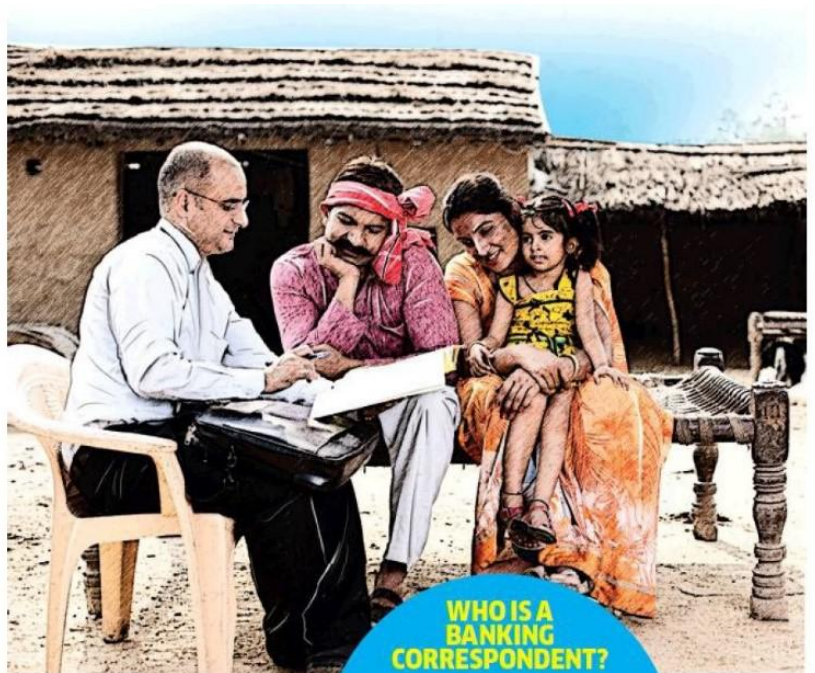


Bank on Foot

Banking correspondents who fan out to the corners of rural India are relevant even in this digital age. Could the interest of ecommerce players in this massive network change their meagre fortunes?



WHO IS A BANKING CORRESPONDENT?

Banking correspondents (BCs) are individuals or corporate entities engaged by a bank to provide banking services in unbanked and under-banked territories. A BC works as an agent of the bank and substitutes for its brick-and-mortar branch.

:: Shallesh Menon

If you thought only senior citizens would be relieved by the Haryana government's Old Age Samman Allowance, you are mistaken. Some younger people are pleased as well. Like Acchiram, 44. A banking correspondent (BC), he is one of the over 20 lakh agents who fan out into the nooks and corners of India where bank branches don't reach. Engaged by banks, they collect people's small-value deposits, help them process application forms and even assist in withdrawing money.



"One-bank-one-BC rule is a regulatory bottleneck faced by this industry. If BCs are allowed an open architecture model, they can service their clients better"
Sasidhar N Thumuluri, MD & CEO, Sub-K Impact Solutions

In Haryana, when Acchiram helps a senior citizen withdraw a full pension of ₹2,250, he gets ₹5. "There are usually 300-400 pensioners in each village. If a banking correspondent serves the senior citizens of just one village, he will be able to make an additional ₹2,000 every month," says Acchiram, who works for PayNearby, a corporate BC operating across India.

Acchiram has reasons to be chuffed in this digital age when one imagined banking would be at everyone's fingertips rather than facilitated by people still travelling to unbanked and

underbanked places. From offering a range of banking services to offering insurance, mutual funds and bill payment services, diligent BC agents have more avenues to earn a modest livelihood. Now they could be going beyond banking, too. Thanks to their role in taking banking and financial services to the last mile, several ecommerce players are interested in tapping them to make inroads into the hinterland. Top players such as Amazon and Flipkart are trying to use the vast BC network to widen the reach of goods sold on their respective platforms. Telecom and tourism players are also exploring ways to use them to reach a wider audience pool.

"As neo-banking and branchless banking concepts gain strength, the role of BCs will become more critical. While assisted banking would be their core business, they will branch out to non-banking businesses as well," says Sunil Kulkarni, CEO of Business Correspondents Federation of India (BCFI).

