

State of Agent Banking in Himachal Pradesh

*Perspective of banking agents & the Role of Aadhaar enabled
payment system*

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Preface

This report aims to advance the understanding of India's agent banking model, an intervention deemed to be the most effective means of achieving financial inclusion across the developing world. Also, it helps understand the critical role that Aadhaar, India's digital identity system, is playing in furthering the agent banking ecosystem in the country.

Despite the acknowledged importance of agent banking, limited research explains ground level practices and challenges backed by data. This report provides insights from the ground level based on disaggregated primary data from a specific rural setting. It helps form a fresh perspective on agent banking.

Based on extensive fieldwork spanning approximately 1000 person-days across 301 locations, this report presents operational practices and sentiments of the banking agents as well as the financial behavior and preferences of rural banking clientele. It also provides insights on rural banking clientele's adoption and use of the Aadhaar enabled payment system (AePS).

Acknowledgement

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Definitions

Aadhaar Enabled Payment System (AePS): A technology-based system that enables banking transactions through banking agents using the Aadhaar authentication to access the bank account.

Atal Pension Yojana (APY): A pension scheme launched by the Government of India to ensure a defined pension to the subscriber, depending on the contribution and tenure.

Banking Agent (BA): An individual who provides basic banking service for a certain bank outside bank premises, typically in underserved areas.

Banking Client: Users of the services of banking agents.

Banking Agent Outlet or Kiosk: A fixed location (shop) used by banking agents to provide banking services.

Banking Outlet: Refers to a bank branch, ATM or banking agent that provides access to banking.

Basic Savings Bank Deposit Account (BSBDA): A savings account without any minimum balance requirement that banking agents or bank branch can open.

Business Correspondent Network Manager (BCNM) or Institutional Business

Correspondent (BC): A third party (usually a private company) contracted by a bank to recruit and maintain a network of banking agents.

Cash-in/Cash-out (CICO): Services of depositing (cash-in) or withdrawing (cash-out) from a bank account.

CRISIL Inclusix: An index generated by CRISIL to measure the extent of financial inclusion in India across its 666 districts.

Direct Benefit Transfer (DBT): A program launched by the Government of India to directly transfer benefits/subsidies under welfare schemes to beneficiaries' bank accounts.

Electronic-Know Your Customer (eKYC): A process by which a service provider verifies the identity and other particulars of an individual digitally without any physical documentation.

Fixed Deposits (FD): A term deposit allowing individuals to invest a lump sum amount at one time in the bank.

IM Group: Informal groups formed on any internet messenger apps.

Immediate Payment Service (IMPS): A 24X7 interbank fund transfer service which can be accessed from mobile, internet, ATMs, or SMS.

JAM Trinity: The integration of Jan Dhan Yojana, Aadhaar, and Mobile number to help the government implement direct benefits transfer in India.

Lok Mitra Kendra (LMK): An internet-enabled government-citizen interface for providing access to various government-run e-services through common service centers (CSC).

Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS): A Government of India scheme which provide at least 100 days of guaranteed wage employment in a financial year to every rural household whose adult members volunteer to do unskilled manual work.

Micro ATM: A handheld device used for enabling debit card-based transactions.

Microfinance Institution (MFI): A financial institution that provides small loans to people without formal credit access.

National Electronic Funds Transfer (NEFT): A nation-wide centralized payment system, operating in banking hours, and facilitating one-to-one funds transfer.

National Payments Corporation of India (NPCI): An initiative of Reserve Bank of India and Indian Bank's Association to provide infrastructure for physical and digital payments and settlement banking systems.

Net Promoter Score (NPS): A metric used to measure a user's willingness to recommend a service being used by him/her to others.

Non-Deposit taking Non-Banking Finance Companies (NBFCs ND): A company that lends and make investments but cannot accept demand deposits; do not form part of the payment and settlement system and cannot issue cheques drawn on itself.

Non-Governmental Organization (NGO): An organization not affiliated with any government formed to provide services or advocate a public policy.

Non-Performing Asset (NPA): A credit facility in respect of which the interest and/ or installment of principal has remained 'past due' for a specified time.

One Time Password (OTP): A password used for authorization of a transaction that is valid only for one time use.

Personal Identification Number (PIN): A numerical code used in electronic financial transactions, required for authenticating the user accessing a system.

Pradhan Mantri Jan-Dhan Yojana (PMJDY): A government scheme that aims to provide universal access to banking by ensuring at least one basic banking account for every household.

Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJY): A government-sponsored life insurance scheme.

Pradhan Mantri Suraksha Bima Yojana (PMSBY): A government-sponsored accidental insurance scheme.

Recurring Deposit (RD): A term deposit allowing people to make regular monthly deposits and earn returns on their investments.

Reserve Bank of India (RBI): India's apex bank, responsible for the issue and supply of the Indian rupee and regulation of the Indian banking system.

RuPay Card: An international payment card service launched by NPCI for all Indian banks.

Self Help Groups (SHG): Groups of men/women formed to enable its members to borrow from the bank in a group to undertake income-generating activities.

State Level Bankers Committee (SLBC): A state-level inter-institutional committee to ensure co-ordination between government and banks on banking development related issues.

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Key Insights

0.1 Relevance of Agent Banking

Although Himachal Pradesh has better banking penetration compared to many other states, there are villages in the state that are over 20 km away from a bank branch. It is in such areas that the critical role of banking agents comes to light. Banking agents have opened hundreds of bank accounts in similar areas underserved by the formal banking. Most bank accounts opened under Pradhan Mantri Jan Dhan Yojana (PMJDY), launched in 2014, were opened through the banking agents.

Banking agents save travel cost for the accountholders in remote areas. Residents of a village in HP reported spending about INR 50 to go to the bank branch. In another village, the residents hired a taxi to visit the bank branch, and it cost them INR

700-800 per round trip. Such a trip to town included other purchases but accessing the bank account was the primary purpose.

Further, the rural population was hesitant to go to a bank branch. The bureaucracy and paperwork at the bank branch were particularly discouraging factors for the rural population. The rural population found it challenging to ask clarifying questions/raise concerns in a busy bank branch. Some laborers reported that they were not received well in the bank branch. This client group also had issues with the bank branch's limited working hours since they worked throughout its operating hours.

For such clientele, banking agent bring flexible banking hours, on call availability, and assisted transaction mechanisms sans paperwork and formalities. Being a resident of the village, the accountholders find the agent more approachable.

A representative picture of agent banking outlet in Himachal Pradesh



Source: Project Team

In one case, an older woman who only spoke the local dialect found transacting at the bank difficult. But the banking agent, being a local, could easily interact with her and facilitate the transaction to her satisfaction.

For the shopkeepers in rural areas, where going to the bank is at least a half-day affair, visiting a bank branch means losing half a day's business. However, the presence of a banking agent provides convenience and helps avoid this opportunity cost.

Pensioners found it easy to withdraw pension amounts through Aadhaar Enabled Payment System (AePS) that required no paperwork. Women working in MGNREGA projects used agent banking outlet to withdraw their earnings. The female clientele was not hesitant in approaching male banking agents and vice versa.

In several cases, the clients started saving after contacting the banking agents. The agent helped the clients understand the concepts of interest rates and details of saving products. A female banking agent was part of a seven-member self-help group and encouraged other group members to save. In another village, the banking agent successfully motivated students from the school across the road and their parents to open a bank account and imbibe the habit of regular saving.

0.2 Intent of Banking Agents

Banking agents display a unique and impressive intent. Several banking agents go out of their way to facilitate banking transactions for the clients. It indicates a strong rapport between the agent and the rural banking clientele. In an interesting anecdote, the client's account was inaccessible due to technical reasons. Since the client had a financial emergency, the banking agent provided cash to the client from his personal account. Clients reciprocated an equivalent level of trust in some villages. After a few failed attempts to deposit cash into the bank account, a client left the money with the agent and asked him to deposit it later.

