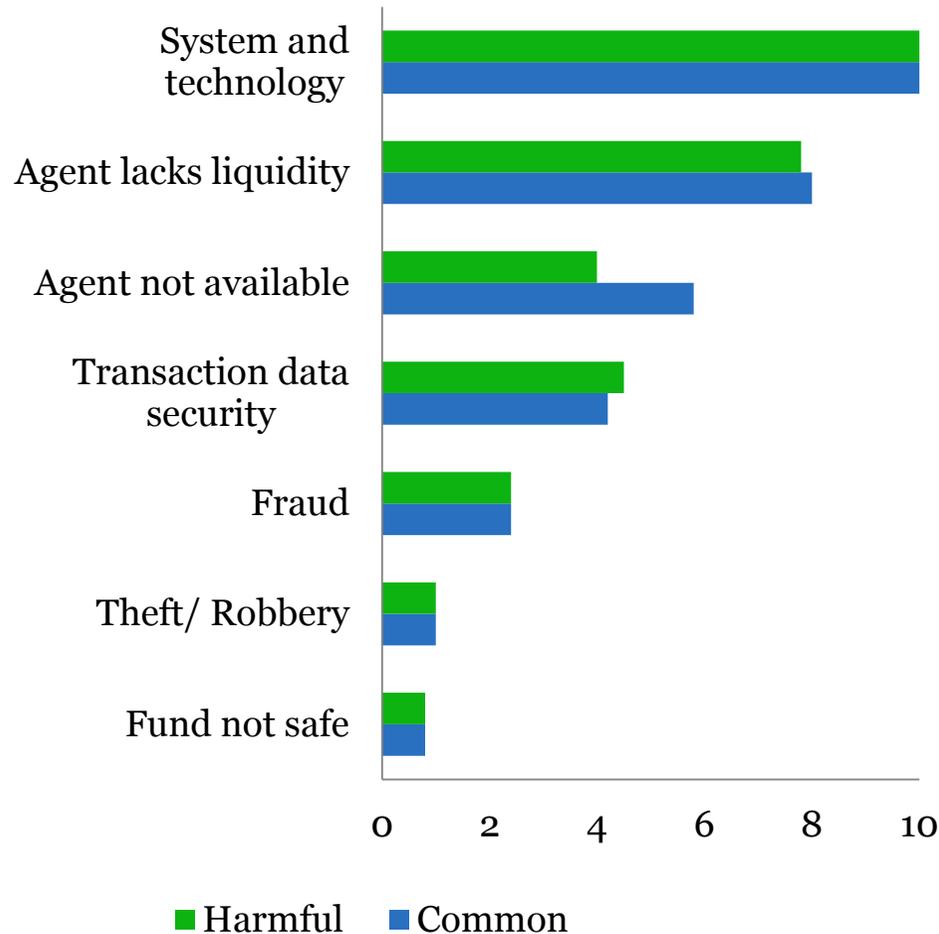
The major customer and agent risks are operational in nature, which lead to interrupted transactions, thereby reducing trust in DFS. Each risk mentioned in the report (either by customers or agents) has multiple facets and, thus, multiple implications.

India is still a nascent market for DFS and actual experience of risk is much lower than the perception of risk. However, the low incidence of risk at present masks the higher potential for risk. While a number of factors will influence usage of DFS products, negative experiences and, indeed, negative perception on account of risk, will adversely impact usage of DFS.

From an agent's perspective, the greatest impediment to growth in DFS is the limited commission paid. There is evidence from our qualitative research to suggest that agents may resort to different types of fraud to increase profitability. Also, agents, especially newly-appointed agents, are the ones most at risk in a DFS environment. To maintain integrity of the channel, risks will have to be better managed at the level of agents as well.

Customers' Top Perceived Risks are Operational in Nature

Most Common And Harmful Risks



These risks and their ranking are not very different from the 16-country study conducted by [CGAP](#).¹ However, another risk that features prominently in India is 'transaction data security' or privacy of client account information. This mainly relates to agent-assisted transactions.

Most of the issues in India are operational in nature. However, even these operational issues can have serious implications. Frequent service denial, incomplete and interrupted transactions, inaccessible funds, etc.² leading to delay or loss of opportunity – all impact customers' trust in DFS.

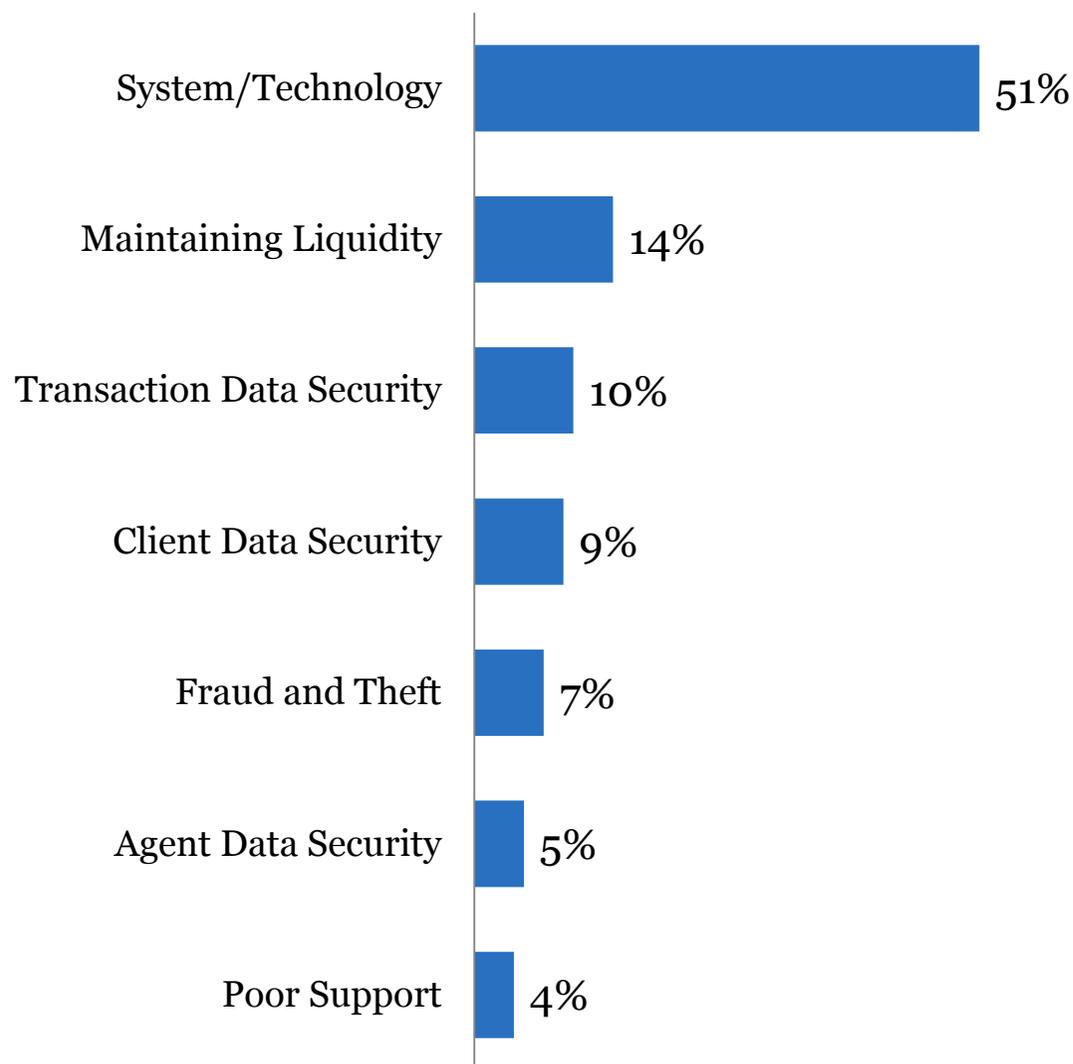
Our qualitative research also shows that most significant risks perceived by the customers relate to operational issues like network downtime, system and technology risks, agent unavailability, and agents lacking liquidity.

¹Doing Digital Finance Right: The Case for Stronger Mitigation of Customer Risks, CGAP, 2015

² *ibid.*

Top Risks for Agents Are Similar

Key Risks Faced By Agents



The key concern of DFS channel remains related to systems / technology and network downtime / outages while trying to serve their clients.

These risks directly correspond to the customer's perceived risk.

Our findings from research conducted in the Philippines, Uganda and Bangladesh also reflected these issues.

As noted in a blog based on this study by [MicroSave](#): *“Many of the key consumer protection issues relate to basic customer service – and appear to be creating real problems for providers by undermining trust in their digital financial services (DFS), thus reducing both uptake and usage.”*¹

¹ In Our Digital Financial Services We Trust, Graham Wright, *MicroSave*

Vulnerability Context

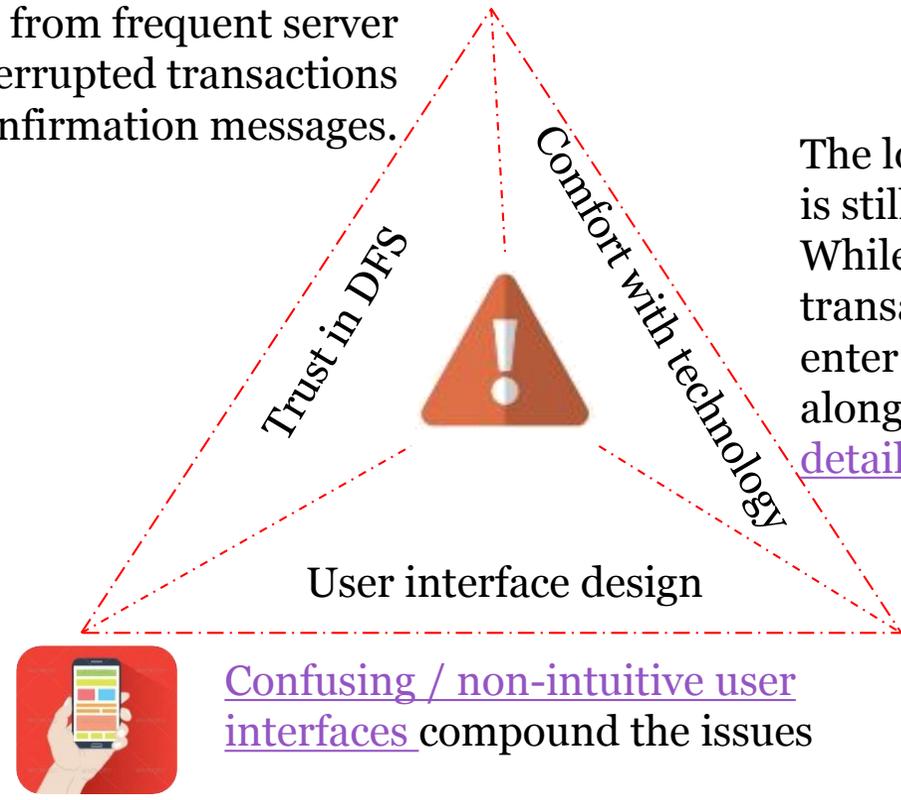
Qualitative research done as a part of this study shows that customers' perceptions of banking or financial transactions are still focused on brick-and-mortar-based services; DFS providers have not done enough to change the customer's perception and gain trust. The customer's perception of risk of system and technology can be further broken down into three broad issues.



Lack of trust in digital financial services stems from frequent server downtimes, interrupted transactions and lack of confirmation messages.



The low-income customer segment is still not comfortable in texting. While conducting financial transactions, customer is unable to enter details on the phone; this, along with the fear of entering wrong details / amounts, deter customers



Confusing / non-intuitive user interfaces compound the issues

Vulnerability Context – Transaction Denials Lead to Distrust



Lack of trust in digital financial services stems from frequent server downtimes, interrupted transactions and lack of confirmation messages.

Frequent server downtime: Many issues are clubbed here, like bank server downtime; provider's network downtime; failure or overload of the middleware linking the bank system to the provider's system; and internet or GSMA outage. In addition, on occasions, the agent's unwillingness (or inability, due to lack of liquidity) to service the customer is covered by the agent with an assertion that "the system is down".

Interrupted transactions: Often, while transacting, agents / customers face the problem of interrupted transactions. This can happen due to various technology challenges and often result in incomplete transactions.

Lack of confirmation messages: Lack of a confirmation message, or receipt, or any form of physical evidence of the transaction, causes anxiety amongst many customers.

Vulnerability Context – Low Level of Comfort With Technology Increases Risky Behaviour



Unable to enter details: In the case of mobile delivery channel, many old and middle-aged customers are unable to type details on the phone.

Fear of entering wrong details: Customers do not want to conduct transactions (themselves) because they are afraid that they might enter wrong details, and thus lose money.

Target customer segment is still not comfortable in texting. While conducting financial transactions, customers are unable / unwilling to enter details on the phone; possibility of entering wrong details / amount deters customers

Low level of comfort with technology and clunky user interface often leads to assisted transactions. Assisted transactions significantly increase the level of risk for customers, as they have to share their account details with the agent. Further, it also harms the service provider in the following ways:

- Increased risk of fraud and hence reputational risk
- Agents start behaving like middlemen, limiting the providers' communication with clients; exposing the provider to the risk of customer poaching* and limiting opportunities to cross-sell.