It took almost 15 years for the BC model to gather roots in India. While banking correspondents were initially appointed by public sector banks, at the behest of RBI, to promote financial inclusion in smaller cities and villages, the rollout of a slew of digital payment modes such as the Immediate Payment Service (IMPS), Unified Payments Interface

BC In Numbers

Over 20 lakh
NO. OF BCs
In India

Over 100
Corporate BCs

₹3.5 lakh crore
Worth of BC Industry

Aadhaar-enabled payments worth **₹18,000 cr every month**

What BCs Do

Domestic remittances worth **₹12,000 crore every month**

Micro ATM cash withdrawals worth **₹3,000 crore per month**

BC-originated loans (outstanding amount) come to **₹4,500 crore**

How Much Do BCs Earn

1% and 0.5% for remittances and cash withdrawals respectively

₹20-40 for new bank accounts

1-2% for loans and 10-15% for insurance products

₹5,000 to ₹20,000: Monthly earnings

BC services come under **27% GST slab**

Source: BCFI, Industry sources



PSU Banks
TOTAL NUMBER OF BRANCHES → **87,892**

| NUMBER OF BRANCHES | |
|--------------------|--------|
| RURAL | 28,921 |
| SEMI-URBAN | 24,586 |
| URBAN | 17,030 |
| METROS | 17,355 |

Private Banks
34,794

| NUMBER OF BRANCHES | |
|--------------------|--------|
| RURAL | 7,232 |
| SEMI-URBAN | 10,990 |
| URBAN | 7,336 |
| METROS | 9,236 |

Foreign Banks
308

| NUMBER OF BRANCHES | |
|--------------------|-----|
| RURAL | 15 |
| SEMI-URBAN | 8 |
| URBAN | 40 |
| METROS | 245 |

Source: RBI

(UPI) and Aadhaar Enabled Payment System (AEPS) and Bharat BillPay has broadened their scope. Currently, the BC network handles banking-related transactions worth ₹3.5 lakh crore a year (see graphics).

"BCs helped decongest the bank branches in a big way. A large bulk of the domestic remittances (urban-to-rural money transfers), amounting to roughly ₹12,000 crore a month, moved to BC channels," says Kulkarni. "Government's direct benefit transfer to bank accounts became a success as there were BC agents to facilitate cash withdrawals. Even during Covid-19, people living in the hinterland did not face cash shortage as there were BCs helping them with withdrawal and transfers," he adds.

Where Branches Don't Reach

What makes BCs important in far-flung Indian villages? To understand that, one needs to know more about India's banking infrastructure. Out of the 1.2 lakh bank branches in India, only 36,000-odd are located in rural areas. There are 2.1 lakh ATMs across the country, of which only 96,000 are off-site (away from a bank branch) cash-vending machines. There are just 25,000-odd ATMs for over 6.5 lakh Indian villages. In its elementary form, BCs make up for the absence of

branches and ATMs in rural India. They facilitate cash transfers for which they earn up to 1% as commission while cash withdrawal services (via the AEPS platform) yield them a 0.5% fee.

Says Amit Jain, head of alliances at Fino Payments Bank: "Cash is the primary medium of transaction in rural India; it is estimated that the use of cash in smaller towns and villages is as high as 85%. At the same time, the number of ATMs maintained by banks are coming down gradually. So there's a need for BCs to facilitate cash transfer and withdrawal services."

But ATM services can't make BC operations viable. BCs earn between ₹3,000 and ₹20,000 a month. They need to bundle up other banking products and services to be profitable or at least stay afloat. However, there are stringent laws governing BCs. As per RBI rules, a BC agent (acting as customer service points) can only be attached to one bank. Barring cash withdrawal services, he is not allowed to vend products or services (such as account opening, loans, deposits and other savings products) of other banks. So corporate BCs appoint agents who are mapped to one bank and provide services and products of just that bank in a specific area. These agents could be an individual or a small trader such as a kirana shop owner.

"The low commercial viability of the BC model is well-known; They will need multiple revenue channels and more products and services to make it a profitable business," says Deepthi George, head of policy at Dvara Research.

Progressive laws are the only solution to this problem, say most corporate BC executives whom *ET Magazine* consulted. "BCs should be allowed to offer products and services of more than one or two banks. In fact, if they are allowed to cross-sell, they will be able to offer better products and services to customers," says Anand Kumar Bajaj, MD &

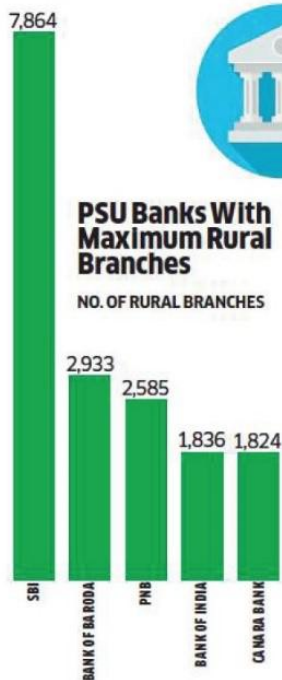


Note: "On-site ATM machines are set up on the premises of a bank branch" | Source: RBI



