



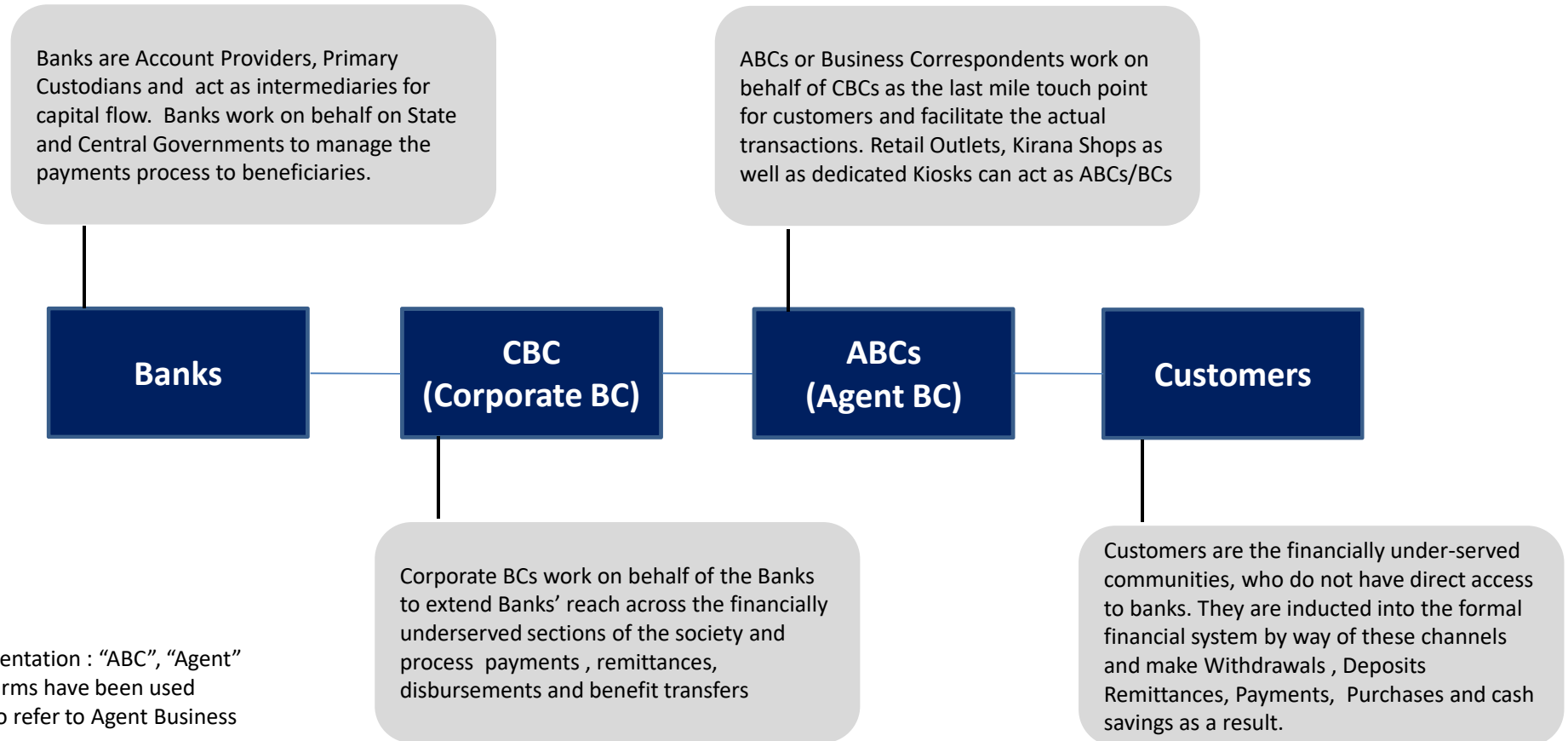
Business Correspondent Federation of India

Can Branch-less Banking Attain Escape Velocity ?