In some cases, the client wanted to deposit an amount higher than the allowed daily limit of INR 10,000. The banking agent took the money and used his personal account to transfer the amount to the client's bank account through an NEFT/IMPS. The agent gave up the commission that he would have made had he transacted through his business account. The client was happy to pay the transaction charges, if any, for it considering the higher cost of going to the bank branch instead.

In several cases, the clients called the banking agent before visiting the kiosk to check his availability or check if the banking portal was working or if cash was available with the banking agent.

In cases where the agents were required to achieve business targets, agents took innovative approaches worth mentioning.

- Many banking agents encouraged clients to use the banking portal for payment for their alternative business products or services.
- An agent close to an industrial area used to visit factories and facilitate laborers' transactions during certain times of day.
- Some agents used to visit different villages on different days. Few agents had fixed the week's day for each village to provide predictability to the clients. The agents contacted the village's head and informed him in advance. The village head announced it to the people on behalf of the agents.
- An agent had an arrangement with a truck union nearby and drew clientele from there

Such practices indicate the entrepreneurial character of village-level entrepreneurs.

0.3 Role of Aadhaar in Last Mile Banking

Aadhaar enabled payment systems is a critical mode of accessing bank account for the clients at the last mile.

- Several agents reported problems with the micro ATM, which left the agents and the clients with the option of AePS based transaction mechanism.

- Also, AePS is more popular among the vulnerable population groups, including female, low-income, and less educated clients. Particularly, AePS makes banking easy for aged and visually impaired clients who found it challenging to carry a debit card or enter a PIN.
- Clients rated AePS higher on speed, safety, and ease of use than debit card-based transactions.
- Interoperability is a significant feature of AePS based transaction mechanism, which attracts any bank's accountholder to the banking agent.
- Since AePS based transaction mechanism requires less equipment than the micro ATM-based transaction mechanism, it is cost-effective for the agents.

0.4 Key Concerns

A range of issues are worth highlighting that could pose issues relating to client protection, agent viability, etc.

Transparency

- **Misrepresentation:** In some cases, the banking agents used the base bank's branding but provided services through alternative banking channels, mainly due to higher incentive structures. Further, the customer believed that the transaction was being done through the banking portal and charged accordingly.

- **Unauthorized Charges:** In an industrial area, the migrated laborers were being charged an unauthorized amount by the banking agent. The laborers were aware of this but were okay with paying this amount rather than going to the bank. In several cases, clients were unsure if the agent was supposed to charge for facilitating transactions.
- **Compliance:** The agents need to comply with display of banking instructions and information on the kiosk.

Operational and Technical Issues

- **New Account Opening:** Account opening process was reported to be rather problematic since agent did not have control over processing time.
- **Technical Issues:** The online portal through which transactions were facilitated logged out the banking agent after about 15 minutes of inactivity. This was problematic in cases where the login process was lengthy, slow, and hence took time. This increased the transaction time for the client.
- **AePS transaction mechanism** was prone fingerprint detection issue due to which the agent had to attempt a transaction multiple time.
- **Account Balance:** The banking

agents did not have a clear picture of the balance in their wallet account and highlighted the need to have an active display window to know real-time account balance.

- **Commission:** High performing banking agents were not happy with BCNM taking a good cut of the commission paid by the bank. Many banking agents were not clear about commission structure.
- **Distraction:** In many cases, the agent had multiple businesses and limited agents' attention to banking operations.

Support

- **Support from Bank & BCNM:** In several cases, agents could perform better with support from the base bank branches and BCNMs.
- **Training Needs:** Banking agents need training on handling technology, selling products, and managing their operations better.
- **Micro ATM:** Micro ATMs were out of order in many agent outlets. There were concerns over the lack of hardware support. Such agents relied completely on AePS for facilitating transactions. There is a need to look into reducing the time to repair or replace the micro ATM.

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- **Lack of Trust:** In an area where a private company had duped people, the banking agent reported a lack of clients' trust.

Suitable product offering

- The nature of clientele and their needs vary. Shopkeepers need to be able to transact higher amounts through the banking agent. Also, such clientele wants to access their current accounts for which they face issues.
- Most clients' needs are within the daily transaction limit of INR 10,000. However, during harvest seasons, clients engaged in agriculture need to deposit higher amounts, which is not possible through the banking agent.
- Migrant laborers use banking agents for remittances. This client group also needs to deposit/transfer amounts higher than the daily transaction limits.
- To further ease the banking access to clients, banking agents suggested that an OTP based transaction mechanism be devised.

1. Evolution and Growth of Agent Banking in India

Chapter 1 Highlights

63%

Population in developing economies with a bank account

25%

Bank accounts are inactive

Agent banking is recognized as the most suitable approach to financial inclusion across developing world

48%

Inactive bank accounts in India

16,000

People per bank branch in rural India

Rural banking penetration in India is half of the urban banking penetration in India

9.88_{Lacs}

Banking Agents in India

34%

Annual Growth in Number of Agents

6.5_{times}

Ratio of banking agents to bank branch

After a challenging evolution, there is a renewed interest in the agent banking model as use cases increase

1.1 Financial Inclusion and Agent Banking

Financial inclusion – access to affordable and useful financial services – is a widely proven and adopted means of economic development (Demirgüç-Kunt, Klapper, & Singer, 2017). Financial inclusion helps lower poverty and income inequality by assisting individuals in saving more, increasing income, being financially prudent, improving health and nutrition, and enhancing risk tolerance (World Bank, 2014).

Bank account ownership is the gateway to financial inclusion. However, only 69% of adults own a bank account across the world. In developing economies, the account ownership is 63%, significantly lower than 94% in developed economies. Further, of all the bank accounts owned globally, 20% are unused in one year (Picture 1.1). In the case of developing economies, 25% of bank accounts are inactive (Demirgüç-Kunt, Klapper, Singer, Ansar, & Hess, 2020).

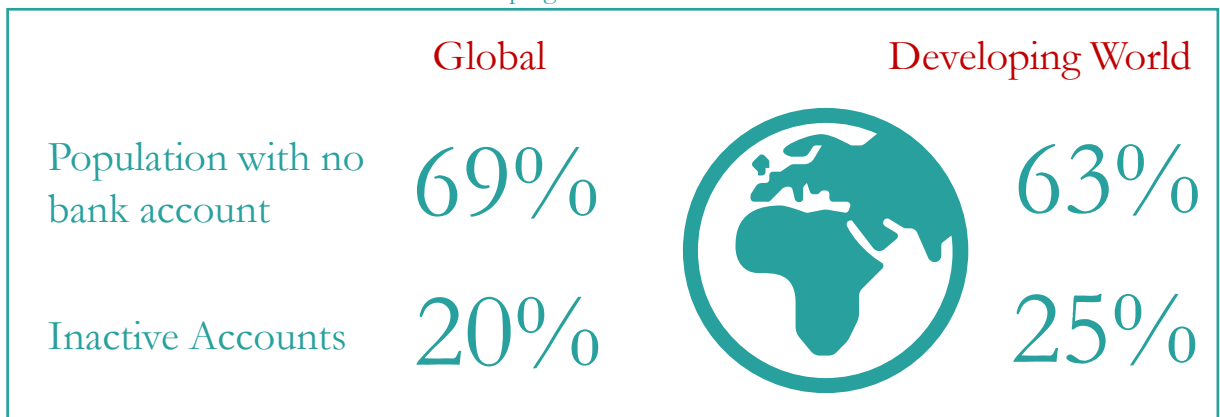
The key to increasing account ownership and use is reliable access and availability of financial services. Agent banking can provide easy access and availability of financial services to the underserved and vulnerable populations at the last mile. Therefore, agent banking is a critical intervention for achieving financial inclusion in places where formal banking has failed in onboarding large sections of the population.

Agent banking is the most suitable approach to financial inclusion, particularly in the developing world. Many developing countries, including Argentina, Brazil, Congo, Kenya, Mexico, Venezuela, Indonesia, Colombia, Peru, Pakistan, and Bangladesh, have tried agent banking with varying levels of success.

