



Cash-in Cash-out Cross-Country Analysis India



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This slide deck serves as background research for the CGAP Focus Note '[Agent Network Journeys Toward the Last Mile: A Cross-Country Perspective](#)'.

Acronyms



AePS	Aadhaar enabled Payments System	G2P	Government to Person
ANM	Agent Network Manager	GDP	Gross Domestic Product
APY	Atal Pension Yojana	KYC	Know Your Customer
ATM	Automated Teller Machine	MNO	Mobile Network Operator
BC	Business Correspondent	MSME	Micro, Small, and Medium Enterprises
BCSBI	Banking Codes and Standards Board of India	NPCI	National Payments Corporation of India
BPCL	Bharat Petroleum Corporation Limited	PMJDY	Pradhan Mantri Jan Dhan Yojana
BSBDA	Basic Savings Bank Deposit Account	PMJJBY	Pradhan Mantri Jeevan Jyoti Bima Yojana
CASA	Current and Savings Accounts Ratio	PMSBY	Pradhan Mantri Suraksha Bima Yojana
CGD	Center for Global Development	RBI	Reserve Bank of India
CICO	Cash in Cash out	SBI	State Bank of India
DBT	Direct Benefit Transfer	SHG	Self Help Group
DFS	Digital Financial Services	SRLM	State Rural Livelihood Mission
DFS	Department of Financial Services	USD	United States Dollar
FAO	Food and Agricultural Organization		
FY	Financial Year		



Learnings from India experience for other countries

Key aspect

Lessons

The public sector has had an outsized role in the setup and expansion of rural CICO networks as banking infrastructure

- Rural CICO networks in India are largely owned by public sector banks. The government issues mandate to such banks to drive financial inclusion including setting up of agent outlets to enhance financial access. Often these agents are not viable and depend on subsidies
- As the focus shifts to viability, there is a need to encourage private sector banks to step in to supplement and improve infrastructure, products and services. In remote rural areas designing rural agent networks must be more aligned to local economic context

Investment in public infrastructure to facilitate interoperable retail payments transactions is starting to bear results

- Creation of public utility oriented, technology-led, interoperable financial market infrastructure has paved way for private players. They can now build payments and other products and solutions without having to invest in building costly infrastructure
- G2P transfers, subsidized public insurance, and social security schemes are a good compliment to drive engagement at agent points and reduce the viability gap

Strategic partnerships to diversify product and services will be key to continued viability of rural agents

- Banks and BCNMs have started to explore strategic partnerships to offer diverse financial and non-financial services such as microcredit, life/non-life insurance, and consumer goods. Ultimately, these services must mature to bring the full range of formal financial services to the doorstep of rural and low income clients



Key recommendations

Providers

- Add sourcing and servicing credit on behalf of banks in the overall product suite available through agents
- Banks may also use the gender-disaggregated data to deliver tailored experience to women customers
- Agent segmentation such as [sales and service agents](#) based on demographics and local demand should be piloted
- Banks together with [BCFI and BCSBI](#) should develop customer protection guidelines for banking at agent outlets and build systems to monitor performance of BCNMs on such guidelines
- Continue recruiting members of Self-Help Groups (SHG) as agents

Regulator and policy makers

- Allow a “registry” of BCNMs with the RBI and encourage them to function under guidelines of a self-regulatory organization
- BCNMs should be allowed to provide basic technical transaction connectivity to multiple banks using single float management under the agent interoperability framework
- Build two categories of differentiated agents: service agent (basic cash-in and cash-out), sales agent (sophisticated, product sales) based on demographics and local demand
- The Reserve Bank of India should ask banks to gather and report GPS-tagged, gender-disaggregated data for both agents and customers
- Increase commission of DBT payments. [The current commission rate is too low to sustain interest of BC agents](#)
- Location of agent outlets should be based on scientific demand estimation to ensure sustainability



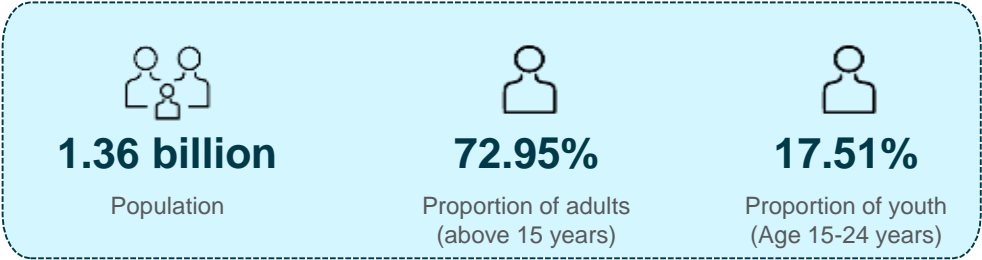
Photographer Name, CGAP Photo Contest

DFS uptake and usage – with a focus on rural areas

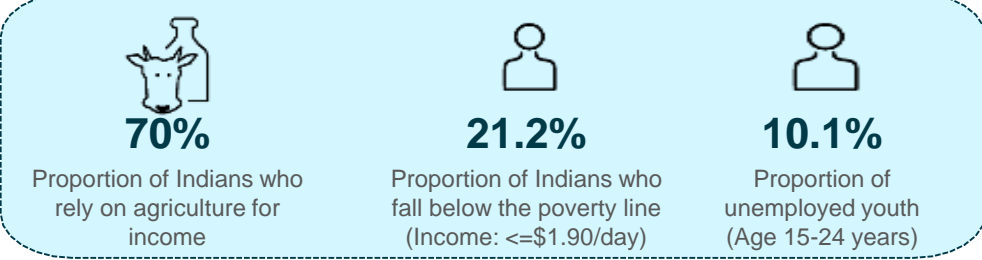
India is a middle-income country with over 1.36 billion people and per capita GDP of USD 2,010¹



Population statistics

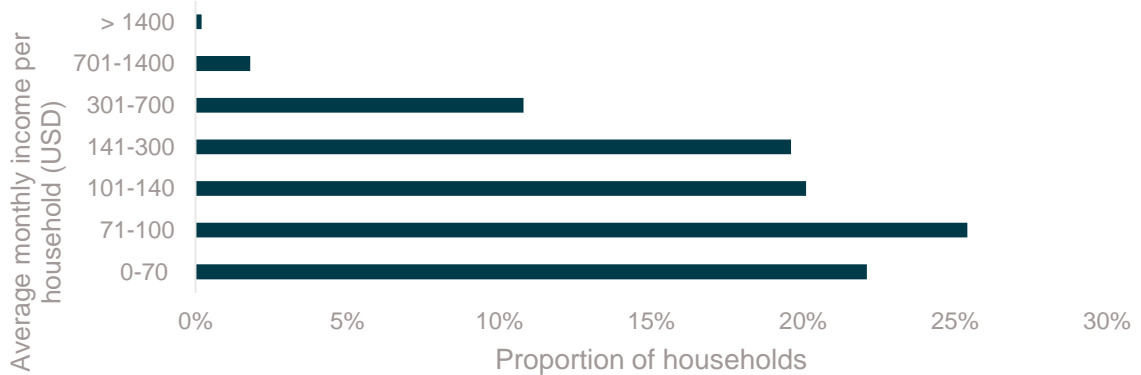


Economy



Sources: [World Bank](#), [FAO](#), [CIA](#), [Statista](#)

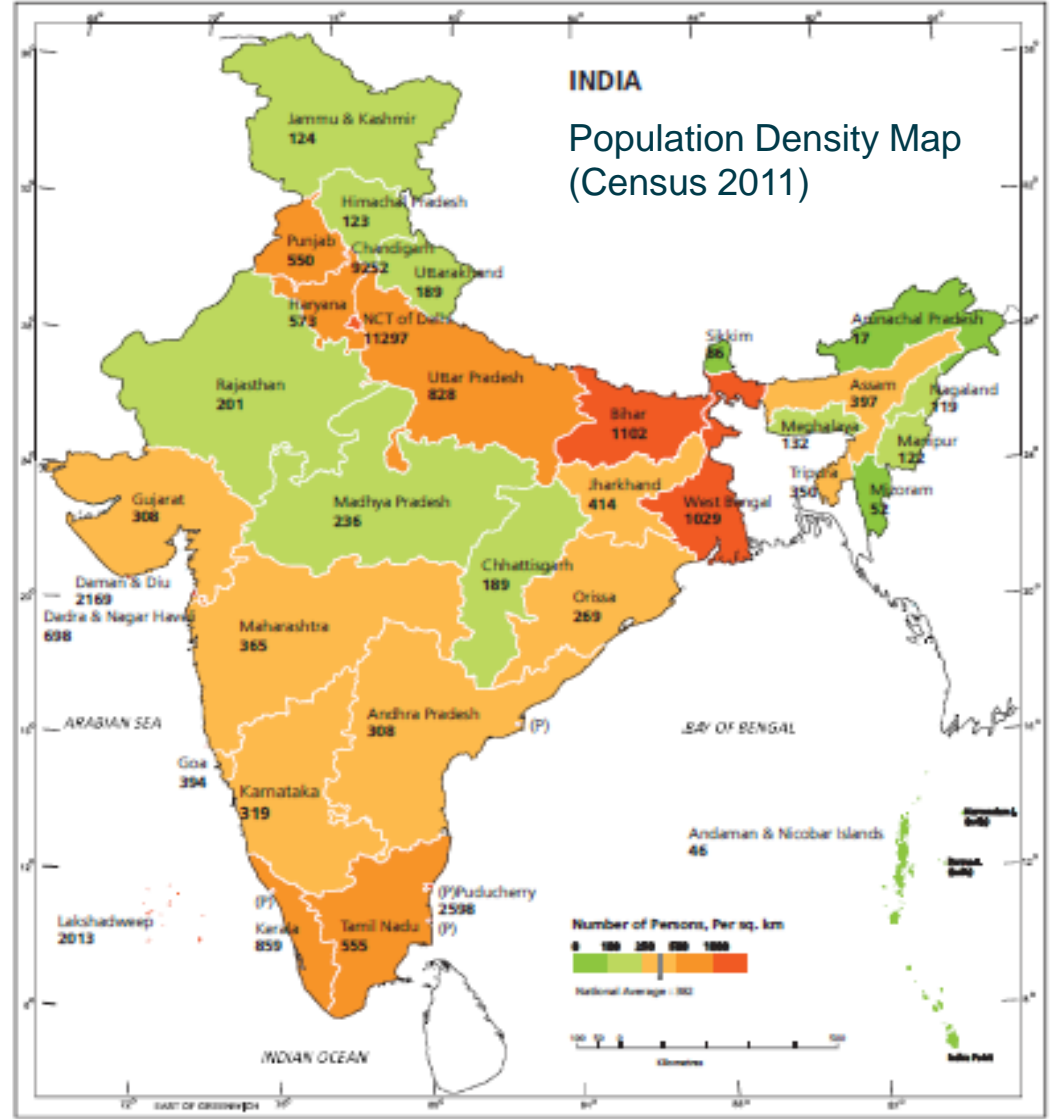
Income distribution of households



Source: [Statista, India \(2015\)](#)

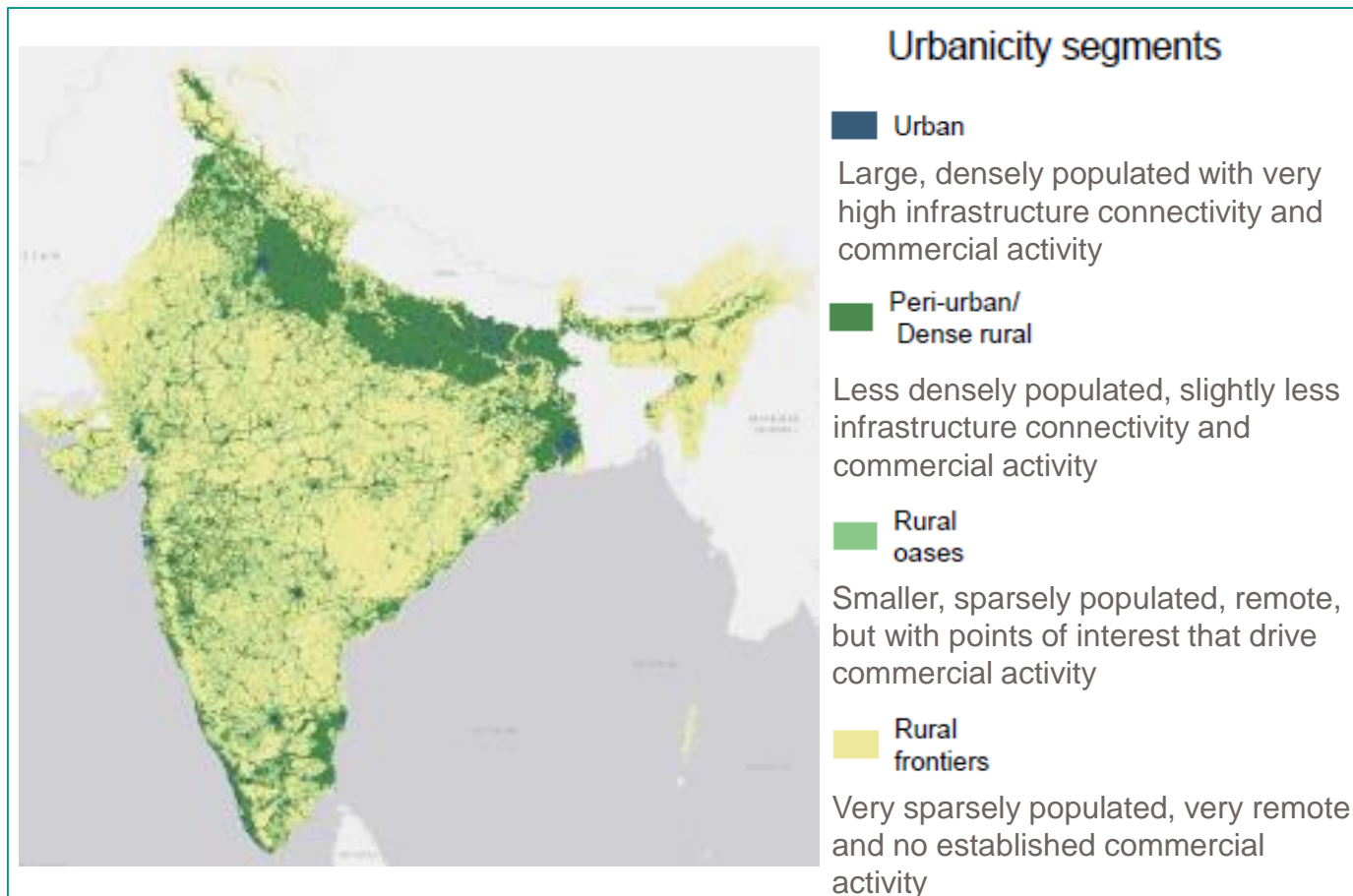
Note: Average household size in India is 4.5.

