






Online Survey of MFIs as Business Correspondents




An MFIN-GIZ Assessment



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Background

- ▶ In January 2006, RBI allows banks to appoint Business Correspondents (BC) to carry out transactions on their behalf as agents
- ▶ Wide range of individuals and entities are permitted to be appointed as BCs barring NBFC-MFIs
- ▶ The 2008 'Committee on Financial Inclusion' under the Chairmanship of Dr. C. Rangarajan recommends that NBFC-MFIs may also be allowed to be appointed as BCs of banks
- ▶ While the number of bank accounts opened and serviced through BC channel has been rising steadily, penetration of credit, insurance, and pension is limited
- ▶ Little research exists on the interest and feasibility of MFIs to be BCs

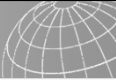

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Survey Objectives

- ▶ GIZ and Rabobank have commissioned a broader study of MFIs as BCs, using qualitative research, field visits, workshops and an online survey
- ▶ GIZ and MFIN collaborated to conduct the online survey of MFIs
- ▶ Survey objectives were to understand
 - ▶ Current landscape and past experience of MFIs (not-for profit and for profit) as BCs
 - ▶ The sector's future interest in this line of business
 - ▶ Challenges faced by MFIs as BCs

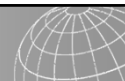
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Survey Methodology

- ▶ **Questionnaire**
 - ▶ MFIN designed the questionnaire in collaboration with the GIZ study team
- ▶ **Sample Selection**
 - ▶ Survey invitation was sent to 180 NBFC-MFIs and NGO-MFIs in the MFIN and Sa-Dhan databases
- ▶ **Data Collection**
 - ▶ The survey was administered through an online Google Documents form from Dec. 2012 to Jan. 2013
- ▶ **Response Format**
 - ▶ The online survey form comprised of mainly Multiple Choice Questions and a smaller qualitative section.

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Limitations of the Survey

- ▶ After the survey was completed in Jan 2013, several MFIs have started BC operations*.
- ▶ Survey was administered via Google Docs to reach out to a large number of MFIs. However, it was not interactive and so response facilitation was not possible, leading to some complex questions not being answered.
- ▶ There was no mechanism to validate responses.

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*During the course of our study, more than 30 MFIs that are functioning as BCs of banks have been documented. The actual numbers maybe more.



Respondent Characteristics

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Respondent Characteristics (1)

- ▶ 70 MFIs participated in the Survey
 - ▶ 49 NBFC-MFIs; 20 NGO-MFIs; one cooperative
- ▶ Good Representation of the Sector
 - ▶ MFIs with close to 27 million members participated in the survey, as opposed to 22 million clients of MFIN members.
 - ▶ Participating NBFC-MFIs have a total of close to 24 million clients;
 - ▶ Participating NGO-MFIs have a total of 3 million clients*

8 *Of the 3 million clients reported by NGO MFIs in the survey, 2.3 million belong to SKDRDP

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Respondent Characteristics (2)

- ▶ Responding MFIs range from those having less than 10 branches to those with more than 500 branches
- ▶ Member base ranges from less than 10,000 to more than 1 lakh

No. of branches

No. of branches	Percentage
< 10 branches	34%
11-50 branches	27%
51-100 branches	12%
101-500 branches	20%
> 500 branches	7%

Client base

Client base	Percentage
> 1,00,000 members	41%
10,001-50,000 members	30%
50,001-1,00,000 members	13%
< 10,000 members	16%

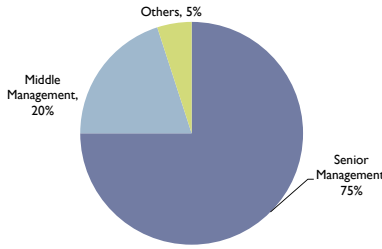
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Respondent Characteristics (3)

- ▶ A large majority was from senior management of the MFI
 - ▶ 75% of the respondents were CXO, MD, ED, VP, GM, Secretary, Secretary General etc.
 - ▶ 20% included secretaries/advisors to senior management, managers and senior managers