1.1.1 Account Ownership and Activity in India

In the recent years, India has exhibited exemplary growth in the number of bank accounts. Pradhan Mantri Jan Dhan Yojana (PMJDY), a government-led initiative

Picture 1.1 Financial Inclusion in the Developing World



Source: Demirguc-Kunt et al., 2017

launched in 2014, led to mass account opening. However, inactive accounts are a significant concern.

Researchers have noted low account usage among South Asian economies, India in particular. In 2017, 80% of adults in India owned a bank account, more than twice that in 2011. But 48% of the bank accounts were unused to deposit or withdraw in a year – the highest in the world (Demirguc-Kunt, Klapper, Singer, Ansar, & Hess, 2018).

1.1.2 Banking Penetration in India

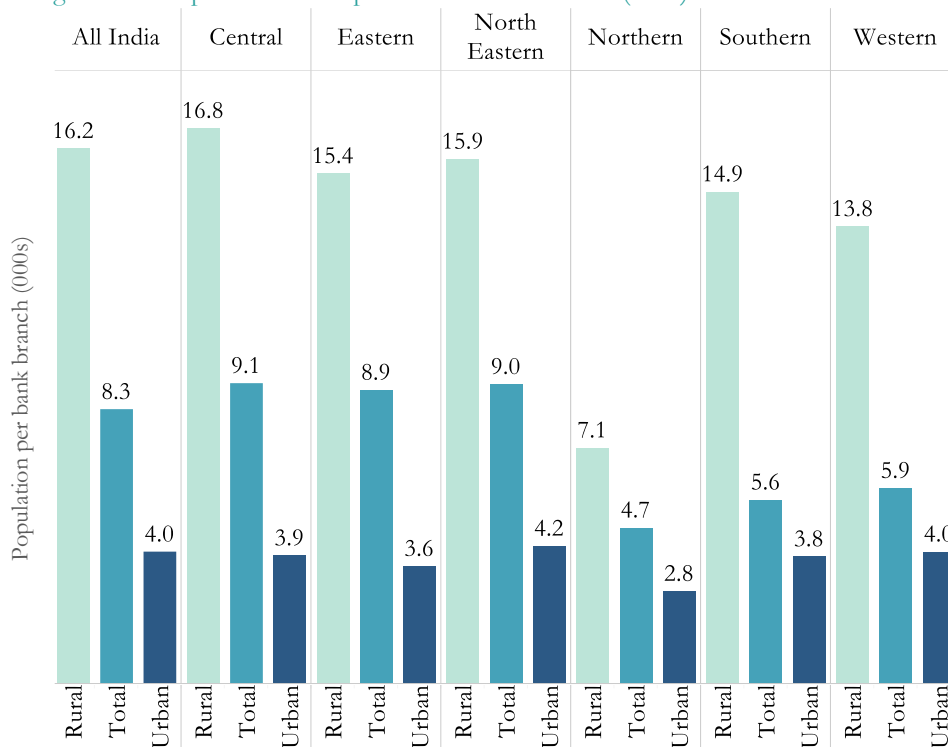
Rural banking comes at a high cost, due to which formal banking has not been able to make inroads into rural India despite enjoying the high trust of rural populations.

Being primarily a rural economy, India suffers from low banking penetration. India reports about 8000 people per bank branch, which doubles in rural areas (Figure 1.1).

Northern India has relatively better banking penetration, while the central and eastern parts have relatively lower banking penetration.

The market vacuum left by the formal banking is bridged by the alternative banking model of agent banking. It is also called the Business Correspondent Model (BC Model) in India. Agent banking enables banks to leverage the existing network of retailers that expand banks’ outreach faster and at a low cost.

Figure 1.1: Region Wise Population Count per Bank Branch in India (2019)



Source: Census of India (2011) and Reserve Bank of India (2019)

1.2 Evolution of Agent Banking in India

1.2.1 Challenging Evolution of Agent Banking

Since its launch in 2006 by the Reserve Bank of India, the country's central bank, agent banking has had a challenging evolution. The central bank has relaxed various regulations from time to time to keep the model alive. However, the central bank and the government did not invest adequate time and money in promoting the model among target user groups (Kapoor & Shivshankar, 2012; Ujjawal, Champatiray, Sadhu, & Mendiratta, 2012).

Some researchers have pointed that the commercial banks comply with the central bank's directions to achieve number targets and do not believe in the agent banking model. The focus on creating attractive offerings for the customers has been missing (Mas et al., 2012). Therefore, agent banking was regarded as a mono-product model⁶ for long time. It assisted in opening bank accounts that remained unused afterward for lack of use cases.

Heavy dependence on technology has been among the significant reasons for the model's lack of success. None of the players in the industry have been able to achieve scale or demonstrate viability, leading to a low-interest level of stakeholders (Kapoor & Shivshankar, 2012; Mas et al., 2012).

Besides, due to the lack of an attractive incentive structure for banking agents, agent banking's financial sustainability has always been questioned. The limited market size in rural locations, small ticket size, the mismatch between customer needs and product offering create market frictions for the supply and demand side market players.

From an operational perspective, banking agents' cash handling, establishing trust with clientele, ensuring compliance with banking norms, etc., have posed a challenge to scaling up the agent banking model.

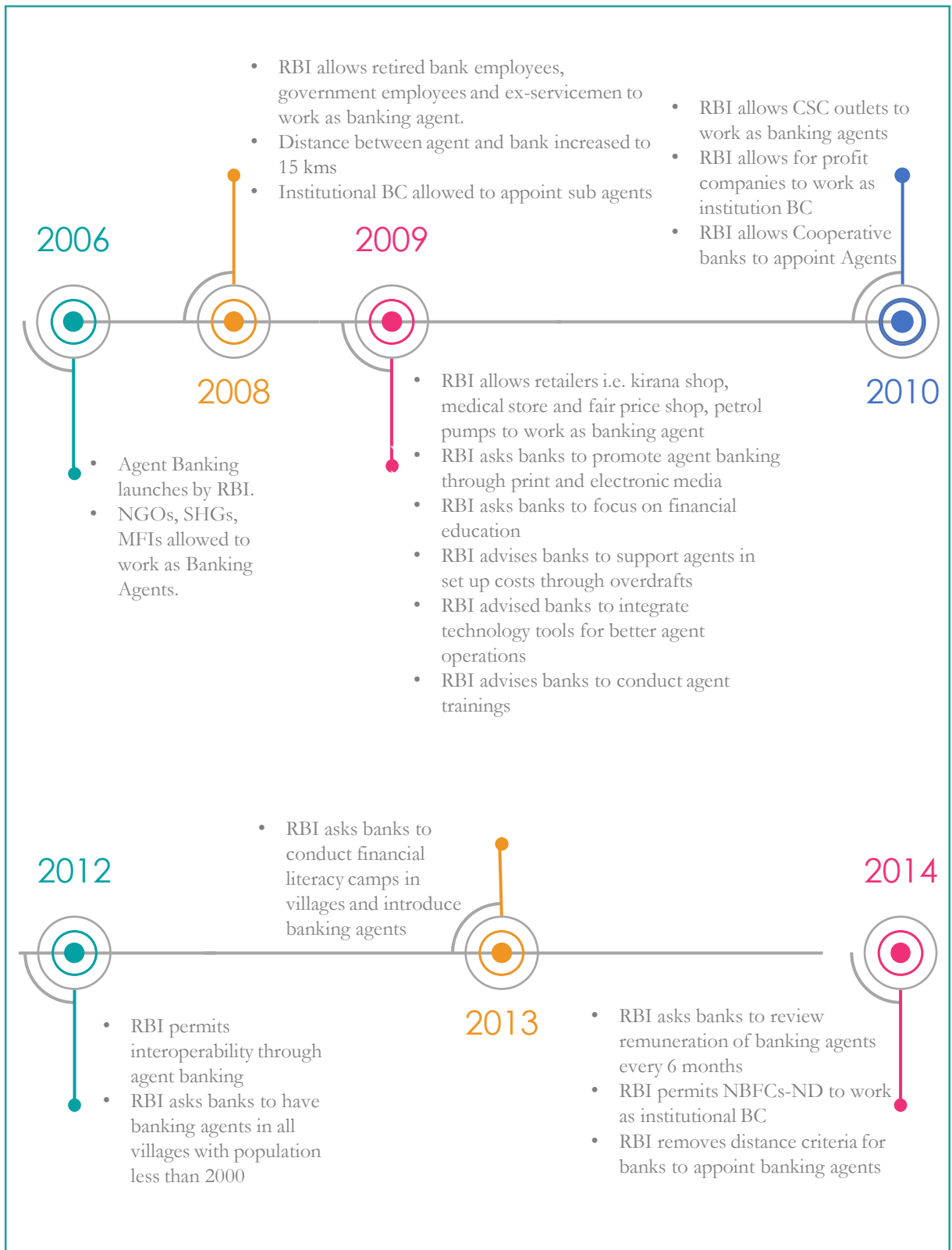
In the past decade, agent banking India has adapted more advanced technology and transaction mechanisms that facilitate inoperability, faster service, ease of access, and security. It appears that the agent banking may have turned the corner.