"As neo-banking and branchless banking gain strength, BCs will be more critical. While assisted banking will be their core business, they will branch out to non-banking businesses as well"

Sunil Kulkarni, CEO, BCFI



CEO of PayNearby, which has over 6 lakh agents on its rolls. "The commission rates for several BC services (such as cash withdrawal) are too low to make it a self-sustaining business. Even though we serve the poorest of the poor, we come under the 27% GST bracket. BCs doing volumes above ₹20 lakh are also required to pay TDS. These laws and levies make it difficult for BCs to operate profitably," he adds.

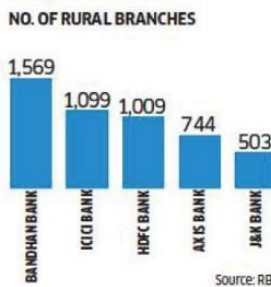
There are broadly three types of BCs operating in Indian villages. The ones who do cash withdrawals and transfers are called "transaction BCs". Then there are "asset BCs" who facilitate micro-loans from banks, NBFCs and MFIs. The third category are branch-backed BCs who are exclusively appointed by PSU banks. Nearly 70% of agents are transaction BCs – and they prefer to remain so, as only cash withdrawals and transfers have been made interoperable across banks.

"The BC model may not grow or evolve just by servicing bank accounts and doing payments," says Sasidhar N Thumulari, MD & CEO of Sub-K Impact Solutions, an asset BC with an outstanding loan book worth ₹1,200 crore. "One-

bank-one-BC rule is a regulatory bottleneck faced by this industry. Many a time, BCs are not able to offer certain products or services to their customers because their parent bank does not have those products or services. If BCs are allowed an open architecture model, they will be able to service their clients better," says Thumulari, whose company sells loan products of over a dozen lenders, including banks, NBFCs and MFIs, through their 10,000-strong agent network.

This lack of operational elbow room is now prompting BCs to include more non-banking projects such as assisted e-commerce (where BCs will help people buy online), bill payments, ticketing and phone recharges and EMI collection on behalf of other lenders. Among these services, assisted e-commerce appears to be the most promising.

Private Sector Banks With Maximum Rural Branches



Source: RBI



"Ecommerce players are not able to expand their services to remote villages as people have not started using smartphones or digital payment methods. BCs can help bridge the divide"

Dilip Modi,
Founder, Spice Money

"Ecommerce players are not able to expand their services to remote villages as people have not started using smartphones or digital payment methods even now. BCs can help bridge the divide," says Dilip Modi, founder of Spice Money, a corporate BC with nearly 5 lakh agents. "We can help them with order booking, cash collection, product delivery and even lead generation," he adds.

Ecommerce players such as Amazon, Flipkart, Big Basket and IMG are running pilot projects to test the model, say BC industry leaders. Beyond modern-day e-commerce, several handicraft cooperatives, agri-input companies and healthcare start-ups are also looking to tap the BC network.

"We are approaching BCs through banks but not directly," says the national sales head of a prominent e-commerce platform. "We do not have the wherewithal to check the credentials of BCs ourselves, so we take the help of banks for linkages. We have started working with a few BCs as a test project. We need to streamline our cash-on-delivery and product-return features on the BC network," the official adds.

Fino's Amit Jain believes these are early days for assisted e-commerce in rural India. "But if channelled properly, it can be a good complimentary banking laws," he says.

An ordinary BC's earnings come in trickles as they invariably deal with small-ticket transactions. So apart from 1% and 0.5% for remittances and cash withdrawals respectively, they get ₹20-40 for new bank accounts, 1-2% for loans and 10-15% for insurance products. "But selling insurance is tough in villages because there are social insurance schemes of state and central government," says Sub-K Impact's Thumulari.

But agents like Acchiram are hopeful of better earnings in the years to come. These agents have seen a mark-up in their profits after the central and various state governments started transferring subsidies and pensions directly to beneficiary bank accounts. That day may not be far off when rural folks would place the order for a new smartphone, buy a kilo of potatoes and also put ₹500 in a bank fixed deposit at a local kirana store that is doubling up as a BC agent. ■

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