Category	Percentage
Senior Management	75%
Middle Management	20%
Others	5%

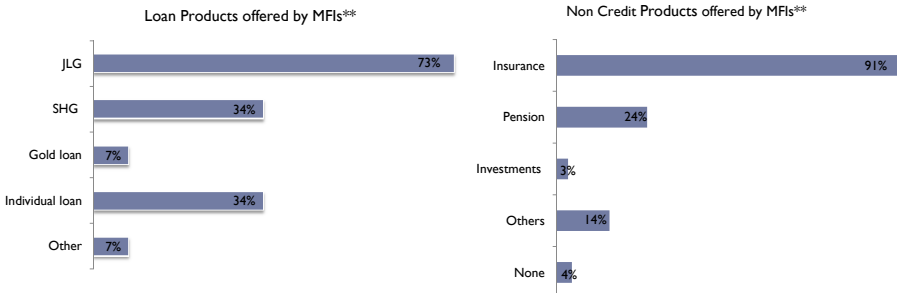
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Respondent Characteristics (4)

- ▶ Product offerings as reported by MFIs (apart from BC services)
 - ▶ 73% provide credit through JLGs; 34% through SHGs
 - ▶ 24% provide pension products
 - ▶ 14% provide health care, financial literacy, e-governance services



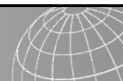
Product Category	Sub-category	Percentage
Loan Products offered by MFIs**	JLG	73%
	SHG	34%
	Gold loan	7%
	Individual loan	34%
	Other	7%
Non Credit Products offered by MFIs**	Insurance	91%
	Pension	24%
	Investments	3%
	Others	14%
	None	4%

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*Multiple answers possible to the question, so percentages may add up to more than 100%

Experience with the BC Model

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MFIs as BCs

- ▶ Currently there are few MFIs operating as BCs
 - ▶ Of the 70 responding MFIs, only 14 had ever been BCs of banks
 - ▶ Of the 14 MFIs, eight were NBFCs, five NGOs and one a Cooperative
 - ▶ However nine (six out of eight NBFCs, two out of five NGOs and the sole cooperative) have subsequently closed down operations
 - ▶ Currently five are operational – two NBFCs and three NGOs
- ▶ However, interest among MFIs is increasing*

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*In the last 12-14 months, there has been a significant growth in the above numbers, as more and more MFIs are becoming BCs of banks

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Legal Form used for BC Operations

- ▶ Though for-profit entities are permitted to be BCs, most BC operations are still through not-for-profit group entities
 - ▶ This may be because MFIs do not consider BC operations to be an activity that generates profits
- ▶ Eight of the nine responding NBFC-MFIs ran BC operations through a not-for-profit entity
- ▶ All five NGO-MFIs used the same entity for their BC operations
- ▶ The sole Cooperative MFI (Saath Savings and Credit Cooperative Society Ltd.) used a separate not-for-profit entity for its BC operations
- ▶ 'Future Financial Services' is the sole NBFC-MFI that ran BC operations through a private limited company*

14 *Though not common, more MFIs such as IFMR Rural Channels and Satin are using a for profit Private Limited Company for their BC operations

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Banking Partner

- ▶ Banks are interested in partnering with MFIs
 - ▶ Of the 70 MFIs, almost half (33) had at some point been in discussions with a bank or TSP to be their BC
- ▶ **More Private Banks than PSUs**
 - ▶ Of the 14 MFI-BCs, eight partnered with private banks, four with public sector banks; while two were BCs of both
 - ▶ More NBFC-MFIs partnered with private banks (six out of eight).

Type of Bank as BC Partner	NBFC-MFIs	NGO-MFIs	Cooperative-MFIs	Total No. of BCs
Public Sector Banks	2	2	0	4
Private Banks	5	2	1	8
Both Public and Private Banks	1	1	0	2
Total	8	5	1	14

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Products offered as BCs

- ▶ NBFCs are offering a wider range of products as BCs than NGOs
- ▶ NBFC-BCs offerings are
 - ▶ Savings (100% {all 8 MFIs})
 - ▶ Credit (25%)
 - ▶ Insurance (25%)
 - ▶ Domestic Money transfer(25%)
 - ▶ Government to person payments (13%)
- ▶ NGO-BCs product offerings are
 - ▶ Credit (83%)
 - ▶ Savings (67%)

Note: MFIs are not permitted to collect deposits on their own

- ▶ More NGOs offer credit products as BC but provide lesser (varied) offerings
 - ▶ This may be due to more difficulties faced by NGOs in raising funds for normal credit operations and existing skill sets being more suitable for credit based services.