1.2.2 Rekindled Interest in Agent Banking

There has been a shift in the digital financial services story from just account opening to account usage (Mehrotra, Tiwari, Karthick, Khanna, & Khanna, 2018). After the direct cash transfer scheme launch in India in 2013, the agent banking model gained a renewed emphasis (Ananth & Öncü, 2014). Further, the outburst of account opening due to PMJDY led to the 415 million new bank accounts during 2015-2020 (Government of India, n.d.).

In the past few years, and public welfare schemes have enhanced the use of financial services through banking agents (Kochar,

Picture 1.2 Evolution of Agent Banking in India



Source: Several Notifications by Reserve Bank of India during 2006-2014

2018). Government to public transfers and cash transactions have significantly increased agents' revenues in rural and non-metro areas (Mehrotra et al., 2018).

Withdrawal of welfare payment by beneficiaries, mostly in rural areas, adds to the number of transactions facilitated by a banking agent, increasing his commission.⁸

There has been low account activity in PMJDY bank accounts due to delay in the issue of RuPay cards (PwC, 2015). But the support system has improved overall.

Agent networks have become stronger as a delivery channel for various financial and non-financial services. A study noted 100% increase in profits of agents and 200%

increase in cash transactions (Mehrotra et al., 2018).

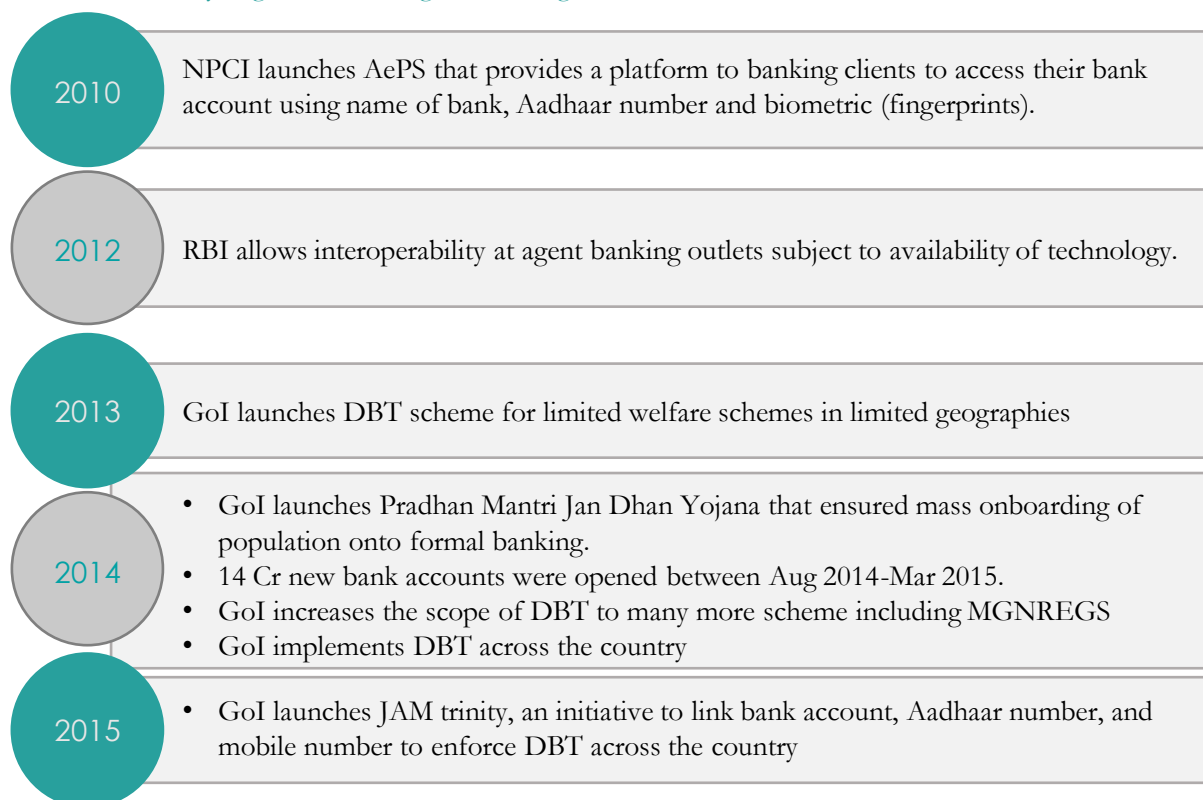
New operational models are emerging to resolve different issues such as liquidity management and viability.

With these developments, agent banking is showing better promise than ever as a measure of financial inclusion in a country where 20% of the adult population does not have bank account (Demirguc-Kunt et al., 2018).

1.3 Growth of Agent Banking in India

Between 2012-19, the number of banking agents in India grew at a compounded annual growth rate (CAGR) of 34%.

Picture 1.3 Catalyzing Events for Agent Banking Evolution



Source: NPCI, RBI and Government of India websites.

On the other hand, the numbers of ATMs and bank branches remained relatively stable during this period (Figure 1.2).

As of 2019, the total number of banking agents was approximately 6.5 times the number of formal bank branches. It indicates the critical role of agent banking in improving banking outreach to a large underserved population.

In addition to spreading outreach in remote and rural areas, banks are increasingly using banking agents in the urban areas to decongest bank branches by diverting low ticket transactions to the banking agent. It helps banks focus more on transactions with higher ticket sizes and the credit products.

The number of banking agents in 2019 increased sharply, mainly due to an increase in banking agents in urban areas. While this

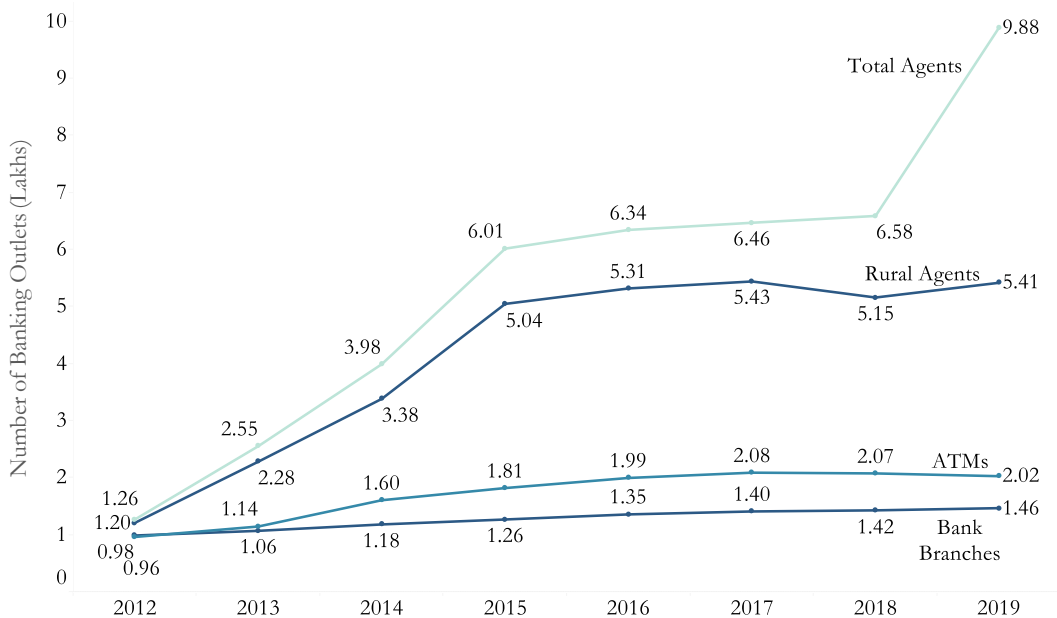
may be a good business strategy, it may not lead to useful financial inclusion. The urban areas are already well served with banking outlets. It is the rural outreach that is more meaningful from the point of view of financial inclusion goals.