Source: ¹ [World Bank, 2018](#)



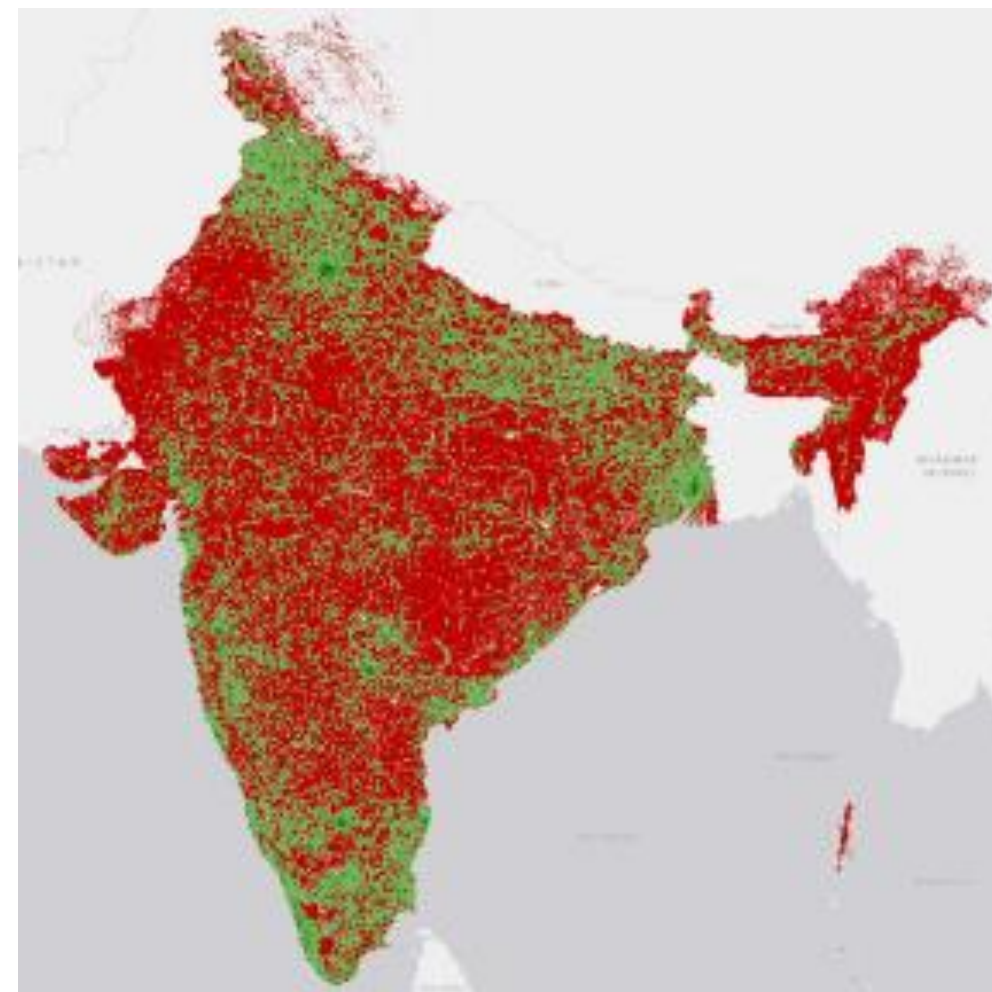
Source: [Government of India Census, 2011](#)

207 million people in India lack access to a banking outlet within five kilometers of their home



Source: Overview of CICO access geo-analysis in India, BCG (Forthcoming)

Note: The accuracy of the data presented here may be adversely impacted due to double counting of agents as has been observed in other countries where such exercises have been conducted in the past



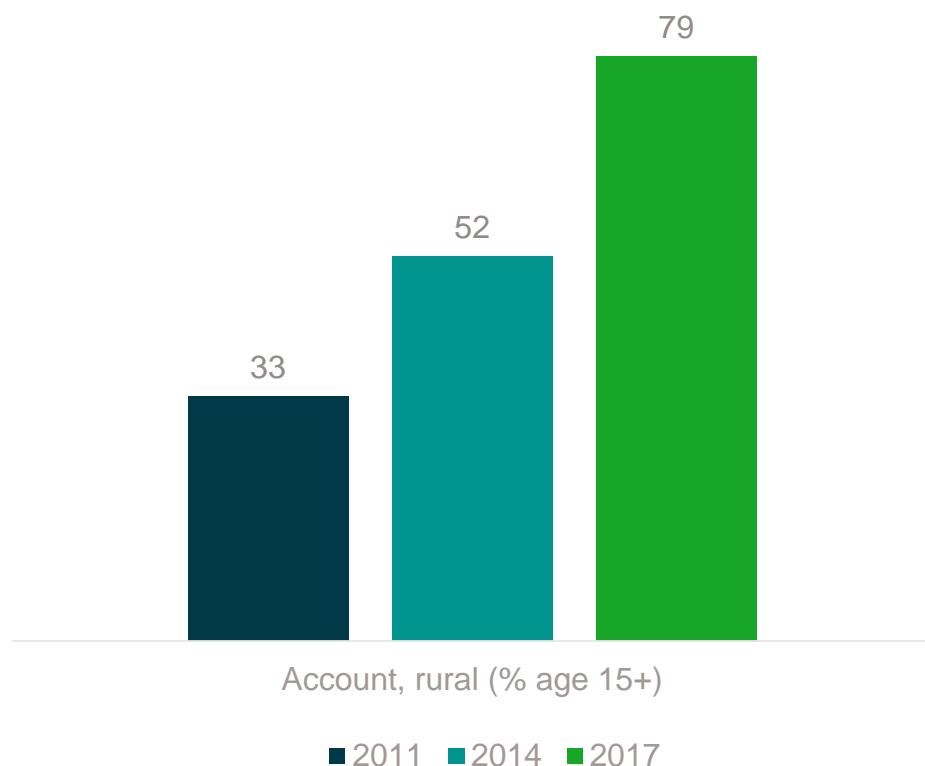
Distance from financial services

<1 km **1-5 km** **>5km**

The Pradhan Mantri Jan Dhan Yojana (PMJDY) provided bank accounts to 382 million people, 59% of whom live in rural/semi-urban areas

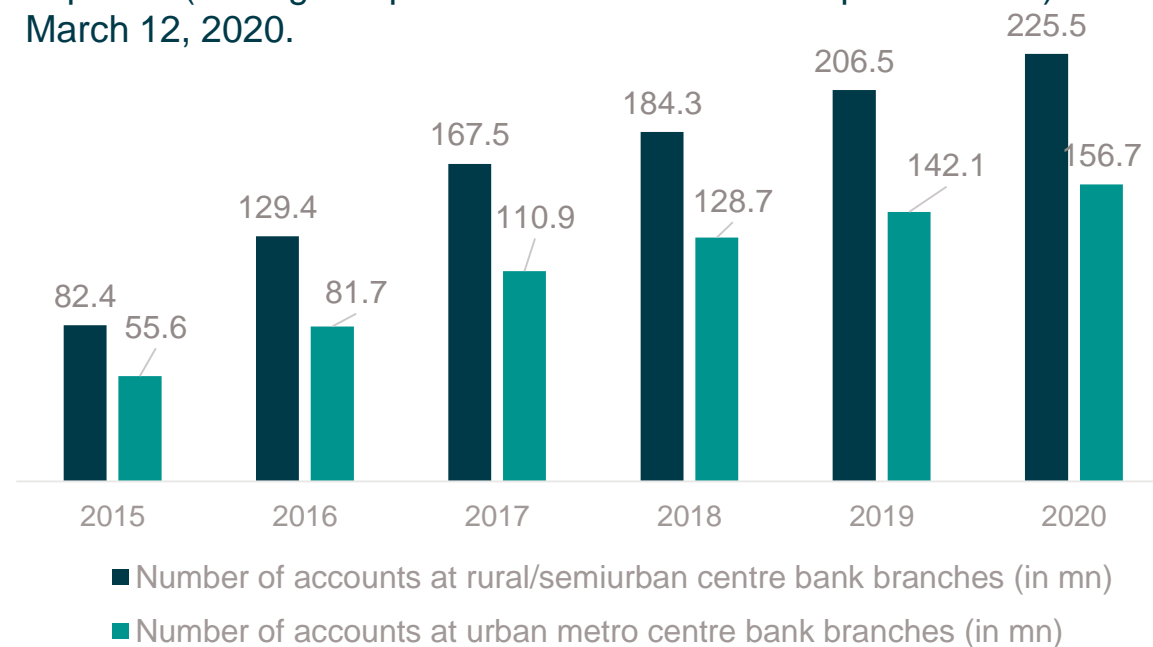


Financial access by rural adults



PMJDY accounts

PMJDY accounts hold more than USD 15 billion in aggregate deposits (average deposit balance of USD 39 per account) as on March 12, 2020.



An overwhelming 97% of PMJDY accounts are opened with government-owned banks

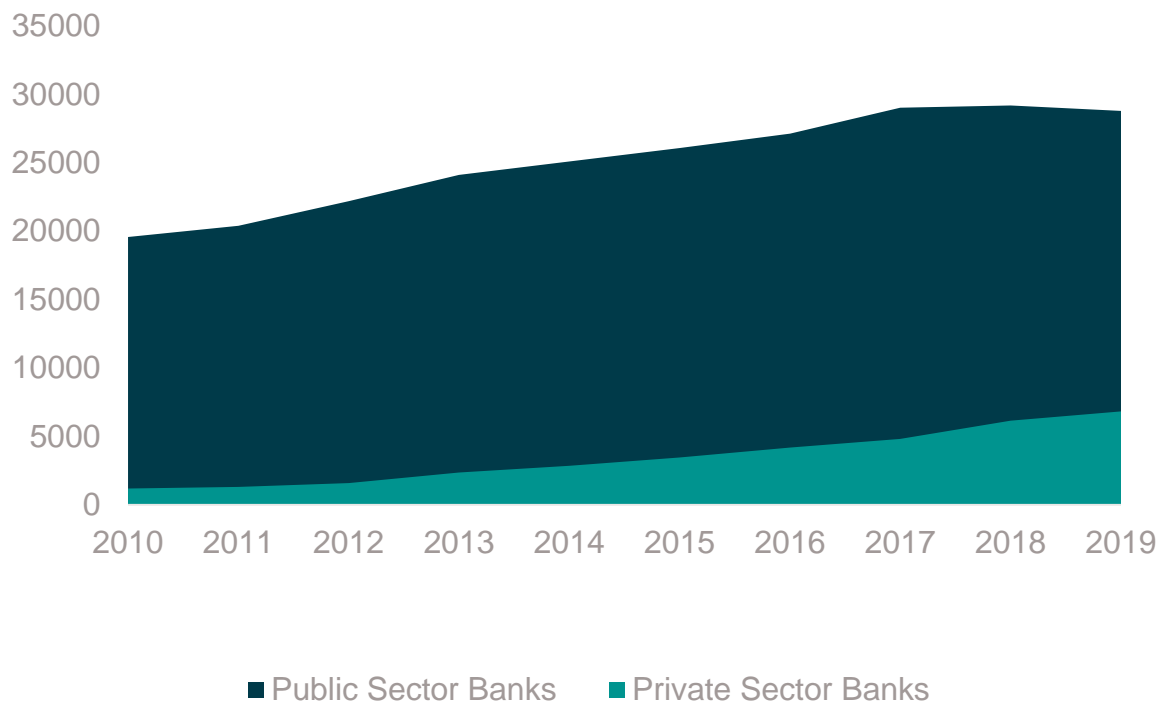
Note: The data is as on first Wednesday of March, every year.

Source: [2017 WorldBank Global Financial Inclusion, PMJDY](#)

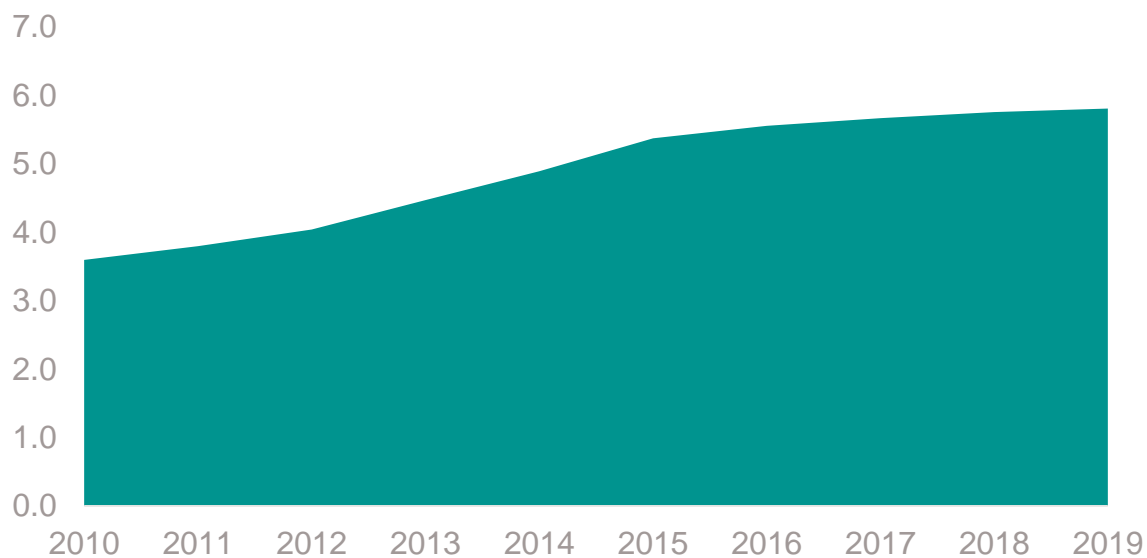
Public sector banks have the biggest branch network with steady growth across rural locations; bank branches per 100,000 rural population has also improved



Rural bank branches across providers



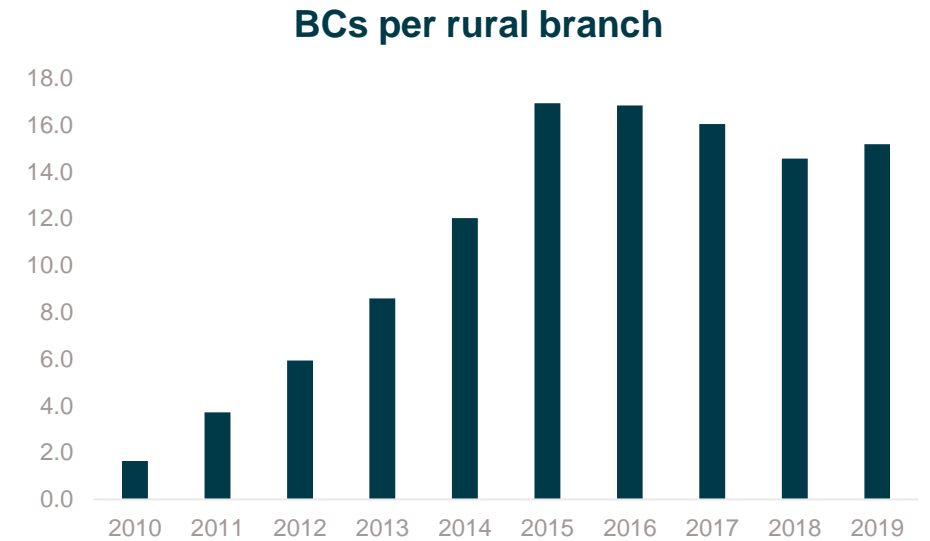
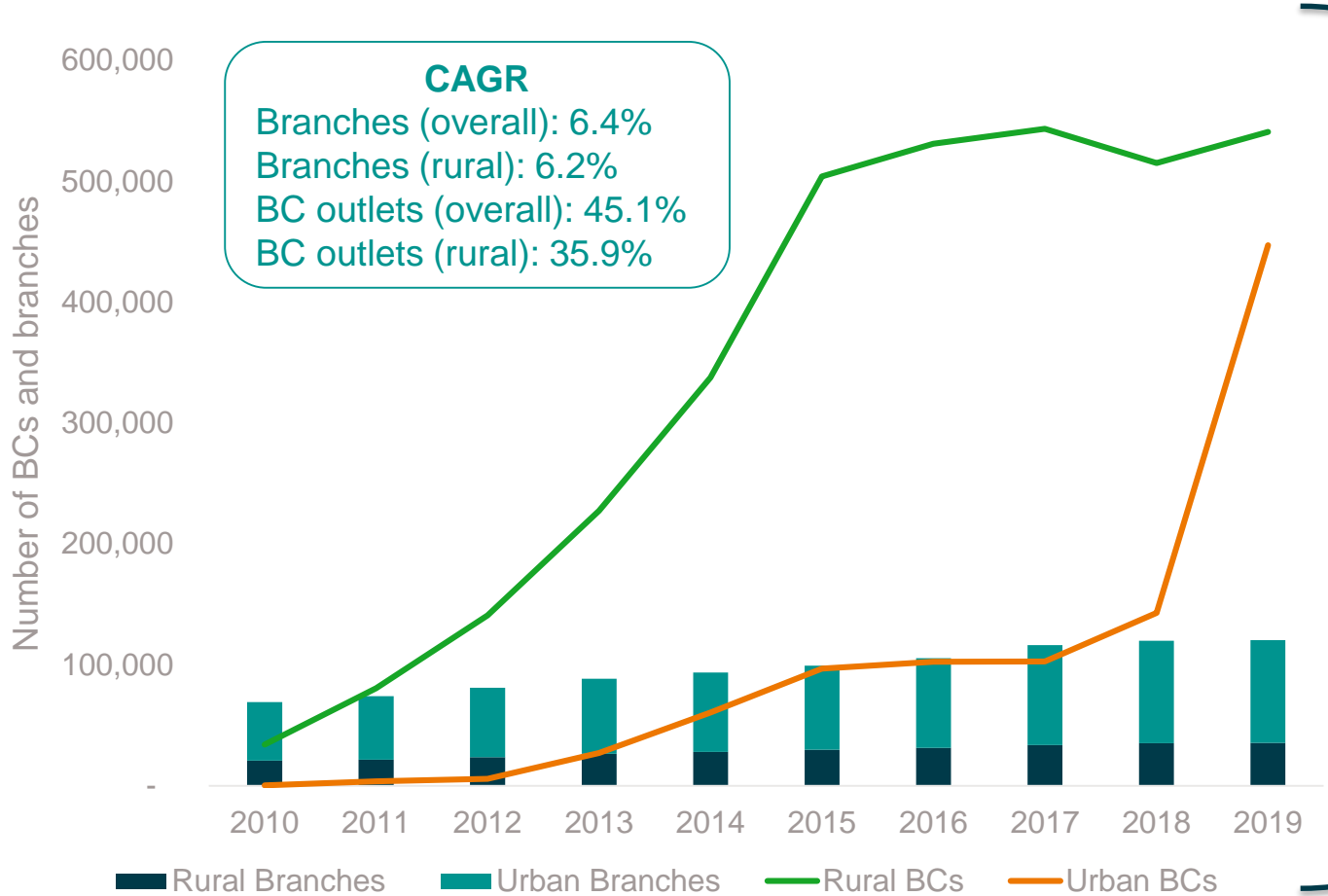
Rural branches per 100,000 rural population



Source: [RBI](#) and MSC analysis



Business correspondent (BC) outlets have grown significantly faster than bank branches; currently there are 15 rural BC outlets per rural bank branch



Approximately, one-third of all bank branches are rural.