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Technologies used for BC operations

Technology Used	Total No. of MFIs	NBFC-MFIs	NGO-MFIs
POS device	6	4	2
Mobile phone	7	4	2
Computer/Laptop based	7	5	2
ATM	1	1	0
Smartcards	2	2	0

- ▶ In case of 7 out of the 14 MFIs, the bank provided the technology. Five MFIs used a third party as the TSP, while 2 used in-house technology.
- ▶ All MFIs used technology for facilitating enrolment, authentication and receipt issuance at the point of service such as in centre meetings.
 - ▶ 11 MFIs used PoS or mobile based handheld devices
 - ▶ 3 used computers instead
- ▶ Low use of smartcards
 - ▶ Only two out of 14 used smartcards for authentication
- ▶ Only one offered ATM cards although anecdotally there is high customer demand for them (Swadhaar had offered ATM cards, which it has withdrawn since) .

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Viability of BC Line of Business

- ▶ Few BC businesses have been viable
 - ▶ Of the 14 MFIs that had formerly been BCs, 4 were profit-making, 9 were loss-making, while one achieved break-even.
 - ▶ Two NBFCs and two NGOs were profitable
 - ▶ No correlation to economies of scale among profitable BCs: one had more than 500 branches, one more than 100 branches; two had less than ten branches
- ▶ Breaking even has been harder than anticipated by these MFIs
 - ▶ 12 out of the 14 MFIs had a business plan for BC operations
 - ▶ Ten MFIs expected to break even in less than two years
 - ▶ Two MFIs expected to break even in less than a year

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Current Status of BC Operations

Legal Form of MFI	Total Respondents	Prior Experience with BC Model	Wound Up BC Operations	Still Currently Functioning as BC
NBFC-MFIs	49	8	6	2
NGO-MFIs	20	5	2	3
Cooperative MFIs	1	1	1	0
Total	70	14	9	5

- ▶ **9 out of the 14 MFIs closed down their BC Operations**
 - ▶ 6 out of 8 NBFCs
 - ▶ 2 out of 5 NGOs
 - ▶ 1 sole cooperative



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Reasons of Winding-up BC Operations

- ▶ Reasons in order of importance as reported by MFIs
 - ▶ Lack of support from the bank (6 out of 9 MFIs)
 - ▶ Incurring losses without a clear plan to reach profitability
 - ▶ Found it difficult to manage the BC activity along with their core activities
 - ▶ Lack of support from TSP
- ▶ Lack of bank support seems to dominate reasons
 - ▶ The three profitable/break-even MFIs that closed down cited lack of bank support as the reason
 - ▶ While all six unprofitable ones closed down, three reported lack of bank support as the reason rather than unprofitability per se

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Support from Banks – Selected Responses

- ▶ “This has to be more a bank initiative rather than MFIs” – **Arman Financial Services Ltd.**
- ▶ “Bank must treat MFI as a partner in all respects, not as an agent” – **NDFS**
- ▶ “There has to be participatory debate and discussion among banks and Micro Finance Institutions to evolve a sustainable business model in order to encourage broader Financial Inclusion - **Satin Creditcare Network Ltd.**


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Views of MFIs on Becoming BCs in Future

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Strategic Fit

- ▶ 58 out of 70 MFIs (84%) report that starting BC operations is a strategic fit for them
- ▶ 12 MFIs reported otherwise (8 NGOs and 3 NBFCs)

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Top Reasons for Being a Strategic Fit*

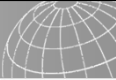

Benefits

- ▶ Additional source of revenue
- ▶ Loans from MFIs if routed through the savings account opened as BC may bring down risks and costs
- ▶ Diversification of products

Strengths for being a BC

- ▶ MFIs are already serving the unbanked/under-banked segments
- ▶ Established systems and processes
- ▶ Experience in cash management
- ▶ Network of field staff in remote areas

24 *Mentioned by the 58 MFIs who said BC was a strategic fit for their MFI

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Top Reasons for Not Being a Strategic Fit*

- ▶ BC model is not suitable for small MFIs due to low revenues and high operational costs
- ▶ Revenue/compensation from banks is not sufficient for viability
- ▶ NBFC-MFIs are not allowed to operate as BCs
- ▶ Loss of independent identity by becoming agent of a bank
- ▶ Not easy to convince bankers at different levels to be made a BC
- ▶ A few MFIs perceived banks as competitors who may poach the good clients of the MFI once they are linked through the BC channel

25 *As mentioned by the 12 MFIs who felt that BC activities were not a strategic fit for their MFIs