1.3 Conclusion

Agent banking model has had its fair share of problems. However, recent technological advancements in banking and introduction of several government to public services has revived this model of banking.

Due to the above, use cases of banking agents have increased benefitting both the agents and the rural banking clientele that is underserved. The agent banking model has become more relevant to financial inclusion and economic development of India.

Figure 1.2: Growth of Number of Banking Outlets in India (2012-19)



Source: Reserve Bank of India, March 2019

2. Agent Banking Model in Himachal Pradesh

10th

Rank of HP in Crisil Inclusix Index

5,100

People per bank branch in rural areas in HP.

National average: 16,000

26sqkm

Geographical Area per bank branch

National average: 22 sqkm

HP has better financial inclusion score than the national average despite its challenging geography

54.6%

Share of PSU banks in HP branch network

26.3%

Share of cooperative banks in HP branch network

PSUs and cooperative banks dominate banking market in HP

1,753

Number of active banking agents in HP

52%

Annual growth rate of banking agents in HP between 2014-19

There has been a sharp rise in the number of banking agents in HP post the launch of PMJDY

2.1 Financial Inclusion in Himachal Pradesh

2.1.1 Profile of Himachal Pradesh

Himachal Pradesh is a rural state with 90% of its 68.6 Lakh people living in rural areas. The state has 12 districts that have 3,226 village panchayats made up of 20,690 villages. Approximately 90% of all villages have a population below 2,000, indicating the state's sparse population distribution. The mountain terrain in the state ranges between the altitudes of 350 meters to 6,975 meters.

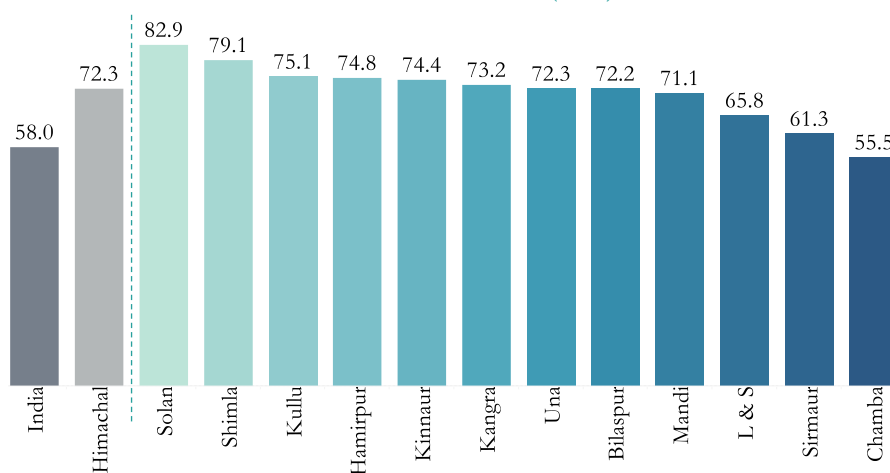
The state has a per capita income of INR 1.7 Lakhs compared to a national average of INR 1.3 Lakhs (Ministry of Statistics & Programme Implementation, 2020). 70% of the population relies on agriculture, and 88% of the agriculture area is with small and marginal farmers. Tourism brings seasonal income to the local population. The state has a literacy rate of 82% higher than the national average of 74%.

The state boasts of good power infrastructure, having electrified most inhabited villages. Being a mountainous region, roads in the state play an essential part in the state's economic activities. There are only two narrow-gauge railway lines in the state, making roadways the critical means of transport (Department of Economic and Statistics, 2019). Road density in the state is 65 km per 100 square km of geographical area compared to national average of 180 km per 100 square km (Ministry of Road Transport and Highways, 2017).

2.1.2 Financial Inclusion and Banking Penetration

Regarding financial inclusion, the state has a higher than national average score on the CRISIL Inclusix that provides an index value based on four parameters i.e., branch penetration, credit penetration, deposit penetration, and insurance penetration (Figure 2.1). HP was ranked 10th among Indian states on Crisil Inclusix Rankings.

Figure 2.1: District-wise CRISIL Index Scores for Himachal Pradesh (2016)



Source: CRISIL Inclusix (2018)

Himachal Pradesh has a low population sparsely spread across its geographical area, making banking difficult for remote and rural population groups. Further challenges of transportation in remote areas add to the difficulties of banking outreach.

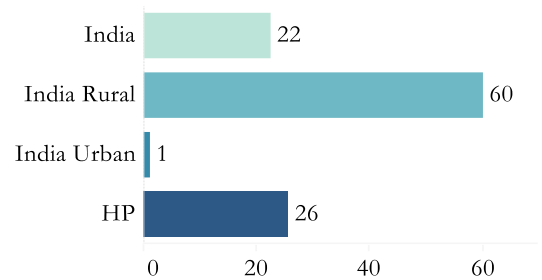
On average, a bank branch caters to 26 square kilometers in Himachal Pradesh compared to the national average of 22 square kilometers per bank branch. However, this is far better than the national average in rural areas (Figure 2.2). HP is also better placed in terms of population per branch than many neighboring and hilly states (Figure 2.4).

Public sector banks dominate the banking network in Himachal Pradesh with 54% share of total bank branches, followed by cooperative and regional rural banks.

The private sector has only a 7% share in

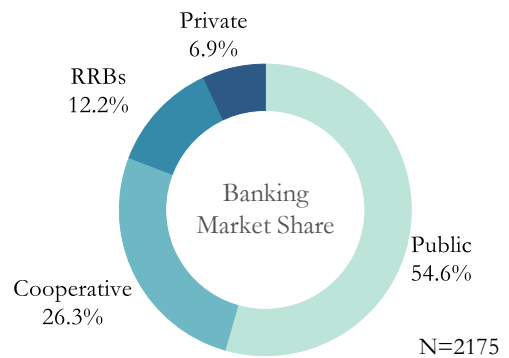
total bank branches (Figure 2.3).

