

The rise of new-age BCNMs: Transformation of agent networks in India

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The rise of new-age Business Correspondent Network Managers: Transformation of agent networks in India

Business correspondent agent networks in India

Currently, business correspondent (BC) agents account for over 87% of the total banking outlets in India. The government introduced BCs in 2005-06 as a cost-effective alternative to branch networks to reach the last mile. India has since then made considerable progress toward serving its unbanked and under-banked population through strengthening its BC networks. Most of these BC agents offer assisted transaction services that help the digitally excluded population connect with mainstream financial service providers.

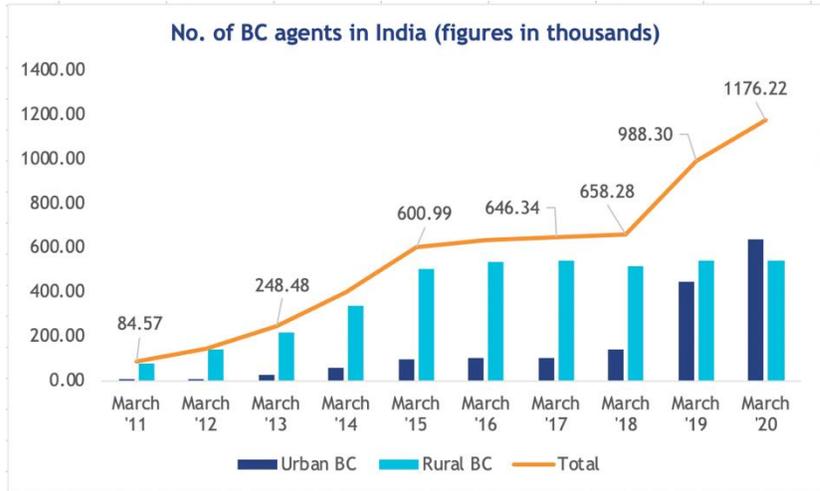


Figure 1: Growth of the BC network in India

MSC (MicroSave Consulting) has tracked the developments in the sector through periodic studies over the past decade. This paper uses lessons from these studies to understand the state of business correspondent network managers (BCNMs)¹ and the persisting challenges that they face. The paper also highlights some challenges that traditional BCNMs face in India. More importantly, this paper documents the strategy adopted by new players to overcome legacy issues and challenges and charts out a more sustainable and scalable model for BCs.

The traditional BC model and its challenges in India

The traditional BC model began in 2006 when banks started to deploy BCs as an extension of their branch network. These “traditional” BC models use dedicated agents who function as mini branches and provide a wide range of banking services.

¹ BCNMs are “for-profit” companies that manage business correspondent agents (BCs), also known as BC agents, agents, or ABCs. They provide front-end technology to enable the BC channel to interact with the bank platform.