*Customer Poaching: if the agent is not satisfied with the service / commission given by a provider, he shifts to a different provider and also shifts the customers along with him

Vulnerability Context – Confusing User Interface Also Increases Risky Behaviour



Confusing/ non-intuitive user interfaces compounds the issues

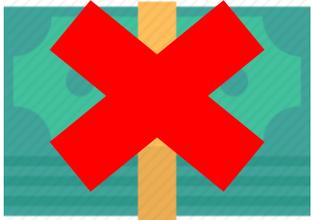
Confusing interface: User interfaces are often confusing to the customer.¹ The USSD interface is often too deeply layered or embedded for the customers to get to the right option. This forces the customer into risky behaviours like:

- Sharing PIN with the agent
- Leaving cash with the agent (especially when the system is down or alleged to be down)
- Leaving phones with agents to complete a transaction

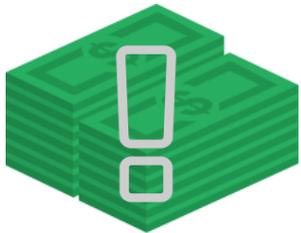
Transaction data security relates to the privacy of customers' account/PIN details while conducting transactions at agent locations. Poor transaction data security increases customers' vulnerability to external frauds. Confusing interface and low comfort level with technology adds further to poor transaction data security, as the customer is forced to share personal account details.

¹ Designing an Effective User Interface for USSD: Part 2, *MicroSave*, 2015

Vulnerability Context – Lack of Liquidity and Safety of Funds Leads to Poor Usage



Lack of liquidity at the agent is a multi-fold issue. For the customer, it means that their funds are inaccessible. A customer who has been refused service by an agent is less likely to transact again at that agent location. Loss of business demotivates the agent, and he starts maintaining minimum (or less) liquidity – thus setting in motion a downward spiral.



The perception that funds held digitally are not safe. This stems from rumours which spread in the market from time to time. For example, in 2014, in response to government policy, agents were given a target of 100% withdrawal of government payments to receive their commission from the agent network managers. So, (unsurprisingly) agents communicated that customers must withdraw all their direct benefits immediately or the government would take back the amount left in the account.

Low Incidence of Risk is Masking High Potential for Risk

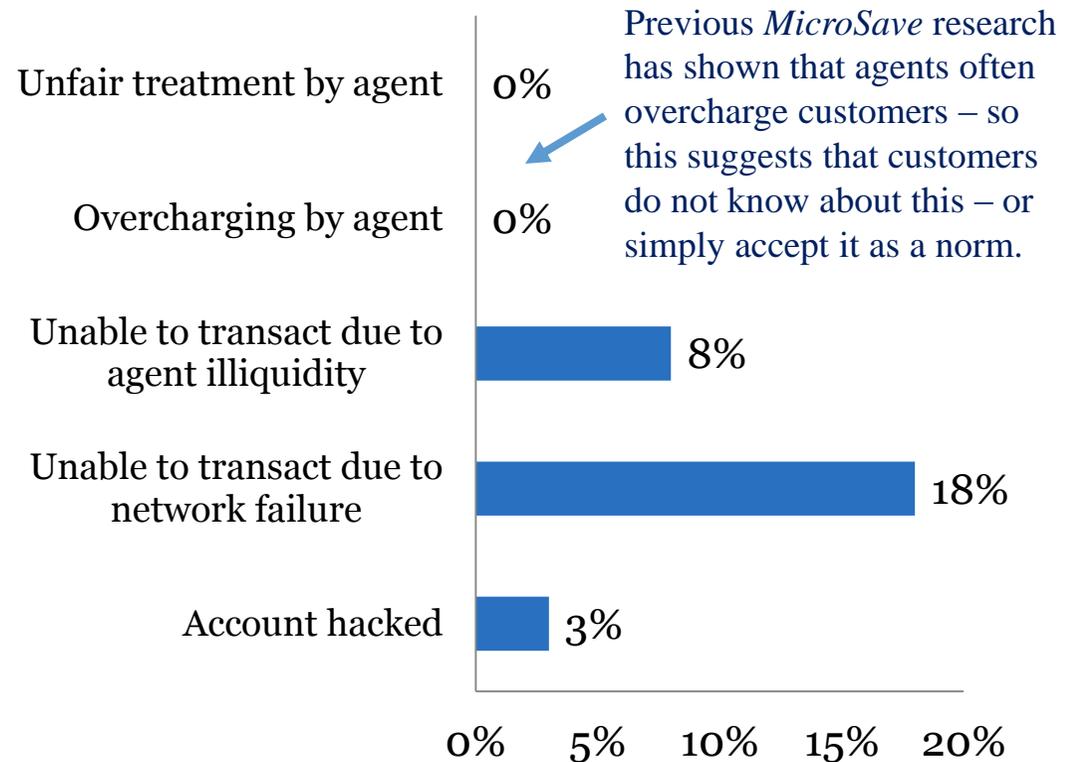
Four different types of risks were explored individually in the research. These were: 1. Account being hacked/compromised, 2. Inability to transact due to network failure, 3. Inability to transact due to agent liquidity issues, and 4. Overcharging by the agent.

While (most) customers have not experienced risk, the perception of risk has an effect on the usage and uptake of DFS.

India would still be classified under the customer acquisition phase,¹ under the 'Fraud Framework' described in *MicroSave's 'Fraud in Mobile Financial Services'* paper. This phase in India is led by government schemes like PMJDY and G2P payments. As a result, most risks rank low in terms of their occurrence.

However, as the markets evolve and move to the "value addition" stage, different types of risks will evolve.²

Risks Experienced

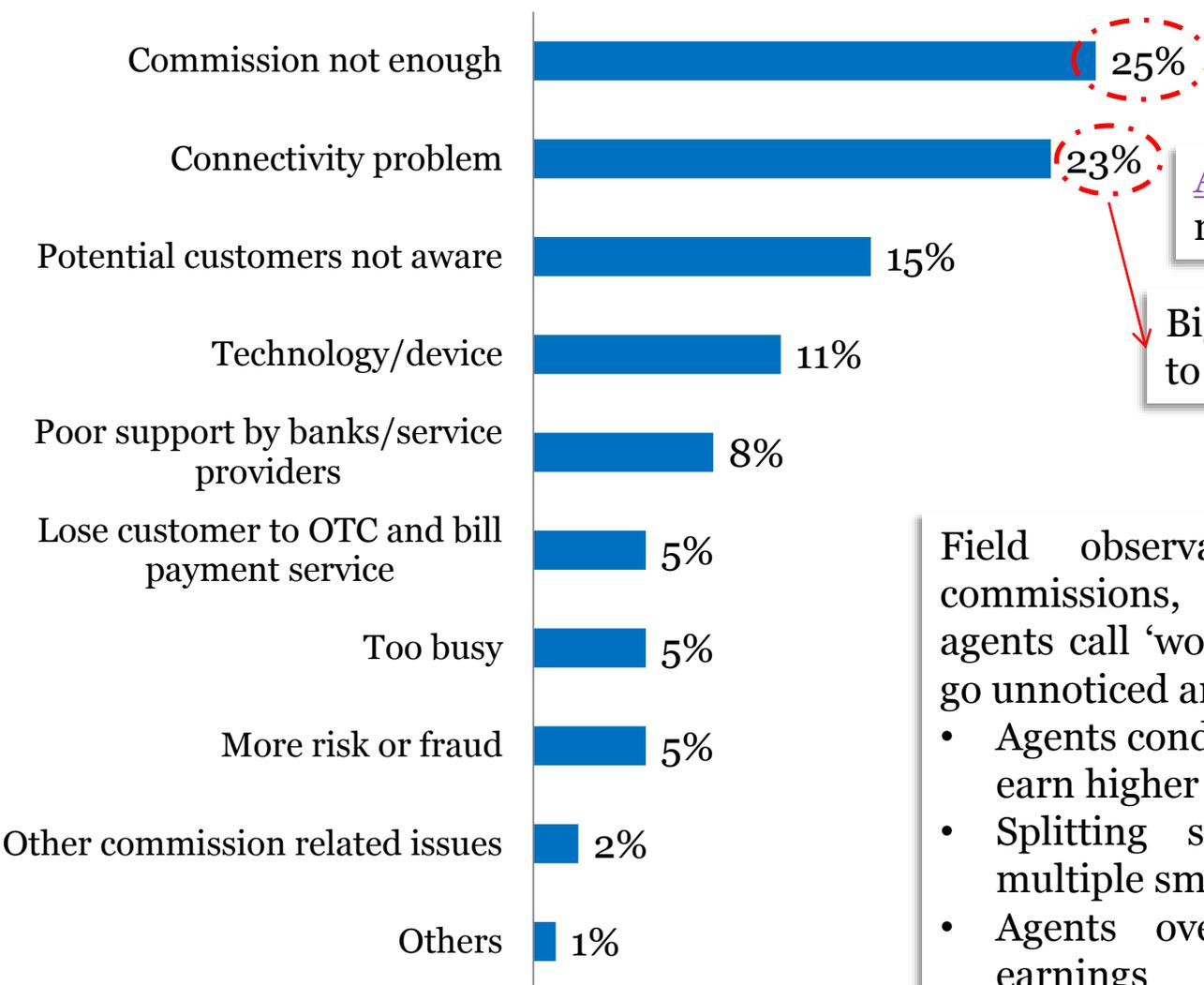


¹ Fraud in Mobile Financial Services, Joseck Mudiri, *MicroSave*, 2012

² *ibid.*

Poor Commission is Key Bottleneck to Growth ... and a Driver of Fraud

Key Bottlenecks To Growth – Agent Survey



[ANA India Survey](#) also shows that median profitability is <\$2 per day

Biggest impediment to growth according to [ANA India Survey](#)

Field observations reveal that to maximise commissions, agents may commit fraud, or what agents call 'work-arounds'. Some frauds which often go unnoticed are:

- Agents conducting round-tripping* transactions to earn higher commission
- Splitting single big ticket transactions into multiple small transactions
- Agents overcharging customers to maximise earnings

*Round-tripping: cashing in and cashing out the same amount

Customer Protection

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Customer Protection in DFS is a Growing Concern

There is growing concern about customer protection. This can be seen from initiatives such as [Code of Conduct](#)¹ for the mobile money players by [GSMA](#), and the DFS-related update of the SMART Campaign's client protection [principles for DFS](#)². These initiatives represent industry-wide commitments to build awareness, better practices, and standards that could contribute to strengthening customer risk mitigation in the financial inclusion space.

Customer protection³ plays a direct role in reducing risks faced by customers. It plays a major role in building and maintaining trust of [customers in digital financial services](#).⁴

This research also tried to understand the extent to which customer protection practices were embedded into DFS offerings in India. The research examined the effectiveness of these customer protection practices and the ease with which customers and agents could access them.

The following sections discuss the important SMART Campaign Principles which are applicable here:

- Recourse – The grievance mechanisms available for customers and agents
- Transparency – How terms and conditions are communicated to customers and agents
- Data Privacy – How customers and agents safeguard their data (and money)

¹GSMA Code of Conduct for Mobile Money Providers

²Digital Financial Services and Microfinance: State of Play, Smart Campaign

³MicroSave blog: In Our Digital Financial Services We Trust

⁴MicroSave blog: Solving Customer Issues in Digital Finance, Can do, Must do

Summary Findings

Customers' knowledge about recourse options is low, but the level of trust in the agent both for information and for recourse is high. This makes them highly vulnerable to fraud and external risks, of which they may not even be aware.

Awareness about what to do when faced with a particular type of risk appears to be good. However, this seems a misplaced belief on two counts – as actual instance of risks is low at present (so respondents are unable to assess their real awareness) and functional awareness on actually what to do is low (as discussed in the next section).

Overall, the awareness about the terms and conditions of DFS is low; and the main source of information for customers is the agent. Most of the communication is verbal. This, coupled with high dependence on agents for recourse, makes the customers highly vulnerable to fraud by agents.

The current system of providing information to agents about risk and fraud is poor and largely informal. Communication between agents and providers needs to improve along with the communication with customers.

Assisted transactions are common (particularly) in urban areas and agents are well trusted to perform transactions on behalf of customers. A combination of technology front-end, involved user-interface and paucity of time forces them to share account details with the agent and exposes them to risks.

Mechanisms used by agents to protect their account against fraud and other risks are very basic in nature and often result in service denial to customers. Agents need more training on both the nature of risks/fraud and how to respond to these.

Recourse: Customer Awareness About Recourse Options is Low

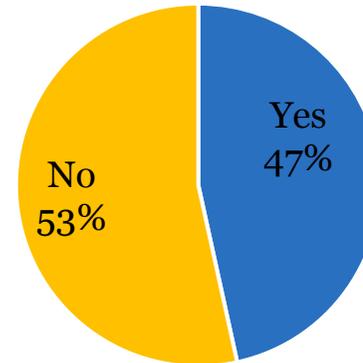
Customer awareness about recourse options is low and their primary source of information is the agent.

Low awareness of customer recourse can reduce customer trust in FSPs.¹

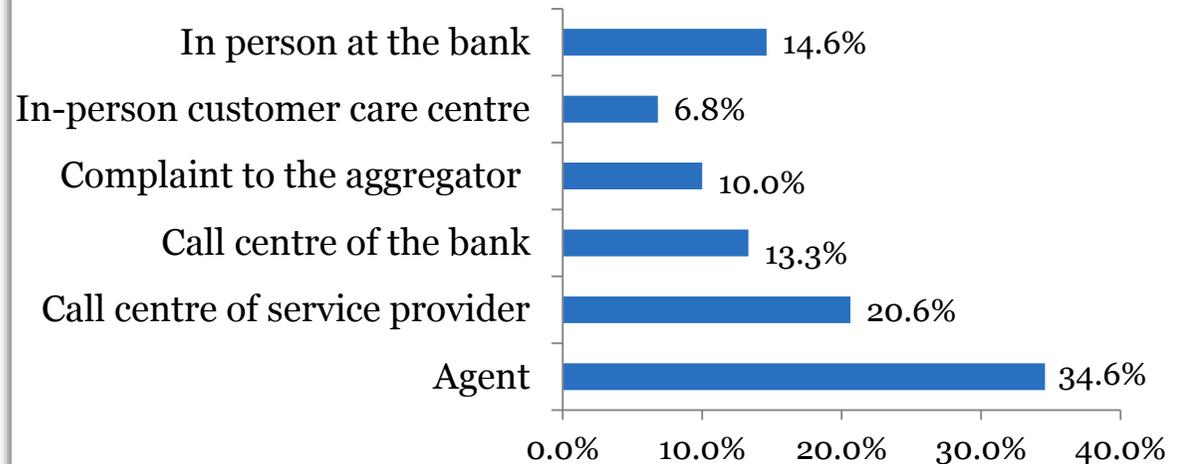
Further, it makes customers highly vulnerable and dependent on agents.

