INDICUS FOUNDATION

INDICUS CENTRE FOR FINANCIAL INCLUSION

POLICY BRIEF
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Building the Agent Network for Financial Inclusion

Summary

India's financial inclusion mission has made significant progress over the past two years. With the Pradhan Mantri Jan Dhan Yojana (PMJDY), the goal has moved from just opening bank accounts to provision of all financial services including insurance and pension along with the accounts. As a result, strengthening the agent network for delivery at the last mile is now even more crucial. This policy brief gives an update of where India stands in March 2016, setting out the key challenges in building the agent network for financial inclusion.

Financial inclusion in India: Fresh mandate and landscape

Over the last decade, the financial inclusion mandate and landscape have evolved in many ways. In January 2006, the Reserve Bank of India made the first move towards branchless banking, allowing non-profit organisations, micro-finance institutions etc. as intermediaries for banking services. Since then the landscape for inclusion has changed dramatically - allowing private firms as Business Correspondent Network Managers, opening up the space to PrePaid Instrument Issuers and recently in 2015 allowing differentiated niche banks of Payments Banks and Small Finance Banks.

India continues to follow the bank-led model for financial inclusion, but targets given to banks have changed, from covering unbanked villages systematically under annual Financial Inclusion Plans to households under the Pradhan Mantri Jan Dhan Yojana.

Not only has there been a diversification of service providers, but also the product focus has moved from just priority sector credit delivery to a more universal, comprehensive provision of financial products. The vision of financial inclusion in India for policy makers has also moved beyond provision of simple no-frills banking accounts to meeting overall financial needs of the poor and unbanked through remittance services, overdraft facility, insurance, pension etc.

Further, over the past year, the PMJDY Mission Directorate has progressed from monitoring only number of accounts to tracking a number of indicators such as Aadhaar seeding, provision of RuPay cards, usage of overdraft facility, payment of Bank Mitra remuneration etc. and mapping Bank Mitra infrastructure.

However, as the financial inclusion mission goes forward, there are many challenges still to overcome, most concentrated around the last mile. This policy brief gives a brief update on the progress under PMJDY and points to the tasks ahead for making financial inclusion sustainable and meaningful at the last mile.

Key asks

- A unified, harmonised and current database of the financial inclusion footprint, in terms of outlets, service points, devices, connectivity and agent networks should be aggregated and monitored by a single source, ideally the Reserve Bank of India. This database should include all existing banks such as Regional Rural Banks, Urban Cooperative Banks and upcoming niche banks such as Payments Banks and Small Finance Banks.
- In consultation with the Telecom Regulatory Authority of India (TRAI), National Payments Corporation of India (NPCI), Unique Identification Authority of India (UIDAI), and others, the Department of Financial Services (DFS) should notify the minimum telecom service requirements for devices for conducting mobile financial transactions. The DFS and DoT should work together to map device penetration across Business correspondents or BC outlets and telecom connectivity at the outlet level.
- As Direct Benefits Transfers are extended to all schemes and levels of government in the country, adequate and timely payouts of transaction processing charges must be made to banks through the Public Finance Management System (PFMS),with appropriate share passed on to Bank Mitras.
- As financial products available at the last mile become more complex (credit, insurance, pension, investment options etc.), all financial service regulators should work together to ensure that products and incentives (commissions) are designed to minimize risk of mis-selling.
- Since the agent is often the only point of contact with the banking system for customers, protection against fraud is crucial to ensure more sustainable financial inclusion. While the Reserve Bank of India has put in a Charter for Customer Rights, appropriate training of agents and a strong, transparent grievance redressal mechanism must be in place at all levels.

Pradhan Mantri Jan Dhan Yojana

Since its launch on August 15th, 2014, the PMJDY has moved to cover nearly 100% households in the country with financial services. As of end-March 2016, there were an impressive 21.38 crore PMJDY accounts, 61% of which were opened in rural areas. RuPay cards have been issued to more than 82% of these accounts, deposits have crossed Rs. 350 billion and the share of zero balance accounts has dropped to 27.57%.

One of the biggest challenges in tracking financial inclusion progress in India has been the paucity of data at granular level. This problem has been resolved to some extent now as the PMJDY monitors and reports Bank Mitra Infrastructure Readiness in significant detail for its Rural Bank Mitras, including a GIS locator. The Department of Financial Services has been proactive to ensure that the data on PMJDY as reported is monitored independently and MicroSave conducted three rounds of assessment (December 2014- Wave I, July 2015 – Wave II and December 2015 – Wave III) to analyse and assess the impact and progress of PMJDY, specifically focusing on Bank Mitras (BMs). (Full Report: PMJDY Wave III Assessment, Anurodh Giri, Manoj Sharma, Sakshi Chadha, March 14, 2016).

