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# How do we accelerate Financial Inclusion?

**BCNM**

Business Correspondents  
Network Managers

# Rural Needs and Opportunities



138 million rural households

belonging to Middle, lower middle and lower sections



Irregular and unpredictable income & cash flows

Micro-business

a dire need for financial services like savings, loans, insurance and other financial services

Estimated business opportunity size

- ❑ Small value loans: Rs. 300,000 crores (Intellect report)
- ❑ Remittance: Rs. 50,000 crores
- ❑ Savings balance: Rs. 100,000 crores

# How is the need fulfilled today?



**Informal sources** - Use of expensive informal mechanisms and absence of formal financial services



**Expensive alternatives** - Savings is done at home under the pillow or inside the sugar tin. Loans/borrowings are taken from unsafe and costly sources such as relatives, moneylenders and MFIs



**High interest rates** - Moneylenders charge an exorbitant rate of **40-70%** and use **strong arm techniques to recover money** while MFIs offer loans at **24-40%**



**Absence of Banks in Rural areas** - Small transaction volumes and amounts; high operating costs

# Response to FI till now...



# But the reality is...



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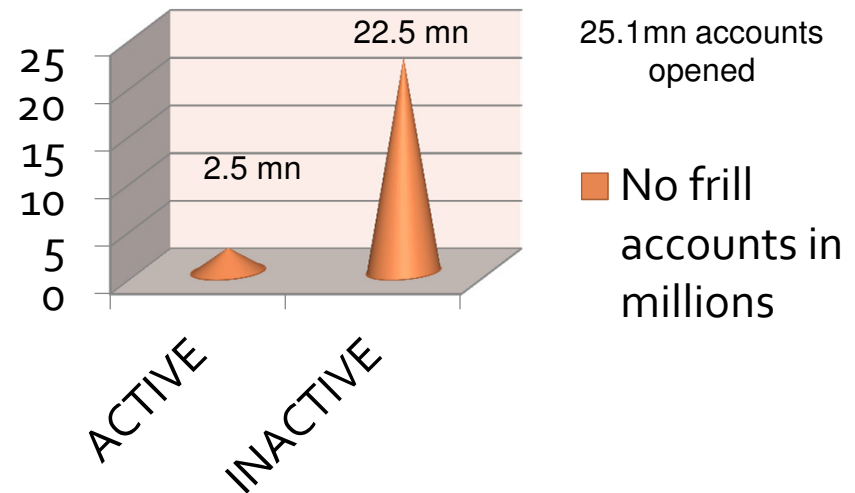
## Products offered

The present BC channel provides mainly savings and government payments like NREGA that too offered to a very small extent.

## Viability of the model stakeholders

CSPs not viable because of the less returns for the investment made by him/her; Very little business for the banks in the existing model.

## Dormancy of accounts



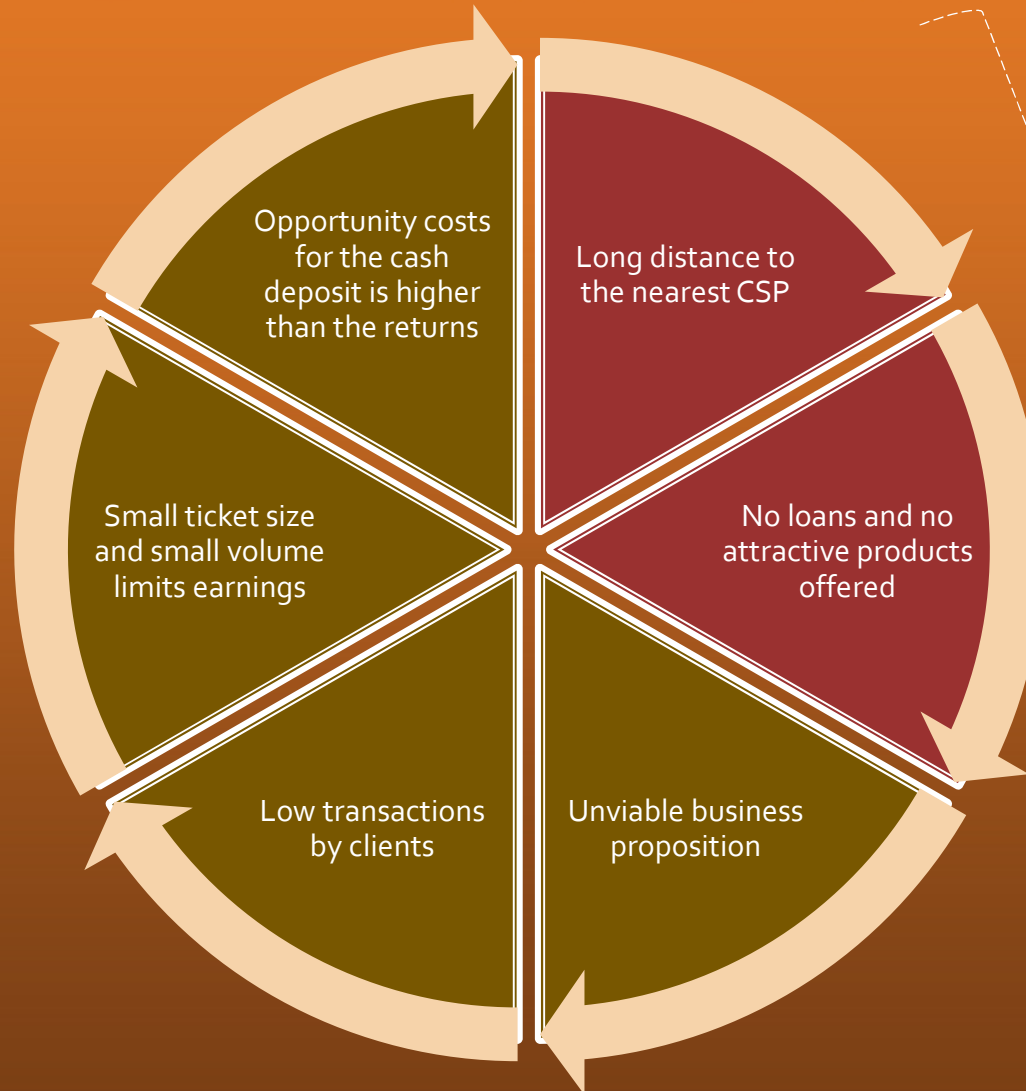
The following has worked better...