Even though experienced users have shown that they use the call centre more often than inexperienced users, overall awareness level is still very low.

Awareness About Recourse Options



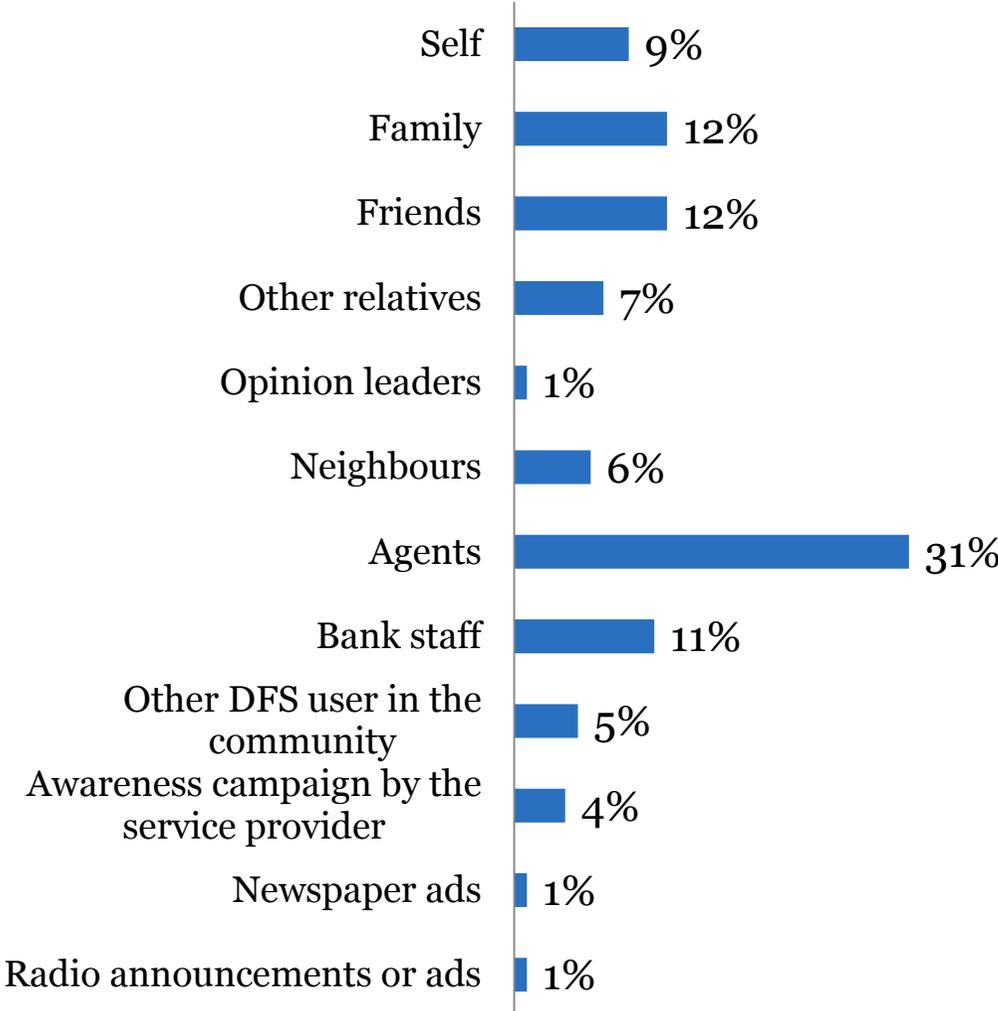
Awareness of Recourse Options Amongst The 47% Who Are Aware Of Customer Recourse



¹. Chapman, Megan, and Rafe Mazer. 2013. "Making Recourse Work for Base-of-the-Pyramid Financial Consumers." Focus Note 90. CGAP.

Recourse: Trust in Agents Remains High

Source Of Knowledge About Recourse Options



The agent is the most important source of recourse options. Evidence in the FII research and CGAP [country case studies](#)¹ suggests that DFS customers often look to agents to resolve problems.

98% of Indian customers say that the agent will be able to support them in case they face any risk in future. When compared globally, in Ghana, for example, 61% of mobile money users say they turn to an agent, and in Rwanda 52% report doing so ([InterMedia, 2015](#)).²

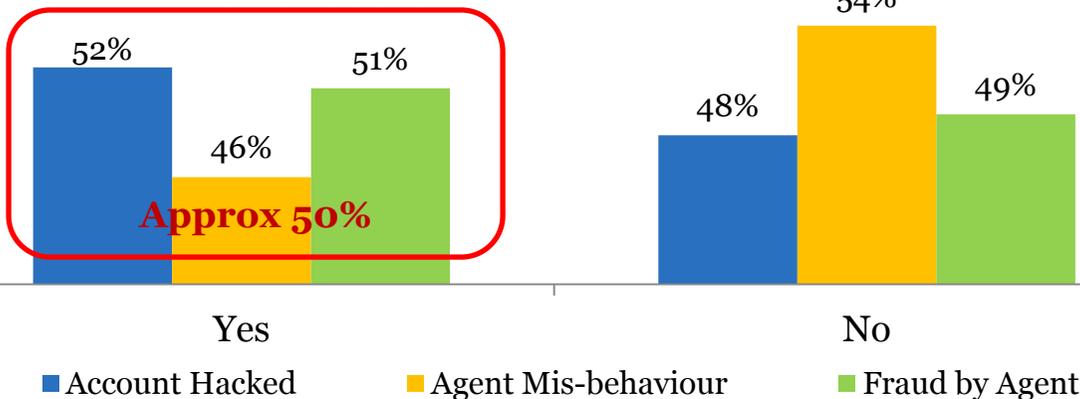
This highlights the emerging nature of DFS in India where awareness levels are low and dependency on the agent is extremely high.

¹: Doing Digital Finance Right, CGAP, 2015

²: InterMedia Financial Inclusion Insights, 2015

Recourse: Only Half of the Customers Differentiate Between the Options for Recourse

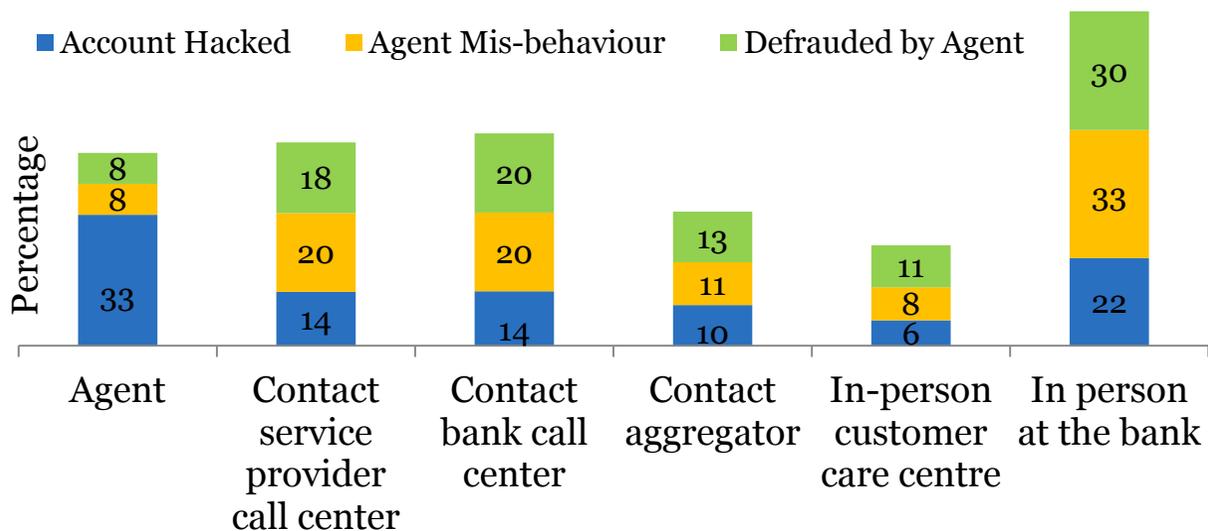
Awareness On What To Do If



Customers prefer to discuss agent-related issues at the bank branch or by contacting the service provider's [call centre](#)¹.

A small percentage of customers complained about agent-related issues to the agent himself. This phenomenon could have two possible (though inter-related) explanations: a) the agent is from the same community or from a nearby location, which results in high level of association with him/her; b) the absence of a proper recourse mechanism.

Whom To Contact

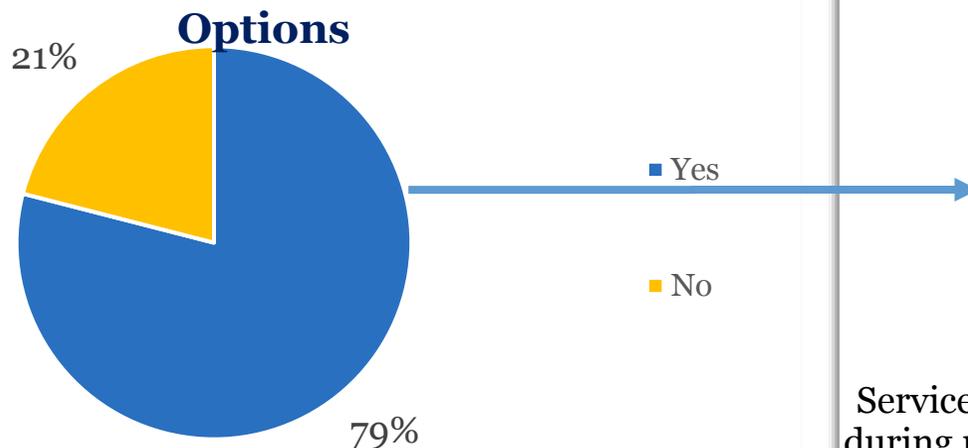


88% of customers believe that the recourse mechanism is efficient enough to resolve any issue faced by them. This could be a case of misplaced belief as instances of risk have been low and therefore the need to access recourse has been limited. The next slide, on recourse by agents, supports this hypothesis.

¹: MicroSave Note: [Customer Service Through Call Centres](#)

Recourse: Agent Awareness is High but Experience is Limited

Agent Awareness About Recourse Options

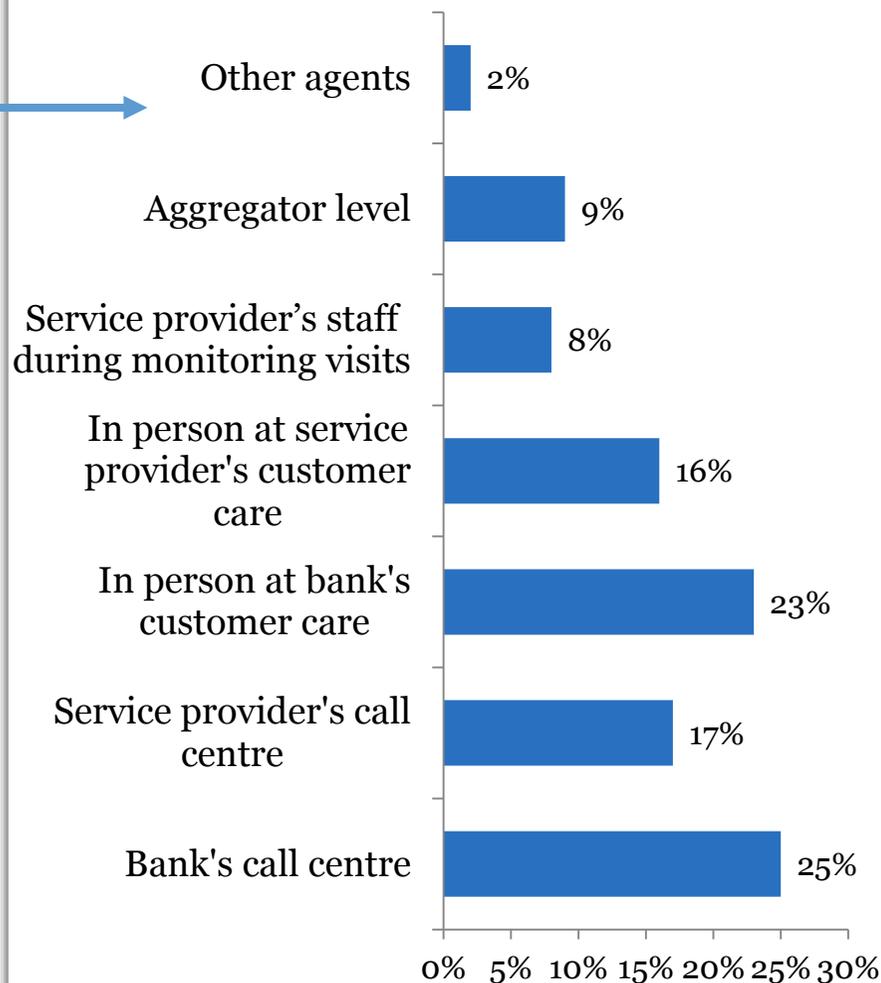


This confirms the findings of the recent *MicroSave* study¹ which notes that only 7 out of 10 agents have knowledge of the recourse mechanisms.