The three rounds of surveys have recorded a significant improvement in the availability of agents. That is, BMs who are present at the stated location increased from 89% and 84% in Wave I and Wave II, respectively, to 97% in Wave III.7 states recorded 100% availability, nine states in the range of 90-99%, with Madhya Pradesh at 81% and Dadra and Nagar Haveli at 69% trailing at the bottom.

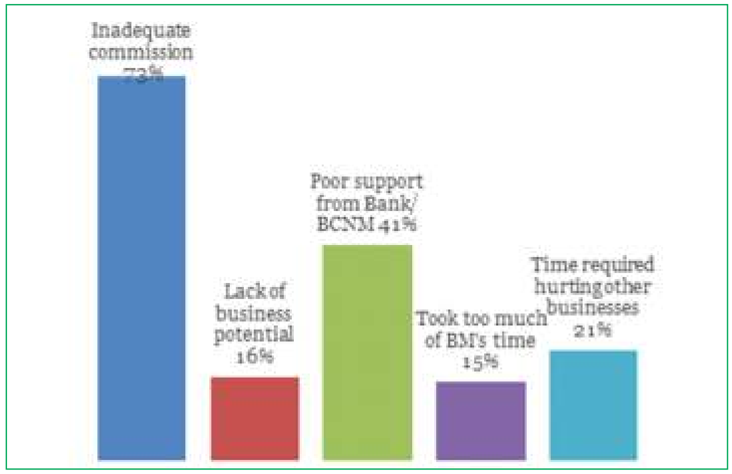
While the presence of the BM in/near the village is the first step to access, transaction readiness is crucial -a BM is defined as "transaction ready" when a customer walking into a BM outlet can conduct transactions (a/c opening/withdrawal/deposit), the transaction infrastructure must be in place and working, power and connectivity must not be a constraint. The MicroSave assessment surveys have revealed an improvement in the transaction readiness of BMs: 81% of available BMs as a percentage of available BMs are transaction ready now, compared to 54%in Wave I. Visibility at BM location has also improved: 85% of the BMs interviewed were found to have installed signage, compared to 48% in Wave I.

Even though the PMJDY Mission Directorate does not track this indicator in real time, transaction levels have shown an improvement, with the average monthly number of transactions per BM at 301, up from 209 in Wave II. This has also led to a significant increase in BM income, standing at an average monthly Rs. 4,692 in Wave III from Rs.2,724 in Wave I.

However, the number of customers served on a daily basis continues to remain low. About 79% of the BMs saw customer footfall of less than 39, while a viable business case for BMs working exclusively as agents would call for a daily footfall between 50 and 150 customers per day (lower numbers for those carrying out alternate businesses alongside BC work). Qualitative analysis revealed disinterest by the banks in extending overdraft facility to customers, given banks' unwillingness to take up customers with lack of credit and transaction history. For a typical BM, 24% and 15% of his customers have enrolled for PMSBY and PMJJY, respectively. Only 3% of customers of an average BM have enrolled for APY, while only 2% have applied for insurance claim settlement with the BM till date. Clearly, there needs to be much more awareness amongst the bank staff as well as amongst customers about all the financial products on offer with the PMJDY account.

One of the main concerns thrown up by the third round of assessment has been a rising trend in agent dormancy from 8.4% and 7.9%, in Wave I and Wave II, to 11% in Wave III. State disparities are wide - Uttar Pradesh and Karnataka stand at the top with just 3% dormancy, while Punjab and Maharashtra show the highest level of dormant agents at 42%. The most stated reason for dormancy was low commissions, followed by poor handholding and lack of support from bank/BCNM staff. Here, higher and timely commissions on Direct Benefits Transfer commissions would go a long way in easing the income constraint.

Figure - 1: Reasons reported for dormancy in agents



Despite all the problems in the agent network, 80% of the customers interviewed in Wave III rated BM as their first preference for conducting transactions as against ATM and bank branch; this compares to 70% showing such preference in Wave II. Banks are also increasingly aware of the need to integrate agents into banking business and the survey reports that 73% of the BMs interviewed were trained in financial literacy compared to 57% in Wave II. The frequency of visit by bank staff to agent location has also improved significantly - 9% BMs were never visited by a branch staff in Wave III, compared to 18% in Wave II.

The third round of assessment also threw up another challenge as the duplication of customer accounts has risen. While Aadhaar seeding will help mitigate the problem of multiple accounts, the incentive structure that favours account opening could be relooked towards a more balanced scheme.

The PMJDY programme now stands at a critical juncture, where it has made significant inroads towards spreading access and awareness of financial services. However, the issues of dormancy and multiple accounts show that it is crucial now for the PMJDY and the RBI to work together and focus efforts on building capacity at the agent level.