Challenges & Roadmap

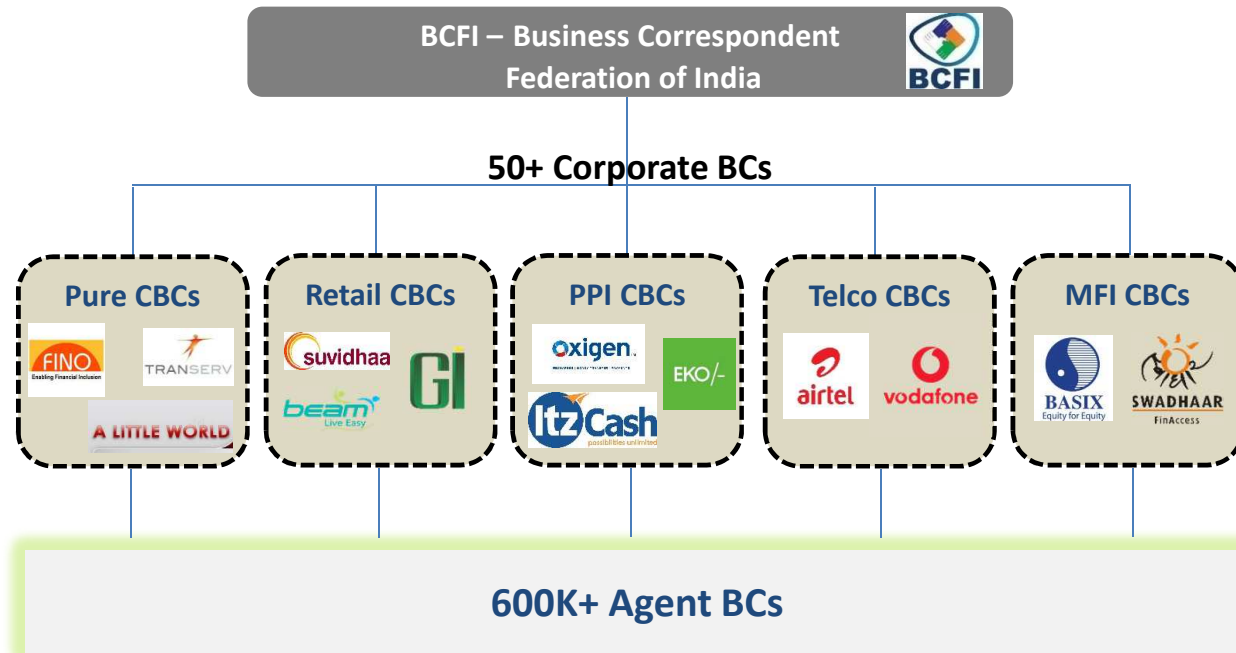
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Value Chain



Note : In this presentation : “ABC”, “Agent” and “Agent BC” terms have been used interchangeably to refer to Agent Business Correspondents

Landscape



Financial Inclusion via PMJDY

- 288 Million Jan Dhan accounts
- 31 Million Jeevan Jyoti insurance
- 10 Million Suraksha insurance
- 6.9 Million Atal Pension Scheme

Cards

- 710 Million Debit Cards
- 26 Million Credit Cards

POS Terminal Penetration

- 1.46 Million Retailers
- One of the lowest POS penetration

Products



Most Prevalent

- Opening of Accounts
- Cash Withdrawals and Deposits
- Remittances



- PAHAL
- MGNREGA
- PDS
- Fuel, Fertilizer subsidy



- Airtime Purchase – Recharges
- Bill Payments
- Remittances

Early Stage of Adoption

- Money Transfer
- Micro-Credit
- Debit Cards
- Insurance

- Health Care benefits
- NSAP
- Life Insurance
- Debit Cards
- Insurance
- Education

- Insurance – 3rd Party Coverage
- Mutual Funds



Economics

Revenues in INR CBC Revenues net of ABC Payout)	India		M-Pesa	
	ABC	CBC per Agent	ABC	CBC per Agent
Branchless- Banking	2,738	1,043	13,083	3,448
DBT Payments	2,476	1,013		
Branchless-Banking + DBT	5,214	2,056		

Profit in INR	India		M-Pesa	
	ABC	CBC	ABC	CBC
Branchless- Banking	1,711	670	7,260	?
DBT Payments	1,981	631		
Branchless-Banking + DBT (1)	3,322	1,671		

USD/INR Current Rate : 1USD = INR 65 ; Historical Rates considered as prevalent

Indian ABCs (Agent Business Correspondents)

- Offerings of ABCs have been classified into
 - Branch-less banking
 - Government Payments – Direct Benefit Transfer
 - Who offer both Banking and DBT transactions
- Revenues are currently lower than minimum wage expectation of INR 3000 p.m. if they are only focusing on one activity (Branchless Banking or DBT payments)
- Revenues touch ~ INR 5000 p.m. If they combine Banking with DBT
- M-Pesa ABCs and CBCs make substantially more revenues in comparison to their Indian counterparts, even if they focus primarily on Banking and payment related transactions

1: For Profit calculations of Branch-less Banking + DBT, ABC Profits have been shown as 90% of sum of individual profits from BB and DBT, and 10% of the profits have been assumed to be additionally accruing to CBCs

2. **Note** : All numbers have been calculated based on blended averages from data based on Microsave reports and CGAP Technical Guide report.