Till 2017, there used to be five rural BC outlets to one urban BC outlet. However, this gap has been narrowing significantly since then.

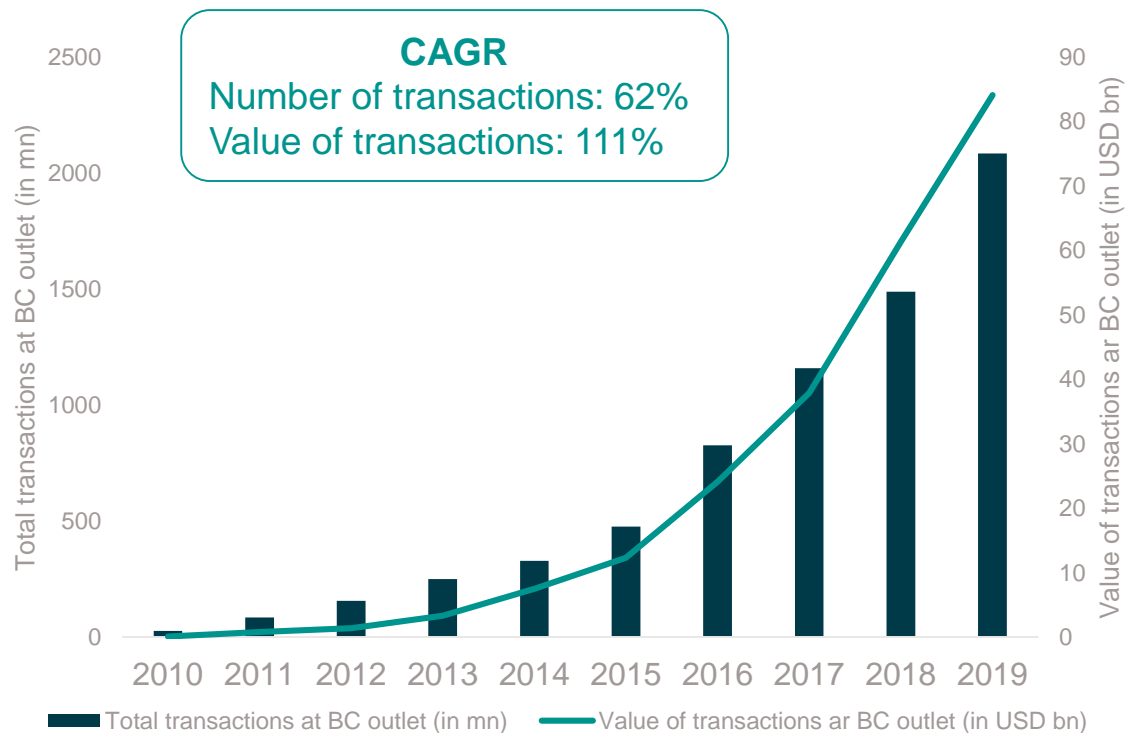
Source: [RBI](#). Note: The data for bank branches is not available for 2014-16, thus it has been extrapolated for these years, based on the CAGR for the period 2010-19. Out of the 447,170 urban BC outlets, the [RBI 2018-2019 Annual Report](#) mentions that 388,868 provide limited services like only remittances or sourcing of loans. It seems that these outlets were not being calculated in the total urban BC outlets until 2018. For rural BC outlets, RBI in April 2010 advised banks to devise a three year financial inclusion plan which included self-set targets for rural brick and mortar branches, BCs deployed, coverage of unbanked villages among others. In the three year period (2010-13) rural BC outlets deployment registered a 547% increase.

Number and value of transactions at BC outlets continue to grow



Interoperable cash withdrawal through AePS is one of the major use cases for rural customers

Transactions at BC outlets

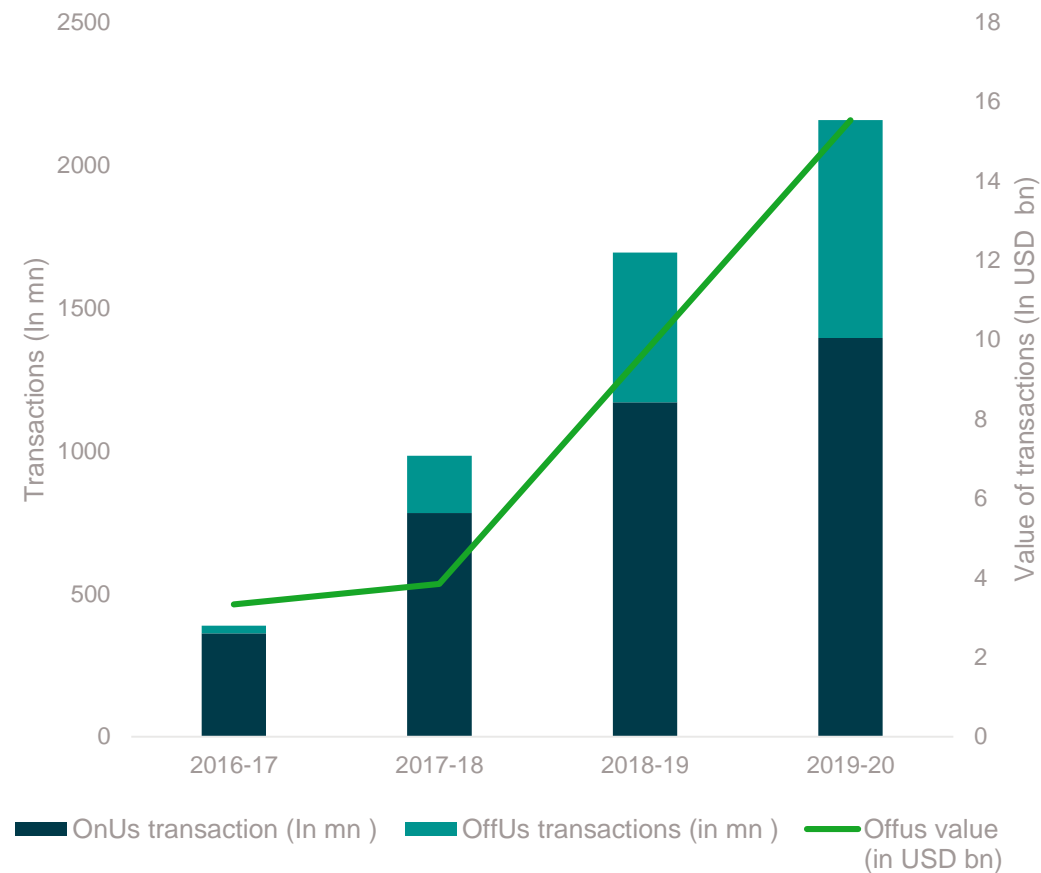


Median daily transactions for rural BC agents increased from 14 in 2015 to 41 in 2017*

Source: [RBI](#)
 * [MSC State of the agent Network 2017, 2018](#)



AePS transactions



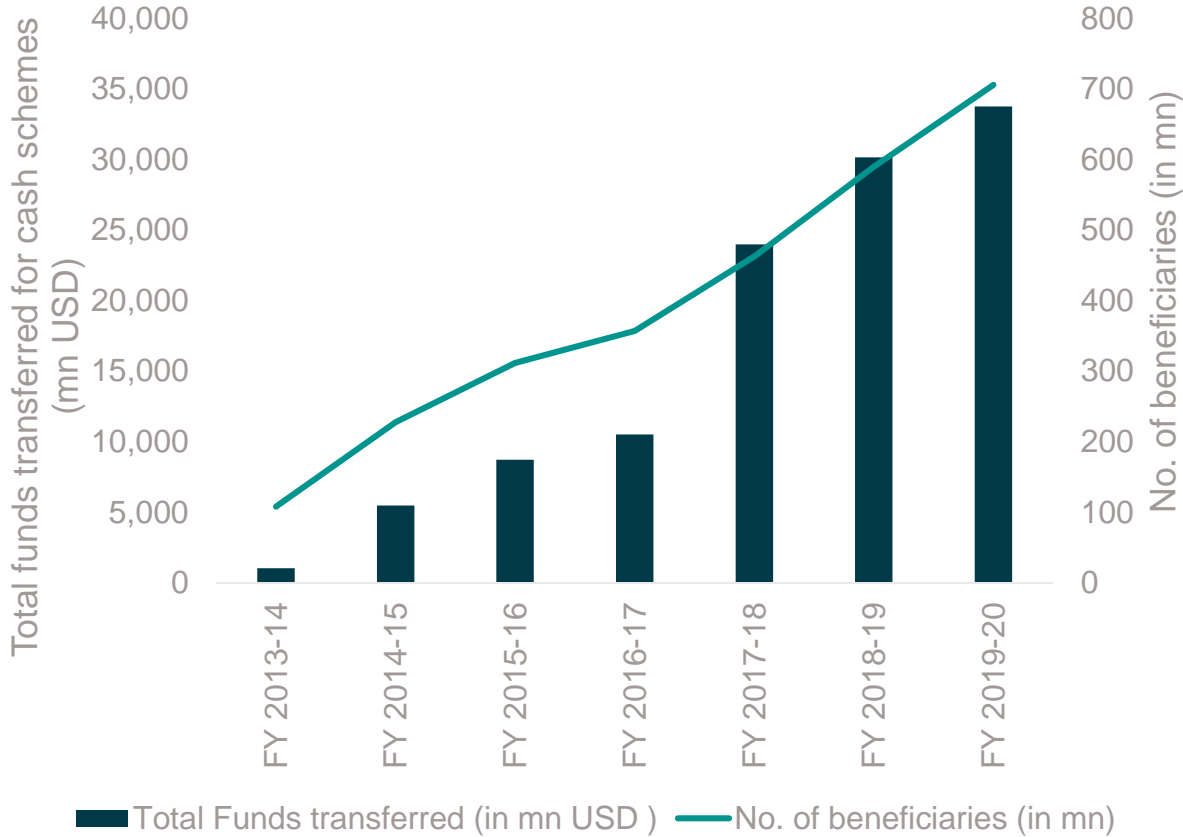
Note: Rural/urban disaggregated data is not available for both regular BC transactions and AePS transactions. UPI transactions are on the upswing but UPI transactions are so for mostly concentrated in urban areas.



DBT payments to customer accounts is another driver for rural cash-out transactions

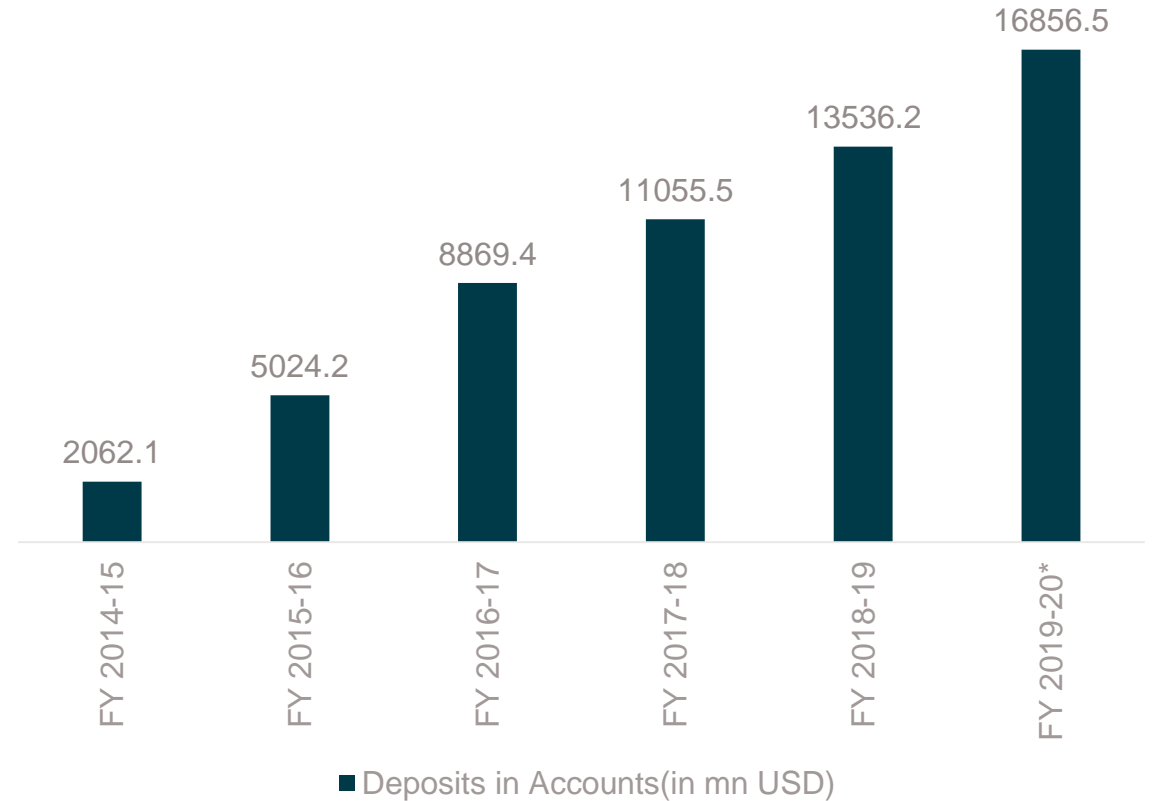
Gradual increase in deposits in PMJDY accounts, a proportion of which is due to DBT payments

Funds transferred under DBT schemes



Source: [Direct Benefit Transfer, Government of India](#)

Deposits in PMJDY accounts



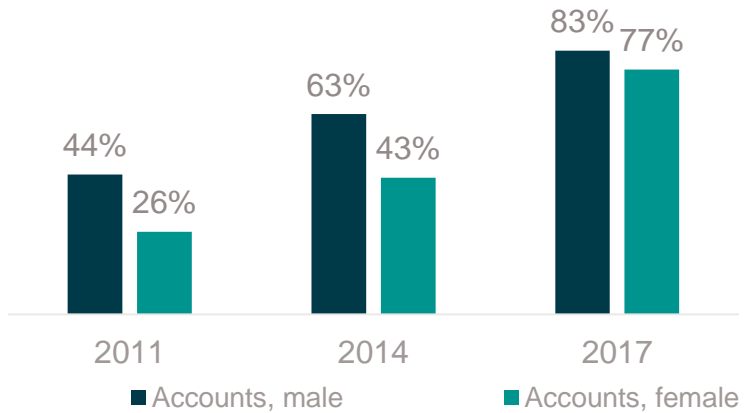
Note: PMJDY was rolled out in August, 2014.

Source: [PMJDY](#)

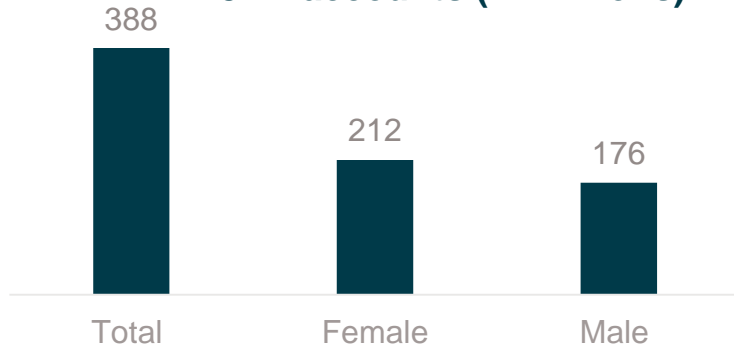
PMJDY and DBT schemes has reduced the gender gap, however the focus on gender in CICO operations remain limited



Financial access by gender



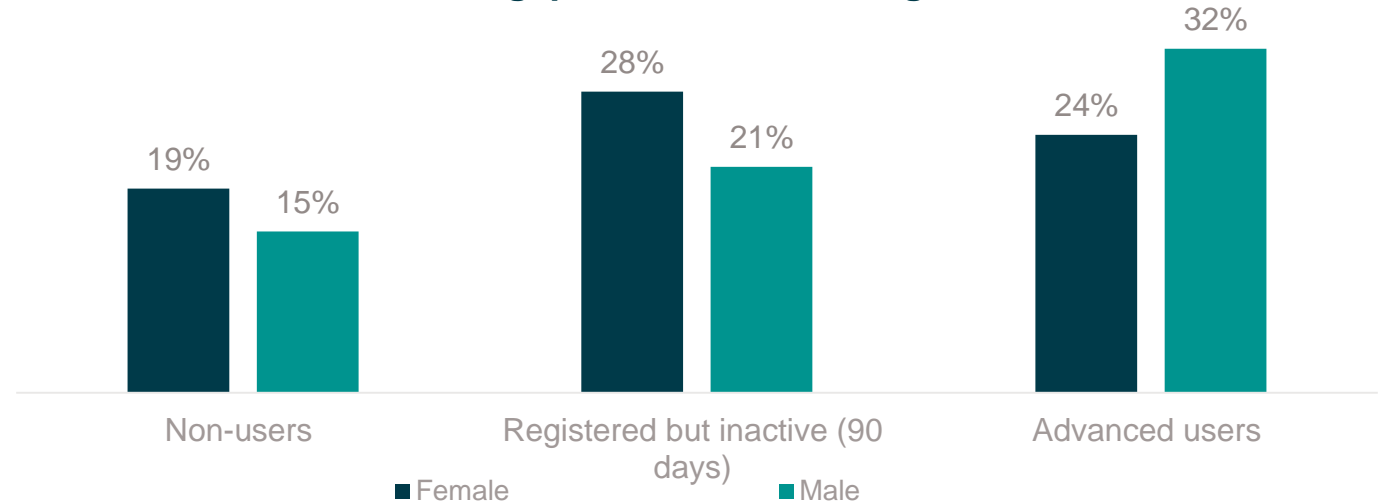
PMJDY accounts (in millions)



Source: [2017 WorldBank Global Financial Inclusion, PMJDY](#)



Gender gap in access and usage



Direct Benefit Transfers have contributed to reduce the gender gap. Schemes aimed at women have been able to increase activity in women owned accounts.