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Revenue Structure – Selected Responses

- ▶ “There has to be a fee for sourcing clients which can cover the fixed costs of the BC, transaction-based fees to cover variable expenses. Savings account balance-based incentives to help the BC to reach profitability and to promote savings behaviour across the customers.” - **Janalakshmi Financial Services**
- ▶ “We think for every customer-facing employee we should earn close to Rs. 10,000. A good employee will handle 500 customers covering around 10 villages and provide the necessary full services.” - **Chaitanya India Fin Credit Private Limited**

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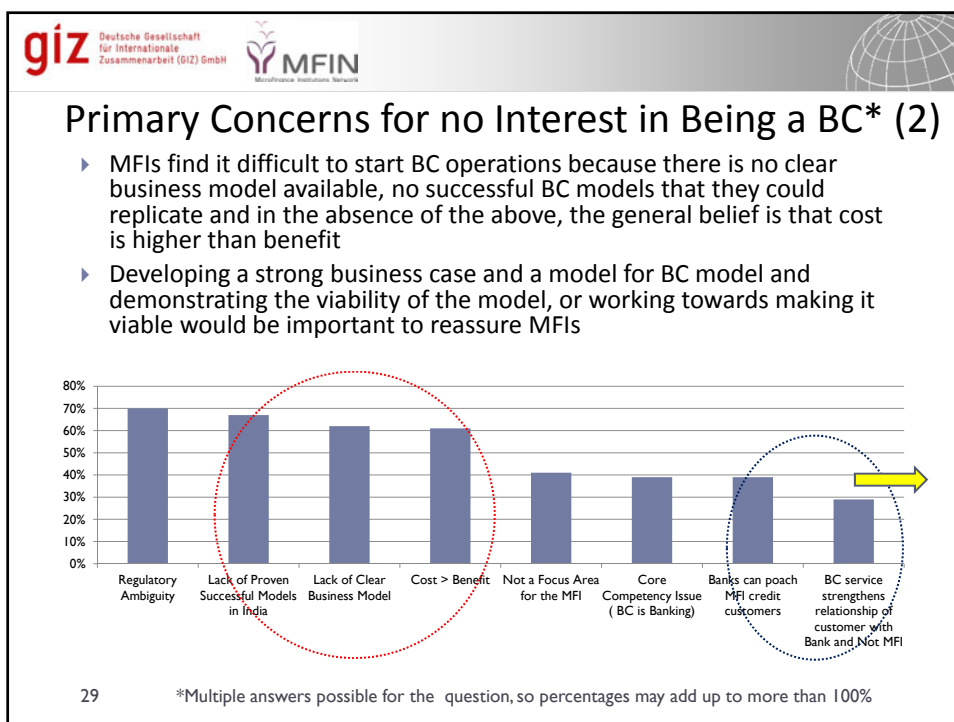
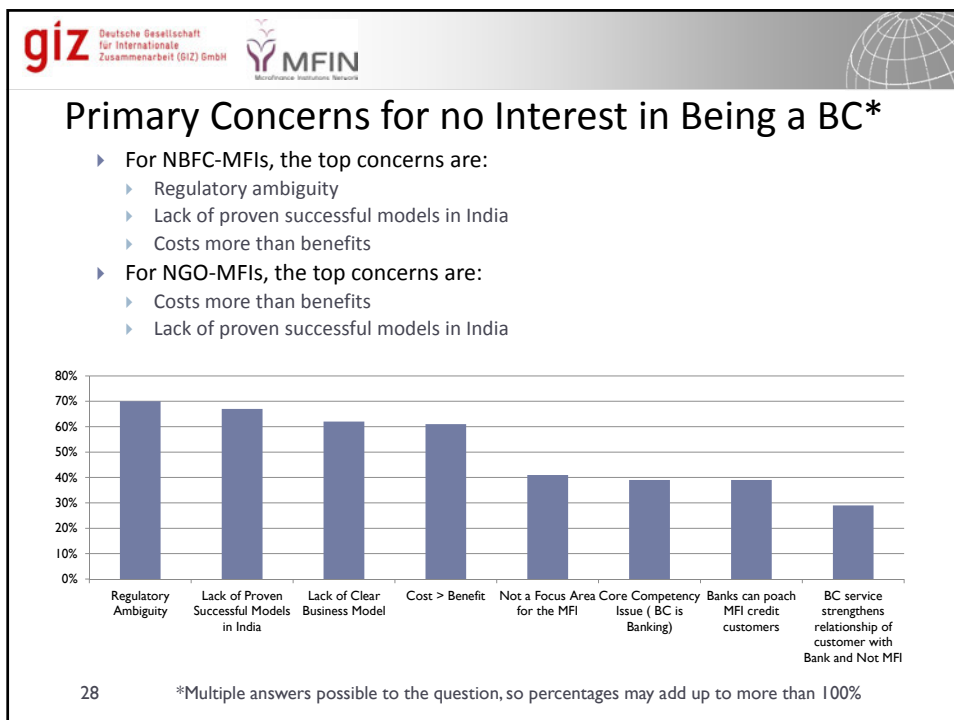
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Reason for Interest in Becoming BCs*