Only 24% of agents who faced problems actually used a recourse mechanism. This figure is disturbing, since three-fourths of agents didn't even try to resolve problems; suggesting a broken system/process.

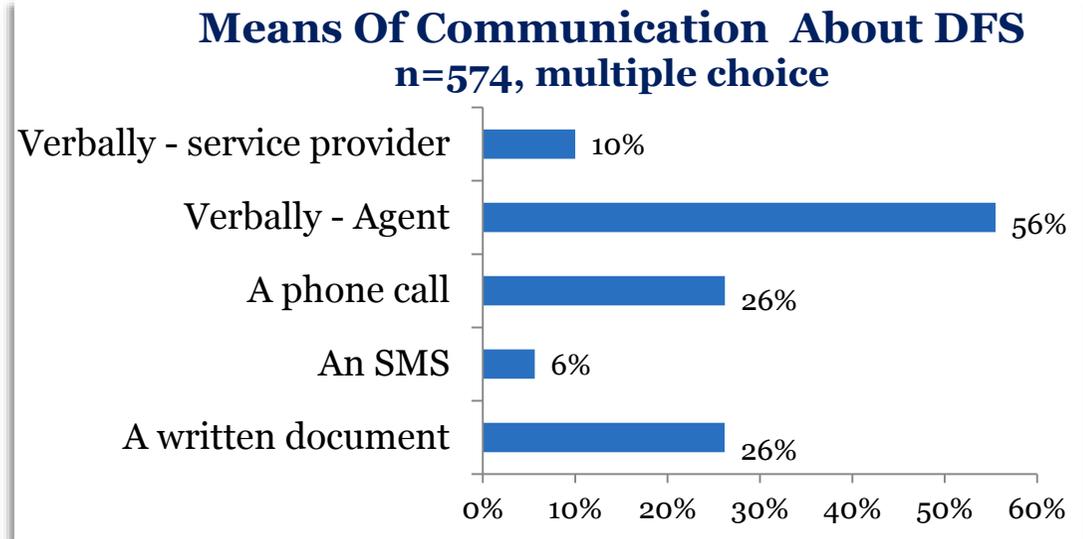
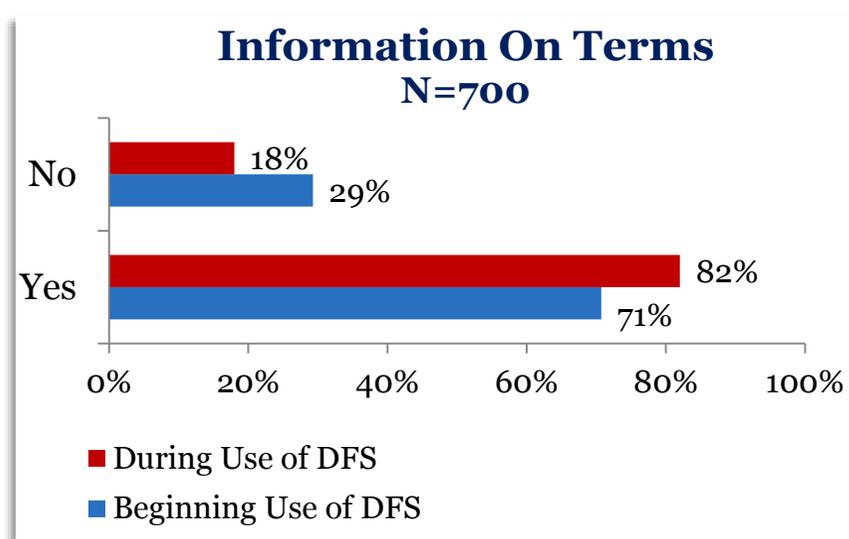
As a proxy, this is also corroborated by the low use of call centres. The [ANA India Research](#) shows that only 52% of agents say that they know about call centre option to resolve queries.

Agent's Awareness On How They Will Resolve Fraud/Customer Issues



¹ *MicroSave* Mobile Money Baseline study with 399 agents of 3 prominent service providers in India, 2015

Transparency: Communication to Clients is Mainly Verbal and Through the Agent



A well developed [customer support system](#)¹ in the form of regular interactions (SMS/voice) and monitoring visits by supervisors/managers to agents is missing and most of the communication is verbal.

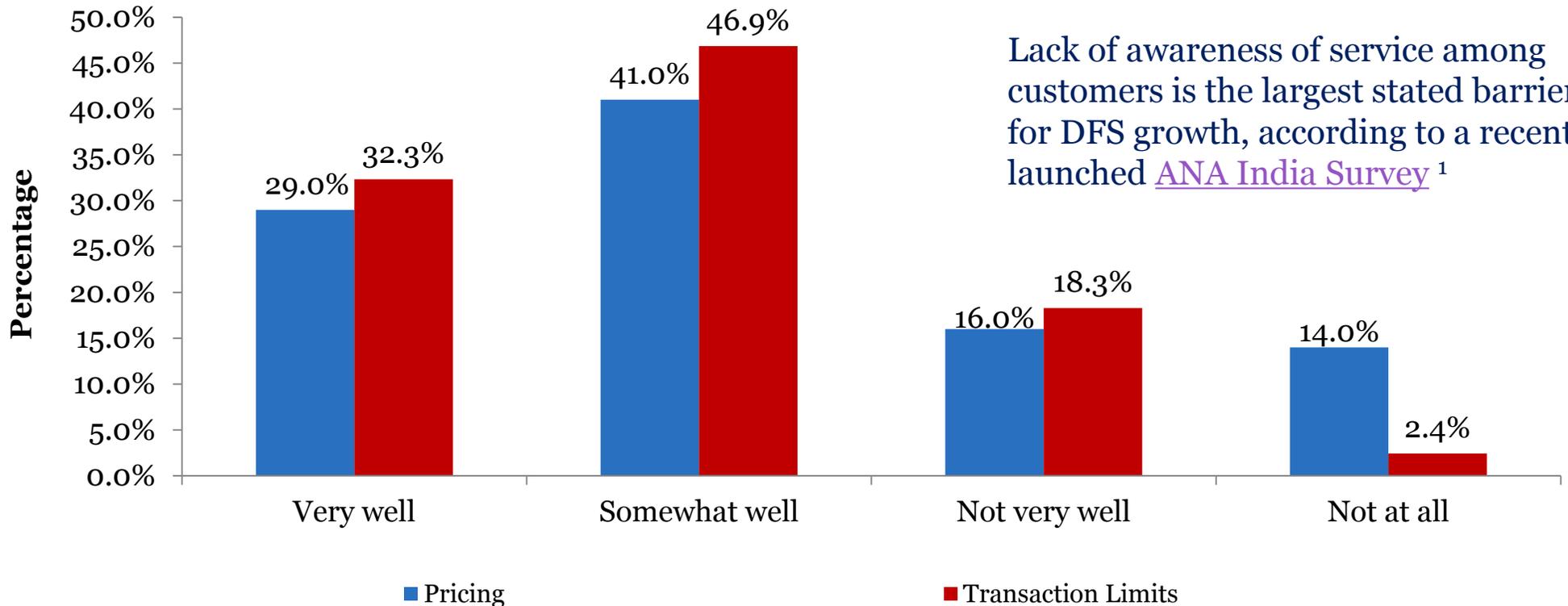
A small proportion of customers are not provided information either at the beginning or during the course of operation of their account. Some of the reasons for this were: agent did not have time; agent did not take interest; customers did not ask; and the agent explained initially, but they could not understand.

High dependence on agents both for terms and conditions of service, as well as for recourse options, makes customers highly vulnerable to agent-perpetrated fraud. Since most of the communication is verbal, the customers would not even know whether they are being defrauded or not.

¹: *MicroSave Briefing Note 129: Customer Support for E/M Banking users, August 2012*

Transparency: Two-Thirds of Customers do not Fully Understand Pricing and Product Terms and Conditions

Understanding Of Pricing and Terms And Conditions N=700



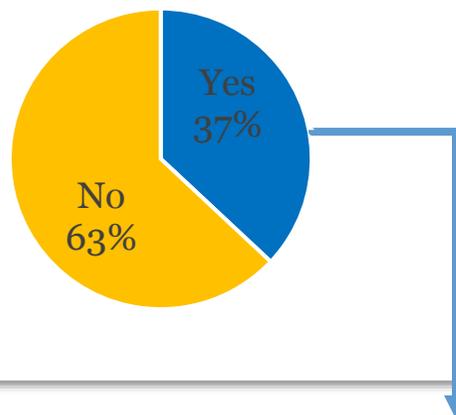
Around 2/3rd of the customers do not fully understand the terms and conditions of DFS service they are using.

Lack of awareness of service among customers is the largest stated barrier for DFS growth, according to a recently launched [ANA India Survey](#) ¹

¹ Agent Network Accelerators Survey, India country report, 2015, Helix Institute of Digital Finance

Transparency: Communication Regarding Risks and Terms and Conditions of Service is Poor

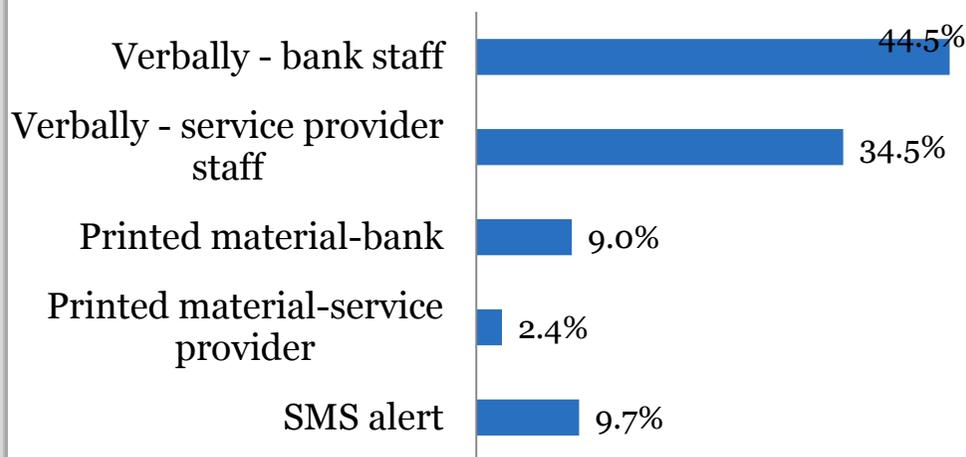
Is Information Provided Regarding Frauds?



The current system of providing fraud and risk-related information to the agents is *ad hoc*. In most cases the information about risks is verbal and, thus, informal.

Proper formal communication about the terms and conditions of service is also not complete. Only 68% of all active agents reported having received documents with terms and conditions of service.

Source Of Information About Fraud And Prevention, N=185



Poor communication both at the customer as well as at the agent level will facilitate external frauds as DFS grows and matures in India.

Moreover, coupled with low awareness levels about recourse amongst customers and high dependency on the agent for information and recourse, most customers, ANMs, and banks will not even know about risks/frauds until they have become big.¹

¹ Survival of the Fittest: The Evolution of Frauds in Uganda's Mobile Money Market (Part 1), MicroSave

Transparency: Communication Between Agents, ANMs and Banks Needs to Improve

After the initial agency agreements, there is no active communication between the ANM, banks and agents. The table below suggests that agents try to reach out to the most responsive option. Some of them just do not make any effort to reach out. This suggests that an active dialogue between agents and service providers is missing and details are communicated only on the basis of a specific request from the agent.

Percentages indicate the percentage of responses

How do you increase your awareness regarding the following ----->	Recourse mechanism	Best customer service practices	Fraud and fraud prevention	Commission-related issues	Product features
Wait and do nothing	1%	4%	5%	1%	0%
Ask other agents	4%	4%	7%	6%	7%
Ask ANM staff during his visit	5%	4%	9%	6%	6%
Call customer care	16%	12%	13%	17%	17%
Ask the bank staff when they visit the bank	17%	20%	17%	17%	18%
Call the service provider	24%	25%	24%	24%	21%
Call the bank branch	33%	31%	25%	29%	31%

Agents point out that lack of support to them in running the agency is one of the reasons they do not recommend DFS/bank agency as a business to others.

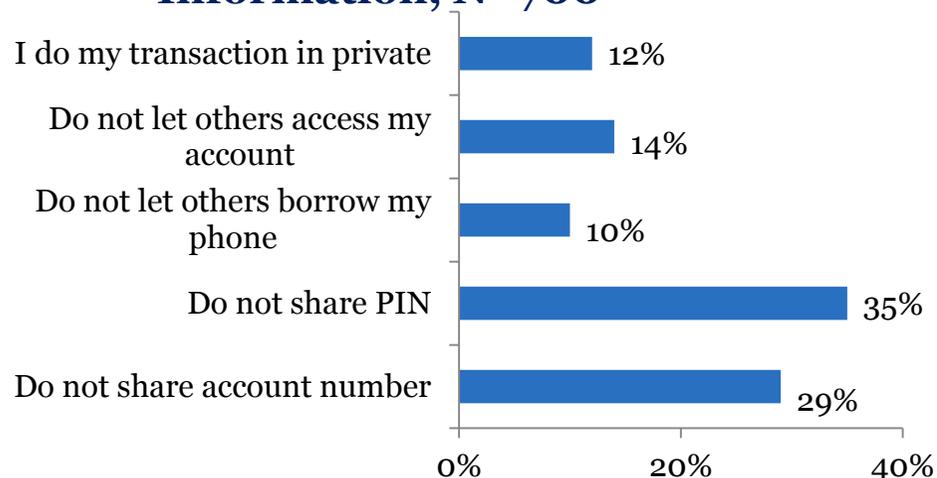
Privacy: Customers do Take Actions to Protect Their Account

Experienced customers (who have had an account for more than one year) are more aware of the means to protect their account information.