The BC network in India has been increasing since 2006, and the Reserve Bank of India (RBI) provides data at the national level. The RBI

Annual Report 2014-15 reports 504,142 branchless banking outlets in villages, with no granular information regarding location details, activity levels etc. The 1.26 lakh agents used as Bank Mitras under the Sub-Service Area Scheme for PMJDY form a subset of the aggregate shown in RBI data. Unlike the PMJDY Bank Mitras, whose data is now available on the website, data on other (non-PMJDY) Business Correspondent outlets has to be gleaned from State Level Bankers Committees, which have varying standards of reporting and monitoring. Studies conducted earlier by CGAP and MicroSave on BC availability (See CGAP's National Survey of Banking Agents, 2013 and The Curious Case of Missing Agents in Rural India, MicroSave, January 2014) showed that that data on agents as reported by SLBCs often did not match that on the ground.

Even as the PMJDY monitoring must go deeper to track activity at the agent and account level, the two main two apex bodies monitoring the retail footprint of financial inclusion – the DFS and the RBI- should coordinate towards a harmonised database that provides a clear and full picture of the actual financial inclusion footprint in the country. *In order to have a tracking system of BCs, it is proposed to create a registry covering all BCs, both existing and new. The registration will be online and will capture basic details including location of fixed point BCs, nature of operations and the like. This database will be updated on a quarterly basis. The necessary enabling framework would be issued by the Reserve Bank by end-June 2016 and the IBA will be requested to put in place a registry of BC agents in consultation with all stakeholders.*

While new niche banks such as Payments Banks and Small Finance Banks are entering the space, there are others already out in the field – Regional Rural Banks, Urban Cooperative Banks etc – whose efforts at inclusion should be included in building the national picture. It is essential that this database should include indicators of transaction activity, transaction readiness, agent income etc. and is harmonised with the PMJDY database. The harmonised database should then be disseminated online with regular updates, this will enable easy verification by bank customers and analysts.

The Challenges Ahead for the Agent Network

A sustainable network is one where the long-term interests of the customers and agents are met and where trust is built between the hitherto unbanked and the banking system. This section puts forth some fundamental issues that need resolution to this end, many which call for inter-regulatory coordination.

Having achieved the goal of awareness of bank accounts and opening a record number, covering all households, the next step has to be increasing usage in these accounts. There are a number of issues constraining usage currently. To begin with, transaction readiness and connectivity need to be mapped and monitored at the agent outlet level. As technology evolves, transaction modes keep changing and with the launch of the United Payment Interface, India's transaction landscape has been revolutionised. At the base however, connectivity is key – the internet and broadband footprint and quality of service need to be monitored directly under the PMJDY. The Department of Financial Services (DFS) should work in consultation with the Telecom Regulatory Authority of India (TRAI), National Payments Corporation of India (NPCI), Unique Identification Authority of India (UIDAI), and others to notify the minimum telecom service requirements for devices for conducting mobile financial transactions.

Further, the PMJDY Mission Directorate should include in its monitoring framework additional relevant metrics: coverage maps showing the present status of internet/broadband penetration, quality of telecom coverage – represented by uptime, transaction times and transaction failure data, for each enlisted Sub Service Area (SSA). This will enable a conjoint mapping of device penetration across Bank Mitra (Business correspondents or BC) outlets and requisite telecom connectivity to enable successful financial transactions by all service providers.

The long-term goal of inclusion is to ensure access to all financial products at the household level. However, just as the third round assessment of PMJDY by MicroSave has shown that higher commissions on new accounts has led to multiple account opening under PMJDY, mis-selling of insurance products in bank branches has been highlighted in a recent study by Monika Halan and Renuka Sane (forthcoming, IFMR). It is therefore important for all financial regulators to coordinate and ensure that products and incentives (commissions) are designed such that the needs of customers are met effectively and trust built in the formal financial system.

One of the findings from various surveys on agent networks in India is that there is little or no support to the agents for investment in technology upgradation, infrastructure, the branding of outlets and other capital items. As a result, even as agents try to minimise their expenses on capital expenditure, they incur high spends on operating expenses. This naturally impacts their viability. Extension of bank credit for capital expenditures will mitigate the load on the agents. Making such loans eligible as part of Priority Sector Lending (PSL) requirements will serve the dual purpose of enhancing agent capability and meeting PSL targets. As technology evolves, the devices/modes used for transaction will change, hence ideally agents should be allowed to choose their preferred device/mode, with outcome based guidance from policy makers.