Metrics



Particulars	ABCs		CBC per ABC	
	India - Rural	M-Pesa	India - Rural	M-Pesa
No. Of Accounts opened/month	75.25	13.00	75.25	13.00
Commission in USD per Account opened	0.10	0.80	0.04	0.2
Transaction Volume per Month (W/D)	789	1,375	789	1,375
Transaction Value per Month - W/D (USD)	4,653	34,864	4,653	34,864
Commission per Transaction (%)	0.90%	0.55%	0.23%	0.14%
Commission per Transaction (Value in USD)	0.04	0.15	0.01	0.04

Average Monthly Revenue (USD)	48	201	20	53
Monthly Net Profit (USD)	29	112	12	
Monthly Net Profit Margin (%)	62%	55%	60%	

USD/INR Current Rate : 1USD = INR 65 ; Historical Rates considered as prevalent

Analysis of M-Pesa Vs India BC Model

- Monthly Transaction volumes are 1.7x higher in M-Pesa compared to India
- Total Monthly Transaction Value is almost 8x higher in M-Pesa
- Average Transaction Value for M-Pesa is 5x higher than India
- Commission % for Indian BCs is almost 1.6x higher than M-Pesa
- Indian Profit margins appear to be marginally higher at 60%+ compared to around 55% for M-Pesa ABCs

Source : All numbers have been calculated based on blended averages from data based on Microsave reports and CGAP Technical Guide, ABC Toolkit report containing M-Pesa numbers.

Metrics (Cont.)



Comparison of Agent BC economics in PPP terms for CBCs from India, Brazil and Kenya

Per Agent BC in \$US (PPP)	India		Brazil	Kenya
	Eko	Fino	Banco do Brazil - Telecom SVCS	M-Pesa
Transactions per Day	19	28	63	61
Avg. Revenue per Transaction	1	0	0	1
Avg. Revenue per Month	311	137	187	804
Cost per Day	0	4	8	17
Profit per Day	14	3	1	19
Profit per Month	302	56	13	424

- M-Pesa Agents make about 4x the revenues made by Indian and Brazilian counterparts
- Avg. revenues of India and Brazil Agents are comparable
- In Brazil, due to high incidence of theft, costs are higher than in India and Kenya
- While Eko in India is an exception, on average Fino agents make about 4x the profit of Brazilian Agent (ppp terms)
- Cost structures of Eko need to be investigated. Their profits are about 25% less than M-Pesa agent profits (ppp terms)

PPP Rates: 1USD = INR 17.5 ; 1 USD = 2 Brazilian Real ; 1USD = 21 Kenyan Shillings

Source : CGAP Technical Report, OECD Data

Learnings



M-Pesa has wider range of offerings

Distribution of Commissions Earned	ABC	CBC	M-Pesa	Bank	Flat Fee/%
Account Sign up	80%	20%			Flat Fee
Cash in at ABC	80%	20%			Flat Fee
Deposit from Third Party					Flat Fee
Transfer from bank account					Flat Fee
Cash out at ABC	51%	13%	37%		Flat Fee
Transfer to bank account					Flat Fee
Cash out at ATM				100%	%
P2P Transfer			100%		Flat Fee
Merchant purchases					Flat Fee
Bill Pay at ABC					Flat Fee
Balance inquiry	0%	0%	100%	0%	Flat Fee
e-Bill Pay	0%	0%	100%	0%	Flat Fee
Transaction Session Fee					Flat Fee

ABCs/CBCs of M-Pesa earn higher than other counterparts while Brazil is comparable to India

M-Pesa ABC Monthly Revenues are about 4x higher than in India

$$\text{Monthly Revenue} = \text{Transaction Value} \times \text{Transaction Commission}$$

$$4x = 7.5x \times 0.5x$$

M-Pesa CBCs earn about 2.7x higher in monthly revenues than in India

Average Indian Agent Revenue is comparable to Brazilian Agents but Profits are about 4x higher for Indian Agents

- Average Monthly Revenues and Profits for M-Pesa ABCs are much higher
- Revenues of Indian and Brazilian agents are comparable but Brazilian profits are lower as costs are higher due to thefts etc
- All Stakeholders do not have claim on revenues from every service offering.

Pricing for DBT

Monthly Revenue and Profits in INR for different DBT Commission Scenarios	DBT Commission = 1.9%-2%		DBT Commission = 2.5%-2.6%	
	ABC	CBC	ABC	CBC
Revenue	2,476	1,013	3,360	1,032
Profit	1,981	631	2,688	651
Commission %	1.3%	0.6%	1.9%	0.6%