While [preliminary evidence](#) points to increased financial activity by women if they transact with a woman BC, the evidence so far remains inconclusive. There is also inadequate understanding and appreciation among service providers about gender policies and practices and their effect on CICO operations.

Source: [Financial Inclusion Insights, Wave 6 report](#), 2018. MSC Research .

Growing optimism on the potential of agents in rural areas driven by government support, market factors, and service provider innovations (1/2)



However, MSC/CGD studies in [Andhra Pradesh](#) and [Rajasthan](#) show that only around a fifth of direct benefit transfer recipients use agents to withdraw their benefits, so urgent action is required

Driver 1 Government's focus to promote rural financial inclusion

- Providing access to basic bank account and delivery of G2P payments through these accounts is a key political target
- Renewed focus on increasing usage of PMJDY accounts now that access targets are achieved
- Continued focus on establishing banking outlets in unserved/underserved areas
- BC agents is being seen as livelihood generation activity

Driver 2 Select use cases that create demand for rural DFS

- Remittance proceeds
- Accessing G2P payments, though there is [evidence that most customers withdraw DBT payments from ATMs and bank branches](#)
- Credit, particularly microcredit and MSME credit
- Two-wheeler insurance and micro-deposits are also slowly emerging

Growing optimism on the potential of agents in rural areas driven by government support, market factors, and service provider innovations (2/2)



However, MSC/CGD studies in [Andhra Pradesh](#) and [Rajasthan](#) show that only around a fifth of direct benefit transfer recipients use agents to withdraw their benefits, so urgent action is required

Driver 3 Banks have begun to see value in delivery of financial services through agents

- Due to limited staff strength in rural bank branches, agent outlets are being perceived to be a viable means to outsource certain functions, particularly cash transactions, from the bank branch
- Delivery of credit that requires significant efforts in sourcing potential customers and on-field supervision is also being increasingly considered as a service to be channelled through agent outlets

Driver 4 Emergence of new-age BCNMs who have adopted a fundamentally different approach

- With automated agent on-boarding, and focus on simple transaction-oriented products, the new age BCNMs are able to bring more efficiency, swiftness and agility through use of technology
- New-age BCNMs focus on on-boarding non-dedicated agents to scale up; an approach which has so far not been the norm in rural areas.

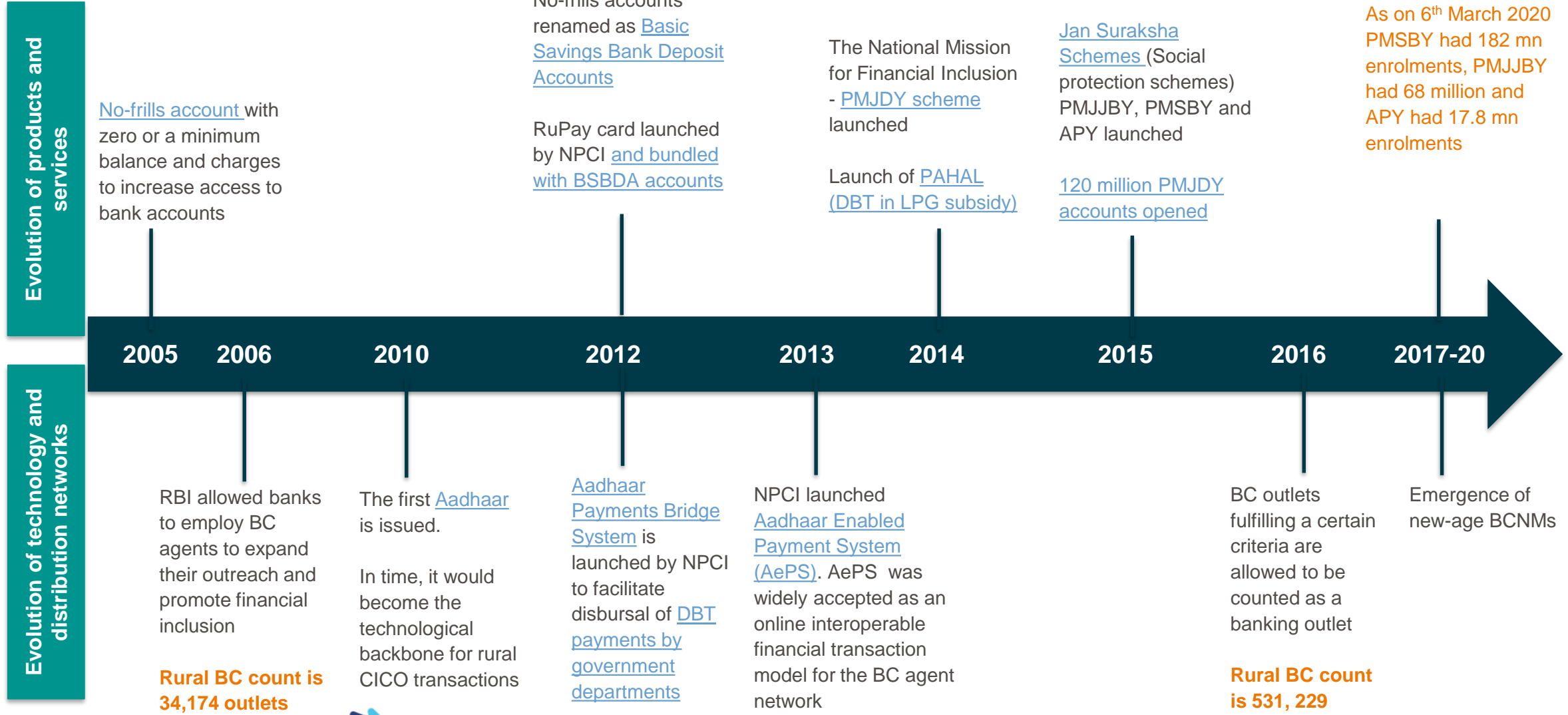


Practices



Products, services, and technology

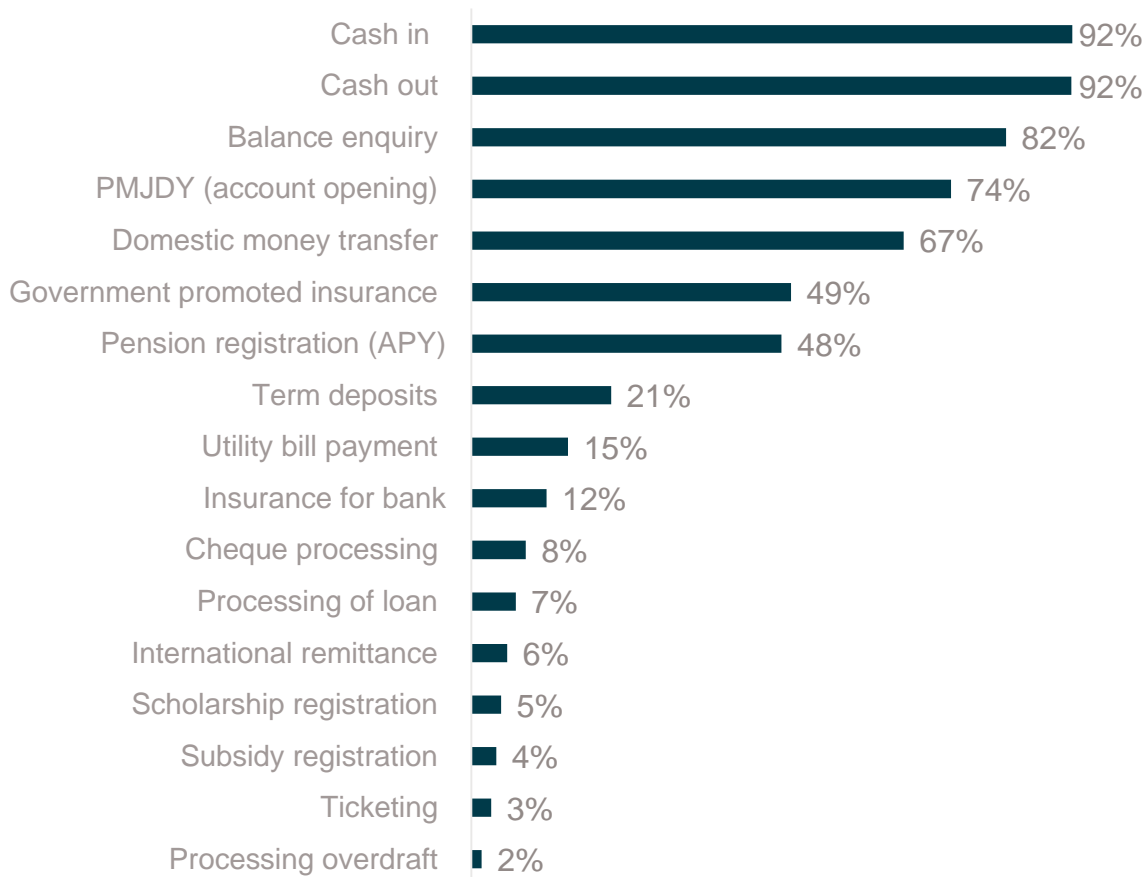
Increase in product and services portfolio, and development of public technological infrastructure helped expansion of BC network over the years



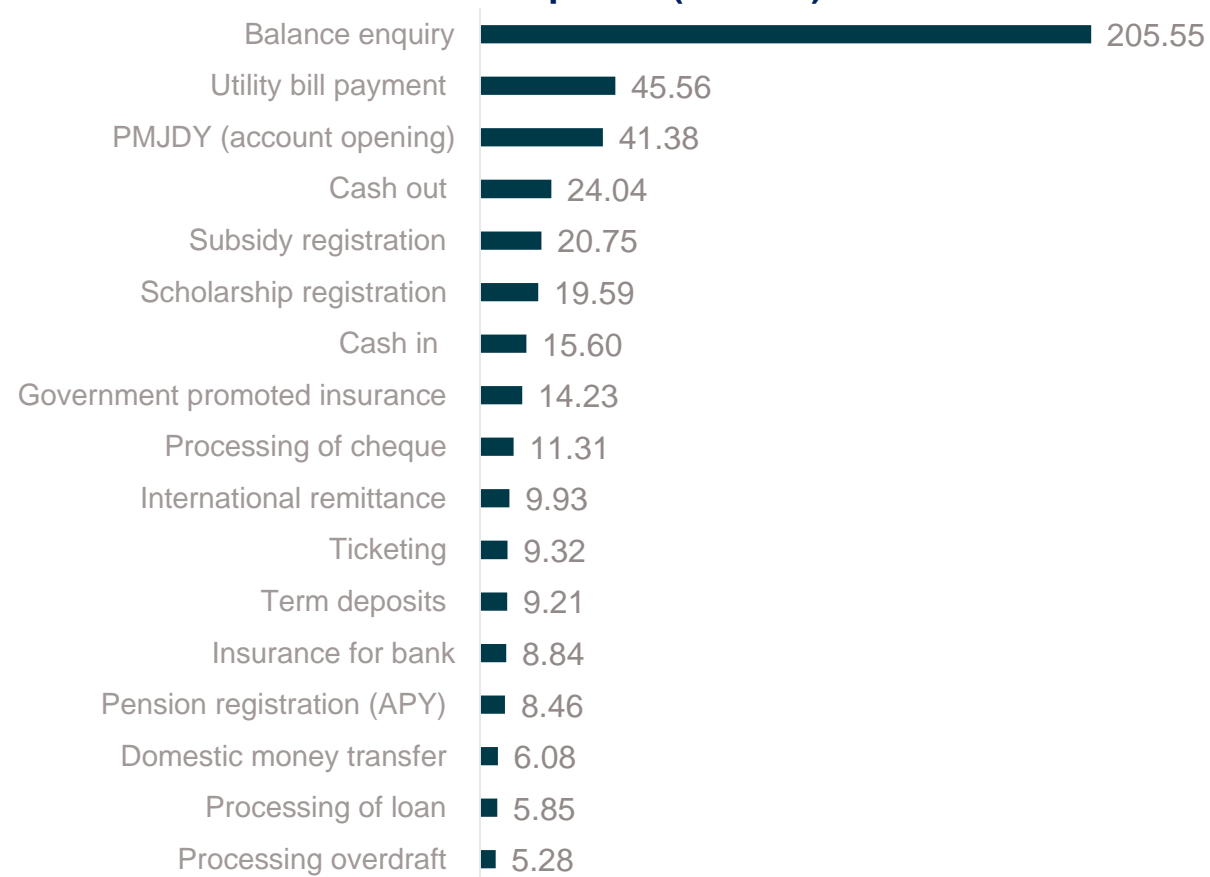
Products currently available at agent outlets are limited and address primarily the need for checking account and domestic money transfer



Services offered by rural CICO agents (n=1676)



Monthly transaction volume at rural CICO agent points (n=1676)



Source: [State of the Agent Network, India 2017, MSC](#)
See [appendix 2](#) for details on select products available at agent outlets



Business model of banks, BCNMs, and agents

Rural CICO business model in India is primarily a public-private partnership wherein public sector banks partner with private BCNMs



Customers



Agents (Business Correspondents or BCs)



Business Correspondent Network Managers (BCNMs)



Banks

Typically, depend on agents to resolve queries and facilitate banking transactions. They may have prior branch banking experience.

The customer interface in CICO networks. Their ability to influence CICO operations is the lowest

The link between banks and agents, BCNMs manage the BC network on behalf of the bank

All CICO networks are bank-led therefore banks enjoy great leverage on the CICO operations

Motivation

- Access to convenient banking services
- Ability to access variety of financial services which were otherwise not available

- A livelihood option particularly in rural areas
- Boost in social status as agents are perceived to be representative of the bank (typically public sector bank)

- Opportunity to generate revenue by managing low cost distribution network for the bank and facilitating limited banking services through the agent network

- Ability to serve mass market at low cost
- Fulfil regulatory requirement
- Achieve policy mandates on financial inclusion
- New revenue generating channel

Public sector banks are short-staffed and pressured to meet financial inclusion targets – and so need to outsource some branch functions to a low-cost channel



Banks

Key activities

- Channel management
- Liquidity management
- Products and services management
- Risk management

Value proposition

- Bank branches anchor multiple BC outlets within their service area to increase outreach

Cost

Fixed cost: technology setup and maintenance cost
 Variable cost: Agent commission, marketing cost, monitoring and compliance cost

Revenue

- Fee from sale of products including third-party products
- Float income and intermediation benefits
- Commission for distribution of G2P payments

Strengths

- Strong brand value and trust
- Diverse product suite
- Access to superior and secure banking technology
- Enjoy regulator's confidence

Weaknesses

- Low staff strength particularly in rural branches
- Limited technological and operational agility
- Growth and scale up through traditional channel is slow

SWOT

Opportunities

- Decongest branches through outsourcing certain branch functions
- Largely untapped rural mass market
- Favorable performance on key policies such as financial inclusion

Threats

- Adverse policy decisions that may impact operations
- Limited commissions paid on DBT transactions
- Political threat

The State Bank of India, the largest bank in the country, represents this trend but is also an outlier when it comes to the weaknesses of other public sector banks



State Bank of India

India's largest bank with more than 57,000 BC outlets supported by more than 22,000 bank branches

Reasons for dominance

- Extensive branch network
- BC agents help decongest branches and help achieve financial inclusion targets
- Increased transactions ensure better viability for the bank as well as other value chain actors.
- SBI enjoys a 80% market share of all government commissions and is the sole banker for processing all DBT in LPG subsidy
- SBI is able to leverage its customer base and the backend to ensure a viable business correspondent network. The business correspondent channel reached break-even in FY 2018-19.

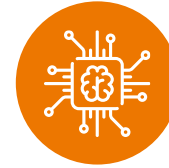
Challenges to reach the last mile

- Most SBI BC agents have high set-up cost (upward of USD 1,000 towards laptop and biometric device). This limits the availability of individuals who can work as agents for the bank.