More than one-third of all customers interviewed emphasized that they do not share their PIN.

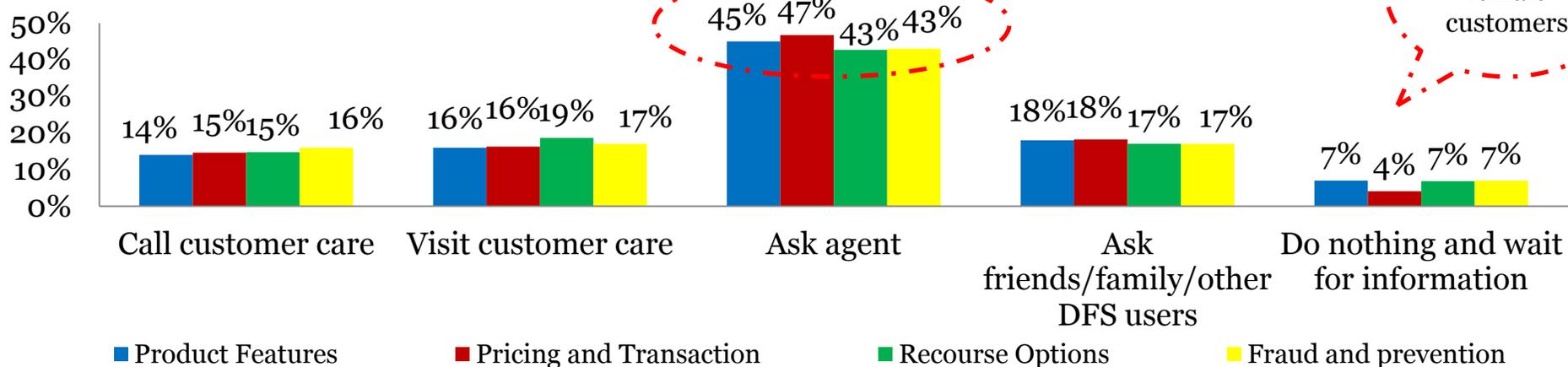
Agents are the most important source of information about methods to protect accounts.

Action To Protect Account Information, N=700



Means Used By Customers To Increase Their Awareness

N=700



Privacy: Agent Assisted Transactions are Common

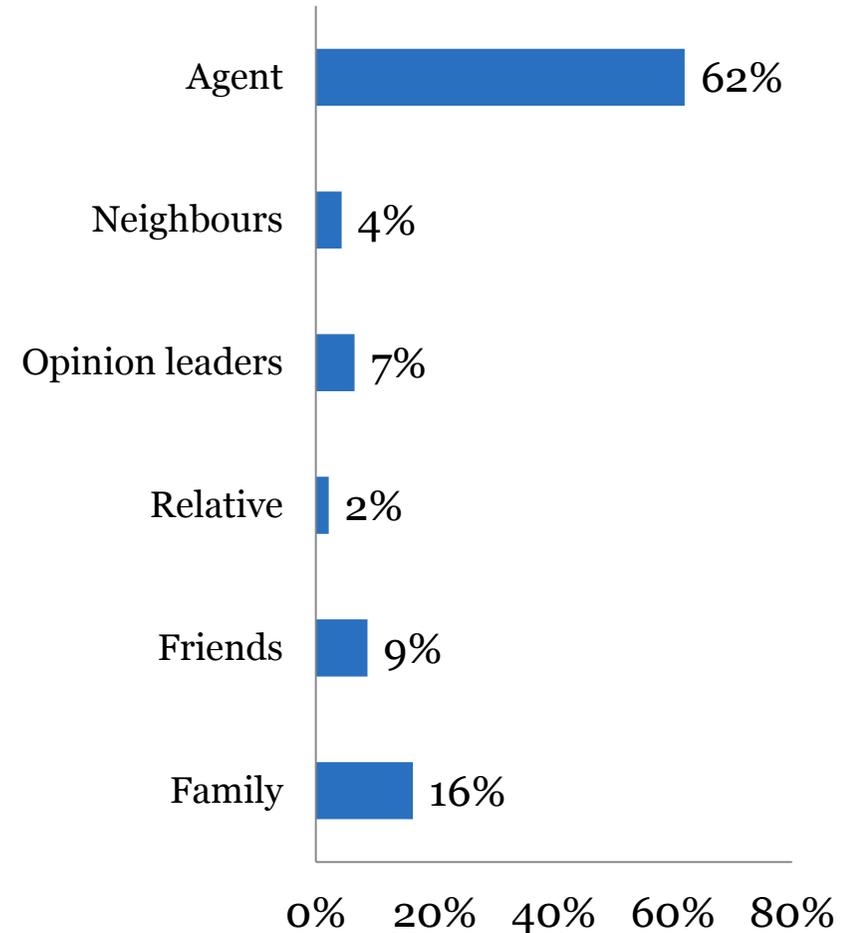
As [shown earlier](#), one of the major risks is transaction data security. However, the qualitative study shows that most transactions are assisted by the agents, who thus have access to account details.

Moreover, [trust](#)¹ in agents is high – and many customers do not want to share their details with others apart from the agent. **This is one of the fraud prevention methods taught to them by the agent!**

Sharing account details with family members can be considered to be more risky than sharing them with the agent. About 7% of customers lost their money when they shared account details with family members as compared to 1% who lost money when data was shared with agents. Customers who shared account details with family members and agents were 20% and 18% of the sample, respectively.

[CGAP notes](#)² that assisted transactions are common particularly with elderly customers and in rural areas where literacy levels are low.

Whose Help Do You Take To Do A Transaction?

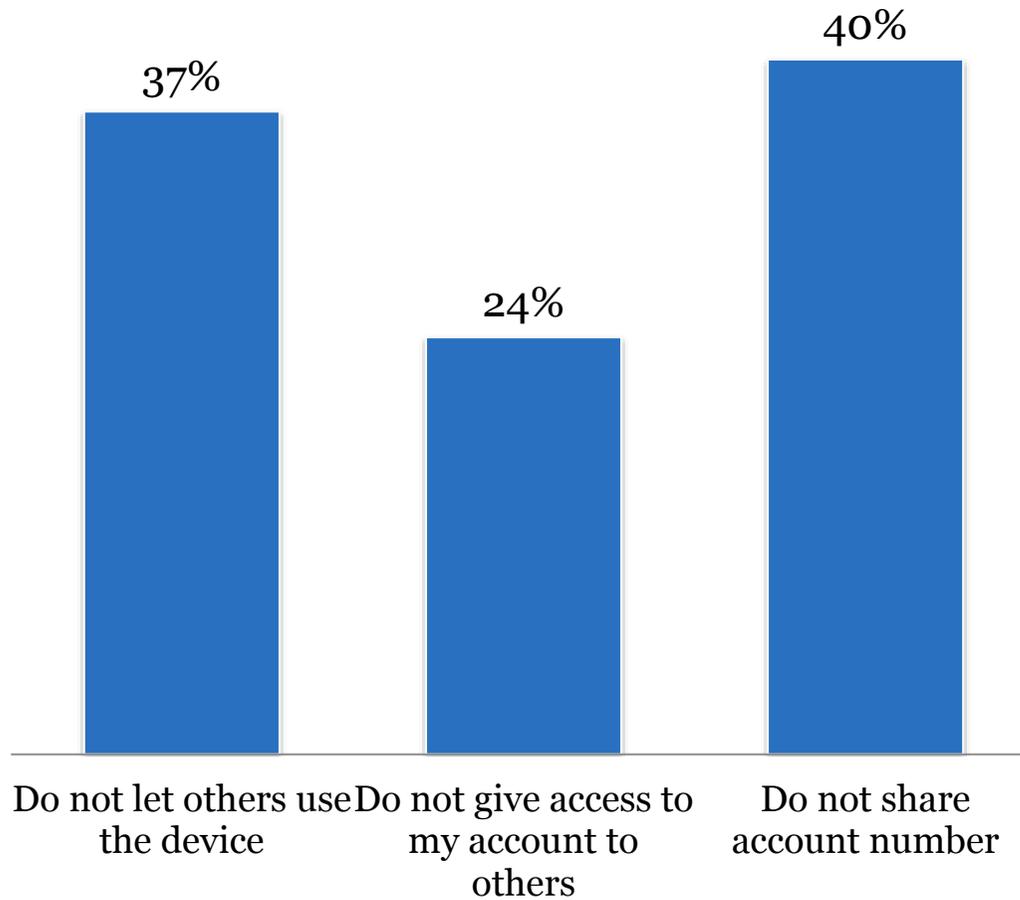


¹ MicroSave Focus Note: [Lessons from CSMs: Customer perspectives](#)

² Doing Digital Finance Right, CGAP, 2015

Privacy: All Agents Protect Their Personal Information

How I Protect My Personal And Account Information



It is observed that agents are very proactive in protecting their personal and account information.

Agents do not share personal account-related information with others.

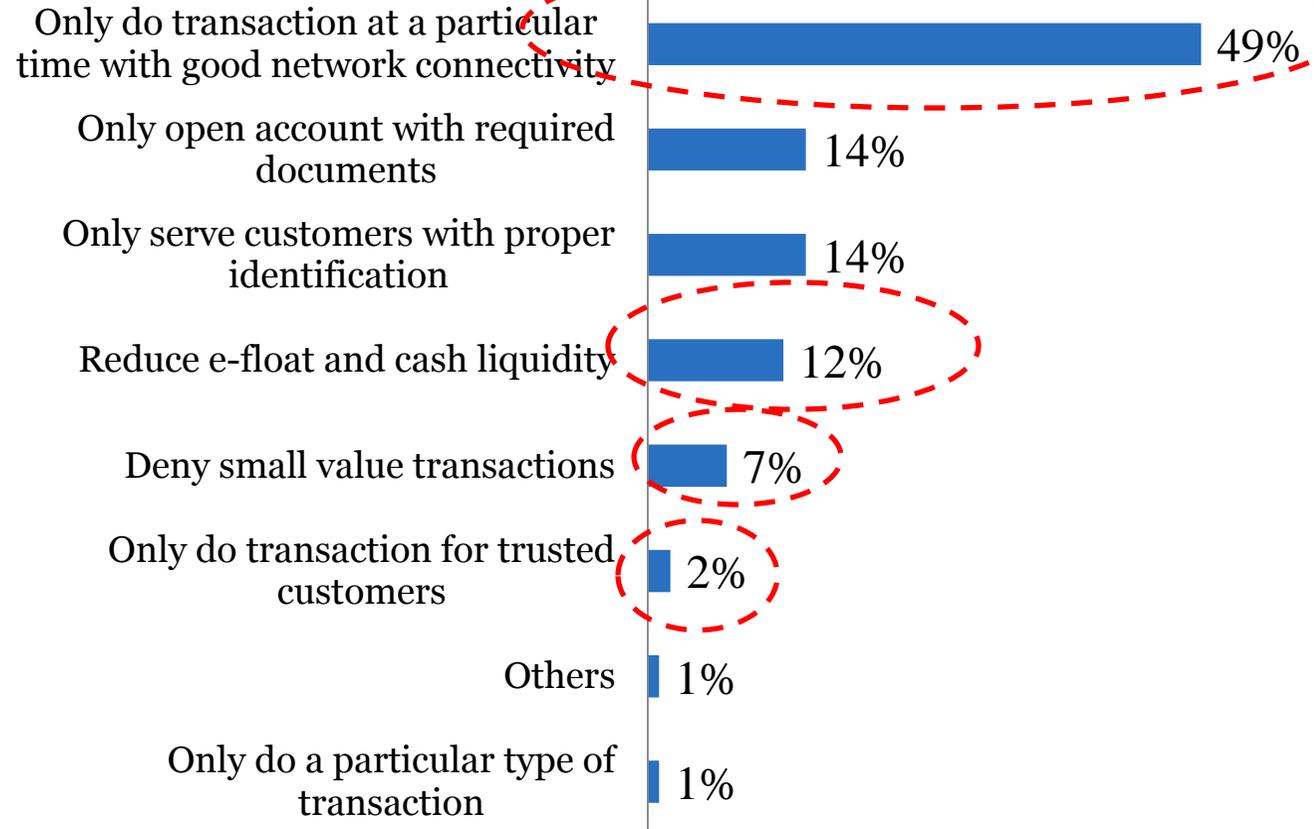
Though these are good practices, there are a number of ways in which fraud can happen, about which they are not aware and thus do not know about its prevention. (See [Survival of the Fittest: The Evolution of Frauds in Uganda's Mobile Money Market \(Part 1 and 2\)](#), *MicroSave*)

Privacy: Agents Protect Themselves Against Fraud

The precautionary measures adopted by agents often result in service denial to customers in different forms.

Even operational issues often lead to service denial.

How Agents Prevent Risk?