One of the biggest concerns that has remained unresolved, despite being flagged repeatedly through various studies, is the low and irregular commission payouts to agents. While the Report of the Task Force on an Aadhaar-Enabled Unified Payment Infrastructure had recommended 3.14% transactions processing charges to the banks, in reality the rates allowed by the Central and state governments have been 1-2%. In January 2015, the Finance Ministry fixed DBT commissions for banks: for urban schemes, at the National Electronic Funds Transfer/ Aadhaar Payment Bridge rate, but for rural schemes, the rate was fixed at 1%, subject to an upper limit of Rs. 10 per transaction. The charges in rural areas are clearly insufficient and this is a critical issue to be resolved; unless agents are commercially viable, the success of the DBT initiatives will be seriously undermined. Banks have also reported not receiving transaction charge for transfers made so far. The various glitches in the payout process are being resolved now through the PFMS, and all government agencies must register through this system at the earliest as timely and adequate payouts will go a long way to enhance agent remuneration.

Banks and BCNMs must work towards building the capability of the agents to go beyond mere account opening and cash withdrawals. The RBI has recommended a certification process whose framework will be in place by end-June 2016 – however, it is essential to ensure that mere lip service is not paid to such certification. Certification should be such that all Bank Mitras and other BC agents are all trained for various levels of financial product delivery. As the products get more complex (credit, insurance, pension, investment options etc.) the capability of the agent at the last mile will be crucial. This calls for coordinated attention of all financial service regulators, increased interaction between the bank/BCNM officials and the agents, building awareness about financial products amongst the general populace and raising trust amongst customers about agents and stringent supervision.

Since the agent is the sole point of contact with the banking system for customers at the last mile, protection against fraud is crucial to ensure more sustainable financial inclusion. The MicroSave survey has revealed some instances of unfair and hidden customer charges in Madhya Pradesh, Odisha, Haryana, and Gujarat, for services such as withdrawal/deposit, SMS update, and PIN generation. On the other hand, one of the most significant problems faced by agents is the lack of a reliable support system through which their problems can be resolved. Customers also are not aware of their rights and the procedures to follow to redress grievances or even to answer basic queries. The MicroSave assessment of PMJDY revealed that only 59% of the agents know that there is a call centre to resolve their queries. Many customers and BMs were unaware about PMJDY's product offerings and scheme riders. One solution could be a robust "toll free" enquiry system to provide details of various schemes and products and resolve customer queries. While the Reserve Bank of India has put in a Charter for Customer Rights, agents should be trained to be responsive and the systems at the backend within the banks/BCNMs for grievance redressal must be resilient to fix the problems at hand.

To conclude, while the PMJDY has made an excellent beginning in spreading banking access and in monitoring indicators of progress and impact, there are a number of challenges to ensure that the last mile works effectively. This calls for coordination from all stakeholders - financial services and telecom regulators, government departments, banking and financial services industry - to ensure an enabling ecosystem for universal financial inclusion.

The RBI Committee on Medium Term Path of Financial Inclusion has made a number of recommendations to ensure that the agent at the last mile works effectively:

- Recommendation 6.2: The Committee recommends that BCs should increasingly be established at fixed location BC outlets: the BC outlet/Customer Service Point (CSP) could be opened in the Village Panchayat Office, kirana shop, personal residence or any other convenient location that could win the confidence of the customer.
- Recommendation 6.3: Monitoring of BCs should be allotted to designated link branches in the area. This will help strengthen BC operations and bridge the trust deficit.
- Recommendation 6.4: The competence of BCs should not be taken for granted. Accordingly, the Committee recommends a graded system of certification of BCs, from basic to advanced training. BCs with a good track record and advanced training can be trusted with more complex financial tasks such as credit products that go beyond deposit and remittance. The BC model increasingly needs to move from cost to revenue generation to make it viable.
- Recommendation 6.5: The Committee recommends that banks will have to consider introducing a cash management system that can help to scale up BC operations.
- Recommendation 6.6: The Committee recommends that the Indian Banks'Association (IBA) may create a Registry of BC Agents wherein BCs will have to register before commencement of operations. The registration process should be simple online process with photo and Aadhaar identification. It could include other details such as name of the BC, type of BC, location GIS coordinates of fixed point BCs, nature of operations, area of operation and, at a subsequent stage, their performance record including delinquency. This database can be made dynamic with quarterly updates, including a list of black-listed BCs which no other bank should approach or work with. This would help banks and other agencies to track the movement of BCs and supervise their operations more efficiently.
- Recommendation 6.7: The Committee recommends that the Reserve Bank should take the lead in creating a geographical information system (GIS) to map all banking access points which would help improve the efficiency of regulating, supervising and monitoring of banking operations. Over time, a harmonised database of financial inclusion footprints, in terms of outlets, service points, devices and agent networks, may be put in place using a GIS platform.
- Recommendation 6.8: The Committee is of the view that it is imperative for banks to conduct periodic reviews of its efforts under their financial inclusion plans (FIPs) at the Board level. This would facilitate banks to take timely corrective steps and prepare concrete strategic action plans.

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