Figure 2.2: Area per Bank Branch (Sq. KMs)



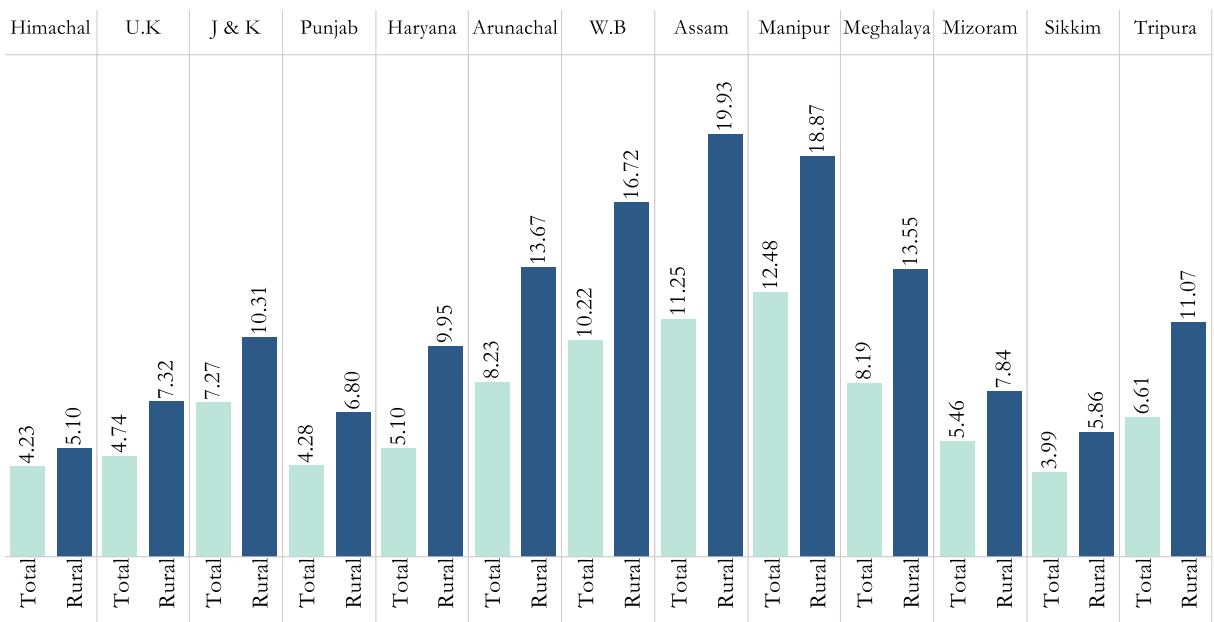
Source: Census of India (2011) and RBI (2019)

Figure 2.3: Sector-wise Bank branch Distribution in Himachal Pradesh (2019)



Source: State Level Bankers' Committee, HP, 2019

Figure 2.4: Population per Branch in select States in 000s (2019)



Source: Census of India (2011) and Reserve Bank of India (2019)

2.2 Growth of Agent Banking in Himachal Pradesh

Between 2014-19, the number of banking agents in the state has grown at a CAGR of 52% (Figure 2.5). After the launch of PMJDY in 2014, the number of agents saw a significant jump in 2015 and onwards as the bank account opening campaigns were implemented through banking agents. However, the number of banking agents in the state is lower than the bank branches and ATMs.

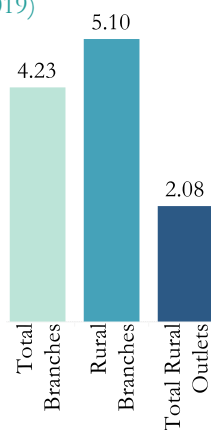
There was a dip in the number of banking agents in 2019 as the number of dormant agents increased. The drop in the number may be due to the removal of many dormant banking agents from the official bank records.

In another report, SLBC reported 1,403

active banking agents in 2019, indicating 20% dormancy/attrition (SLBCHP, 2019).

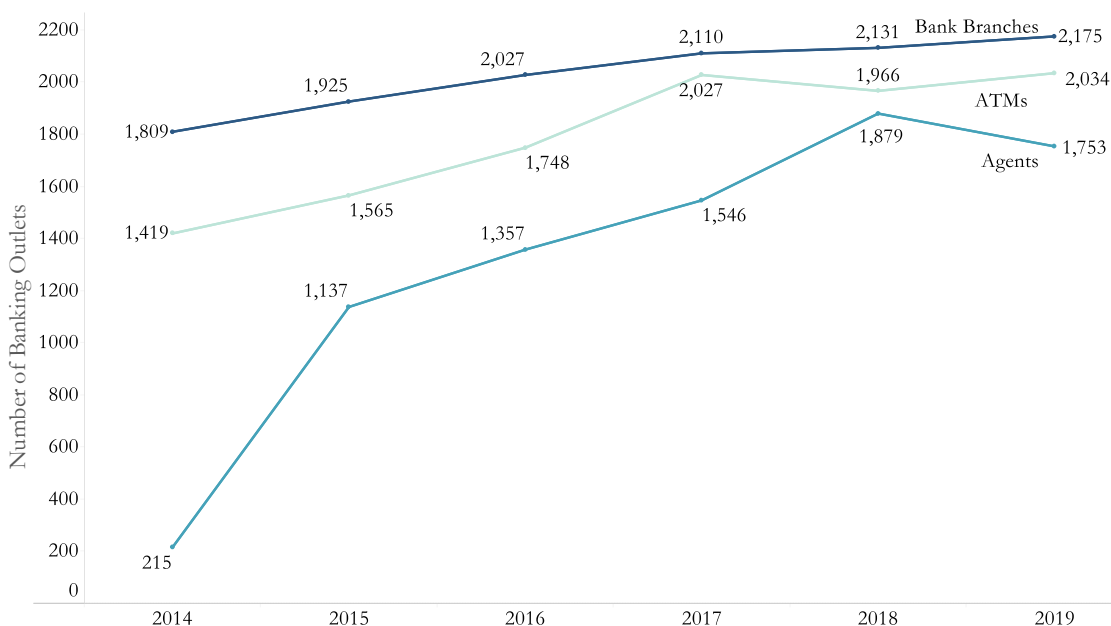
Banking agents help double banking penetration in the state. Figure 2.6 shows the population per rural banking outlet which includes bank branches and agent banking outlets. Himachal Pradesh has about 5,000 people per bank branch in rural areas, which reduces to 2,083 people per

Figure 2.6: Population in 000s per Banking Outlet in HP (2019)



Source: RBI, 2019

Figure 2.5: Growth of Banking Outlets in Himachal Pradesh (2014-2019)



Source: State Level Bankers' Committee, Himachal Pradesh

banking outlet when banking agents are included in banking outlets (Figure 2.6).

However, the state's geographical spread poses a significant challenge in ensuring access and availability to banking services in the remote areas.

2.2.1 Banking Agent Market in Himachal Pradesh

Four public sector banks lead the state's agent banking network, contributing to approximately 90% of the agent network.

State Bank of India, UCO Bank, and Punjab National Bank have the highest number of banking agents in that order. UCO bank has acquired a significant agent banking network since 2016 (Figure 2.8).

The regional rural banks manage the remainder of the agent network (Figure 2.7).

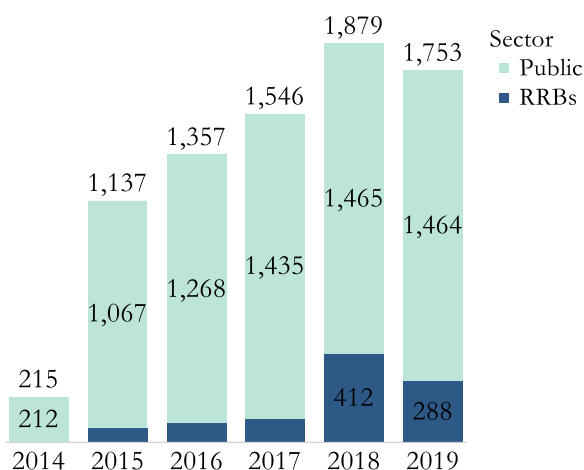
HP Grameen Bank, a regional rural bank has shown a considerable increase in the banking agents starting 2018.

Other banks have small presence in the state and in select areas. These include Axis Bank, Bank of Baroda, Bank of India, Canara Bank, Central Bank of India, Corporation Bank, Indian Bank, Oriental Bank of Commerce, Punjab and Sindh Bank, Syndicate Bank, and Union Bank of India.

One private bank had started onboarding banking agents, although this was in very early stages of engagement. Other than this, none of the private banks had banking agents in the state.

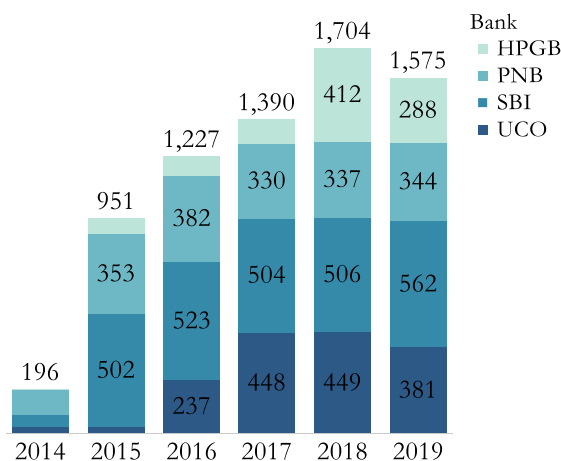
Other than banks, presence of some payment banks was noted. Some banking agents of PSUs were also provided e-wallet services through payment banks.