Financial Capability

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Financial Capability in the Context of the Research

- [The World Bank Institute](#) highlights that behavioural change with regard to financial capability is a non-linear process and requires more than receiving compelling information. For an evolving channel like DFS, which has several models of service delivery, this brings its own set of challenges. For DFS to be used to its full potential, it is important that both customers and agents have functional knowledge of the channel. Therefore:
 - Financial capability of the customers was assessed on the basis of:
 - Functional knowledge to transact on their own
 - Awareness about terms and conditions and product features
 - Ability to protect personal account information
 - Awareness and ability to access recourse
 - Financial capability of the agents was assessed on the basis of:
 - Functional knowledge about terms and conditions and product features for proper facilitation
 - Functional knowledge about recourse mechanism to help the customers, as well as to resolve problems they face
 - Monitoring and training support so that agent is able to serve the clients well

Summary Findings

Even though both customers and agents indicate that they have adequate knowledge for doing / facilitating a transaction, the level of functional awareness is limited to only a few products.

Functional awareness about recourse is low among both customers and agents. Moreover, actual recourse followed when faced with a risk or client protection issue, is limited largely to visiting the local bank branch.

Monitoring visits are sporadic and nearly half of the agents are not visited by the monitoring staff of bank and service provider. Moreover, these visits are unplanned and lack a structured agenda.

Training support to agents is inadequate, as a large percentage of agents do not receive any training. Further, training on risks and fraud is nearly always missing from the training provided to the agents.

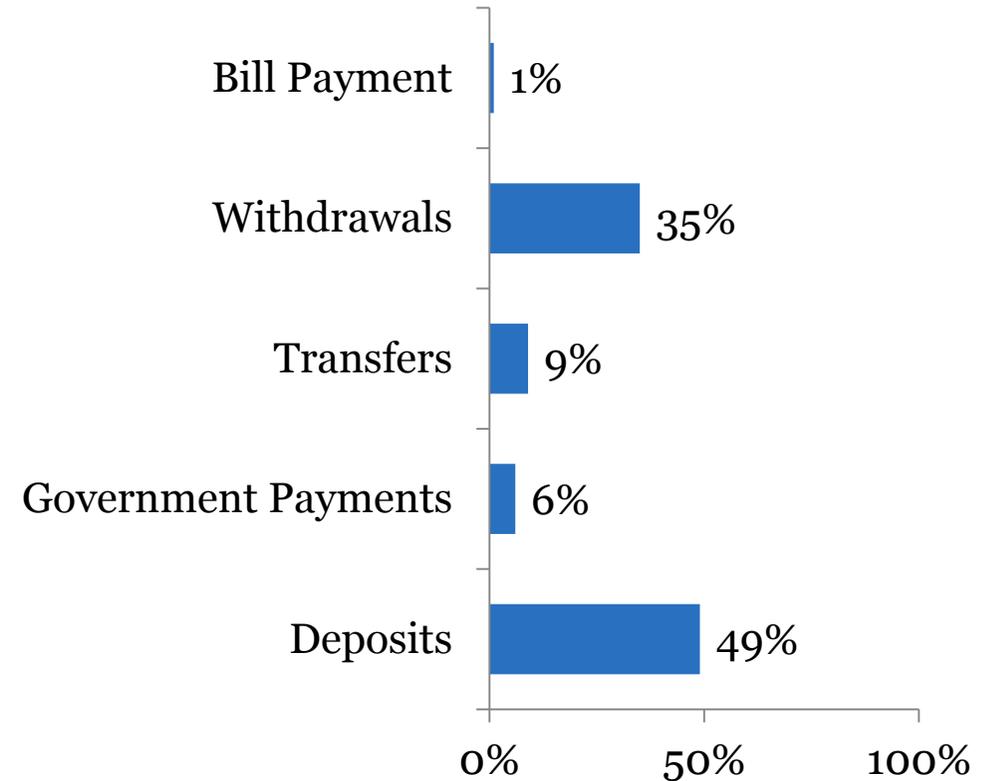
Functional Awareness About Conducting a Transaction is Limited to a Few Products

As indicated in the previous section, almost 2/3rd of customers do not fully understand the product terms and conditions and pricing.

Furthermore, knowledge about other products among agents is also low and so they offer only a few products. The graph indicates the top three products by volume.

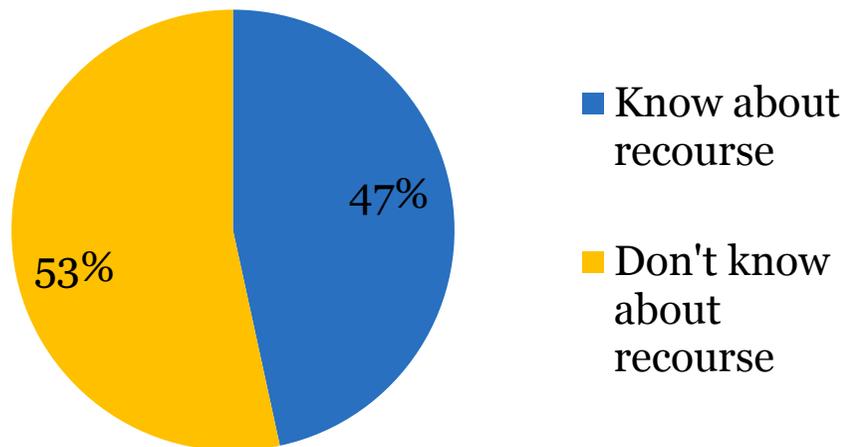
Further, field observation shows that there is a growing trend amongst customers to carry out OTC transactions.¹ These people are not covered in the study, but form a significant proportion of transaction volume. Since they conduct OTC transactions, it is fair to assume that they, too, have very limited knowledge of the terms and conditions of service.

Top Three Products By Volume
n=448



¹ Beware of the OTC Trap, Pawan Bakshi, 2014, *MicroSave*

Functional Awareness About Recourse is Low Among Customers



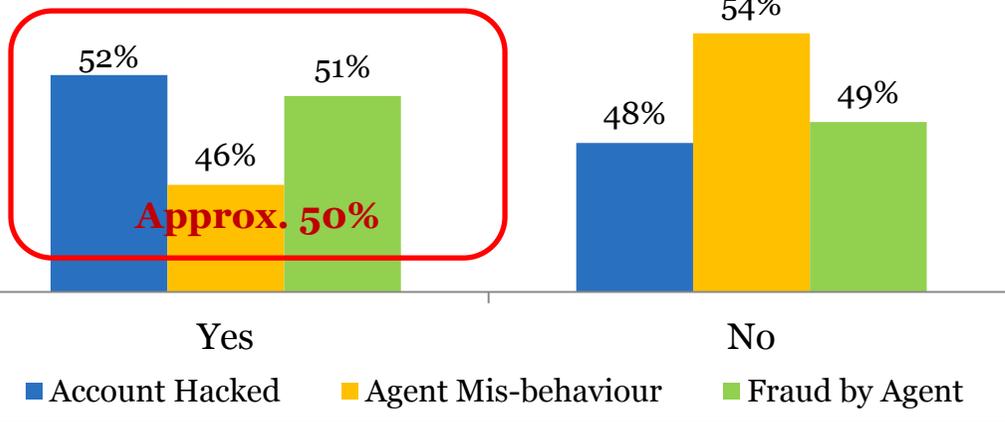
Some of the important risk situations were explored individually to understand the level of functional awareness in using recourse option(s).

Of the customers who said that they knew about different recourse options, only 50% (approx.) of the customers were able to tell what they will do when faced with specific situations like – fraud by agent, agent mis-behaviour and/or account being hacked.

This shows that only 25% (approx.) of customers will actually know what to do when faced with a risk.

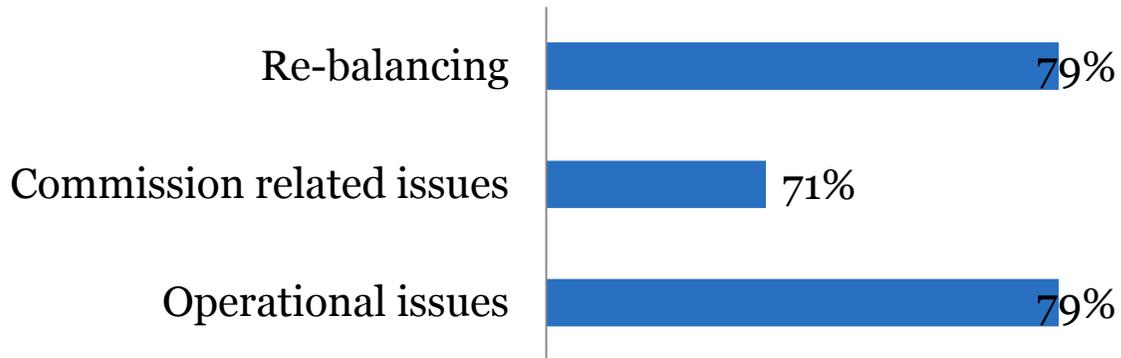
This implies that even if customers say that they know about recourse, only a few have functional knowledge about it. Mere information on recourse options, that too provided by the agent, is not at all effective.

Awareness On What To Do If



Functional Awareness of Agents to Facilitate Transaction is High, but Limited to a Few Products

Awareness Related To Resolution Of



- 96% of agents said that they knew about the product features of top three products on offer through their agency
- 77% of agents said that they do not have any difficulty in handling the devices/technology
- Only 68% of all active agents reported having received documents describing terms and conditions of service

Functional awareness among agents to facilitate transactions appears high. However, this does not represent the complete picture as they only have knowledge about a few products.

The ANA India Survey highlights that only **59%** of agents **received training**. Of those trained, **61% agents have undergone a refresher training**. 36% of these have received refresher training only once.¹

Usage of Recourse is Low

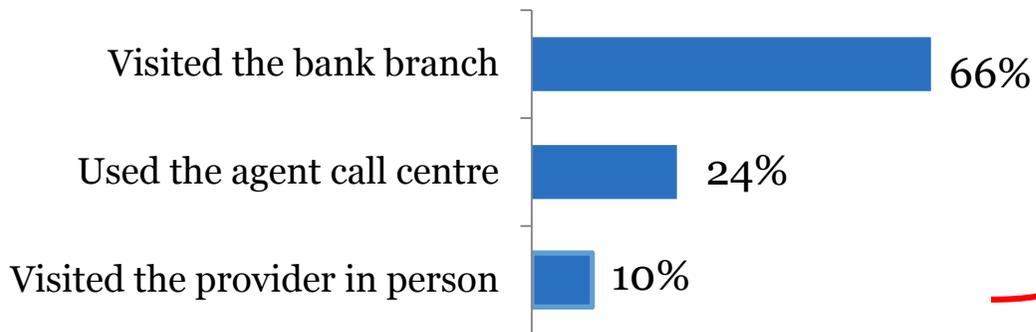
As shown in the previous section, 79% of the agents know about recourse options. However, of the agents who faced issues, only 24% actually used any kind of recourse option.

Though agents were aware of multiple recourse options, the method actually used to resolve issues was much more traditional in nature – agents preferred to sort out issues face to face at the branch.

This indicates that even though there is awareness about recourse options among agents, they are not much used. Moreover, the dependence on agents on going to the bank branch or provider for recourse suggests that call centres are either absent or not functioning adequately.

This also raises a question on the ability of agents to resolve customer-level issues if they do not have functional knowledge of recourse.

Types Of Recourse Mechanisms Actually Used



Operational Support is Unplanned and Lacks Agenda

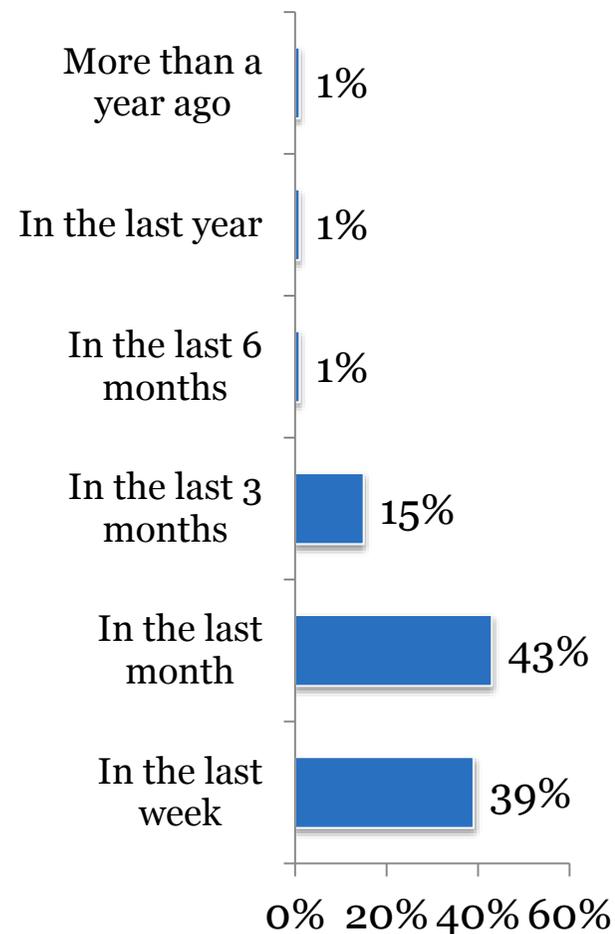
However, when asked what is discussed during monitoring visits the answer was ambiguous both in terms of agenda and problem resolution.

A separate baseline [assessment study conducted by MicroSave](#), for *Bank Mitrs* (agents) under the PMJDY scheme also highlights the fact that monitoring visits lack an agenda in terms of what needs to be checked, and often does not resolve any problems/issues that the agent/customer may be facing.

At best, during monitoring visits, the bank staff checks the notebook of agents in which transaction records are maintained.

There are almost no checks/interactions with customers during monitoring visits. This is primarily to avoid questions on unresolved issues like: When will they get their passbooks? When will the ATM card be issued? Will they be able to access credit? etc.