Performance metrics of SBI's rural CICO channel



The BC network of SBI works in tandem with 22,000 bank branches and 58,000 ATMs in the country. The branch to BC ratio is 2.6.



SBI's ATMs process 14 million transactions per day. 88% of all transactions are done through alternate channels



By FY 2018-2019, SBI had opened 109 million PMJDY accounts which is 30% of the market share



SBI manages 142.5 million financial inclusion accounts facilitating USD 24.76 billion worth of transactions

BCNMs owing to their unique strengths offer an attractive alternative for banks to outsource select branch functions



Key activities

- Agent network management
- Products and services management (including third-party)

Value proposition

- Manage the agent network and associated activities on behalf of the bank
- Offers a single touchpoint for the bank / bank branch to deal with, increasing efficiency

Cost

Fixed cost: Technology setup and maintenance cost
 Variable cost: ANM cost, marketing cost, monitoring and compliance cost

Revenue

- Fee from sale of products including third-party products
- Transaction fee
- Commission for sale of government flagship financial inclusion products

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Access to low cost distribution network ▪ Sophisticated and agile technology ▪ Trained and experience workforce ▪ Wide spectrum of providers with varying focus on tech and HR management 	<ul style="list-style-type: none"> ▪ Unregulated ▪ Fragmented industry with limited standardization ▪ Heavily dependent on partner banks for sustainability ▪ No or limited say in product design
SWOT	
Opportunities	Threats
<ul style="list-style-type: none"> ▪ Evolving use cases such as credit delivery ▪ Increasing demand for DFS ▪ Push from the government to achieve financial inclusion using BC agents 	<ul style="list-style-type: none"> ▪ Adverse policy decisions ▪ Arbitrary policies of partner banks particularly on remuneration ▪ Proliferations of DFS particularly self-initiated transactions



The BC Network Managers (BCNMs) have diverse business models including different cost and revenue drivers, agent typology, products and processes



Traditional BCNMs



New age BCNMs



Payment banks



State Rural Livelihood Missions

Type of Agents: Kiosk based, dedicated, more prevalent in rural areas

Type of Agents: Existing merchants, non-dedicated, more prevalent in urban areas

Type of Agents: Existing merchants, non-dedicated, more prevalent in urban areas or rural marketplaces

Type of Agents: Existing women self help group members, mostly dedicated, and in rural areas

Key characteristics

- Most BCNMs are traditional BCNMs
- Usually partner with multiple banks in multiple geographies
- May have their own technology platform or ride on bank's technology for agent banking
- Train BC agents to offer complex financial services which involve customer education and sales

- These are emerging and only a few in number
- Narrow product focus particularly technology-enabled products like AePS and UPI
- Typically have their own technology that can be integrated with that of the bank
- Their agents are better suited to tackle simpler financial services which does not require significant sales push or time.

- Directly manage the BC networks and have regulatory permissions to offer financial products (including third-party products) other than credit
- Agents are typically those who are related to them through their primary business. For example, payments banks promoted by MNOs typically have airtime retailers as agents.

- SRLMs through Self Help Group members offer similar products as a traditional BCNM
- Offer training and one-time grant to SHG members to cover set-up cost
- Offer a fixed salary for six months to augment the commission of their agents

[See this](#) for examples of each category of BCNMs discussed here.

Atyati Technologies, a BCNM present in more than 50,000 villages has been able to expand the services available through its BC networks



Atyati Technologies

A leading BCNM with over 12 years of experience in designing technology and agent networks for the last mile

Reasons for dominance

- Present in more than 50,000 villages across 26 states
- 90% of agents are rural and are stationed at the Gram Panchayat level (the last tier of administrative governance)
- 75% of its agents operate under government mandated sub-service areas* therefore get a fixed performance linked remuneration along with commissions
- Most agents are dedicated; Atyati's premise is that agency banking has to be the primary business for agents
- Offers microfinance like credit products with partner banks, mobilizes low cost CASA deposits and offers agri-supply chain management services in backward areas

Challenges to reach the last mile

- Scalability particularly for additional services such as credit is slow and depends entirely on the motivation and support of partners banks

Performance metrics for Atyati's CICO channel



Atyati's BC network collectively serves more than 30 million customers



The average revenue for Atyati's agents (dedicated agents) is in the range of USD 71 – 215 per month



Presence in rural areas allows Atyati to understand the rural context faster. It is thus able to better customize its offerings to suit local needs. Atyati's agri-supply chain business is purely demand driven



Atyati has been able to mobilize between USD 285 million to USD 428 million worth of CASA deposits, and manages a USD 115 million microfinance loan portfolio for its partner banks

Agents rely heavily on the range of products and services offered by partner bank and BCNM for sustainability



Agents

Cost

- Fixed cost: Technology setup and maintenance, infrastructure, rent and utilities
- Variable cost: liquidity management, marketing

Revenue

- Transaction fee
- Commission for sale of government flagship financial inclusion and third party products
- Additional footfalls

<p>Strengths</p> <ul style="list-style-type: none"> ▪ Strong connect with the local community ▪ Largely entrepreneurial ▪ Aspire to work for the bank and hence committed 	<p>Weaknesses</p> <ul style="list-style-type: none"> ▪ Limited experience and capacity to deliver sophisticated banking products ▪ Heavy dependence on local bank branch for on-going support ▪ Have limited capital to invest for BC business
SWOT	
<p>Opportunities</p> <ul style="list-style-type: none"> ▪ Increasing demand for DFS in rural areas ▪ Increasing acceptance of BCs among bank staff, hence more work for them ▪ Government's continuous push for financial inclusion 	<p>Threats</p> <ul style="list-style-type: none"> ▪ Adverse policies ▪ Low remuneration ▪ Competition

Kiosk BC agent

Typical kiosk BC agent offering basic banking services in a rural location

Reasons for dominance

- High trust among community
- Located in a market visited by residents of several villages; provides a bigger catchment of customers
- Banking experience gained over a period of time
- Support from local bank branch staff
- Demand for financial services in local area
- Relatively little competition due to service area mandate

Challenges to reach the last mile

- High fixed cost
- Limited services offered
- Lack of time to focus on push products



Strategic partnerships

A variety of stakeholders currently partner to expand product suite available to rural customers (1/2)



Type	Partners	Product offered	Strategic complementarity
Government of India and public sector banks	Government of India and public sector banks	Government's flagship social security schemes	<ul style="list-style-type: none"> Government of India is one of the largest customers for public sector banks. Through several welfare schemes, it provides significant revenue opportunity to banks Public sector banks together have the largest market share and a deep presence in rural areas. This makes them the preferred delivery channel for government welfare schemes for the mass market. The government's partial ownership of public sector banks also ensures relatively faster implementation
Bank and BCNM	Allahabad Bank and Atyati Technologies	Microcredit to rural customers	<ul style="list-style-type: none"> While Allahabad Bank has a number of branches in rural areas, it does not have adequate staff strength to manage high volume, low value microcredit on their own Atyati already being a BC partner for Allahabad Bank is well positioned to deploy additional staff to supervise credit operations on behalf of the bank and support loan transactions through its BC agents

A variety of stakeholders currently partner to expand product suite available to rural customers (2/2)



Type	Partners	Product offered	Strategic complementarity
Financial service provider and rural logistics firm	Dvara KGFS and Boonbox	Home appliances to rural customers on credit	<ul style="list-style-type: none"> ▪ Dvara KGFS’s branch presence in rural areas where there is a high demand for household appliances. Such appliances are typically not available on credit to low and middle income customers in these areas. ▪ Availability of KGFS’s field staff to facilitate sales, address customer queries, and provide credit. ▪ Availability of Boonbox services in KGFS’s operational areas. Their experience of rural logistics allows KGFS to concentrate on sales while Boonbox takes care of the fulfillment
BCNM and e-commerce firm	Sub-K and Connect India	Consumer goods including mobile phones	<ul style="list-style-type: none"> ▪ Alignment of vision, since Sub-K and Connect India are from the same group of companies ▪ Sub-k has a strong presence in rural areas. Connect India is set up to offer e-commerce including fulfilment in rural areas

Banks have partnered with diverse players to target specific customer segments to be serviced by agents (1/2)



Type	Partners	Target segment	Strategic complementarity
Payments Bank and Oil Marketing Company	Fino Payments Bank and Bharat Petroleum Corporation Limited (BPCL)	Basic banking services at petrol pumps targeted at truckers	<ul style="list-style-type: none"> BPCL petrol pumps have excess cash that needs rebalancing. Provision of cash-out facility through Fino Payments Bank helps achieve this Many of the BPCL petrol pumps are located in rural areas across major state and national highways. These outlets apart from serving truckers also serve as key access point to reach rural customers, the key target for Fino Payments Bank
Banks, BCNMs and State Rural Livelihood Missions (SRLMs)	Banks, BCNMs and State Rural Livelihood Missions	Basic banking services to Self-Help Groups and their women members	<ul style="list-style-type: none"> SRLMs intend to digitize transactions at the level of SHG they support. Appointing SHG members as BCs is seen as one of the means to achieve that. In some cases, SRLMs become BCNMs for banks to facilitate digitization and expand access to financial services to SHG members Banks and BCNMs looking to expand to rural areas and target women customers with a history of financial transactions see SHGs as an effective platform to achieve that objective

Banks have partnered with diverse players to target specific customer segments to be serviced by agents (2/2)



Type	Partners	Target segment	Strategic complementarity
Payments bank and postal department	India Post Payments Bank and Department of Post	Basic banking services including deposit accounts, money transfer, AePS, and merchant payment to deep rural customers	<ul style="list-style-type: none">▪ Since both the entities are owned by the Government of India, there is better coordination. The government also has greater say in ensuring synergies across the two institutions are better utilized▪ Department of Post provides access to physical infrastructure (nearly 155,000 post offices) and human resource (over 300,000 postal employees) to deliver financial services▪ Department of Post provides liquidity management support critical for financial transactions. The department also has its own financial products. Some of these are already being serviced by India Post Payments Bank▪ India Post Payments Bank through its digital technology and agent management support enables digital financial transactions capability in deep rural areas

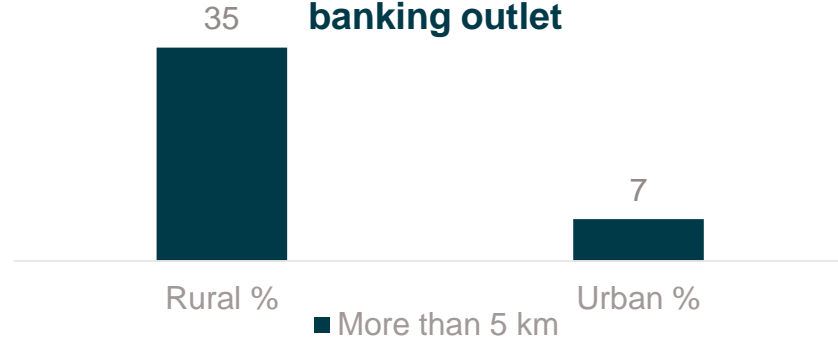


Current practices in agent network management

Distance of agents, time to reach an agent, system down time, and float availability impacts use of agents in rural areas



35% of rural customers travel more than 5 kms to access the nearest banking outlet



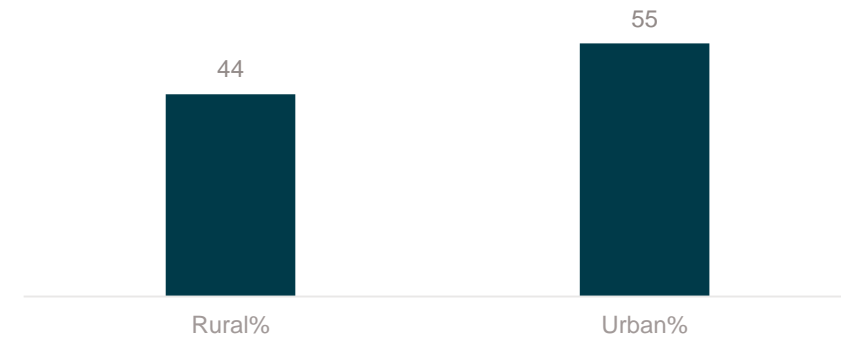
58% of rural customers travel for more than 30 minutes to reach their nearest banking outlet



Customers face issues due to lack of float or cash availability at the agent



Customers face system downtime while transacting at the agent outlet



Increased use of data in selection of agent location, efficient agent on-boarding processes

Agent recruitment

Current practices

- Responsibility of shortlisting and recommending agents to banks
- Both manual (primarily for agents of public sector banks) and automated (offered by new-age agent network managers to recruit agents of private sector banks) agent on-boarding processes exist
- Physical, electronic, and video KYC of agents in practice
- Use of data analytics to identify agent locations by few BCNMs

Challenged to reach the last mile

- Automated agent on-boarding with limited due diligence of agents may not be appropriate in areas as customers are more vulnerable and have higher expectations from agents

The current IBA agent training and certification program is prohibitive for agents



Agent training

Current practices

- Many BCNMs for public sector banks have continued with traditional classroom based training practices
- BCNMs provide regular trainings to agents. They also provide guidance to agents for the Indian Institute of Banking and Finance (IIBF) exam
- Some new-age BCNMs use online platforms such as Zoom to train agents while others use pre-recorded videos to facilitate training
- The IIBF exam for agents is considered very difficult by BCNMs and agents and perceived to be excessive and unnecessary

Challenged to reach the last mile

- On-site training is costly; rural agents have to travel long distances to attend classroom trainings
- Remote training through training videos is in practice

Responsibility for liquidity management rests entirely on agents

Monitoring and supervision function is primarily performed by BCNMs



Liquidity management

Current practices

- Agents manage their own liquidity by visiting branches or ATMs for depositing and withdrawing cash.
- Cash management support through 'feet-on-street' available only in select urban centers

Challenged to reach the last mile

- Cash risk borne by agents. Increasing cases of cash theft from agents in rural areas
- Poor service quality due to inappropriate liquidity levels

Monitoring and supervision

Current practices

- Both on-site and remote monitoring are in practice. In case of on-site monitoring, typically one staff is allocated for every 50-60 agents
- Centralized real-time monitoring of transactions data to identify trends/pattern recognition for fraudulent activities.

Challenged to reach the last mile

- While off-site monitoring is useful, on-site monitoring helps gather qualitative feedback on agent performance as well as better understand customer issues



Policy and regulatory analysis

India's policy focus on FI has led to increased access, however sustained usage requires policy encouragement (1/2)



Key Policy

Outcome

Measure

[Rationalization of branch authorization policy](#) classifying BC outlet as a banking outlet

- Allowed banks with support from BCNMs to **expand the products and services bouquet** available at agent outlets
- Provided private sector banks in particular that had negligible presence in rural areas to **expand their rural outreach** using the low cost BC channel

- Gradual diversification of products and services available at BC agent outlets including credit.
- BCNMs such as Atyati and Sub-K have helped their partner banks build a sizeable credit portfolio

Launch of Pradhan Mantri Jan Dhan Yojana (PMJDY), RuPay card and associated social security schemes

- Achievement of goal of at least **one bank account per household**
- Spike in **dormant PMJDY accounts** as the scheme was not demand driven
- Emergence of second order challenge of **viability of BCs** (the key delivery channel for PMJDY)

- 650,000 villages divided into 125,000 service areas, each serviced by a banking outlet
- As per Findex 2017, there was a 27% increase in the rural population above age 15 with access to a bank account as compared to 2014