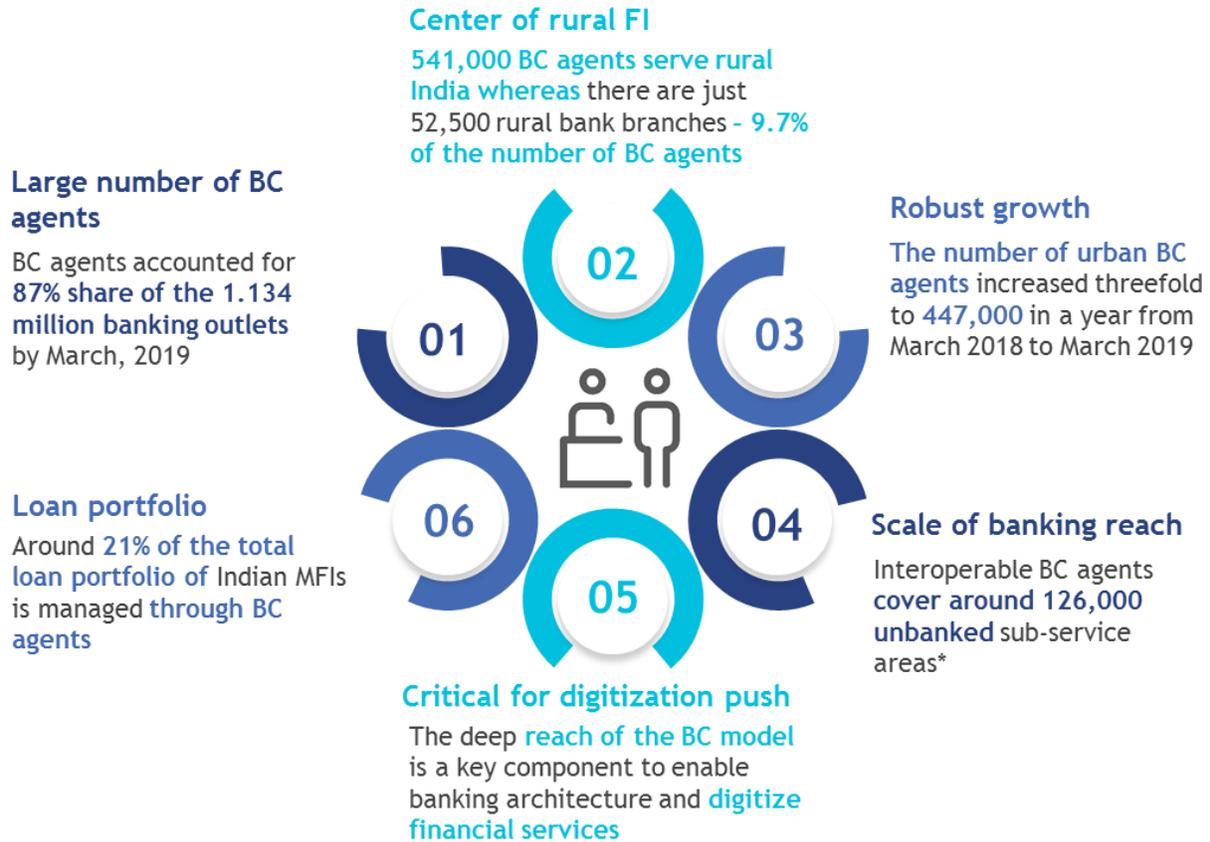


Figure 2: State of BC network in India

*Sub-service area is a cluster of villages comprising 1,000 to 1,500 households identified as a unit under PMJDY which is served by at least one fixed point banking outlet.

While this model successfully expanded the reach of banks, it suffers from various structural challenges that hampered its rapid scale-up. Some of its key challenges are as follows:

High setup costs:

Most banks with traditional BCs expect their BC point to appear and function as a mini branch. This requires the BC to make large investments in furniture, fixtures, and equipment, such as desktop computers or laptops, printers, and power backup. BC agents are dedicated and operate as mini branches of their parent bank. This makes them depend completely on income from BC operations to recover their initial investment and earn a livelihood. Any disturbance in the income stream from BC operations makes them vulnerable to failure, which limits the scalability of the model. This is especially true in rural areas, where limited customer footfall and a smaller income threaten the viability of BC operations. Hence, the BCNMs and BCs that work under this model have often demand fixed payouts to ensure viability.

Inefficient process of on-boarding BCs:

Most traditional BC models follow a decentralized process of on-boarding agents that involves stakeholders from both the BCNM and the partner bank. The process involves multiple steps and

protocols, sometimes even an endorsement or verification from the local police. This makes it a long and expensive proposition for prospective agents that sometimes stretch up to four weeks.

Expensive agent training:

Traditional BCNMs depend on physical classroom-based training for BCs. The organization of classroom-based training requires time and increases the training costs for both BCs and BCNMs. This type of in-person training also restricts rapid scale-up and on-boarding.

The requirement of high-touch agent monitoring:

Periodic physical monitoring by field supervisors characterizes traditional BC models. As a result, they have to maintain a strong field presence to monitor BC agents. This increases their operational cost and limits their ability to serve areas outside the reach of their field teams.

Consequently, traditional BCNMs face challenges around the economic viability of BC agents. The high initial costs push up the threshold income requirement for a traditional BC to remain viable. These structural issues and the opportunity provided by interoperable platforms of the [National Payments Corporation of India \(NPCI\)](#) have paved the way for a fresh breed of BCNMs.