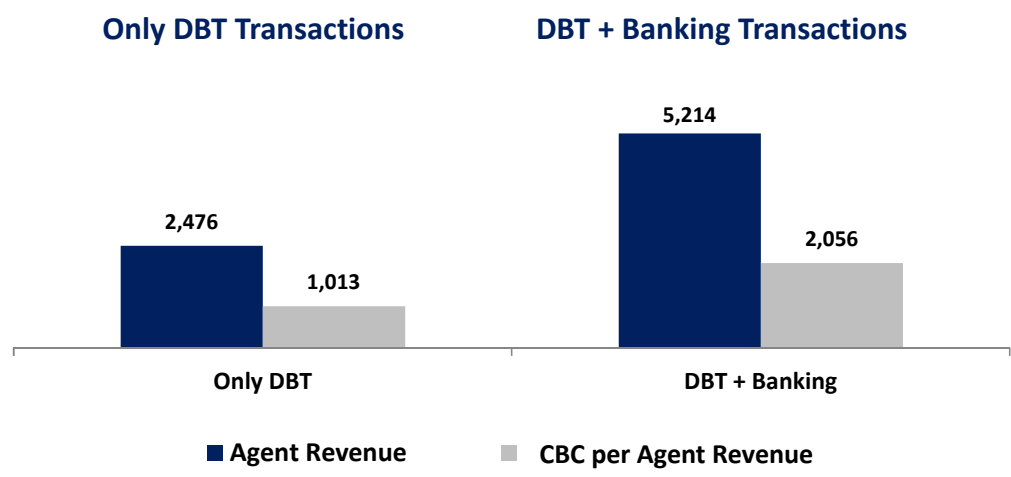
- At current levels of commission, ABCs focusing only on DBT transactions, cannot meet the Monthly Minimum Wage requirements of ~ INR 3000 p.m.
- With (ABC + CBC) commission rates of 2.5%-2.6%, ABCs can generate Revenues of ~INR 3000+ p.m. but after costs still fall short of minimum wage targets by about 20%
- Bank Payout is over and above the ABC + CBC commission rates and usually represent 10%-15% of the total fee pool

Current Fee Pool Ratio between Stakeholders for DBT Payout

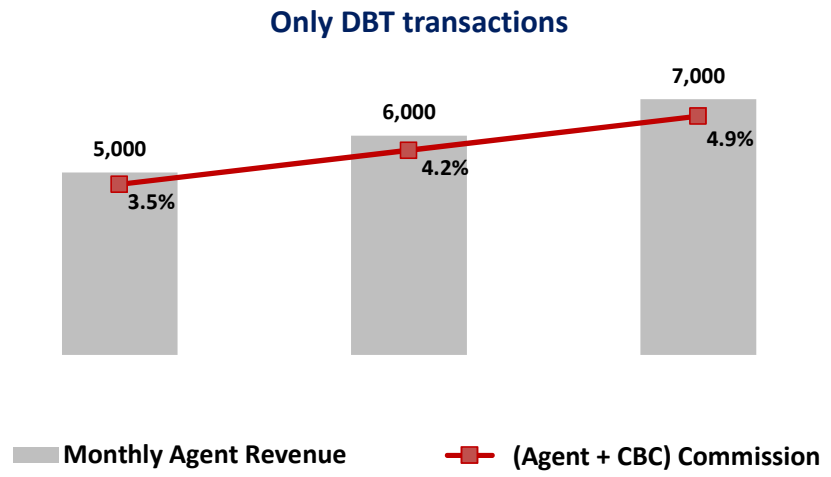
ABC : CBC : Banks = 1.3% : 0.6% : 0.2%

Sensitivity

Monthly Revenues @ DBT Commission Rates of 1.9%

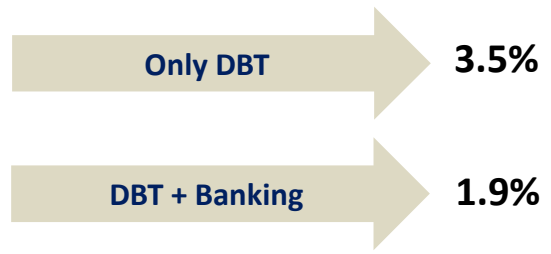


Sensitivity of ABC Monthly Revenue with DBT Commission Rates



ABC Revenues can be maximized by offering additional services along with DBT

DBT Commission Rates in two scenarios for ABC Revenue to be INR 5000 p.m.



Challenges

Low Revenues and not Profitability is key concern for Agents.

Sub-optimal Transaction Commissions for G2P Payments

Banks have little incentive to handle low value transactions.

Large Agent base implies a fragmented market with poor economics for all.

Low monthly transaction volumes and transaction values imply most Agents make less than minimum wage requirements.

G2P transactions such as DBT total in excess of \$40B but comprises of micro-payments and transaction commissions are suboptimal

Banks are not geared to handle low value transactions prevalent in Agent based model of Financial Inclusion.

600K+ Agents, 50K+ Corporate BCs imply a large supplier base for relatively low transacting population.



This in turn stems from limited activity and awareness amongst end-customers.

Government mandated limits on commissions may make business case unviable for all stakeholders

Payment delays from Banks strain cash-flows for Agents and ANMs, increasing their overall cost of doing business.

Low transaction values and volumes and large supplier base; revenue pie for individual Agents is sub-optimal.

Challenges (Cont.)

Inadequate Training, Certification and Monitoring facility

Lack of Training and Certification in BC industry has implied poor service quality, lack of product knowledge, mis-selling etc on part of BCs.



A Code of Conduct by BCFI is laying down Good/Best Practices for BCs. Digital Surveillance is also an option to monitor customer service.

Transaction Failures due to timeouts, Delays are a common phenomenon

Due to lack of Interoperability, for BC transactions involving different Banks, Transactions have to go through multiple Hops resulting in higher charges and timeouts.



Inter-operability for BCs allowing them to work with different Banks will address this challenge.