Launch of Aadhaar-enabled e-KYC

- Faster and simpler on-boarding** of rural customers at lower cost

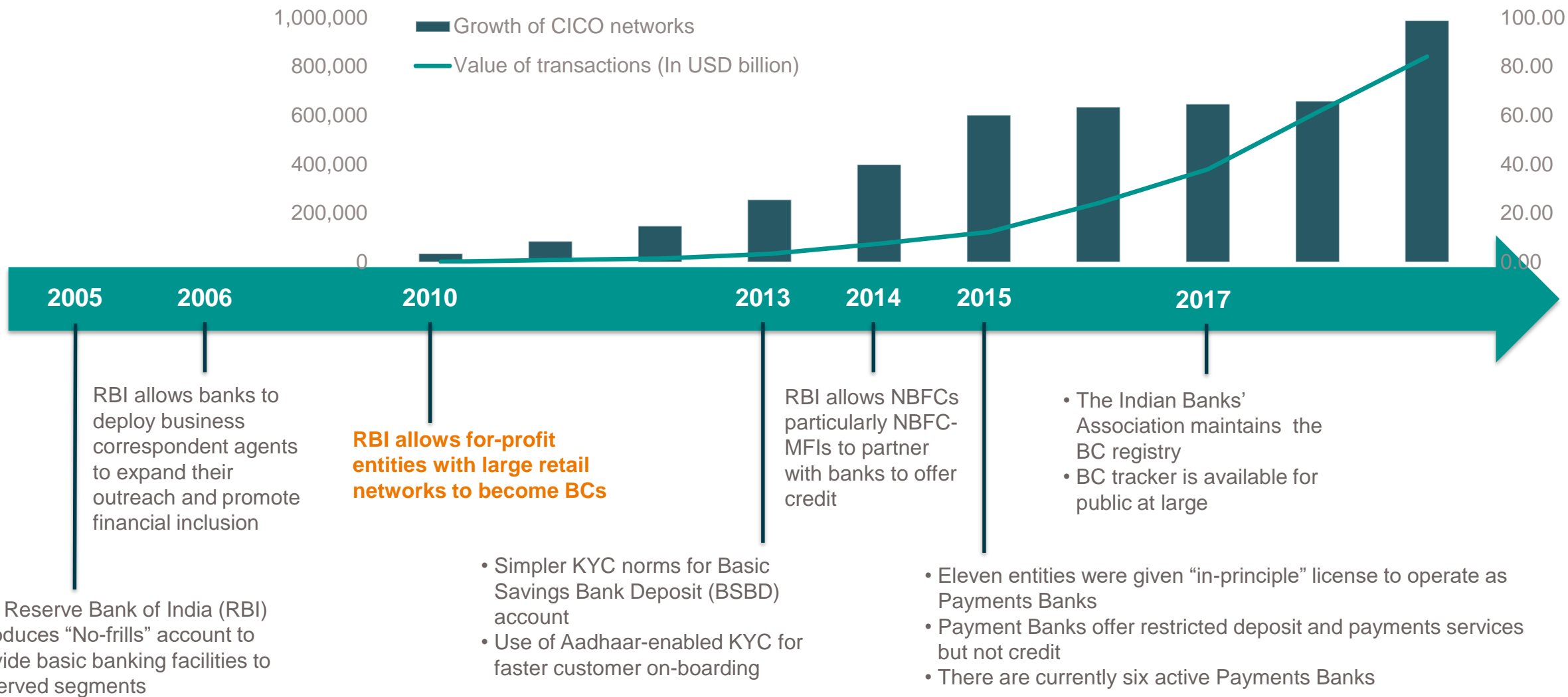
- 799 million successful e-KYC transactions since launch
- [Potential estimated direct saving of USD 1.5 billion](#)

India's policy focus on FI has led to increased access, however sustained usage requires policy encouragement (1/2)



Key Policy	Outcome	Measure
Policy to provide banking infrastructure in unbanked areas	<ul style="list-style-type: none"> In 2010, 8,310 villages with population above 2,000 and 25,784 villages with population less than 2,000 had a BC outlet. The numbers increased to 130,687 and 410,442 respectively in 2019. 	<ul style="list-style-type: none"> The BC agent network has grown from 34,621 outlets in 2010 to 988,299 outlets in 2019
Further to improve access to banking infrastructure, the Department of Financial Services has mandated a BC point within 5 km radius of a village	<ul style="list-style-type: none"> Increased access to banking outlets for rural customers BC agent outlets set up in areas with low population density and poor physical infrastructure and digital connectivity are likely to be unviable and may shut down thereby adversely affecting trust on BC network 	<ul style="list-style-type: none"> Million plus BC agent outlets by 2020 Viability of BC agent outlets is not addressed Infrastructure considerations are outside the purview of the Department of Financial Services.
RBI policy to certify each BC agent after passing an examinations	<ul style="list-style-type: none"> Development of a cadre of capable BC agents who can ensure superior delivery of financial services to target customers Low provider interest as they perceive the examination level to be disproportionate to the type of services offered by agents 	<ul style="list-style-type: none"> BC agents certified by Indian Institute of Banking and Finance Common test for all types of BC agents that does not factor the level of sophistication of services offered

Allowing for-profit entities to be engaged as BCNMs by banks helped banks and BCNMs explore use cases and scale agent network



The Reserve Bank of India (RBI) introduces "No-frills" account to provide basic banking facilities to unserved segments

Bank-led agent network focused so far on delivering basic bank account to rural customers



1 Non- bank participation

- Not allowed
- Open loop prepaid payment instruments (PPIs) can also be issued only by banks after seeking approval from RBI

2 Use of agents

- Aggregator (BCNM) to manage agent network on behalf of the banks
- BCNMs and agents identify customers, process and submit applications
- Carry out transactions
- Agent exclusivity
- No specialized agents specified
- Require BCNMs and agents to maintain records

3 Customer due diligence

- Similar rules for banks and payments banks
- Simpler KYC for [Basic Savings Bank Deposit Accounts \(BSBDA\)*](#) offered through bank branches and agents
- Provision for Aadhaar-enabled e-KYC
- Mandatory agent licensing and training
- Provision of BC data to national BC registry

4 Consumer protection

- Interest rates, fees, and charges to be disclosed via website, branches, helpline or help desk
- Contracts should be easily understood; product price, risks, terms, and conditions to be clearly disclosed
- Grievance redressal machinery required for banks, payment banks, PPI issuers - Option to appeal to Banking Ombudsman
- Re-definition of banking outlet that defines fixed location, minimum working hours for BC outlets



Impact of regulations



- Bank-led agent network

- Bank-BCNM is the most dominant partnership to set up and manage agent networks
- Increasing diversification of services available through agents

- More than 381 million PMJDY accounts opened
- Reduced cost of KYC for banks through e-KYC
- Payments Banks have struggled to meet RBI guidelines on e-KYC
- Reporting of BC data to registry; though still nascent

- Proper disclosure of pricing at agent outlets is not always practiced
- Awareness of ombudsman and other grievance redressal mechanisms is low

* BSBDA accounts do not have a minimum balance requirement, are linked to an ATM-cum-debit card, and incur no penalties for non-operation/activation of in-operative accounts



Photographer Name, CGAP Photo Contest

Recommendations on applicability of principles India

The bank-led CICO networks in India have so far been able to address the access issue; the next frontier is to drive usage of financial services



What works

- Government with support from public sector banks and their private sector BCNM partners has been able to create the physical and human resource infrastructure to deliver financial services in rural areas. Government's welfare payments and other flagship programs primarily drive usage in rural areas.
- Bank-BCNM partnership has proved to be effective to outsource some of the banking functions outside the bank branch through a network of private entrepreneurial agents.

What requires attention

- Agent commission continues to be lower and is not enough to sustain interest of majority of agents for a long time
- Underlying economic activity in rural that drives demand for financial services is not always the basis for selection of agent location. Consequently, there is not enough business potential for some rural agents.
- Cash-out is the pre-dominant transaction in rural areas. These transaction are typically time consuming and less remunerative activities.
- There is a preference for dedicated agents in rural areas. These agents typically incur higher initial setup cost and rely on agency banking as their primary sources of income. Non-dedicated agents promoted by new-age BCNMs are yet to suitably scale up in rural areas.
- There is absence of reliable and accurate information on BC outlets operational across the country



Principle 1: Enable rural CICO agents to generate more revenue streams

Commissions on cash withdrawal from domestic remittance proceeds, and government welfare payments continue to be the core revenue drivers for rural agents. Lately, contribution of commission on customer enrolment in government flagship insurance and pension products is supporting overall remuneration for rural agents. However, for longer term viability and genuine inclusion of the community in to formal banking, credit is a key financial service.

1. Add **sourcing and servicing credit** on behalf of banks in the [overall product suite available through agents](#)
2. Increase commission of DBT payments. [The current commission rate is too low to sustain interest of BC agents](#)

Principle 2: Make CICO agents more accessible to rural customers, as defined by the local context

Often, the agent locations are driven by government mandates ([based on simple criteria such as distance of banking outlet from a village](#)) without giving adequate attention to the [underlying local economic activity](#).

Of late, financial services providers have begun using geo-tagging of agent outlets and data analytics for agent outlet selection.

1. Judicious selection of **location of agent outlets based on scientific demand estimation** that factors in local context. This will allow agents to serve critical mass of customer to achieve sustainability
2. **Agent segmentation** such as [sales and service agents](#) based on demographics and local demand should be piloted
3. Systems to publically report **geo-location of agents** by all service providers need to be made efficient, dynamic, and transparent. RBI should ensure [reporting of data](#) monthly and ensure the same is available on the [BC registry portal](#)



Principle 3: Expand the range of people that can serve as CICO agents

The available choice of agent profiles is fairly diverse; rural agents are primarily dedicated and invest significant time and resources to attract more customers to transact at their outlets. Some high performing rural agents handle more transactions in a day than a teller of the local bank branch.

Use of members of Self-Help Groups (SHG) as agents is proving to be effective particularly to target rural women customers.

1. Build two categories of **differentiated agents**: service agent (basic cash-in and cash-out), sales agent (sophisticated, product sales) based on demographics and local demand. Establish tiered requirements and processes across these [two agent types](#) and a system to graduate from service agents to sales agents
2. Continue recruiting **members of Self-Help Groups (SHG) as agents**. Adopt a similar differentiated agent approach and invest resources to **build capacities of such SHG members** to enable them deliver quality financial services

Principle 4: Identify and manage consumer protection and other risks posed by rural agents without stopping innovation

Transparency related to pricing of services and understanding of complaint resolution mechanism beyond agents is the top priority for rural customers. While most customers trust agents and depend on them to resolve their queries, often agents do not fully disclose products and services related information or are themselves not fully aware to inform their customers

1. BCNMs should be allowed to **provide basic technical transaction connectivity to multiple banks** using single float management under the agent interoperability framework.
2. BCNMs should be tasked (by RBI, banks) with **auditing agents, ensuring transparency**, and be the first point of contact for customer grievance redressal. BCNMs should also be adequately compensated for it. RBI must mandate banks to provide minimum disclosure norms for all products offered via agents
3. Banks together with [BCFI and Banking Codes and Standards Board of India](#) should **develop customer protection guidelines for banking at agent outlets** and build systems to monitor performance of BCNMs on such guidelines



Principle 5: Develop a data-driven strategy to close the gender gap in CICO access and use

While data is available around bank account ownership of women, there are no major efforts both at the policy level or the provider level to gather insights on the use of agent services by women customers.

Despite women constituting a large chunk of current customers serviced by agents, there are no concerted efforts to sensitize agents on serving women customers

1. The Reserve Bank of India should ask banks to **gather and report GPS tagged, gender-disaggregated data** for both agents and customers. Such data should be used to better understand gender related nuances for DFS and design policies to narrow the gender gap
2. Banks may also use the gender-disaggregated data to **deliver tailored experience** (products and services, agent behavior, women-friendly agent outlets, communication) to women customers

Principle 6: Expand public and private partnership that share CICO agent networks

The BCNMs are primarily private sector corporates and vary by size and geography. It is essential to retain the low barrier to entry for BCNMs to allow different types of entities to inhabit the ecosystem with their unique strengths without burdening them with licensing. However, not having any legitimacy (such as a registration with the central bank) does leave a very critical stakeholder in the chain too vulnerable. It also makes it hard to BCNMs to invite investments, innovate further and grow.

1. Allow a **“registry” of BCNMs** with the RBI and encourage them to function under guidelines of a **self-regulatory organization**

Appendix

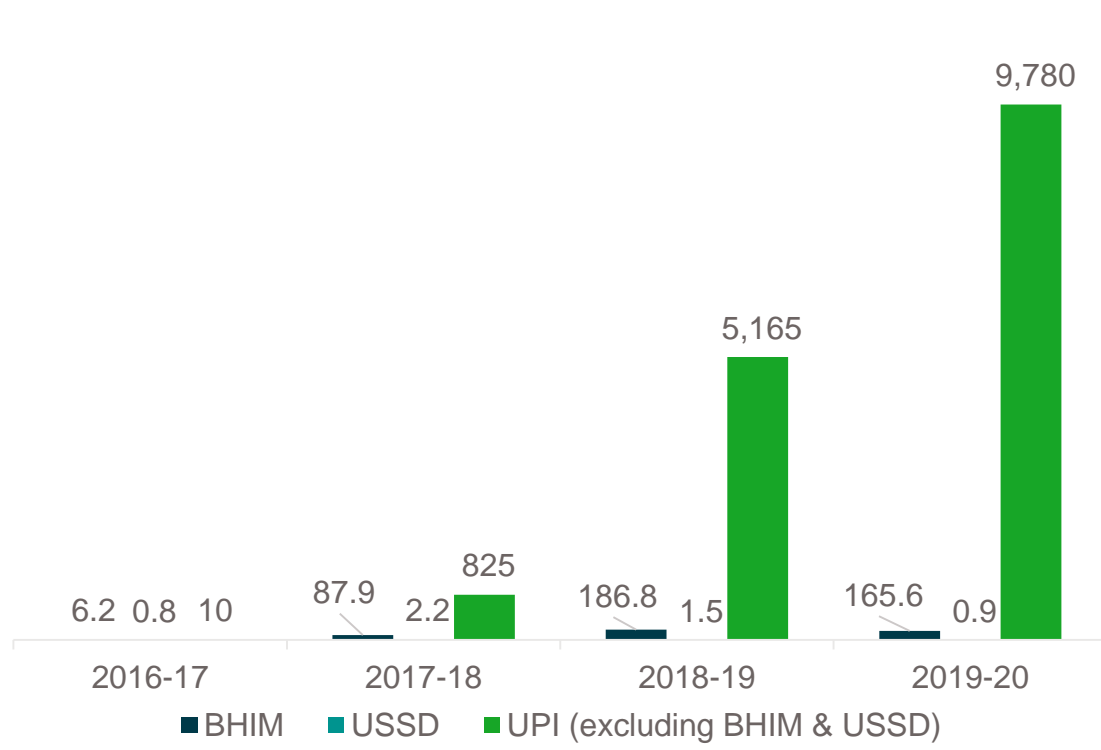
Appendix 1: DFS Uptake



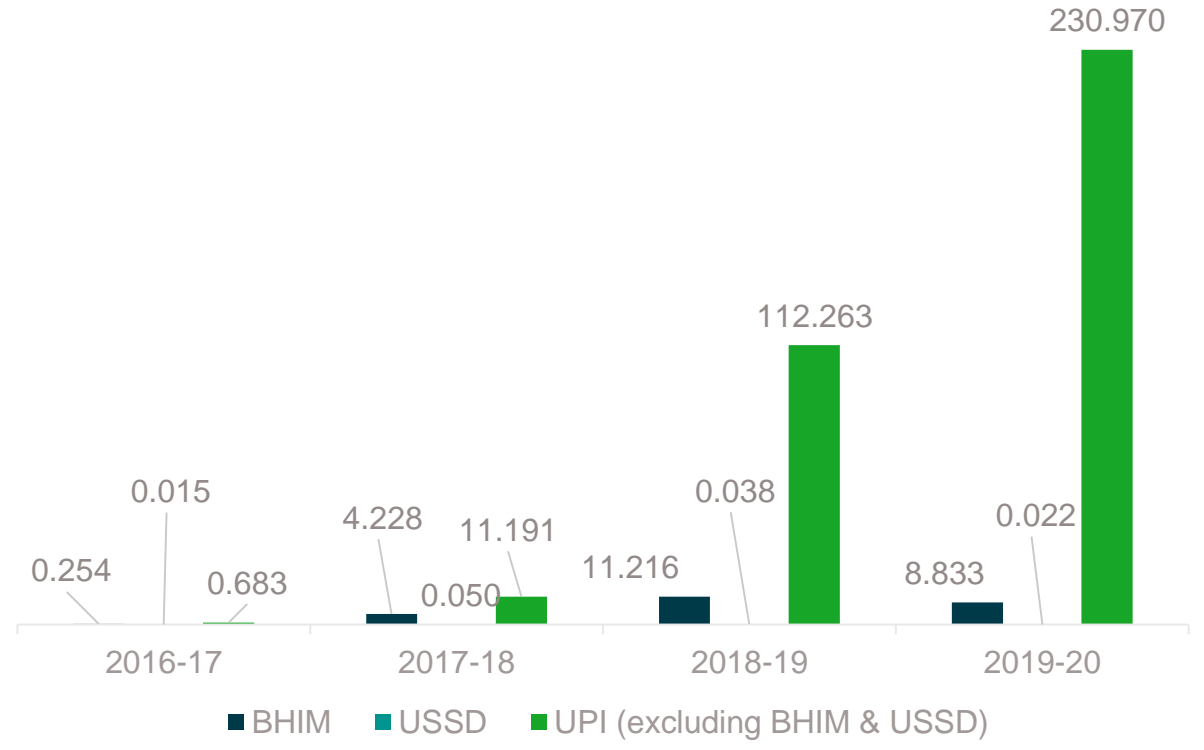
UPI-based transactions are on the upswing but BHIM and USSD based solutions have not registered corresponding growth



