

Workshop on Performance of Business Correspondent (BC) Model in the State of Bihar

Poorest States Inclusive Growth Programme

9th June 2014

Hotel Gargee Grand, Patna

Bihar has shown progress on several economic indicators over the past decade, but it has not achieved good results in terms of spreading banking and financial services to a vast section of the society. Bihar is still in the bottom five of CRISIL index of Financial Inclusion and microfinance penetration index is 0.15, very low as compared to the national average of 0.27. Among other important efforts, it requires an effective cooperation amongst regulators, government agencies, financial institutions, service providers, and other stakeholders to strengthen financial inclusion efforts. Assisted by DFID, the Poorest State Inclusive Growth (PSIG) programme is working towards improving the access of financial services to low income households in 4 poorest states viz. Bihar, Madhya Pradesh, Odisha and Uttar Pradesh. The project has 3 components viz. – policy advocacy, improving access to finance, and financial literacy. SIDBI is the implementing agency for PSIG.

ACCESS-ASSIST has been contracted by SIDBI to coordinate the initiatives on policy advocacy in the above four states as well as at the national level. Setting up of multi-stakeholder State Financial Inclusion Forum (SFIF) in each programme focus state has been agreed as one of the key mechanisms to achieve

the objectives under the policy advocacy component. The SFIF is expected to act as an exchange and a deliberation forum to promote effective coordination and synergy among various stakeholders for accelerating the process of financial inclusion in the state. As per the consensus built in the last SFIF meeting, a workshop was organised on ***Performance of BC Model in Bihar*** and the Second Bihar Inclusive Finance Bulletin was also released. The list of the participants of the workshop is provided in **Annexure 1**.

SUMMARY OF PROCEEDINGS

The workshop was formally inaugurated with the introduction about the workshop and the participants introduced themselves. An overview about the background note prepared on the status of BCs in Bihar was presented by ACCESS ASSIST to the participants in order to understand the BC operations in Bihar. The background note covered the history of the BC operation; performance of banks through BC channels; an overview of a few BCNMs; and challenges faced by them at the grass root level. Later DFID and SIDBI shared about PSIG programme in Bihar and also about the relevance of BCs in financial inclusion and the importance of technology in achieving higher outreach.

As per the agenda MicroSave presented ***Drill-down Study of BC Model in Bihar*** and provided findings and recommendations to increase the performance of BC channel in the state.

Overview of the study:

The study approach is divided into four phases: literature review; field research; documenting recommendations; and discussion and dissemination. As part of documenting the recommendations phase, MicroSave presented the findings of the literature review and field research in the workshop. MicroSave conducted the study with 29 Business Correspondent Network Managers (BCNMs) recommended by Lead banks, RRBs and SIDBI and shared key constraints and challenges by BCNMs in the state and institutional assessment of four BCNMs: Society for Advancement of Village Economy (SAVE), Sanjivani Vikas Foundation (SVF), FINO and C-DOT was presented. Some of the key constraints and challenges faced by BCNMs under the study were:

- *Lack of enabling infrastructure in Bihar* - Lack of electricity in rural areas, GPRS connectivity, and good road connectivity.
- *Operational Challenges* – Lack of support from Technical Service Provider, low literacy levels, delay in printing and distributing smart cards etc.
- *Technological problems* – Failure of handled device, BCNMs still struggling with transition from offline to online transactions, POS devices frequently fail to recognize figure prints
- *Unsustainable business model for agents* – Limited formal financial products to offer; commission structure skewed to account opening; and irregular or delay in payment to CSPs.
- *Lack of customer protection and transparency measures* – lack of people's trust in BC services
- *Understaffed Banks and lack of support services* – Banks perception of financial inclusion as an obligation than an opportunity, lack of bank support to BCNM and CSPs.
- *Policy level challenges* – Frequent policy changes such as agents' commission structure, lack of insurance for CSPs

MicroSave provided recommendations at Policy, Bank, and BCNM levels which will improve performance of BC model in the state. Participants including both Bankers and BCNMs shared their feedback on each recommendation which are covered below in each heading.

Recommendations at Policy Level:

- ***Cash in transit Insurance and security measures:*** All stakeholders unanimously agreed on cash in transit and life insurance for agents. RBI has also issued a directive on cash management at BC location and insurance. But it is complex for the bank to assess risk in transit and accordingly fix premium on it. Sometime CSPs have insurance coverage but they are not informed by BCs to avoid misusing the service. All the members present agreed that there should be an insurance coverage for cash and CSPs and it should be uniform across banks. Therefore, concrete steps need to be taken by RBI in consultation with the Insurance Regulatory and Development Authority (IRDA) to provide for insurance policies for this segment.
- ***Restrictions on the quantum of transactions:*** BCNMs feel that the current restrictions on deposits, withdrawals, and account balances need to be lifted. Currently, its customers are allowed to transact up to INR 10,000 a day and cannot maintain an account balance of more

than INR 50,000. BCNMs have found that such demand comes from customers. Customers do feel more at ease transacting at CSP level than going to the bank branches.