Maintaining the balance: The story of interchange fees for AePS transactions

The [Aadhaar-Enabled Payment System \(AePS\)](#) forms the backbone of BC networks that operate in India. Most new-age BCNMs depend on AePS to serve their customers in “off-us” mode. This allows them to use the NPCI membership of their sponsor banks, usually smaller private sector banks, to access the interoperable AePS platform to serve their customers. A significant proportion of these customers typically have their accounts with larger public sector banks, also known as issuer banks in this case. Under this mode, the issuer bank has to pay an interchange fee to the acquiring bank to serve their customer at the BC outlet of the acquiring bank.

[AePS steering committee of the NPCI](#) which sets the [interchange fee](#) has to maintain a fine balance. If the fee is too high, it discourages issuer banks from facilitating off-us transactions for their customers. In case the fee is too low, the acquiring bank may not be interested in setting up the infrastructure. This committee includes representatives from banks, the Indian Bankers' Association, the Unique Identification Authority of India, and a few BCNMs.

The emergence of new-age BCs in India

The challenges BCNMs face using the traditional BC model forced many new players to innovate and explore alternate models. Interoperable platforms by the [National Payments Corporation of India \(NPCI\)](#), such as the AePS and the [Immediate Payment Service \(IMPS\)](#) provided an enabling environment. These platforms created an interoperable digital public infrastructure that enabled new players to partner

with banks, which has allowed them greater freedom to innovate. The choice of banking partner for these BCNMs is no longer guided by the existing customer base of banks.

Interoperable payment platforms from NPCI enabled new-age BCNMs to serve all banking customers. The acquirer bank could serve any customer for an interchange fee charged to the issuer bank. Hence, for these BCNMs the deal is even sweeter in geographies where larger public sector banks have gone ahead and opened bank accounts in large numbers during directed financial inclusion drives, such as the [PMJDY](#).

Key differentiators for the “new-age BC model” in India

New-age BCNMs have made operations more efficient through the smart use of technology, effective processes, or both. The improvements can be seen on multiple fronts, such as agent on-boarding, training, monitoring, cash management, and reduction in cost for BC agents.

These key differentiating features of the new-age BC model has resulted in its rapid growth across India.

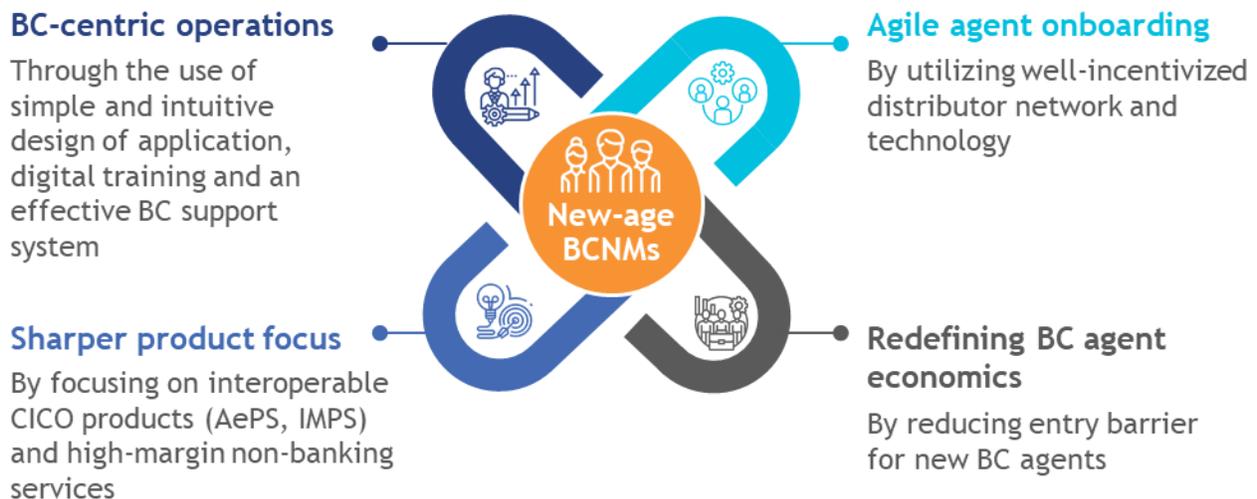


Figure 3: Key differentiators for new-age BCNMs

Agile agent on-boarding

New-age BCNMs have reduced the agent on-boarding period to just two or three days, whereas traditional BCs still require 15-30 days. As the initial step of the onboarding process, retailers who wish to become a BC have to download the new-age BCNM’s mobile application and register themselves. These retailers have to provide their KYC details to complete the registration, which usually involves their *Aadhaar* number and Permanent Account Number (PAN).