Limited Merchant payment acceptance points

The payment acceptance points need a minimum infrastructure and working capital requirements which individual agents find hard to fulfill.



RBI may allow ABCs to become Merchants and acquire and can provide interchange subvention to encourage digital payments

Lack of Financial Literacy and Awareness about financial products

76% of Indian adult Population do not understand basic financial concepts and have little knowledge of financial products.



Vernacular language based, mobile led financial education and literacy projects would help address this challenge.

Roadmap

Agent Offering
Diversification

Combining multiple offerings will allow Agents to make higher revenues in this otherwise fragmented market.

Optimal Commission for DBT

Optimal Commission structure for DBT transactions will allow all stakeholders to benefit.

Interoperability to drive
system efficiencies

Payment Banks or TSPs can drive system efficiencies by enabling inter-operability across the value chain.

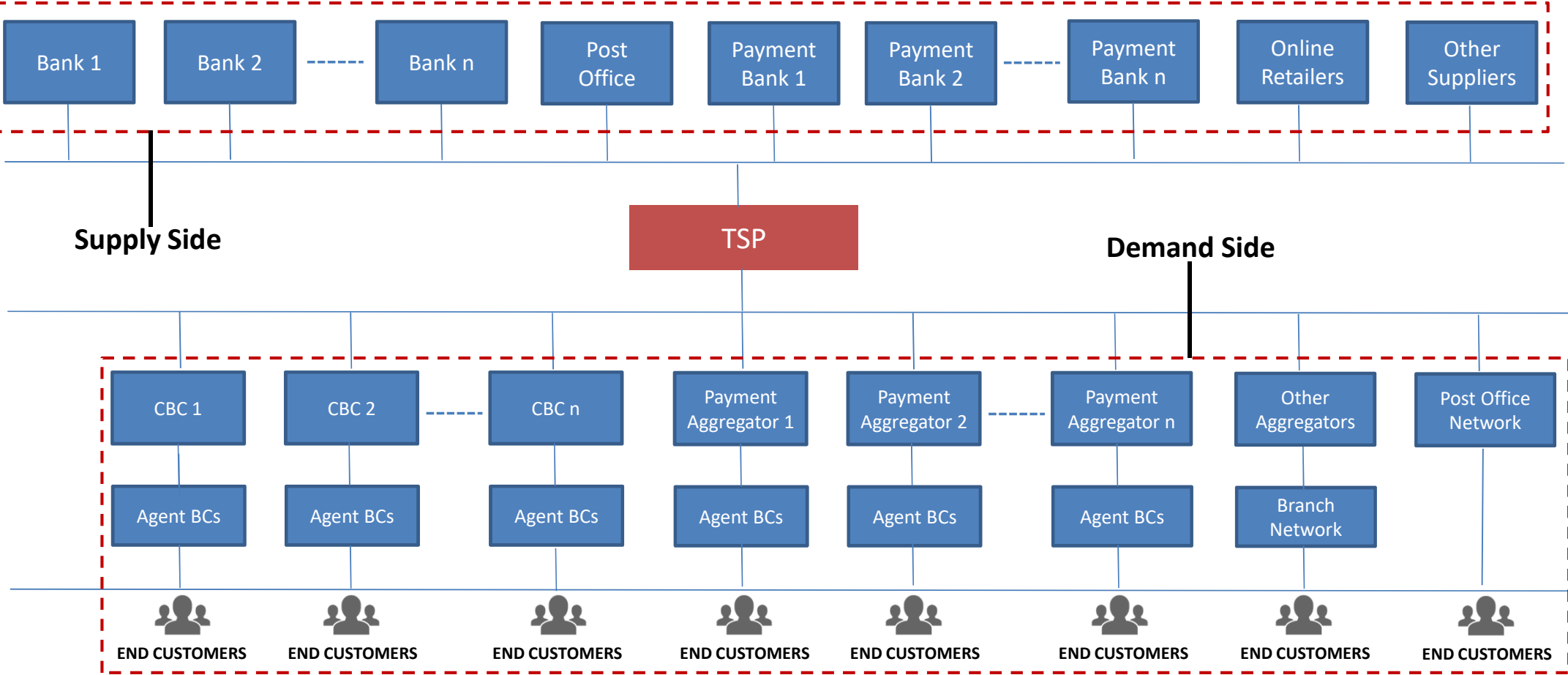
White Label BCs

ABCs/CBCs can have the option of working with any Bank and can act as acquirers directly connecting with a destination bank thus reducing role of acquiring bank and hence additional hops. This would reduce transaction costs and transaction delays/failures.

Consolidation will address
market fragmentation woes

Payment Banks who are new players in this game, are expected to assume significant importance in the Agent model of branchless banking. They can integrate ANMs via consolidation and get access to large base of BCs.

Inter-operability



Will Flywheel Effect lead to Escape Velocity ?