- **Improving financial literacy for a larger populace:** Still a large number of people are not covered under financial inclusion programmes and hesitant to use formal financial channels. Current financial literacy efforts do not seem sufficient to deliver desired results, therefore financial literacy programmes have to be encouraged more and at a larger scale.
- **Developing BCNM/BCA as an Identity:** A common brand image should be developed for BCNMs/BCs to give them an identity at the field level. It was suggested that this could be done in a similar way as (red) post box and (yellow) telephone booth identity was established among customers/community. People do relate to these structures and it helps in developing trust among the potential customers. Identity should be uniform and this should be done by parent organizations. This matter can be taken up in SLBC meeting, and also in Indian Bankers Association. It was realized at all levels that they need branding for wider acceptability. For instance,
- **Treatment of CSPs by banks:** CSPs have to stand in the same queues as bank customers in bank branches for their transactions which results in loss of time and eventually their motivation goes down. BC staff are still not considered as a part of the banking system or financial value chain facilitating inclusion. Information for customers are not updated regularly for e.g. charges for different services change but does not appear or updated on the display board. A toll-free number is not often used by customers, or they are not aware of this facility.
- **Increasing product portfolio:** It is felt that current basket of products and services should be expanded to attract more clients. This will increase viability of BC channel and increase income of CSPs as well.
- **Bank staff incentive alignment with FI activities:** It is important to ensure linked bank branch staff is incentivised to support FI expansion and growth in the area. The link branches need to realise the importance of CSPs for activities such as collecting low cost deposit and de-cluttering of link branches and provide maximum support in day to day functioning.

Recommendations at the Bank Level:

- **Ensure bank ownership of the business:** If bank has to see BC channel as profitable business then this model should be cost bearing.
- **Dedicated technical support team and help desk team:** Limited understanding of branch officials about CSPs and lack of coordination between them is still problematic. The operations in business correspondents' space are still evolving. Frequently a new challenge emerges which requires a comprehensive change in the operations and the technology. Therefore, there is a need to have a flexible technological platform and 24x7 assistance, to overcome these hurdles.
- **Fast identification and replacement of inactive CSPs:** Various reasons such as non-willingness to put working capital, over expectations from CSP business (viz. permanent job in bank), low focus on CSP operations due to alternate business, appointment on another job, are some of the

factors for CSP inactiveness. At present, the process of identification and replacement of inactive CSPs is not standardised and cumbersome.

- **Marketing support:** There are instances where RBO has not provided marketing collaterals such as signage board and posters to the CSPs. Also observed were situations where collateral are such that mandatory information such as agents contact number or branch staff contact details are not readable.
- **MIS, training, and handholding:** Regular training should be given to CSPs to enhance their technical knowhow and also to update their understanding. Although it is mandatory that link bank should visit CSPs at weekly basis but this is not being put to practice. Bank should increase its frequency of monitoring of CSPs. CSPs' awareness level should also be quite good to provide information to customers. CSPs go through training programs, but updated information regarding new guidelines and required action continues to be a gap area.

Recommendations at the BCNM Level:

- **Focus on Transactions/active accounts:** BCNMs need not just focus on opening of bank accounts but emphasize on active accounts. Also, the understanding of active accounts among agencies differ so a standardised method should be used.
- **Formulate standardised operating procedures and policies:** To ensure continued growth and sustainability of operations, BCNMs should formulate standardised policies such as staff recruitment, training, commission structures, Human Resource Management and operating procedures. A guideline from RBI on this can lead to an enabling environment and also ensure uniformity.
- **Enhance product offerings:** Some BCNMs are proactive enough that they tie up with third parties and sell relevant services such as insurance if the supporting bank is not providing such product offerings. This approach is appreciated at the ground level leading to higher transacting customer base.
- **Diversify funding sources and banking partners:** Increasing partnerships with funding agencies and other banks to widen dependence on limited sources given the deep pockets this industry requires.
- **Ensure commission pay-out and clarity to CSP agents:** BCNM to ensure timely payments to CSPs and also ensure that agents have an understanding of the fixed and variable commission component and receive a breakup of the same every month. This ensures reduced attrition rate and focus on enhancing transactions. RBI, as a regulator can play a bigger role in this matter and create a concrete policy for this.
- **Working capital issue of BCNMs:** They do arrange for Over Draft facility for cash management from banks but it is against the FD so it is not a clear OD for them. It becomes very difficult for BCNMs to manage operations in such situation. Concrete actions and policies should be taken up to solve problems related to working capital.

Top priority recommendations (based on consensus made after the discussions):

- Circulars by RBI should be implemented by banks on regular basis and provided to BCNMs which should provide updated information to CSPs on regular basis.
- There should be uniformity in services like recognition of CSPs, their remuneration etc. in order to develop BC as an identity and for the success of the model. Ownership of the BC model should be seen as an opportunity than an obligation and across all the levels i.e. policy, bank and BCNM appropriate and effective actions need to be taken by the concerned authority.
- Although trainings are being provided by the link branches there is still need to have a platform where problems faced by BCNMs and bankers can be shared and required action can be taken.
- SIDBI and DFID can work together to resolve the issue of working capital for BCNMs, under PSIG project and further discussions will be done.

These recommendations can be shared in the SLBC sub-committee meeting and can be taken forward in the SLBC meeting.

Annexure 1: List of participants

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