Agricultural loans, insurance etc provided through the Business facilitator has been successful to a certain extent but scaling up of the model has not taken place.

# Reasons for Failure



CSP SAYS...



CUSTOMER SAYS...

# Banks Vs BCs



Bank's Response	BC's experience
Most Accounts opened and closed	We bear all the costs, take trouble
Very few transactions happen	Banks giving very little commissions
Accounts have minimal Balance: little earning	Not enough transactions revenue
It is a just a cost centre	Bank's tender process squeezes us
doing it because its an obligation	doing it even though it is unviable
In turn, will attempt to pass as much of the cost as possible to BC	Why cant most of government commissions be passed onto us
<b>BOTH THE BANKS AND BCS ARE UNHAPPY!</b>	

## But is business size large?



- Say 100mn new accounts
- average account balance of Rs 2000
- Rs 20,000 Crores extra cash for banking system
- Say half of them get Rs 1000 each as money transfer per month
- Rs 5000 crores of money transfer per month
- 50 million transactions per month
- Say a quarter of these take insurance of Rs 1000/ year
- 25 million insurance accounts with Rs 2500 Crores
- Say 25% are given loans of Rs 2000 each
- Rs 5000 Crores of Loan
- and this is just a beginning

**Indirect benefits:  
Branch decongestion  
enabling focus on HNI  
segment; Sustaining  
operations without  
increase of staff or  
additional branches**

The problem is to figure out how to make it viable for all parties

## Reach: Get close to customers



- There is a Kirana shop very close to all customers

- Within a few hundred meters
- Open 16 hours a day, 365 days a year
- Possible to make them Customer Service Points
  - CAPEX is low: Mobile phones alone or other low cost devices
  - OPEX Low as transactions on mobile network

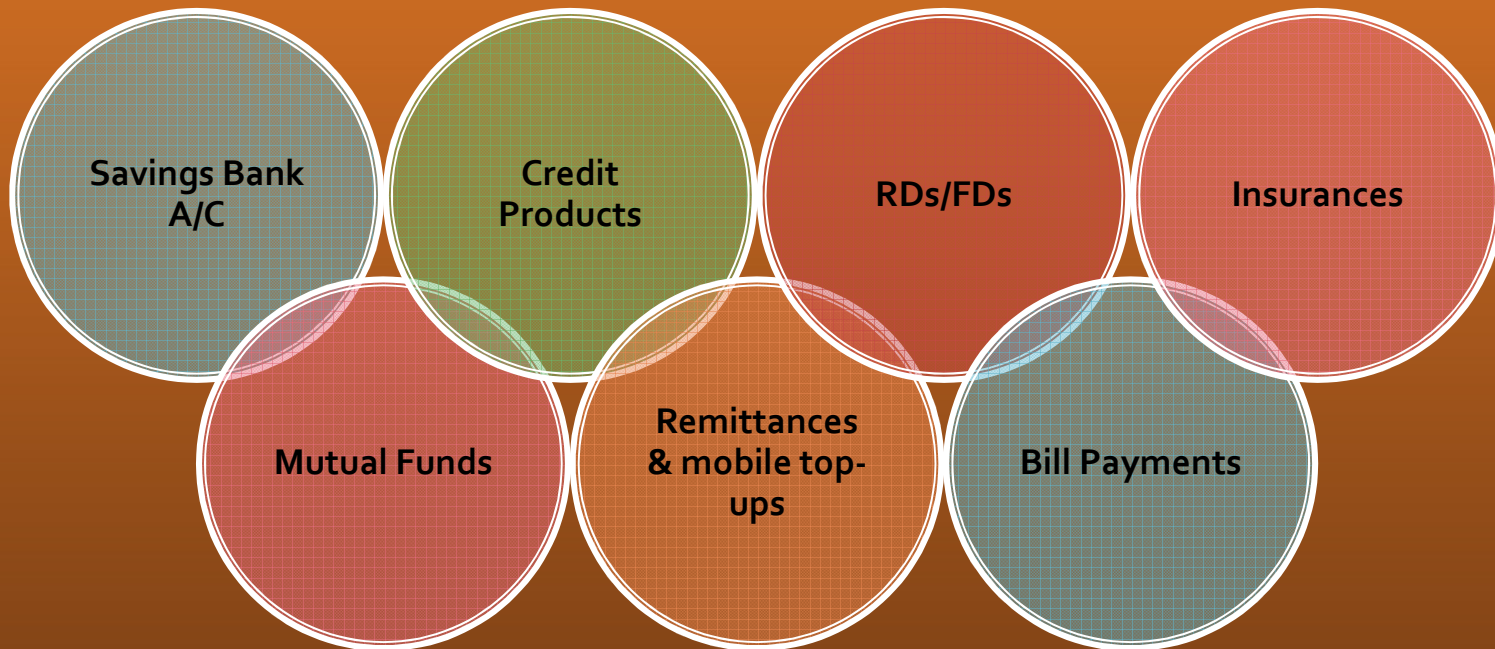
- **Minimum transaction times**
- **Use of Voice technologies for customer**
- **OMR forms for customer acq.**
- **Consumers willing to pay reasonable price :charge appro.**