Transaction volume in million

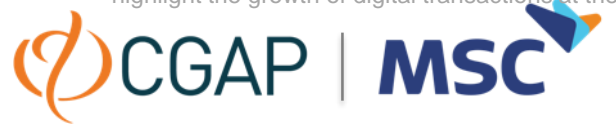


Transaction value in USD billion



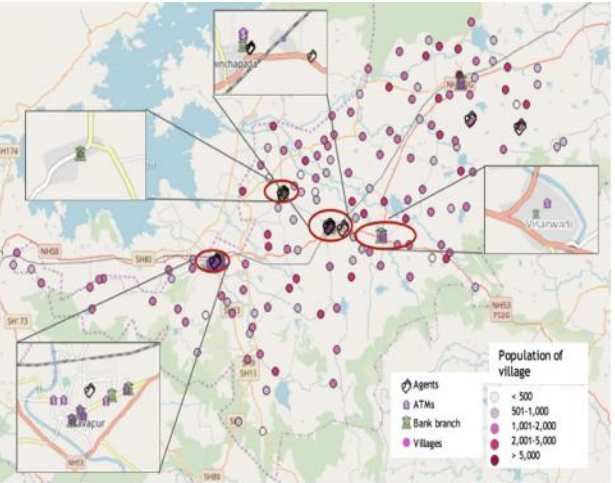
Source: Retail Payments statistics on NPCI Platforms

Note: The urban/rural disaggregated data for UPI transactions is not available. We believe majority of the UPI transactions currently may be happening in urban areas. However, it is important to highlight the growth of digital transactions at the country level and in future we may see such growth driven by transactions in rural areas





Distance between two banking outlets is not the ideal parameter for rural CICO expansion; underlying local economic activity directly impacts agent viability



Navapur Block, Nandurbar District, Maharashtra

Population Density	260 per square km
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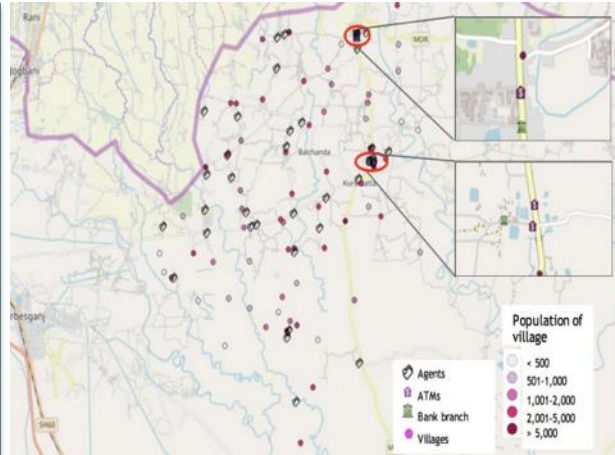
MSC's mapping of the financial access points in Navapur block reveals that

- Twenty villages with population more than 2,000 did not have access to a banking outlet within five kilometers
- Only 86 of 155 villages had access to banking outlet within five kilometers

This is mainly on account of

- Sparse population, and
- Few clusters of economic activity

Source: MSC research



Kursakatta Block, Araria District, Bihar

Population Density	694 per square km
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MSC's mapping of the financial access points in Kursakatta block reveals that

- 32 of 66 villages had an agent within one km from the village
- Agents are widely spread out in the block
- Therefore, the maximum distance for a particular village from its nearest agent was 4.5 km

This is mainly on account of

- High population density
- High economic activity – Kursakatta is part of the migrant corridor and receives high volume of remittances

Appendix 2: Products and services available at rural BC outlets



Products available at agent outlets primarily address the need for check-in account and domestic money transfer



Product or service for the last mile	Use case	Objective	Technology used	Impact (success and factors)
PMJDY	<ul style="list-style-type: none"> Basic Savings Bank Deposit Account Cash Deposit Cash Withdrawal 	To enable universal access to a bank account in India		<ul style="list-style-type: none"> 381 million accounts opened in the six years of operations Enabled the delivery of social security schemes, to more than 163 million people
RuPay card	<ul style="list-style-type: none"> Cash withdrawal Payments at PoS terminals Online payments 	To offer local affordable card solution for the mass market	<ul style="list-style-type: none"> Debit and credit cards Pre-paid cards 	<ul style="list-style-type: none"> Total RuPay card issued as on July 2018 was 500 million plus cards
Aadhaar Enabled Payments System (AePS)	<ul style="list-style-type: none"> Cash deposit Cash withdrawal Domestic money transfer (Aadhaar to Aadhaar) 	Leverage Aadhaar to perform basic banking services and to facilitate interoperability across banks in a safe and secured manner	<ul style="list-style-type: none"> Micro-ATMs with Aadhaar biometric authentication capabilities Interoperable payments across banks 	<ul style="list-style-type: none"> 205 million transactions in Feb 2020 with 69.89 million being transactions from bank accounts different from the bank the BC represents Interchange fee and restrictions on cash in transactions limit profitability at BC points

Products available at agent outlets primarily address the need for checking account and domestic money transfer



Product or service for the last mile	Use case	Objective	Technology used	Impact (success and factors)
Direct Benefit Transfers	<ul style="list-style-type: none"> Receive welfare payments directly to bank account of beneficiaries 	To re-engineer existing fund transfer processes and ensure accurate targeting of the beneficiaries, de-duplication and reduction of fraud in welfare payments	<ul style="list-style-type: none"> AePS at agent location ATM/Branches 	<ul style="list-style-type: none"> Since inception (2013) INR 2336.8 billion (USD 31.68 billion) have been transferred 3.56 billion transactions in FY 2019-20 DBT payments remain one of the most popular service at rural BC points
Unified Payments Interface	<ul style="list-style-type: none"> Domestic money transfer Request money and payment mandates Scan and pay (merchant payments) 	To power multiple bank accounts into a single mobile application, merging several banking features, seamless fund routing & merchant payments	<ul style="list-style-type: none"> Mobile application QR Code 	<ul style="list-style-type: none"> In Feb 2020, 1.32 billion transactions and INR 2219 billion (USD 30 billion) worth of money was transferred However, merchant transactions account for only a third of all transactions. The share of rural merchants will be even lower
Bharat BillPay	<ul style="list-style-type: none"> Bill payments 	To facilitate seamless payment of bills through both digital and physical channels	Mobile app with interoperable architecture integrating billers, payment service providers, and retail points (BC points)	<ul style="list-style-type: none"> Allows an additional revenue stream for BC agents by integrating all bill payments in the country

Potential strategic partnerships to expand product suite available to rural customers

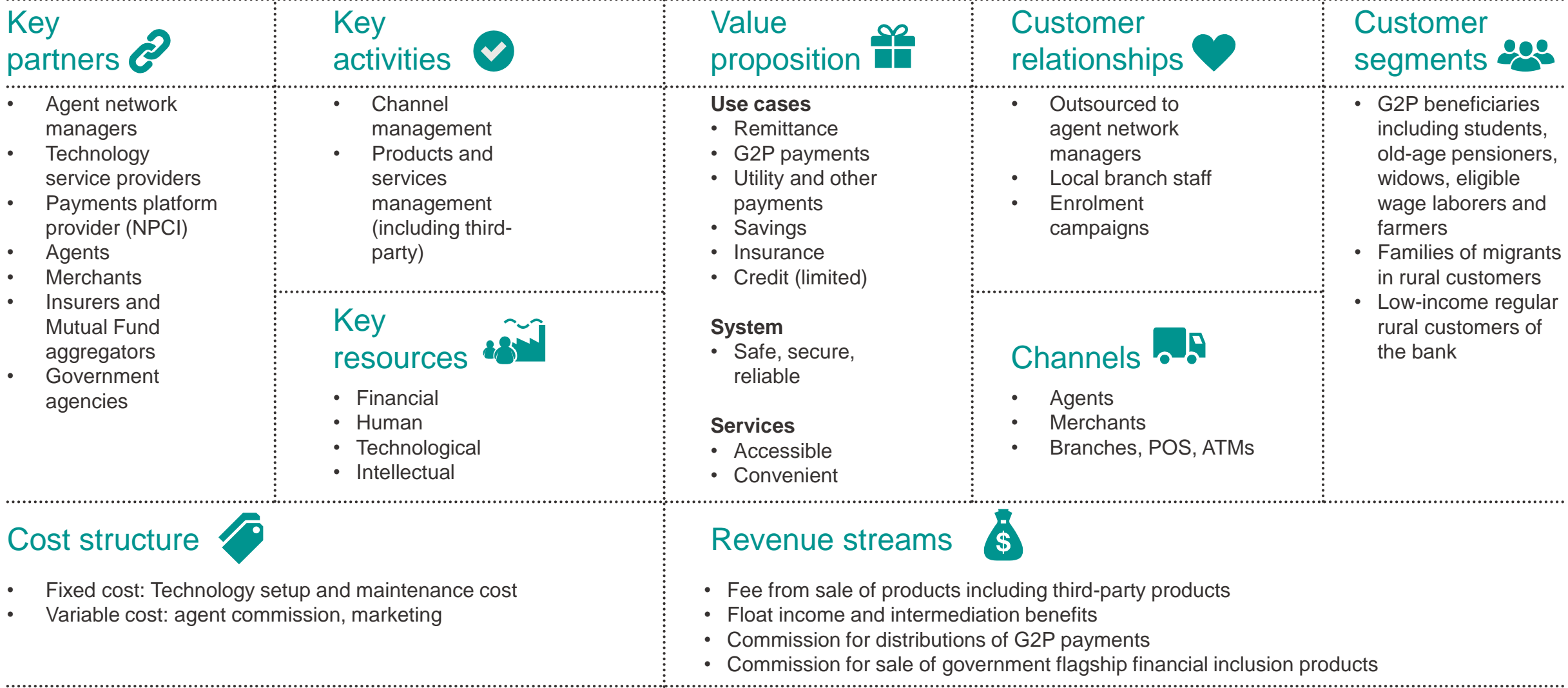


Partners	Products to offer	Strategic complementarity
Banks and BCNMs	Offer microcredit, MSME credit, and small ticket consumer loans to rural customers	<ul style="list-style-type: none"> ▪ The limited staff strength in bank branches in rural areas limit their ability to scout small ticket-size loan customers and service their loans ▪ BCNMs are typically well positioned to offer low cost credit supervisory human resource to source and service credit on behalf of banks ▪ Banks due to their lower cost of funds can offer microcredit and other loans at lower interest rates than MFIs and NBFCs
E-commerce and BCNMs (with rural presence)	Offer e/m-commerce to people in rural areas	<ul style="list-style-type: none"> ▪ BCNMs can partner with e-commerce firms to allow agents to earn additional revenue by becoming distribution points and focus on physical products distribution
MFIs and BCNMs	Offer cashless loan repayment to MFI customers	<ul style="list-style-type: none"> ▪ To make loan repayment process more efficient, MFIs can partner with BCNMs to facilitate repayment of loans through agents. This will help mitigate cash risk for MFIs and significantly enhance cash reconciliation process both at the branch and organization level
Banks and Customer Service Centers (CSCs)	Offer financial services in addition to e-governance services offered by CSCs to people in rural areas	<ul style="list-style-type: none"> ▪ CSCs are prevalent in rural areas and have a high customer footfall. These centers may offer financial services that will not only expand the bouquet of services available at these outlets but also increase the commission of CSC agents

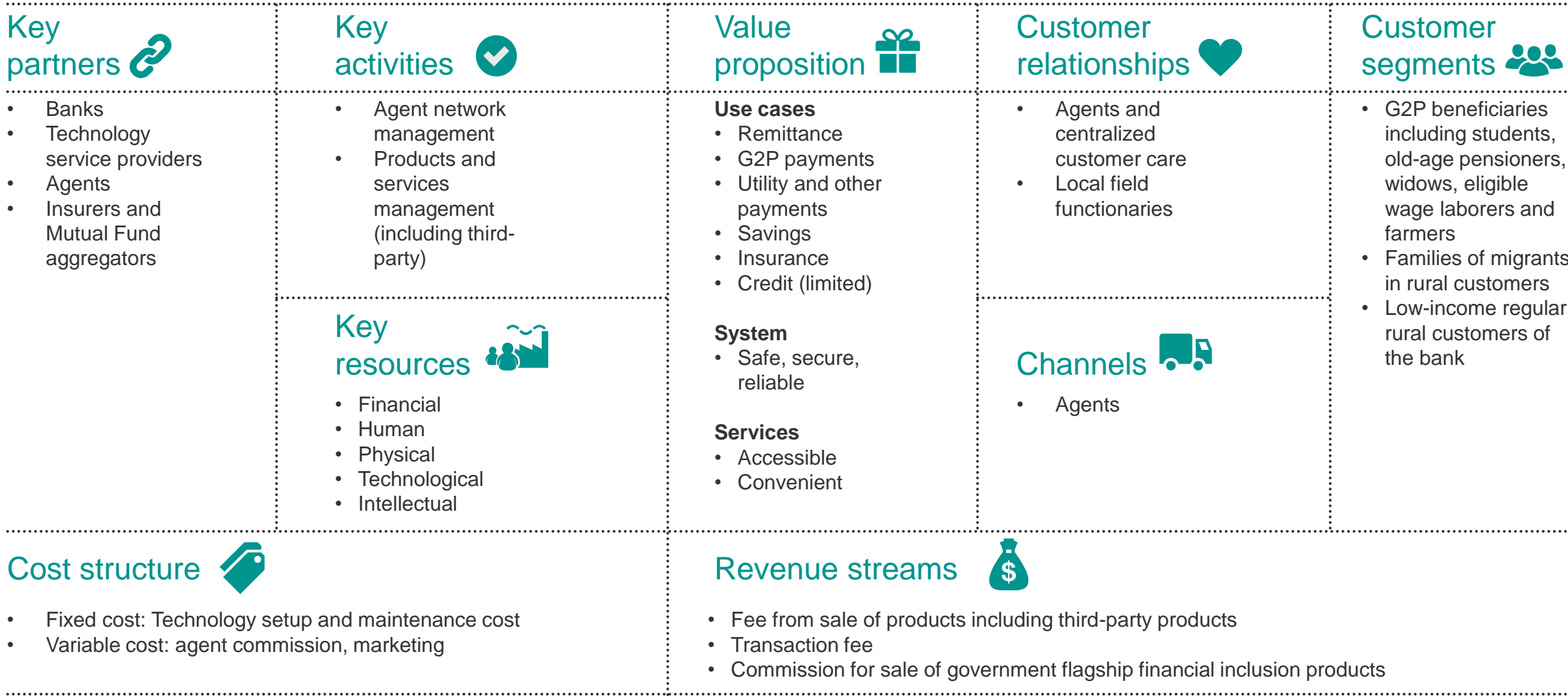
Appendix 3: Business models of banks, BCNMs, and agents



Business model for banks is anchored on low-cost distribution offered through BCNMs



Business model for agent network managers is anchored on transactions and enrolment in government flagship schemes



Business model for agents is anchored on the range of services offered by partner bank and BCNM



Key partners

- Banks
- Agent network managers
- Technology service providers

Key activities

- Marketing and promotion
- Customer enrolment
- Cash-in/Cash-out
- Liquidity management

Key resources

- Financial
- Human
- Physical
- Intellectual

Value proposition

- Services
- Accessible
 - Convenient
 - Trusted
- System
- Safe, secure, reliable

Customer relationships

- Direct relationship
- Word of mouth

Channels

- Kiosk, mobile application

Customer segments

- G2P beneficiaries including students, old-age pensioners, widows, eligible wage laborers and farmers
- Families of migrants in rural customers
- Low-income regular rural customers of the bank

Cost structure

- Fixed cost: Technology setup and maintenance, infrastructure, rent and utilities
- Variable cost: liquidity management, marketing

Revenue streams

- Share of commission from sale of products including third-party products offered by BCNMs
- Transaction fee
- Commission for sale of government flagship financial inclusion products offered by BCNMS
- Additional footfalls

'New Age BCNMs' by adopting automated processes and focusing on simpler mass market products are expanding rapidly



Sub-K
Sub-K operates in more than 15 states with 10,000 BC outlets
Reasons for dominance
<ul style="list-style-type: none"> ▪ Innovated on new product offerings, primarily credit leveraging its MFI business experience ▪ Emphasis on training agents and supervisory staff ▪ Offer banks an access point to rural markets
Challenges to reach the last mile
<ul style="list-style-type: none"> ▪ Scalability particularly for additional services such as credit is slow and depends entirely on the drive of banks

PayNearby
India's largest hyper-local financial services network with 394,000 CICO agents
Reasons for dominance
<ul style="list-style-type: none"> ▪ Operations through a mobile application, lower set-up costs for agents ▪ Automated processes ▪ Focus on a narrow band of standard and simple products and services
Challenges to reach the last mile
<ul style="list-style-type: none"> ▪ Limited product offering restricts full scale banking as needed in rural areas ▪ While agent break-even is quicker, absolute agent revenue per month is low ▪ The business model of only focusing on a narrow band of services seems more suited for urban and semi-urban areas