Figure 2.7: Number of Banking Agents by Bank Sector (2014-19)



Source: State Level Bankers' Committee, HP (2019)

Figure 2.8: Number of Banking Agents by Major Banks in Himachal Pradesh (2014-19)



Source: State Level Bankers' Committee, HP (2019)

2.3 Implementation of Agent Banking in Himachal Pradesh

2.3.1 Nature of Agent Banking Model

Most banks in Himachal Pradesh follow the BCNMs model of agent banking. In this model, the bank contracts a third-party service provider called Business Correspondent Network Manager (BCNM), who recruits, trains, and manages the banking agents' network. In an alternative model called Standalone Model, the bank directly recruits agents. However, this model has been discontinued by banks in Himachal Pradesh.

In the BCNM model, banks can contract more than one BCNM to widen their banking outreach. Four banks covered in this survey had at least eight BCNMs between them.

2.3.2 Relationship between Bank and BCNM

Bank, the principal, contracts the BCNM, the agent, to hire and manage sub-agents' network (Picture 2.2). The bank typically specifies target geography to the BCNM to expand the agent network. The BCNM surveys the area to identify suitable individuals to work as a banking agent. Sometimes, the bank recommends an individual to the BCNM for a specific rural location. In some cases, the bank forms strategic partnerships with BCNMs who already have a chain of retail outlets that

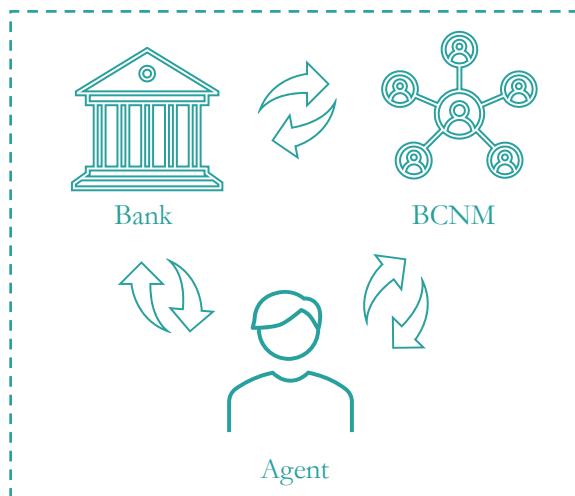
can be leveraged by the bank. Three of the four banks in this survey had contracted BCNMs that had an existing chain of rural kiosks.

Bank provides branding material for banking agents. It includes bank banners, posters displaying transaction charges, do's and don'ts, and product details. The BCNM typically relays this material to the banking agent.

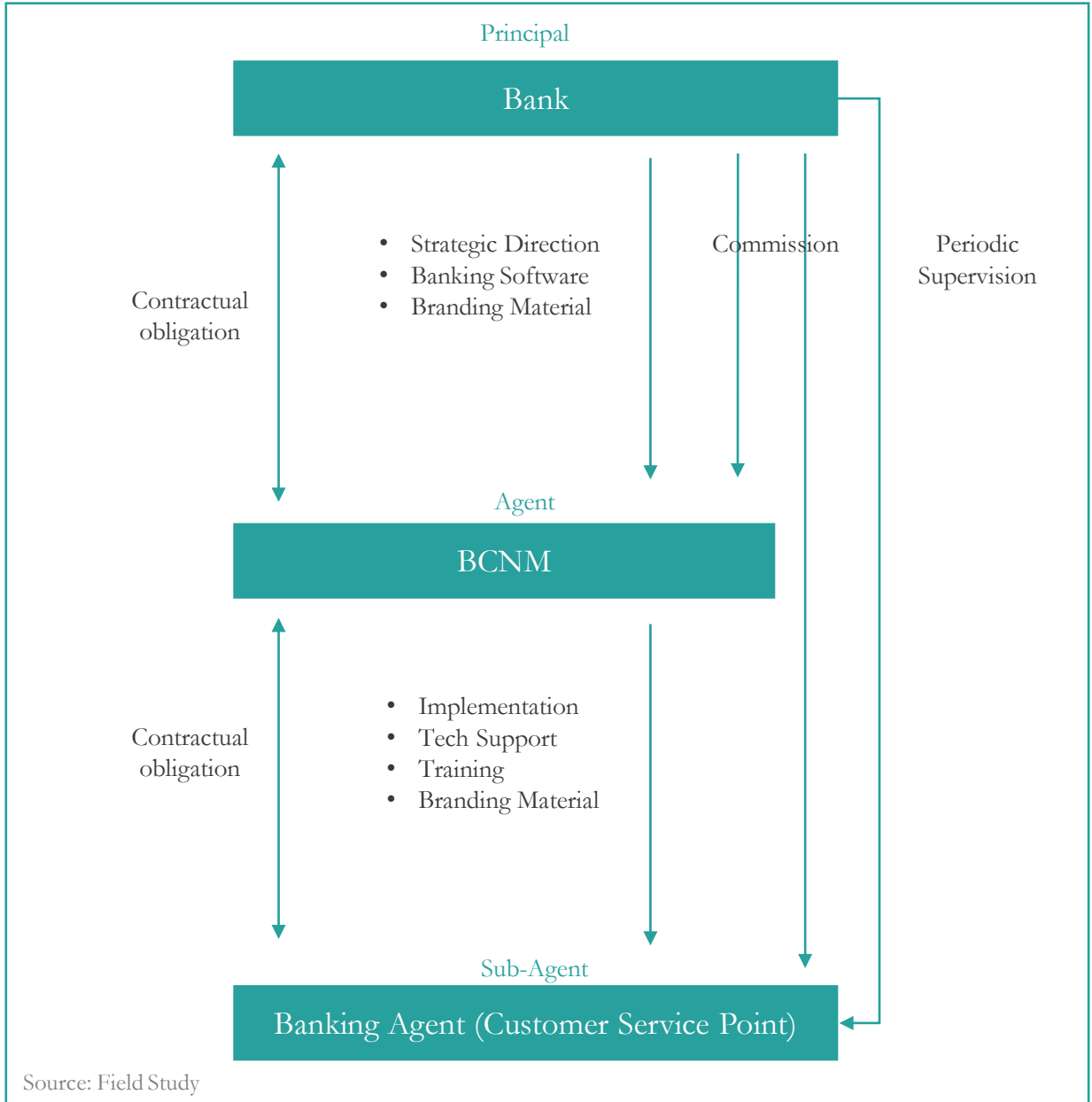
The bank releases the commission amount at the month-end based on the transactions facilitated by all agents of a BCNM. The agent and BCNM share the commission in an approximately 20:80 ratio. Typically, the bank segregates the two parties' shares and deposits them in their respective bank accounts.

Bank sometimes partners-up with the BCNM and banking agent to conduct account opening drives, or financial inclusion camps in rural areas.

Picture 2.1 Agent Banking Stakeholders



Picture 2.2 An illustration of agent banking structure



2.3.3 Relationship between BCNM and Banking Agent

The BCNM employs the banking agent through a formal contract. The field Staff of BCNM facilitates technical installation at the agent outlet. It includes micro-ATM, biometric device, and software installation.

BCNM trains the agent on handling equipment and operating the software and provides ongoing technical support.

BCNM uses an IM group to broadcast messages to the agent network. A representative of the bank is also a part of the communication group.

BCNM periodically broadcasts agents' performance (monthly transaction count) to engender competition and induce better performance. It is also used for sharing meeting notices, change in banking regulations, etc.

2.3.4 Relationship between Bank and Banking Agent

The agents do not report directly into the bank. However, bank provides equipment at a cost or on subsidized rate to the banking agents.