Last Monitoring Visit To Agent Location



Annexures

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Annexure I: Key definitions used in this report

(1/2)

Terms	Definitions
Rural	Village or panchayat location
Cities	Places governed by municipal corporations
Other Urban	Development Blocks, District Headquarters
Agent not Available	Issues related to agent unavailability at the scheduled time and day when the customer visits to perform the transaction
Agent Liquidity	Issues related to presence of money and e-float to serve the customer on demand
System/Technology	Issues related to technical failure of the device/computer to complete the transaction
Network Downtime	Issues related to failure of mobile/internet connection which prevent the transaction from occurring
Transaction Data Security	Issues related to safety of customer account and transaction data at the time of transaction
Fraud	External fraud, which results in loss to the customer/agent
Theft/Robbery	Theft of agent/customer data and money at his location of transaction or outside
Funds not Safe/Loss of Funds	Saving/account balance of customers being compromised

Annexure I: Key definitions used in this report

(2/2)

Terms	Definitions
Perception	Both the accurate and inaccurate perceptions, as obtained through personal experience or word-of-mouth from others
Awareness	Knowledge of actual product features, terms, consumer protection issues, and mitigation options
Experience	Actual experience with the product, including risks and customer protection issues
Behaviour	Action or 'response' based on perception, awareness, experience, and behaviour
Dedicated	Agent doing only agency business without and side-activity
Non-Dedicated	Agent doing other work besides agency business
Mobile Agent	Agent operating from multiple location
Stationary Agent	Agent operating from one fixed location

Annexure II: Abbreviations

Acronym	Explanation
BPL	Below Poverty Line
BSBDA	Basic Savings Bank Deposit Account
CGAP	Consultative Group to Assist the Poor
CRISIL	Credit Rating Information Services of India
DFS	Digital Financial Services (universal term used for Mobile and Agent-based banking)
FDG	Focus Discussion Group
FI	Financial Institution
MNO/ANM	Mobile Network Operator/Agent Network Manager
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
OTC	Over The Counter
PIN	Personal Identification Number
PMJDY	Prime Minister Jan Dhan Yojana
RBI	Reserve Bank of India
SMS	Short Message Service
USSD	Unstructured Supplementary Service Data

- The analysis presented in this report is based on
 - **Quantitative study :** A nationally representative survey of DFS agents and customers spread across 5 Indian states was conducted from 11/5/2015 to 9/6/2015 on risks, client protection, and financial capability gaps. All bases (n=numbers) in this report are un-weighted and represent the actual number of people interviewed in the survey. All percentages in the report represent nationally representative proportions.
 - 700 customers along with 500 agents were interviewed under the quantitative study. 448 agents were active agents, while the remaining 52 agents were dormant.
 - The analysis of data for agents was done on the basis of data-splits like Dedicated vs. Non-dedicated; Stationary vs. Mobile; Novice vs. Experienced vs. dormant; Rural/Urban. However, only significant differences are reported.
 - The analysis of the data for customers was done on the basis of data-splits like location, gender and experience of customers. However, only significant differences are reported.
 - **Qualitative study:** Almost 58 agents were covered in the qualitative study across the same set of 5 states and districts as were selected for quantitative study. About 100 customers across the same set of 5 states and districts were covered as for the quantitative study.

Annexure III: About This Report

(2/2)

- In absence of an industry-level, district-wise database of banking agents, the sampling methodology for the survey was changed to a **non-probability based respondent selection**. **Local contacts were established and a combination of convenience and snowball sampling** methods was used.
- The instruments used for the quantitative survey were structured questionnaires. FDG guides were used for the qualitative study of customers. In-depth interview guides were used for agent studies.
- Selection of states and districts for research was based on the [Crisil Inclusix](#) report, on the basis of population weighted mean index score. States which were closest to the mean score were selected for the study with minor adjustments.*
- Within each selected state, 4 districts were selected based on scores in the CRISIL financial inclusion index. To cover a range of scores within each state, and select districts reflective of the scores within the state, we have selected districts of varying distances from the state's mean score, including two above and two below the state's mean. Other criteria used to select districts were population size and presence of an urban centre.

State	District 1	District 2	District 3	District 4
Uttar Pradesh	Mirzapur	Jaunpur	Rae Bareli	Agra
Andhra Pradesh	Kurnool	Anantpur	Visakhapatnam	Guntur
Chhattisgarh	Bastar	Jashpur	Raipur	Rajnandgaon
Gujarat	Dahod	Surat	Rajkot	Vadodara
Assam	Nagaon	Karbi Anglong	Tinsukia	Dibrugarh

*In the Northern region, UP was selected over Jammu and Kashmir because of difficulties in conducting research in J&K. In the East, West Bengal is slightly closer to the mean than Chhattisgarh, but geographically is continuous with Assam, the selected state for the North-East region. To ensure geographic variability, Chhattisgarh is selected.

Annexure IV: Sampling

The quotas assigned for both agents and customers in every district based on their location (rural/urban). Quotas were based on PMJDY data, that is, for e.g. if the data showed that in a given state 20% of DFS users were rural residents and 80% urban residents, then 20% of respondents in that state came from rural locations and 80% came from urban locations.

State	DFS Users*		Agents**	
	Rural Quota	Urban Quota	Rural Quota	Urban Quota
Uttar Pradesh	84	56	60	40
Andhra Pradesh	80	60	60	40
Chhattisgarh	92	48	60	40
Gujarat	76	64	60	40
Assam	104	36	80	20

* District-wise quota samples were further split as per the method mentioned above

** District-wise quota samples were further split as per the method mentioned above

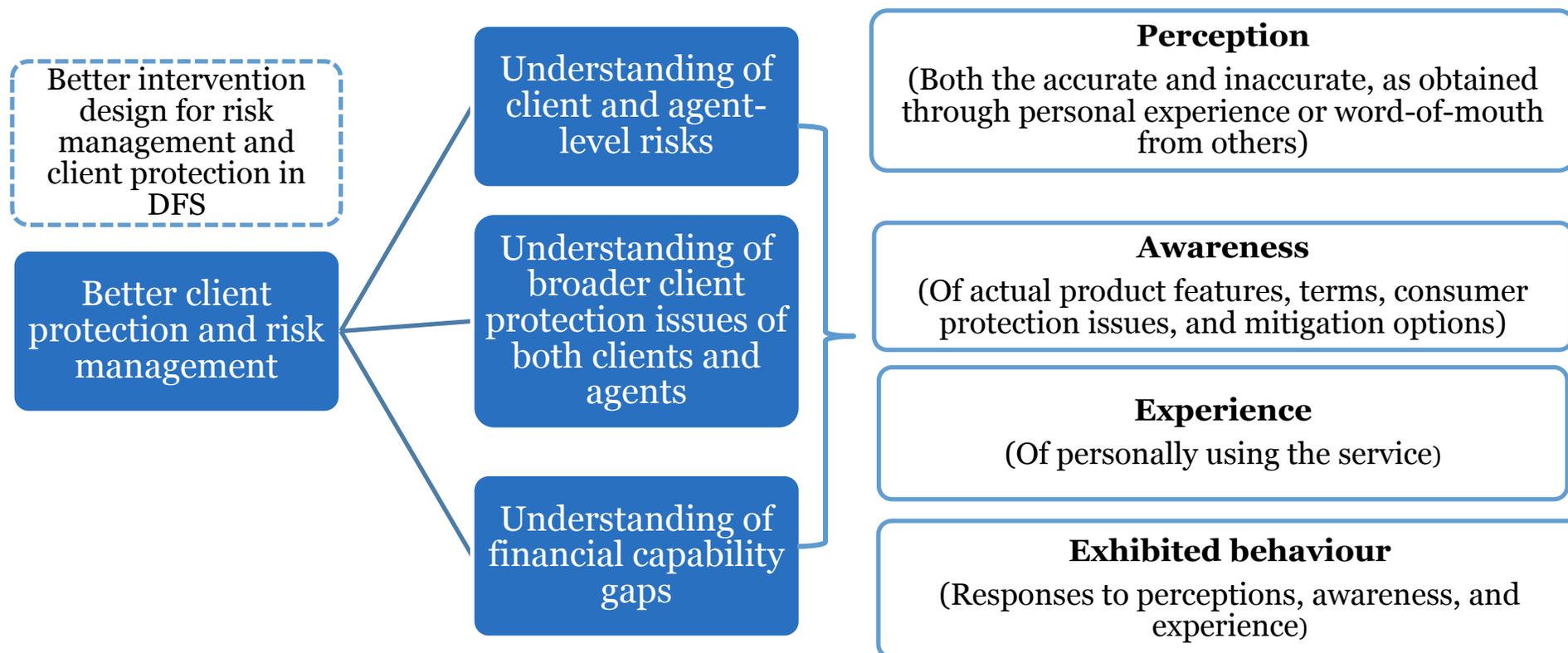
Annexure V: Challenges to Data Collection

- Absence of a centralised database of agents/banking correspondents at the local Lead Bank Office registered in the district, disaggregated by location.
- Absence of a banking industry-level list of country-wide agents and correspondents with location and contact details, to be used as a Master List for creating a respondent universe for the study.
- Wide ranging inaccuracies and discrepancies in the few lists that were available.
- The survey team had to create their own district-wise list of agents by curating the available databases and extracting relevant details from them.
- Database of agents was very limited (and often inaccurate), and, for some of the districts, it was not available. In such cases, the field team had to develop agent database by contacting local banks and BCNM
- All the business correspondents are appointed and trained at the same time in a district; therefore, the experience of the business correspondents in terms of duration of service was largely the same.
- Even in cases where lists or databases were available, however inaccurate they be, it was near impossible for the survey team to meet all of the **multi-level sampling criteria initially planned. Therefore, geographic location (rural and urban) was used as primary sampling criterion.**

Annexure VI: Framework for the Study

(1/2)

Agent and client-level risks, client protection issues, and financial capability gaps are explored and analysed on the basis of their current levels of awareness, perceptions, experiences, exhibited behaviours.



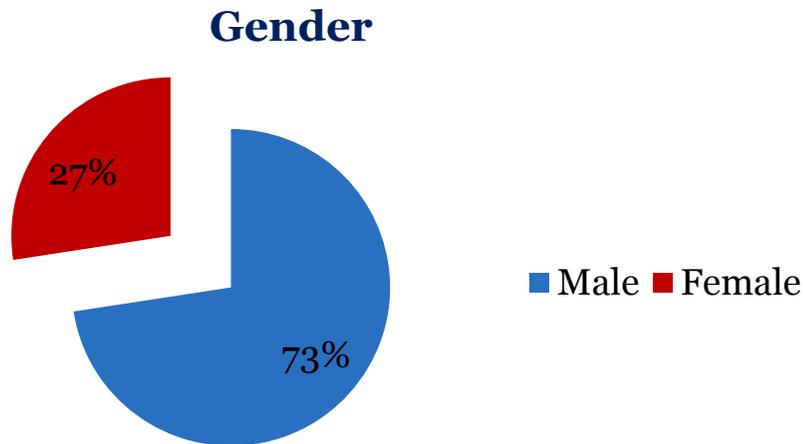
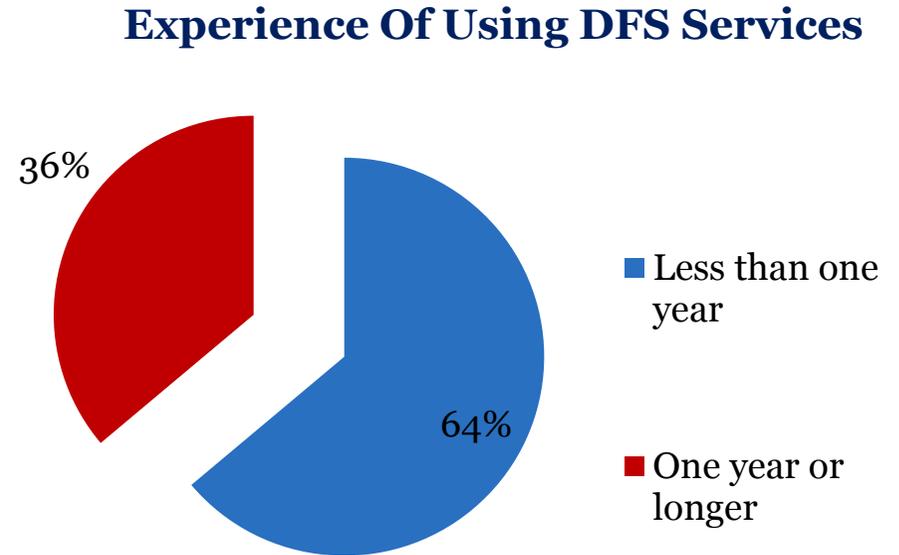
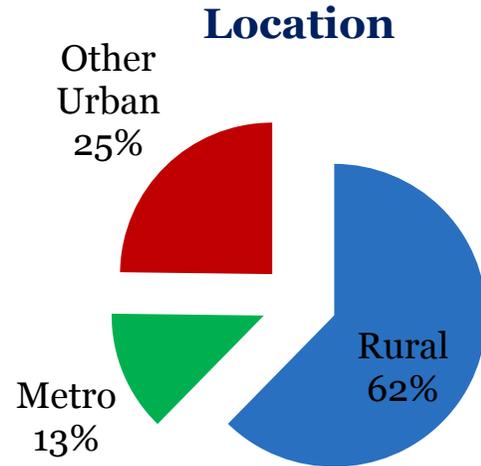
Risk – client, agent, and institutional risks that exist or may arise in future in the DFS deployments.

Client Protection – assessment to understand the level of implementation of client protection principles, as well as understanding their awareness in using DFS services.