Reason	Percentage
Offering of choices to existing microcredit customer	85%
BC services are a way to strengthen banking relationships	85%
BC service strengthens relationship with customer	85%
BC can help optimum utilization of existing MFI resources (human, technical, financial)	78%
Diversification of Revenues	70%
BC services can help improve MFI profitability	65%


- ▶ Strong interest despite current challenges
 - ▶ 94% NBFC-MFIs and 71% NGO-MFIs report interest in becoming BCs in future
- ▶ For NBFC-MFIs, top attractions are
 - ▶ Offering more choices to existing microcredit customer
 - ▶ Strengthened relationship with customer
- ▶ For NGO-MFIs, top attractions are
 - ▶ Strengthened relationship with bank
 - ▶ Strengthened relationship with customer

27 *Multiple answers possible for the question, so percentages may add up to more than 100%



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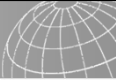
Perceived Risks of Becoming BCs

- ▶ The reported top-perceived risks are
 - ▶ Operational challenges
 - ▶ Loss of reputation with credit customers
 - ▶ Legal implications due to regulatory perception
- ▶ Almost all MFIs report that it would take them over a year to start operations
- ▶ Risk of Competition from Bank
 - ▶ NBFCs do not have much of a concern that the relationship between their customers and the bank may become stronger at their expense (only 21%) or of banks poaching their clients (16%)
 - ▶ However, this is a significant concern for NGO MFIs; 60% were concerned that the relationship of their clients would become stronger with the bank rather than them; 45% of NGO-MFIs were concerned about banks poaching their clients

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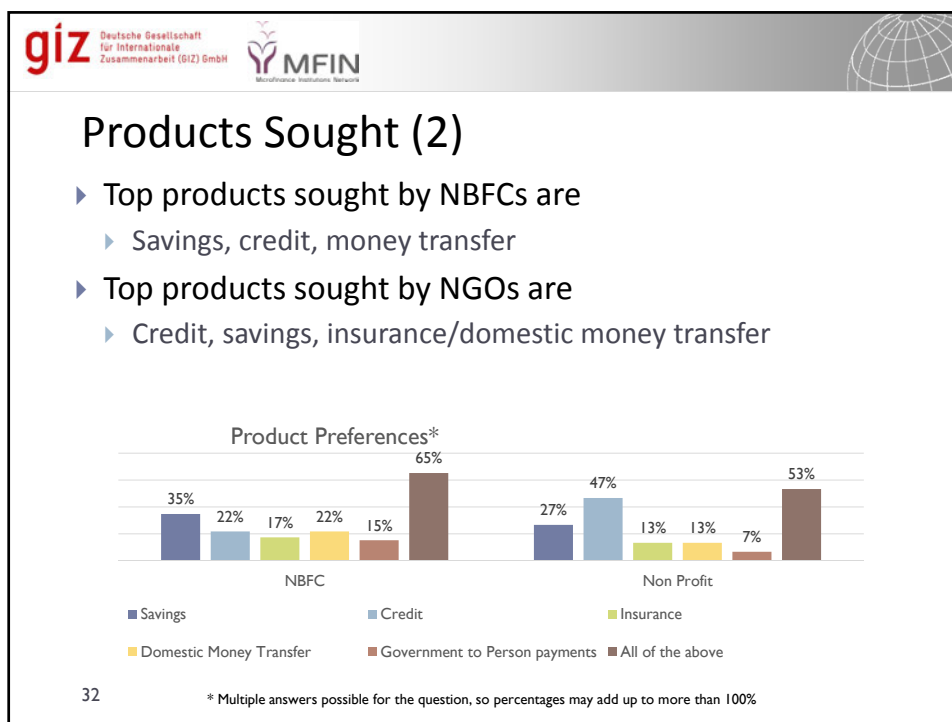
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Products Sought