Retailers also geo-tag the location of their retail outlet, as all new-age BCNM agents are required to have a physical retail outlet. Once all processes are complete, a distributor from the BCNM verifies the details of the retailer by visiting the retail outlet, after which the retailer is formally on-boarded. Distributors are well-incentivized to onboard new agents and thus play a key role in the scale-up of the agent network.

Sharper product focus

Unlike traditional BCNMs that offer a wide range of banking services at their outlets, new-age BCNMs focus on just two or three products that generate the most transactions. These typically include cash-in and cash-out (CICO) transactions and direct money transfers (DMT). This focus on select services has made it easier for non-dedicated BCs to manage BC operations. Once established, these BCs extend their product offerings to include a few more value-added non-banking services, such as travel and ticket booking, utility payments, insurance, and PAN card applications. These services have higher profit margins and help BC agents supplement their income from banking products.

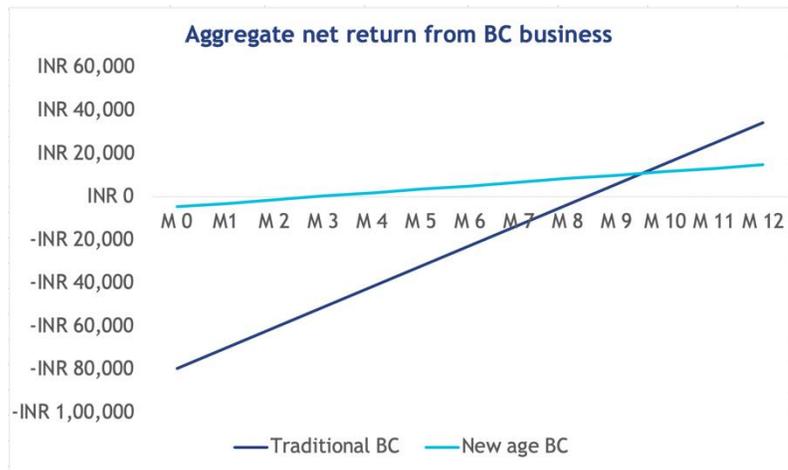
Redefined BC agent economics

The most important achievement of the new-age BC model is its success in reducing fixed costs or capital expenditure (CAPEX). This has transformed the economics of a BC agent completely. Traditional BCs require a huge CAPEX at the time of onboarding, which makes it difficult for them to achieve break-even. The low commission for AePS withdrawals, which is the most popular banking service these agents offer, aggravates the problem. In many cases, a traditional BC needs more than eight months to break even. Many BCs lose motivation during this period, which results in dropouts. However, capital expenditure is much lower for new-age BCs. Hence, limited types of transactions and the associated commission structure, as depicted in figure 4, helps a new-age BC break even in two or three months.

DMT	(0.4-0.48)% of amount
AePS	(0.1-0.23)% of amount

Figure 4: Commission structure for domestic money transfer (DMT) and AePS (January, 2020)

The adjacent graph² illustrates the difference in the profitability of traditional and new-age BCs in the first year of operations. The aggregate net returns (total revenue less total capital and operational expenses) for a new-age BC become positive from the second month while it takes almost eight months for a traditional BC. This difference is attributed to the high CAPEX investment of around INR 80,000³ (USD 1,065) that traditional BCs need to make. In comparison, CAPEX for a new-age BC is just INR 4,500 (USD 61), assuming the BC uses an existing smartphone. This amount includes the purchase of a low-cost biometric device and a small setup cost. Interestingly, the aggregate returns of a typical new-age BC is lower than a traditional BC towards the



New age BC agents are able to breakeven in just two months, as compared to eight months for traditional BC agents

² We have assumed the numbers used in the graph for an average performing agent (Non-dedicated new-age BC and a dedicated traditional BC). These are based on findings from a research conducted by MSC. The numbers vary substantially across agents and should not be treated as representative of the sector.