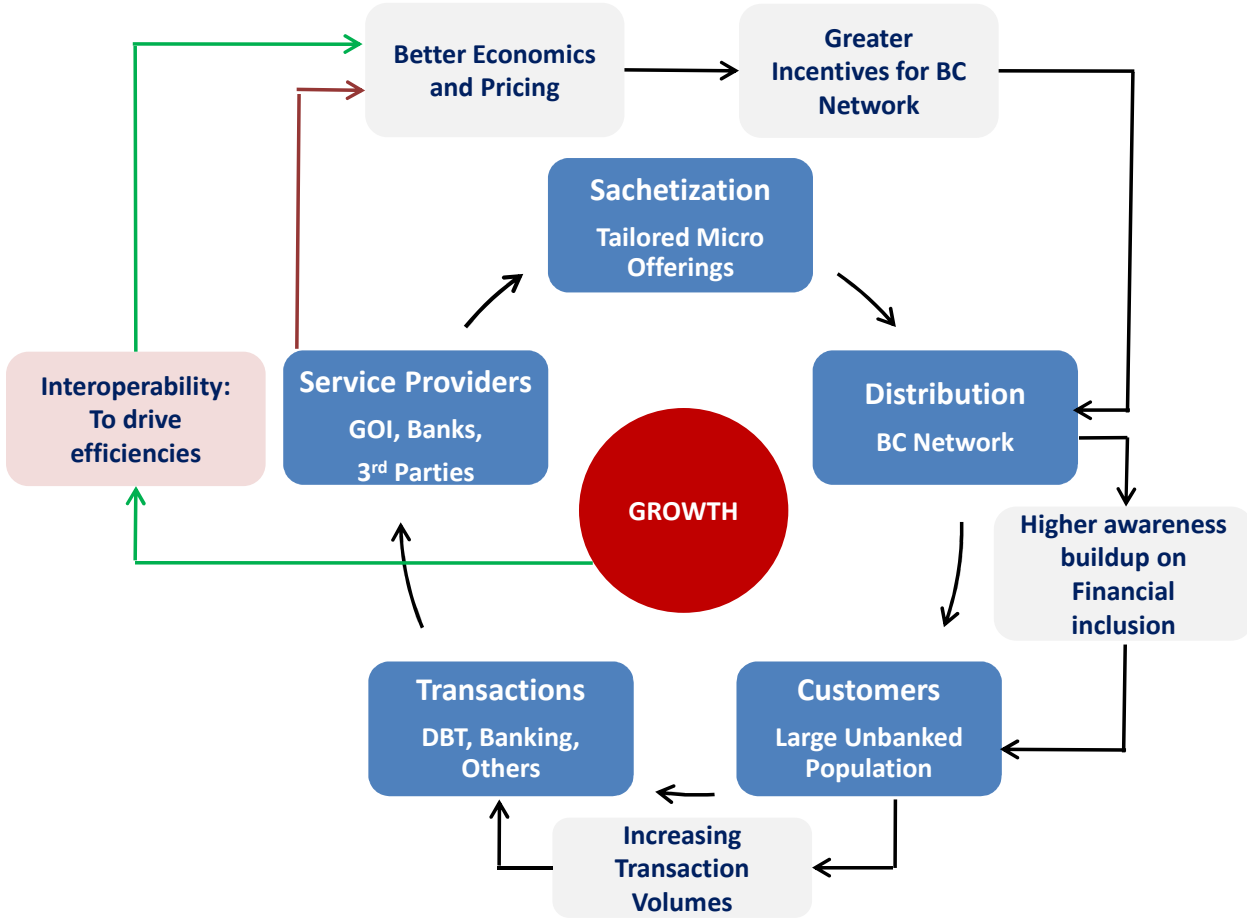
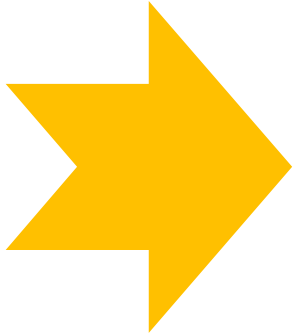


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Payments Banks

JAM Trinity

Mobile Money /
Mobile Banking





Anomalies in Historical Findings

Anomalies

1

ABC Economics shown for Rural ABCs in MS report of March 2012, highlights low profitability for ABCs doing both DBT and Branchless Banking transactions.

However in MS report of December 2013 on DBT, detailed analysis shows ABCs have high profitability. Additionally, in a detailed report published by CGAP on ABC based Branchless Banking, it has been shown that ABCs working for Eko and Fino in Branchless banking are reasonably profitable.

2

In MS report of May 2015, on DBT commissions, it has been shown that all stakeholders i.e. ABCs, CBCs and Banks are unprofitable under existing DBT commission structure.

However in MS report of December 2013 on DBT, detailed analysis of DBT transactions for ABCs as well as CBCs show that ABCs have high profitability of around 70%+ while CBCs operate at a margin of ~20%

3

In MS report of May 2015, on DBT commissions, cost per Rs. 100 transacted for each stakeholder has been shown to be much higher than what the detailed analysis of ABC/CBC financials in December 2013 report suggests.