- ▶ High interest among MFIs to offer all financial products
 - ▶ 65% of NBFC-MFIs and 53% of NGO-MFIs wish to offer all financial products - savings, credit, insurance, domestic money transfer and Government to Person (G2P) transfers
- ▶ 6 MFIs (9%) do not want to offer credit
- ▶ 4 MFIs (6%) would like to offer only credit products as a BC
- ▶ Only 9 MFIs (13%) were not keen to offer any new products as a BC

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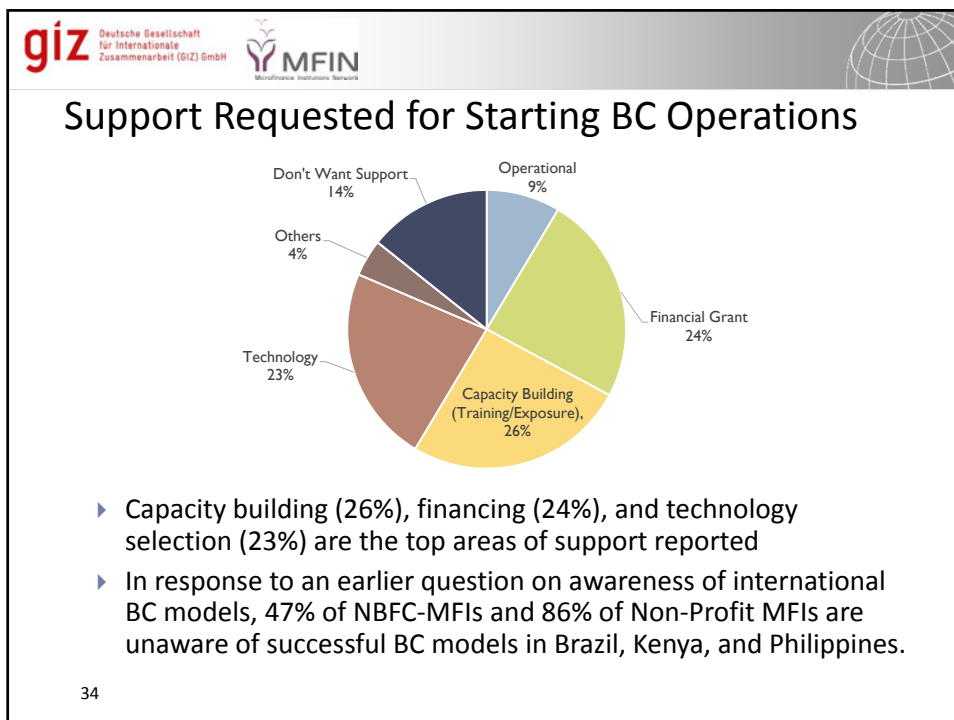
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Products – Some Responses

- ▶ “If MFIs can offer relevant products as a package, then the entire financial inclusion concept can become a success. Today, we are only looking at BCs to source no frill accounts and once done, nobody is bothered about the activation of these customers and drive customer behaviour towards transactions and balance build up.” - **Janalakshmi Financial Services**
- ▶ “Remittances are a significant means of receiving money for many poor families where the earning member has migrated elsewhere for income. Enabling cheaper, faster money transfer services would be a great benefit for many poor families who currently spend significant percentages of their earnings to move money. Moreover, many families could utilize insurance products and better pension delivery systems for greater social protection.” – **IDF Financial Services Private Limited**
- ▶ “Most of our 5.4 million members don't have bank accounts or would have inactive accounts with banks. Distance to the banks, transportation cost, inherent discomfort or fear to approach/transact with bank officials are some of the reasons for the aforementioned customer behaviour. We believe that we have already overcome these issues for our customers by providing door step delivery of financial services such as credit and insurance at the deepest pockets of rural India. We believe that a BC license will enable us to provide further more financial products and services with the help of a strategic alliance with a bank.” – **SKS Microfinance Ltd.**


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Feedback on RBI's Current BC policies

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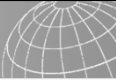
Feedback on RBI's Current BC Policies (1)

- ▶ NGOs perceive current regulations to be favourable but not NBFCs
- ▶ 71% of the NGO-MFIs felt that the policy is conducive
- ▶ Reasons are:
 - ▶ NGO-MFIs are allowed to function as BCs.
 - ▶ The policy is flexible and changes as per the needs of the industry. Recent circulars have made it easier to function as a BC.
 - ▶ Interests of the BCs are taken care of.