³ A traditional BC incurs these expenses toward equipment such as computers, printers, power backup, and biometric devices, alongside basic furniture and fixtures.

end of the first year. This indicates the suitability of the new-age model as a source of supplementary income for an existing business rather than a standalone dedicated business.

BC-centric operations

Due to the reasons mentioned above, new-age BCNMs consider BC operations an additional business to earn supplementary income. As a result, new-age BCNMs have designed their operations to prioritize the convenience of BC agents who run this business. Some core functions like agent training, monitoring, and support as well as mobile applications are designed with a focus on convenience for BC agents.

New-age BCNMs use a digitally-enabled system to train agents. This allows agents to receive training at a location of their choice and helps BCNMs reduce their training costs substantially. Most of these players use a simplified user interface, which also helps reduce the requirement of physical training. For instance, [Spice Money](#) conducts webinars on [Zoom](#) to train its agents while [Paynearby](#) uses a series of short videos. [Pay1](#), another new-age BCNM, has a [YouTube](#) playlist that it uses to train its BCs. However, this set of non-certified BC agents may find themselves on the wrong side of regulations, which stipulate [mandatory certification](#) by the Indian Institute of Banking Federation (IIBF).

New-age BCNMs use technology to monitor their agents remotely by analyzing real-time transaction data. This reduces the need for physical visits and saves time for both the agent and field staff. In contrast, traditional BCNMs conduct regular monitoring visits through a field officer deployed for every 30-60 BC agents.

Unlike traditional BCs who use desktop computers, new-age BCs are mobile-based and use simple and intuitive front-end technology. The sophisticated front-end software allows the biometric scanner and mPoS device to be connected with a smartphone. The process has been simplified and BC agents complete this without the need for external support.

The combination of a simple setup process, lower fixed cost, multiple revenue-generating offerings, and interoperability attract a large number of retailers to work as non-dedicated BC agents. These retailers view the BC business as an opportunity to augment their income with little incremental investment. This has helped new-age BCNMs scale up their businesses across the geography by using a network of distributors that assist merchants with BC operations. These distributors, who work on behalf of the BCNM, act as a bridge between agents and the BCNM. The new BC model has shown tremendous growth in recent years. In March, 2019, almost 60% of the [988,300 BCs in India](#) were from two leading new-age BCNMs—[PayNearby](#) and [Spice Money](#).

The way forward for BCs in India

Traditional and new-age BCs have their own set of strengths and weaknesses. Our analysis suggests that India requires a mix of both to fulfill the target of universal financial inclusion. They can be differentiated broadly as [sales and service agents](#).

Traditional BCs receive training to operate as dedicated extensions of a bank branch. Their strength, unlike new-age BCs, lies in the ability to offer specialized services like opening bank accounts, recovering loans, and sourcing customers for credit and insurance products. Most of these services are non-recurring and require superior sales skills and higher investments in terms of time and effort.

Traditional BC agents earn better commissions by offering these specialized services as compared to regular CICO services. This helps traditional BCs recover their higher setup costs. Although India has made commendable progress in opening bank accounts for 80% of its population, the penetration of insurance and credit continues to remain poor. India still requires traditional BCs to operate as sales agents and continue offering under-banked Indians a full suite of formal banking and other financial services.



The new-age BCs, on the other hand, are already engaged in other primary businesses like running grocery stores or mobile recharge points. These agents are equipped with a simple mobile application and biometric reader to offer efficient CICO and money transfer services on the AePS or IMPS platforms. The biggest strength of this channel is its efficiency and scalability through BC agent-centric operations and redefined agent economics. These agents are well-suited to offer simple transactional services with high demand and moderate commissions. India requires a large number of new-age BCs in all parts of the country to act as service agents and ensure convenient access to banking services for all Indians.



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