Poor Rural ABC Economics for DBT + Branchless Banking

Agent economics

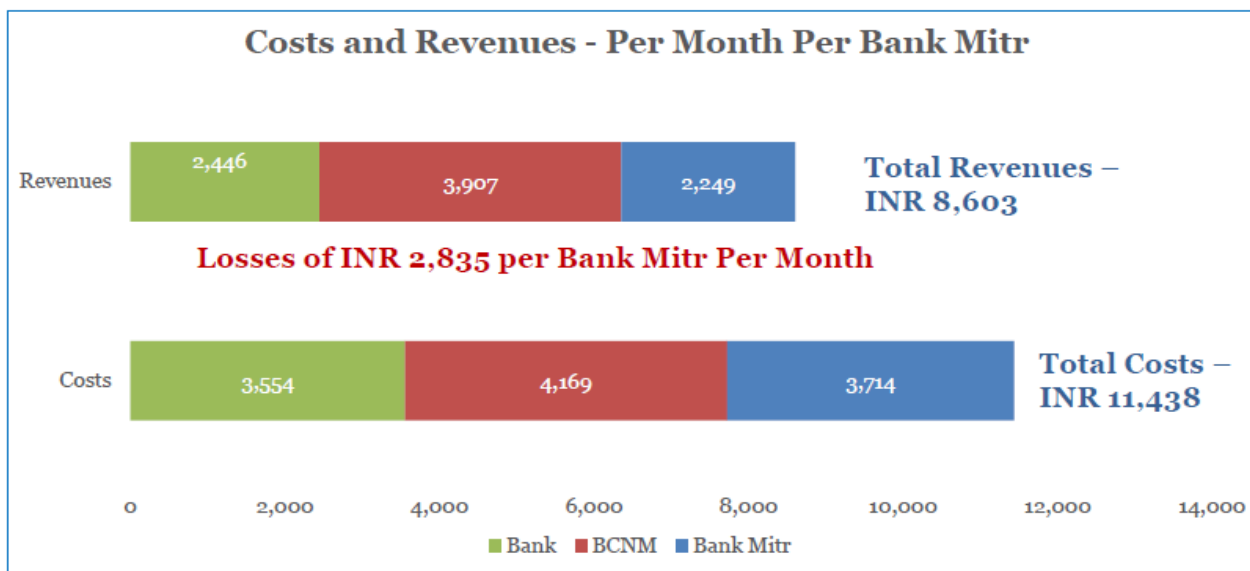
Agent Details	Case 1 Rural	Case 2 Urban
Place	Rural	Urban
Products	Account opening and government payments	Remittance (Deposit into Bank account)
Duration	5 months	5 months
Volume of business (per day)	50 - 60	35
Value of business (per day)	30,000	70,000 to 350,000
Average number of accounts opened per month	100	
Commission for account opening	10	45% of the charges levied by the Bank
Commission for withdrawal	0.45%	
Claimed income	2,000	
I. Monthly income based on commission	5,050	34,087.50
Working capital investment	30,000	200,000
A. Financial Expenses		
Interest on working capital	300	2,000
B. Administrative Expenses	4,000	5,300
Rent	700	Own building
Internet	300	300
Salary	2,000	3,500
Electricity	200	500
Stationery	300	500
C. Depreciation on Fixed Assets		
Furniture and computer	666.67	1,250
II. Total Expenses	4,966.67	8,550.00
Net Profit/Loss	83.33	25,537.50

The ABC Economics highlighted here is as per MS report titled “ **The State of Business Correspondence : Agent Networks in India**” of March 2012, where profit highlighted for a Rural ABC, providing DBT + Banking Transactions is shown to be very low.

This contradicts profit estimates of ABCs shown in Microsave Report on DBT Commissions titled “**Optimizing Commissions and Payout Mechanism for G2P payments under Electronic and Direct Benefit Transfer**” of December 2013 as well as detailed **ABC Management Toolkit published by CGAP** titled “Building a Viable Network of Branchless Banking Agents” where they analyzed the financials of ABCs working for Eko and Fino.

Profitability Across The Value Chain is shown to be non-existent for DBT payments

The Primary Reason for Drop-outs and Dormancy among Bank Mitrs is Inadequate Revenue



Low commission rates are driving losses for Bank Mitrs and BCNMs

- All participants in the value chain make losses. Banks incur a loss of INR 1,008, BCNMs incur a loss of INR 262, and Bank Mitrs incur a loss of INR 1,465 per Bank Mitr per month

The **May 2015 MS report** titled “G2P Payments in India – How a 1% DBT Commission could undermine India’s Financial Inclusion Efforts” all stakeholders have been shown to be losing money as costs are higher than revenues.

The above contradicts the detailed financial analysis of BCs and BCNMs, for DBT transactions, that have been illustrated in the MS report titled “**Optimizing Commissions and Payout Mechanism for G2P payments under Electronic and Direct Benefit Transfer**” published in December 2013. The snapshot of the analysis is shown in the next slide.