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Feedback on RBI's (& Banks') Current BC policies (2)

- ▶ Less than 25% of the NBFCs believe that the policies are conducive. Reasons are:
 - ▶ NBFCs are not allowed to become BCs
 - ▶ Revenues provided by banks are not viable
 - ▶ Mandatory to appoint a single BC for all PSU banks in a state; other area restrictions
 - ▶ Not allowed to offer full range of services
 - ▶ Tendering process for appointing BCs affects quality

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BC Policies of Banks and RBI – Selected Responses

- ▶ “The introduction of tendering process for appointing a BC is actually creating hurdles in quality players coming to participate. While the profit-making corporates can be a BC, NBFC-MFIs who are much more regulated than earlier and serve the same customers are not allowed to participate in this initiative. Also, appointing a single BC for all the PSU banks in the state is creating another hurdle. Govt and the RBI need to understand that they are not building roads and dams but instead creating a way forward for the country in terms of improving the livelihoods of the under-privileged.” - **Janalakshmi Financial Services**
- ▶ They (banks) are too focused on the cost of providing these services. A senior banker once summed up this philosophy. “If we give credit to the poor it has to be at 7%, else they cannot repay it and cannot afford more. If we give savings it has to be free”. The unsaid part is hence we do not give and let them borrow from MFIs at 26% or money lenders at 50% and loose money trying to save, but that’s not the bankers’ problem. So the essence is if you are interested in sustainable engagement with low ticket customers there is a cost and since the customer is alright with paying the cost you should first engage and then see how to bring down the cost.” - **Chaitanya India Fin Credit Private Limited**

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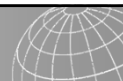
BC Policies of Banks and RBI – Selected Responses (2)

- ▶ “Revenue model is vague. Too restrictive for consumers. Portability of data between formal networks - e.g. Bank ATMs is not being made mandatory. Current BCs are not really doing Financial Inclusion, they are just managing payments or catering to urban remittances to rural areas.” - **Spandana**
- ▶ “Sad to see a good channel not being allowed to offer BC services.” - **Intellicash**

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Conclusions and Next Steps

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Survey Findings

- ▶ Only five MFIs were operating as BCs (at the time of the survey), though the number has subsequently increased
- ▶ Nine had closed down, citing lack of bank support and lack of viability as key issues
- ▶ However both NBFCs and NGOs show a keen interest in future
- ▶ Close to 60% of MFIs look to offer a range of services through the BC channel
- ▶ Capacity building has been requested as a key support to start new operations, followed by financial assistance

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Way Forward – Selected Responses

- ▶ “Technology interface for real time/ same day cash settlement would reduce the risks of cash leakage. A cooperation and revenue sharing is required between the TSPs, MFIs and the Banks to provide a conducive environment for Financial Inclusion. The transaction processing needs to be separated from the client acquisition and relationship activity. NBFC-MFIs have the outreach and client relationships, and are best placed for client acquisition, uptake of financial products by providing financial education. The TSPs reduce the costs and risks of handling cash, with a widespread network of agents which provide the spread of transaction points for customer convenience. The 3 need to work together, rather than seeing the MFIs and TSP BCs as ‘alternatives’ for the BC model. The MFIs could look at passing on the transaction handling for the loans also onto the transaction points of the agent network of the TSP BCs.” – **Swadhaar Finserve Pvt. Ltd.**

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Key Takeaways

- ▶ A clear business model for BC activity needs to be developed clearly demonstrating viability and best practices/products/scale that is required to achieve it
- ▶ Banks need to be more proactive and engaging with MFIs who work as their BCs and need to be more supportive, understanding and sensitive to the needs of their BC partners, moving towards an engagement in the form of ‘equal partnership’ with their BCs
- ▶ Revenue model that is sustainable for both the bank and the BC
- ▶ Capacity building support in the form of training and exposure should be provided to MFI-BCs to help them with their BC operation
- ▶ NBFCs maybe allowed to function as BCs with appropriate mechanisms for monitoring and control in place

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Thank You!

Suggestions/Feedback/Inputs solicited
Please contact at amit.arora@giz.de

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