Financial Capability – current level of knowledge, skills, attitude, and practices (use of products) of clients around DFS.

Agent and client-level risks, client protection issues, and financial capability gaps were explored and analysed on the basis of their current levels of awareness, perceptions, experiences, and exhibited behaviours. The specific areas of study within this framework covers the existing areas mentioned in the client protection and risk frameworks, including:

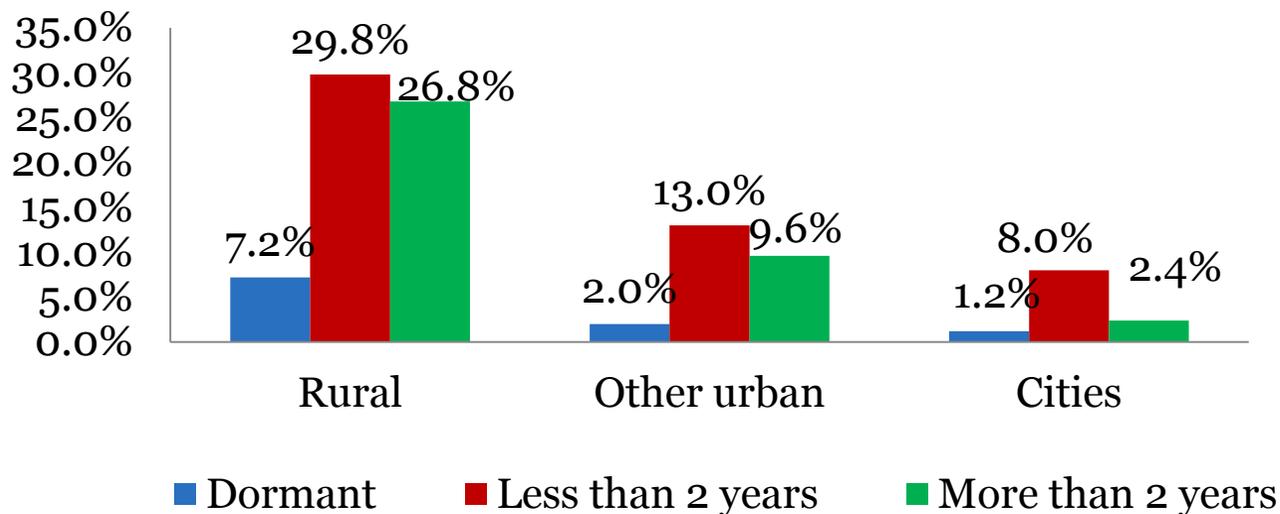
Annexure VII: Customer Profile



Annexure VIII: Agent Profile – Location and Experience

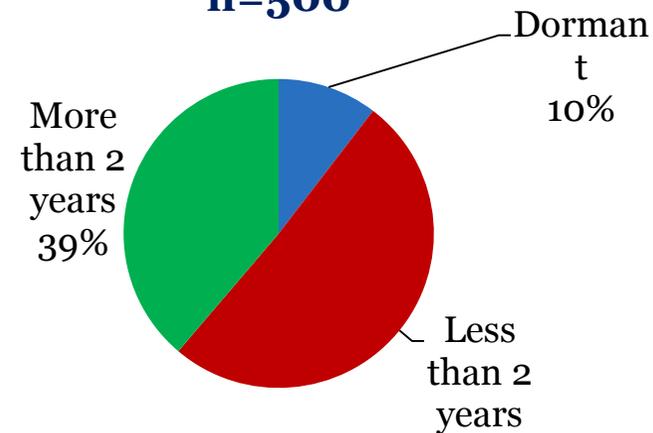
Agent Profile – Location And Experience

n = 500



Agent Profile - Experience

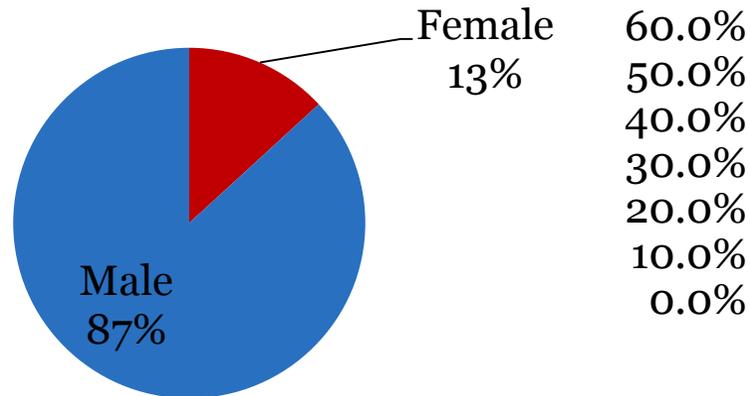
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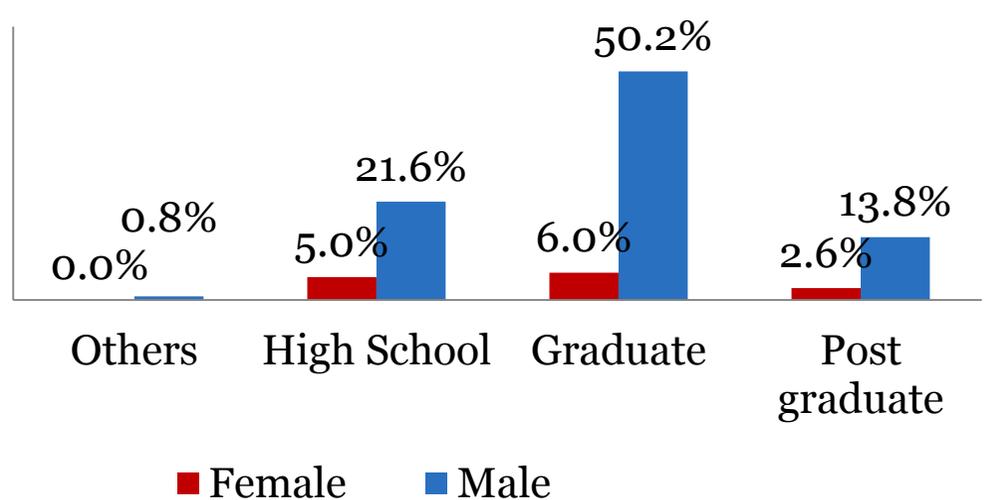
Almost 64% of agents came from rural areas, followed by Other urban at 24.6% and 11.6% from cities.

Annexure VIII: Agent Profile – Gender and Education

Agent Profile – Gender
n=500



Agent Profile – Education And Gender
n=500

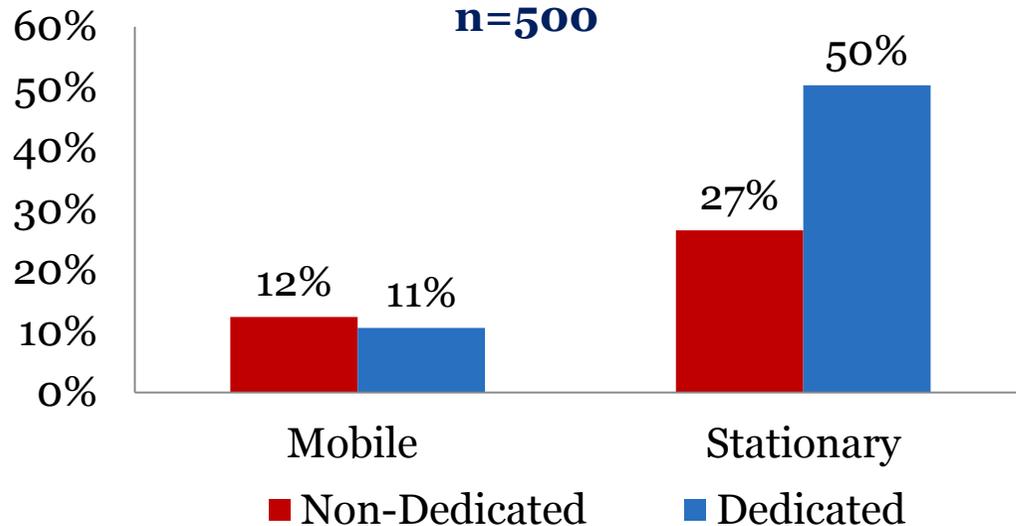


- Educational qualification of almost all of the agents is above High School. Most of the agents are graduates.
- Number of female agents is very low in comparison with male agents.

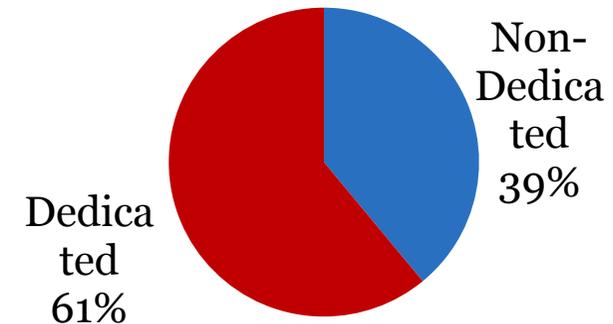
Annexure VIII: Agent Profile – Mobility and Work

Agent Profile – Mobility

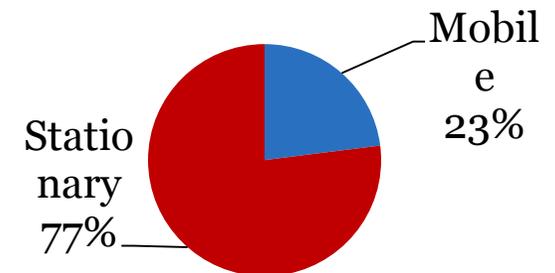
n=500



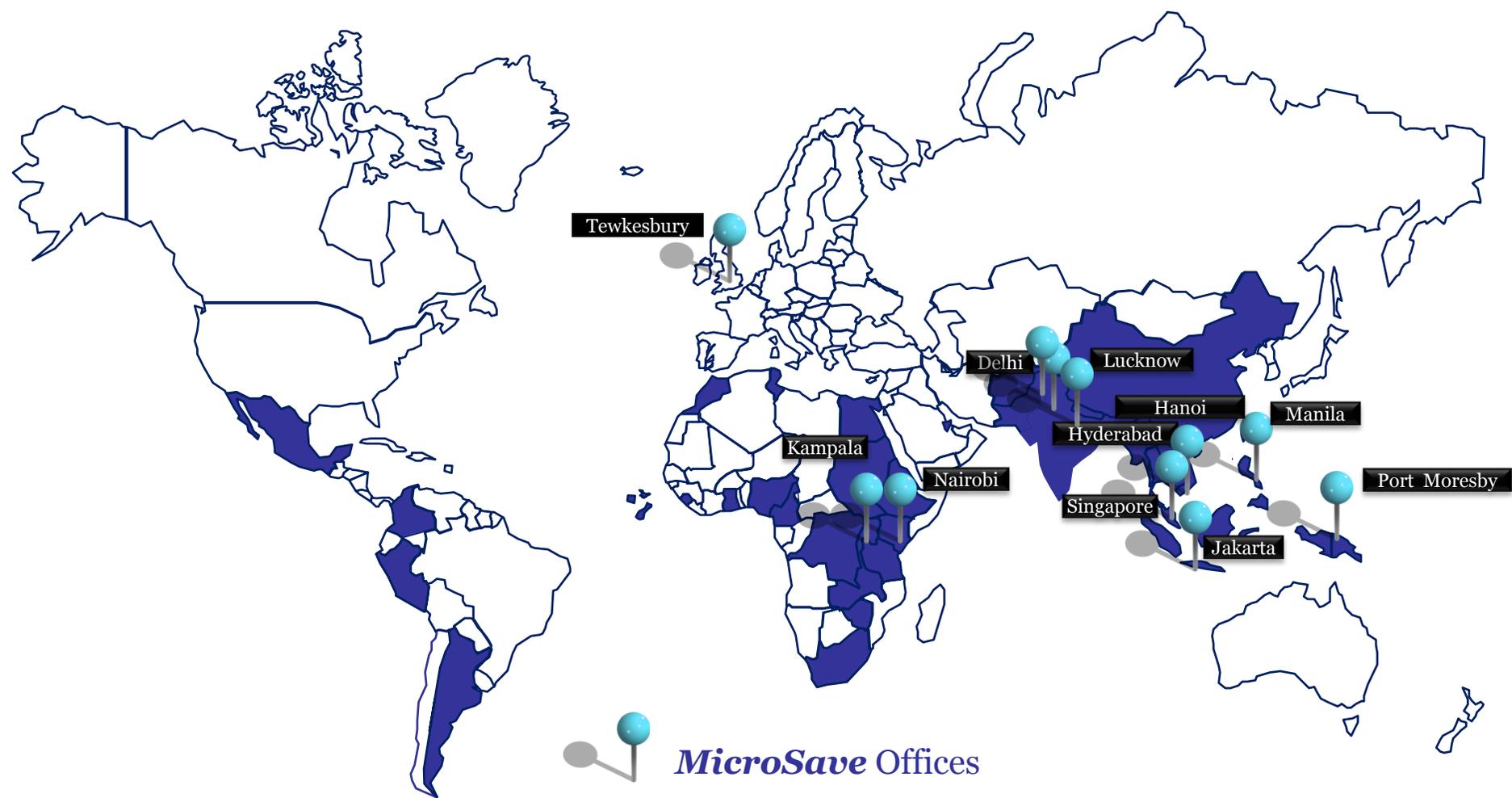
Profile Of Agents - Dedicated/Non-Dedicated



Profile of Agents - Mobile/Stationary



- Almost 77% of the agents are stationary.
- 61% of the agents are dedicated agents. Out of the 68 female agents, 14 are mobile while 54 are stationary.



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