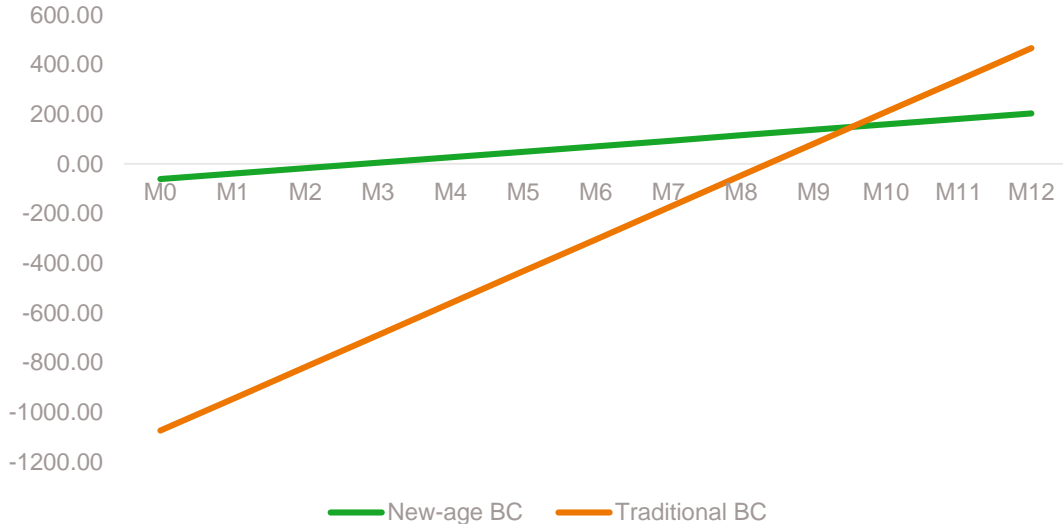
Fino Payments Bank
Initially a payments technology provider and BCNM; transitioned into a Payments Bank in 2017
Reasons for dominance
<ul style="list-style-type: none"> • One of the early movers in FI ; expanded operations across the country • Expertise in G2P payments and domestic money transfer • Uses data to streamline operations and rationalize product offerings
Challenges to reach the last mile
<ul style="list-style-type: none"> • Inability to offer credit products • Solutions for SHGs are also difficult to operationalize due to low bank account balance limits

Odisha Livelihood Mission
OLM operates as a BCNM for banks and appoints SHG members as BCs
Reasons for dominance
<ul style="list-style-type: none"> ▪ Offers grant to the SHG federations to cover set up cost ▪ Ability to reach deep rural pockets leveraging the presence of SHGs ▪ The BCs have a captive user group as all SHG financial transaction are routed through her
Challenges to reach the last mile
<ul style="list-style-type: none"> ▪ Inadequate training for BC Sakhis restricted only to use of device and on products to be offered ▪ Grievances and technology related issues takes time to resolve



With the advent of 'new-age BCNMs' agent economics has changed; however, for dedicated rural agents, the absolute monthly revenue may not be attractive

Average net return from BC business



New-age BC agents are able to breakeven in 2 months while traditional BC agents take between 8 to 9 months to breakeven

Implications for rural CICO

A sustained growth in the number of new age BC agents in rural area will start impacting the transaction business of traditional BC agents

Particulars	Traditional BC agent (USD)	New-age BC agent (USD)
Capex cost	1,074	61
Opex cost per month	34	3.5
Revenue per month	162	25.5

Breakup:
 Capex for traditional BC: Laptop- USD 473; Printer – USD 203, furniture – USD 81; power backup – USD 203; biometric device USD 47; card reader- USD 68
 Capex for new age BC: ID cost- USD 13.5 biometric device USD 47;
 Opex for traditional BC: Rent – USD 20; Utilities- USD 7 Misc- USD 7
 Opex for new age BC: Internet- USD 1.5 Misc- USD 2

Revenue numbers are assumed for an average performing agent (Non dedicated new age BC and a dedicated traditional BC) and are based on discussions with BCNMs interviewed for this research. These numbers vary substantially across agents and should not be treated as representative of the sector.

Some payments banks are well positioned to cater to rural customers at scale



Name	Fino Payments Bank	India Post Payments Bank
Profile	Started as a payments technology provider and BCNM; transitioned into a Payments Bank in 2017	Carved out of India Post and is a RBI licensed Payments Bank
Reasons for dominance	<ul style="list-style-type: none"> • One of the early movers; partnered with several bank and expanded operations across the country • Expertise in delivering G2P payments and domestic money transfer • Uses data to streamline operations and rationalize product offerings • Improvising IT systems to accommodate SHG level transactions 	<ul style="list-style-type: none"> • With partnership with India Post, IPPB leverages their vast network to offer financial services • IPPB uses the staff of India Post (delegated BC) to deliver financial services who receive fixed monthly remuneration, therefore viability of CICO points can be easily achieved
Challenges to reach the last mile	<ul style="list-style-type: none"> • Inability to offer credit products • Solutions for SHGs are also difficult to operationalize due to low bank account balance limits 	<ul style="list-style-type: none"> • Interoperability is a challenge as IPPB has not yet on-boarded UPI 2.0 • Payments bank guidelines restrict individual EoD balance to be more than INR 100,000, this restricts merchant onboarding • While IPPB has established a rural presence through India Post staff, the delegated BC model is yet to be tested in rural areas

BCNMs by using customer-centric products and efficient processes are able to expand their network and the services they offer



Emerging players

Name	Sub-K	Spice Money
Profile	<ul style="list-style-type: none"> A BASIX company, Sub-K leverages the microfinance experience of its parent company to deliver financial services to the poor Operations in 15 States and over 10,000 BC agents 	India's largest tech-enabled Hyper-Local Payments Network offering various services through more than 200,000 outlets, 90% of which are in rural areas
Reasons for dominance	<ul style="list-style-type: none"> The experience of the management and rank and file in microfinance meant CICO operations were not completely new Sub-K has innovated on new product offerings, primarily credit thereby ensuring viability for its overall BC operations Both Sub-K and Atyati have leveraged their presence in rural areas as BCNMs to convince banks of the potential of credit delivery in rural areas. Sub-K currently manages sizeable portfolio offering JLG and MSME loans while Atyati offers JLG loans in its areas of operation. 	<ul style="list-style-type: none"> The Digital Seva Kendra and Mini-bank model brings together a bouquet of services like remittance, cash out, AePS withdrawals and Mobile recharge, bill payments, travel booking
Challenges to reach the last mile	<ul style="list-style-type: none"> Scalability particularly for additional services such as credit is slow and depends entirely on the drive of banks 	<ul style="list-style-type: none"> Limited product offering restricts full scale banking as needed in rural areas While agent break-even is quicker, absolute agent earning per month is low The business model of only focusing on a narrow band of services seems more suited for urban and semi-urban areas

Appendix 4: Strategic partnerships to expand CICO networks



Banks partnered with BCNMs to source and service rural microcredit on their behalf



Partners:

- Allahabad Bank, one of the large public sector banks
- Atyati Technologies, a large BCNM with more than 12 years of operation

Enablers

- Distribution network and understanding of customers in rural areas
- High demand for credit in rural areas

Challenges

- No precedent available for delivery of credit through agents

Strategic complementarities

- Allahabad Bank's branch presence in rural areas
- Atyati already serving Allahabad Bank through its agent network offering CICO services. Offering credit was an extension to the current services
- Atyati deployed additional staff for supervising credit operations on behalf of the bank

Results

- Total loan portfolio for one banking partner as on January 31, 2020: USD 108 million
- Average total monthly loan disbursement: USD 8.1 million

BCNMs are looking to partner with e-commerce firms to facilitate sales and delivery of goods in rural areas



Partners:

- Sub-K, a large BCNM with operations across 15 States and 10,000 BC agents
- Connect India, logistics provider for e-commerce

Enablers

- Demand for consumer good in rural areas
- Presence of Sub-K agent outlets in rural areas
- Strategic recognition of e-commerce opportunity

Challenges

- Agent outlets more suitable for small value goods
- Reverse logistics is a huge challenge
- Requires some real estate to stock goods

Strategic complementarities

- Alignment of vision, since Sub-K and Connect India are from the same group of companies
- Strong presence in rural areas

Results

- The e-commerce business did not scale as anticipated due to several challenges highlighted above

India Post Payments Bank rides on infrastructure and human resources of India Post to offer banking services across the country



Partners:

- India Post Payments Bank, Government of India owned payments bank
- Department of Post, offers postal services across more than 155,000 villages in India

Enablers

- Familiarity of post offices among rural customers as banking transaction points
- Deep rural outreach of post offices

Challenges

- Mismatch of business hours as post offices close early
- Lack of an attractive compensation structure for frontline staff

Strategic complementarities

- Both the entities are owned by the Government of India
- Availability of physical infrastructure (nearly 155,000 post offices) and human resource (over 300,000 postal employees) to deliver financial services
- Department of Post provides liquidity management support critical for financial transactions

Results

- IPPB services are currently available across 136,000 post offices through 2,19,000 frontline staff who include Gram Daak Sevak (GDS), postmen, and counter postal assistant

Fino Payments Bank has partnered with Bharat Petroleum to offer its services at their company-owned and operated petrol pumps



Partners:

- Fino Payments Bank, one of the early corporate BCs that transformed to payments bank in 2017
- Bharat Petroleum Corporation Limited (BPCL), a public sector oil marketing company

Enablers

- Launch of FastTag, an electronic toll payment system. This creates a demand for cash-in to FastTag particularly among truckers
- Truckers, who typically require small cash withdrawal, are a key target segment for BPCL

Challenges

- Implementation is slow and the services may not be available at all BPCL outlets
- Promotion of Fino payments services may be limited

Strategic complementarities

- BPCL petrol pumps have excess cash that needs rebalancing. Provision of cash-out facility through Fino Payments Bank helps achieve this
- Many of the BPCL petrol pumps are located in rural areas across major state and national highways. These locations serve as key access point to reach rural customers

Results

- Services available across 4,300 out of a total of 11,000 BPCL petrol pumps
- There has been a 5% increase in fuel sales owing to the presence of Fino outlets

Banks-BCNMs partnering with SRLMs to on-board SHG members as agents and offer services to women SHG members



Partners:

- Banks and BCNMs
- State Rural Livelihood Mission, responsible to set up and support SHGs in a State

Enablers

- SHG members are already familiar with financial transactions
- More accessible and compassionate to the needs and preference of women customers as compared to their male counterparts

Challenges

- Intensive capacity building support needed to train SHG members to perform BC activities
- Limited experience of BCNMs on SHGs; SRLMs also have limited understanding of BC business

Strategic complementarities

- SRLMs intend to digitize SHG level transactions; BC Sakhis are one of the means to achieve that
- BCNMs looking to expand to rural areas and target specific use case find SHG members as BC agents a good option

Results

- By March 2019, 3,972 BC Sakhis (SHG members as agents) completed transactions worth USD 25 million

Government of India has partnered with banks to expand access to its flagship social security schemes to the masses



Partners:

- Department of Financial Services, Ministry of Finance, Government of India
- Banks, particularly public sector banks
- BCNMs of such public sector banks

Enablers

- Access to physical rural banking infrastructure through BC agents
- Push from the central government to increase uptake of social security schemes – PMSBY, PMJJBY, APY

Challenges

- Some the product features are not attractive enough for the target beneficiaries
- Incentives, particularly for BC agents, is low thereby limiting their enthusiasm to enroll more customers

Strategic complementarities

- Public Sector Banks that are majority owned by the government are the primary partners to deliver these schemes
- The social security schemes directly complement the PMJDY scheme that focused on opening of bank accounts

Results

- Enrolment in social security schemes as on March 8, 2020: PMSBY – 181.7 million, PMJJBY – 67.9 million; APY – 17.8 million as of August 2019

Dvara KGFS has partnered with Boonbox to offer home appliances to rural customers on credit



Partners:

- Dvara KGFS, a rural-focused financial service provider
- Boonbox, a rural-focused last mile distribution company that sells home entertainment, home and kitchen appliances

Enablers

- Ever increasing demand for home appliance in rural areas
- Availability of credit to purchase home appliances
- Boonbox's vast rural supply chain that helps to deliver and install such appliances

Challenges

- After sales service is a concern

Strategic complementarities

- Overlap of operational areas and experience of Boonbox in servicing rural areas
- Dvara KGFS's branch presence and field staff helps facilitate sales and address customer queries

Results

- NPA rate for loans extended by Dvara to facilitate purchase of home appliances is less than 0.5%

Appendix 5: Policy analysis



Public goods like availability of quality data on the state of CICO agents and industry initiatives to improve service delivery quality will help CICO expansion



Proposed intervention	Strategic importance	Intended impact	Examples
<p>Support mechanisms to collect data to better understand the growth of CICO channels</p> <p>Industry associations like the Indian Banks' Association, and Banking Correspondents Federation of India, should work with RBI to develop a comprehensive database to understand changes in the nature of CICO business</p>	<p>Data driven strategy for CICO networks</p>	<p>Initial efforts at consolidating data around CICO networks notwithstanding there is a gap in the availability of data sets to make informed policy choices to improve CICO networks</p>	<p>Indian Banks' Association has initiated a BC registry to map BC locations, there is a need to widen the database and make it both current and searchable</p> <p>NPCI releases periodic data on payment indicators</p>
<p>BCFI should work with the Banking Codes and Standards Board of India to create Quality of Service standards</p> <p>To increase the quality of financial service delivered across the country and especially in rural areas there is a need to ensure a minimum standard of service</p>	<p>Quality of financial service delivery, this is essential to ensure trust in the system</p>	<p>Improved minimum service delivery standards throughout CICO networks in India over a period of time. The intended impact will be to create an expectation of better service at the BC outlet, driven by the customers.</p>	<p>BCFI with technical assistance from MSC has developed a Code of Conduct for responsible agent management and a modular e-learning program for BCs</p>

A template of the data collection mechanism



Key Parameters	Outcome
Data to be collected	<p>District level: Through the LDMs</p> <ul style="list-style-type: none"> Information of all financial service outlets in the district along with the GPS/latitude and longitude data of all current and new financial services outlet including (Bank branch, ATMs and BCs) Agent dormancy and inactive agent data (primarily for BCs in Sub-service areas) Target and achievements on various financial inclusion indicators regarding BCs <p>State Level: Through the SLBC</p> <ul style="list-style-type: none"> Transaction types for service providers – number and volumes Failure rates of different type of transactions Targets and achievement on various financial inclusion indicator regarding BCs <p>NPCI:</p> <ul style="list-style-type: none"> Payment transaction data (national level) Failure rates of different type of transactions <p>RBI</p> <ul style="list-style-type: none"> Payment transaction data (national level) Failure rates of different type of transactions
Data collection	<ul style="list-style-type: none"> The data will be collected through the financial inclusion structure namely LDMs at the state level, SLBC at the state level and other agencies at the national level.
Data ownership	<ul style="list-style-type: none"> The data will be the responsibility of the RBI Disaggregated, anonymised, level wise data will be available for free through a portal
Data access	<ul style="list-style-type: none"> The data through the portal will be available for free and can be accessed by anyone
Data usage	<ul style="list-style-type: none"> The purpose of the data will not be restricted and will be used to conduct research and understand different dimensions of the BC network and take appropriate action

Appendix 6: Differentiated agents



Differentiated agents: The business case for basic service agents in rural areas



1 Geographic location

- Usually located in the village and offering non-dedicated Business Correspondent services

2 Skills required

- Digital skills to conduct basic cash-in cash-out services through a smart mobile phone

3 ANM Practices

- Light touch or possibly remote onboarding process
- Remote supervision and monitoring by BCNMs to ensure customer protection
- Liquidity management process handled by the service agent themselves
- Remote training through online channels like an App or WhatsApp

4 Services offered

- Basic cash-in and Cash-out services

Impact on CICO operations

- Current high fixed and one-time costs associated with dedicated agent models will give way to a low cost model
- Geographical area serviced will reduce, potentially impacting current revenues. However, with reduced fixed cost, overall profitability is likely to improve

- Move to a differentiated training and certification model relative to the type of services offered

- Reduce the cost of agent onboarding, monitoring and supervision by BCNMs
- Will require BCNMs to develop robust remote monitoring and supervision capabilities
- Will require robust grievance resolution process

- CICO transactions will only be a secondary business and it is likely that agents with low transaction activity may discontinue CICO business.



1 Geographic location

- Usually located in a large village or nearby town that generates enough business to support the deployment of a dedicated agent

2 Skills required

- In addition to CICO services, sales agents can offer sophisticated products like microfinance and MSME credit, wealth management and insurance products
- Conduct customer sourcing, preliminary appraisal and provide basic advice to customers on behalf of the bank

3 ANM Practices

- Proximity to bank branches will reduce time and cost for rebalancing and support
- A combination of remote supervision and physical audits by BCNMs and banks
- Liquidity management process handled by agents themselves
- A combination of physical and online training to ensure quality

4 Services offered

- Basic cash-in and Cash-out services
- Account opening and enrolment to government financial inclusion and social protection schemes
- MFI and microenterprise credit, sophisticated insurance services and wealth management services
- Third party services like e-commerce

Impact on CICO operations



- Current high fixed and one-time costs associated with dedicated agent models will give way to a low cost model
- Geographical area serviced will reduce, potentially impacting current revenues



- Agent selection, training, monitoring and supervision will become a priority
- Certification should become mandatory



- The reduced numbers of sales agents will ensure BCNMs are able to better support agents
- Will require robust grievance resolution process
- Will enable partnerships with third party providers



- The sales agents can offer services to a larger catchment increasing chances for viability
- The increased transactions and product suite can support a dedicated agent outlet

Thank you

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