However ABC Profitability is much higher as highlighted in another report

CSP Economics - EBT/DBT : G2P	CSP1	CSP2	CSP3	CSP4	CSP5	CSP6	CSP7	CSP8	CSP9	CSP10
Gross Income / Month	2882	2910	1169	885	3035	1439	1648	5730	3500	1561
Enrollment Income	0	0	0	0	0	0	0	3980	3000	550
Transaction Income	2319	2347	606	322	2472	876	1085	1750	500	1011
Fixed Salary	563	563	563	563	563	563	563	0	0	0
Expenditure / Month	572	672	572	622	672	672	472	300	250	150
Mobile	100	200	100	100	100	100	100	200	100	50
Travel	100	100	100	150	200	200	0	100	150	100
Other Expenses	372	372	372	372	372	372	372	0	0	0
Profit/month	2310	2238	597	263	2363	767	1176	5430	3250	1411
Profit Margin	80%	77%	51%	30%	78%	53%	71%	95%	93%	90%

Detailed ABC Unit Economics highlighted in MS report of December 2013 suggests ABCs/CSPs in DBT have high profitability



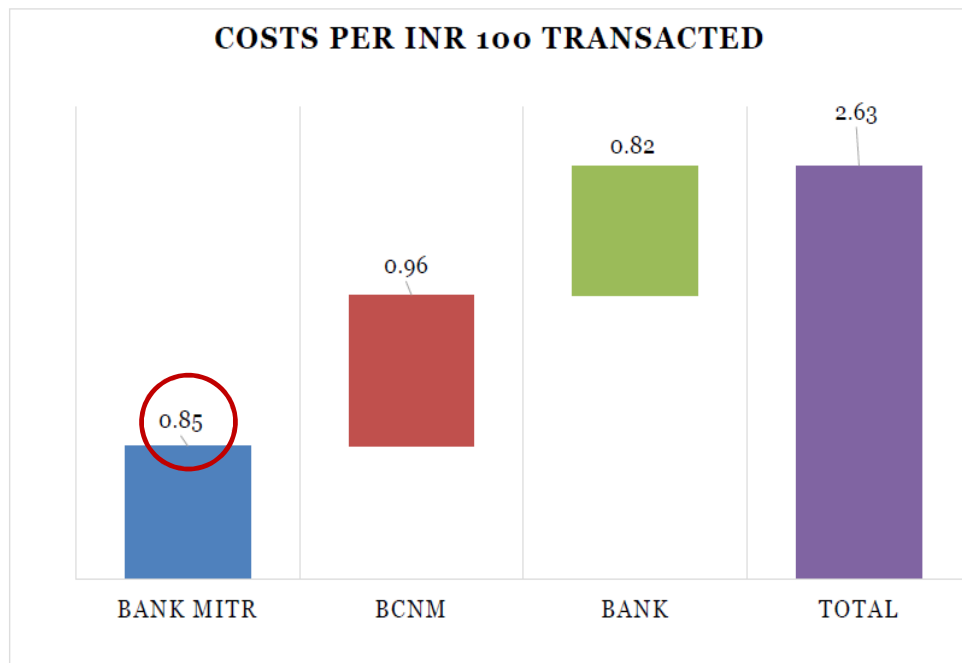
And CBCs have also been shown to be fairly profitable

Institutional BC - EBT/DBT : G2P – Current	BC1	BC2	BC3	BC4
Revenue per Disbursement (Rs.)	4.8	10.9	4.7	4.0
Enrolment Income	0.5	0.0	0.3	0.3
Transaction Income	4.3	10.9	4.3	3.7
Net Enrolment Income	0.2	0.0	0.1	0.1
Cost per Disbursement (Rs.)	3.5	8.0	3.7	3.6
Direct Cost	3.0	6.2	3.2	3.0
Platform/Tech Cost	0.2	0.4	0.2	0.3
Management & Supervisory Cost	0.3	1.5	0.3	0.3
Net Earnings per Disbursement	1.3	2.9	0.9	0.4
Percentage Margin for Institutional BC	28%	27%	20%	10%

Detailed CBC Unit Economics highlighted in MS report of December 2013 suggests CBCs in DBT have reasonable profitability of around 20%+

Discrepancy in Cost Per Rs 100 transacted in DBT for ABCs and CBCs

Cost per Rs. 100 transacted for DBT, for each stakeholder as per May 2015 MS report on DBT



Cost per Rs. 100 transacted for DBT is shown to be much lower in December 2013 MS report on DBT

	CSP1	CSP2	CSP3	CSP4	CSP5	CSP6	CSP7	
Cost for every Rs.100 Disbursed: Disbursed = 180,000	0.32	0.37	0.32	0.35	0.37	0.37	0.26	0.34
Cost for Every Rs. 100 Disbursed: Disbursed = 112,000	0.40	0.47	0.40	0.43	0.47	0.47	0.33	0.42