- Even if there are a few transactions per day for each CSP
- It may take only 30mins per day giving some extra income
- s/he sells one more than 15 other products that are sold

## Range of products to make it attractive for customers and increase transactions



Recognise diverse financial needs of consumers: design set of products to meet customer's need; make the CSP viable; integrate with CBS to provide every new service



# Can we Provide micro-loans?



- Rural families often need Microloans for bridging income expenditure time gaps and for micro-businesses
  - Most rural people feel that they will save with an entity which can also give them such micro-loans
  - But rural credit servicing culture of bank-loans have been adversely affected
  - Intense follow-up needed to get the loan serviced: Expensive
- Alternatives need to be explored
  - Introduce rural credit bureau to continuously measure the credit worthiness of borrowers or
  - Follow the microfinance model
    - Group-guarantee and follow-up every week by a field officer
    - May increase 5% interest rate to cover this cost
  - Or a combination of both
- Needs learning from a variety of trials
  - Successful handling of micro-loans and payments in rural areas will also open up a large market for small goods sold on EMI basis

# Viability and Steps needed



- CSP point close to customers, open all the time, wide variety of banking and insurance products and micro-loans
- Will certainly make it attractive to rural customers
  - Will multiply number of transactions
  - Will make it viable to CSP
  - Will make BCs viable provided the commissions are appropriate
  - Will make banks and insurance companies have substantial increase in rural Business
- But the banks are bigger players as compared to BCs

## But the onus have to be with Banks



- Banks have to believe in substantial business volume here
  - invest initially
- Onus on banks to see that honest and hardworking BCs become viable
- Must not use tender process to heat up the market and get small BCs to make unviable bids
  - May be minimum commissions be fixed at this stage by IBA like organisation
  - May be get BCs to bid in tender for Business volume and transactions numbers
    - instead of bidding for commissions
    - Banks share costs for marketing, awareness building, part of agent costs and must PAY BCs on time
- They have to experiment and figure out loan products
- They have to define training of BCs and their agents

**Banks have the most patient capital in the Business Correspondent eco-system**

# Of course BCs must do their best



## ■ Major Responsibilities

- Appointment and Monitoring of CSPs
- Creating awareness and marketing of the products and services
- Cash Management
- Document Management

## ■ Interaction with Bank

- Dedicated helpline from Bank/Technology service provider to resolve day to day issues
- Centralized banking operations, all forms to move to a central location

## ■ To attain viability

- Prevent account dormancy
- offer basket of banking and other products (eg. mobile top-up) determined by client needs
- learn and leverage best practices from a past models making limited FI impact
- use technology that's easy to use and have least risk associated
- have a sound MIS and timely accessible customer care system to handle customer's queries

# RBI / NABRAD / Government need to help accelerate FI



- have to allocate funds for research / trials including some risk mitigation funds
  - Project funding should be available to banks, BCs and Educational and Research institutions
    - Educating Rural Households
      - On financial awareness and financial products
      - On importance of credit-worthiness and credit rating
    - Training of BC's and CSP
    - Risk mitigation funding for trails on loans
    - Smaller funds for technology development and trials
    - Use regulations to push players at the right point
    - Funds for process development, monitoring, management
  - Also fund going to most backward regions

For example,  
Mobile banking  
and payments  
would take off if  
all telcos agree  
to provide a  
common USSD  
number for  
transactions

## To sum up: Nation is ready for FI



- Need is strong (rural India need it today)
  - Technology is ready
  - Regulations are all present
  - BC's have acquired experience
  - Bank could benefit a lot
- *But it will not happen as long as banks think of it only as an obligation, not as a large business*
- Would require willingness to experiment, take some risks and learn the lessons and scale
  - Would require banks consider BCs as partners instead of just vendors