The bank supervises the agents through a base branch. The branch manager of the base branch visits the agent kiosk once a month for supervisory purposes. During such a visit, the bank official reviews the banking agent's registers and clarifies any concerns that the agent may have.

The bank, from time to time, organizes meetings with the banking agents. Such meetings provide the agents a platform to raise concerns, clarify product features, or any other banking regulations.

The banking agent periodically visits the base branch to access his bank account, update clients' passbooks, or any other purpose.

2.3.5 Equipment and Transaction Mechanism

Typically, an agent maintains a technical setup comprising a micro ATM, computer system, and a biometric machine (Picture 2.3). The micro ATM is connected to the

bank server through a GSM connection and can independently complete the transaction. In some cases, the micro ATM connects to a computer system through which an agent accesses banking software that provides better functionality and access to more products and services (Picture 2.4).

In the latest device setup, the agents of a bank in HP used a micro ATM connected to a tablet making it an independent setup to access the banking software (Picture 2.5).

A biometric device is attached to the computer system to enable AePS based transactions that require the account holder's biometric authentication (Picture 2.6). Some models of micro ATMs had a biometric device mounted on them.

An account holder could swipe her debit card on micro ATM and enter PIN number for accessing the bank account. Alternatively, the account holder could provide Aadhaar number and bank account number to the agent, authenticate his identity by providing a fingerprint on the biometric device, and access his bank account for transactions.

The banking agent facilitated the transaction and operated the banking portal/software, micro ATM and other hardware.

Picture 2.3 A Representative Equipment set up at Banking Agent Outlet



Source: Project Team

Picture 2.4: Micro ATM device used by Banking Agent



Source: Project Team

Picture 2.5: Micro ATM device with Tablet



Source: Project Team

Picture 2.5: Biometric Device for Fingerprint Detection



Source: Project Team

3. Demographics, Location and Operational Practices of Banking Agents

Chapter 3 Highlights

89%

Male Agents

14%

Agents with age less than 30 years

52%

Agents that are at least graduate

Banking agents in HP are mostly males, represent all age groups, and are well educated.

41%

Agents with over 3 years of agent banking experience

22%

Agents primarily rely on banking

Banking agents in HP have strong banking experience.

57%

Agents with more than two business lines

Most agents are engaged in more than two business lines.

65%

Agents that follow Kiosk model

74%

Agents that are available for over 10 hours a day

58%

Agents that are available on Sundays

Most Agents follow fixed location (kiosk) model and provide banking services in extended working hours

3.1 Demographic Characteristics of Banking Agents

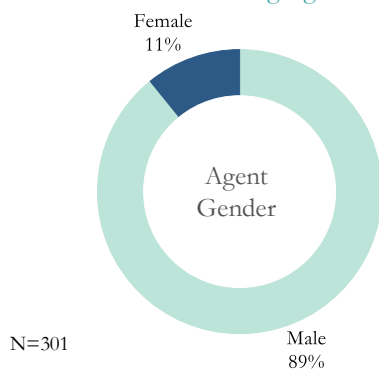
3.1.1 Gender representation in Agent Banking

The banking agent scene in Himachal Pradesh is male-dominated, with only 11% of the agents being females (Figure 3.1). It mirrors the gender participation in agent banking in India (Mehrotra et al., 2018). In Asia, only Indonesia and Bangladesh have reported a higher percentage of female banking agents. Most other countries have more male agents (Kapoor et al., 2017; Rousset & Bersudskaya, 2016).

There were no significant gender barriers between female clientele and male banking agents in HP. In one case, a female client was hesitant to enter an agent banking outlet when a few male customers were already inside. However, female clients had no problem in dealing with a male agent.

Female agents in HP exhibited unique peculiarities. Some female agents had a strong social circle as they were part of a self-help group.

Figure 3.1: Gender of Banking Agents



In some instances, it appeared that the female agents found it difficult to resolve technical issues. In at least three cases, female agents had packed up the micro ATM aside instead of making efforts to get them repaired. A couple of other female agents, on the other hand, were very active and took the initiative to get the technical issues resolved.

A female banking agent was present only for one half of the day due to family commitments. However, three male agents also reported being available for 4-6 hours a day. Therefore, limited availability can't be generalized to agents of either gender.

In at least five cases, the banking agency was taken in the wife's name, while the husband operated the outlet by subletting it in his name. In such cases, female agents were not able to answer many survey questions and relied on their husbands to provide the information.

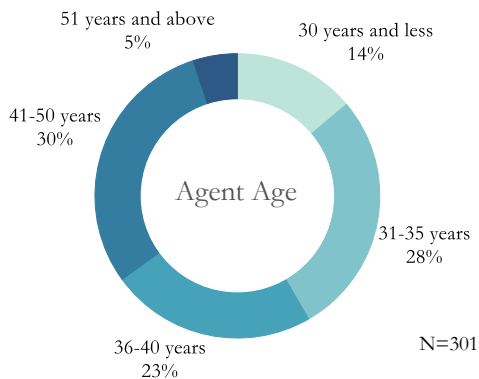
3.1.2 Age Groups of Banking Agents

The agents in the state belonged to all age groups. 14% of agents were below the age of 30 years. It indicates the interest of young village level entrepreneurs in agent banking. Majority of agents were in 30-50 years age bracket. 5% of agents above the age of 50 included servicemen, retired professionals, post office agent, and insurance agent (Figure 3.2).

While older agents can be assumed to have a more reputation, more younger agents can better handle technology.

Younger banking agents in HP were observed to be quicker in resolving technical issues. Some young agents actively organized awareness camps for the clients. In some cases, the younger agents were more confident in responding to clients' questions. Besides, a higher proportion of younger agents reported agent banking as their primary business, indicating a higher commitment level.

Figure 3.2: Age Groups of Banking Agents



3.1.3 Education level of Banking Agents

The banks had laid down the senior secondary level of education criteria for the recruitment of banking agents. In Himachal Pradesh, more than half of the banking agents were at least graduates indicating a well-educated lot of banking agents (Figure 3.3).

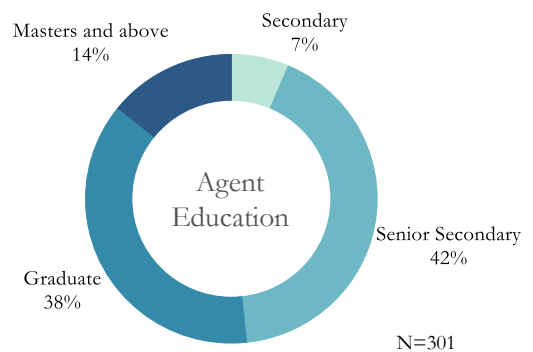
Higher education levels can be linked with the ability to handle clients better, plan operations better, and have more financial knowledge. All the above can help establish trust with the clients.

The banking agents with technical

qualifications in computer applications were better at handling technical issues. In district Shimla, an agent with a computer diploma helped many other banking agents resolve their technical issues on the phone.

Also, more educated banking agents were more confident of running the operations, managing working capital, resolving technical glitches, and raising issues with

Figure 3.3: Education Level of Banking Agents



the bank and/or BCNM. In one case, a well-educated agent had written to RBI to raise his issues.

However, more educated individuals can also be said to have more business ideas to fall back on if agent banking is not providing sufficient financial returns.

3.1.4 Alternative Occupation of Banking Agents

Majority of agents in HP are engaged in at least one other occupation or business line. 62% of banking agents were self-employed (Figure 3.4). This category included mobile recharge shop, computer center, kirana

store, general store, photostat shop, shoe store, etc.

22% of agents reported agent banking as their primary occupation. In comparison, 7% of agents reported agriculture as their primary occupation. The remaining agents were salaried or retired.

The nature of alternative business of the agent can influence his performance in banking operations. Agents who have experience handling cash in their alternative business can be assumed to be better at planning and managing working capital.

Agents that have a technology-based business can be better at handling technical issues. Agents having high working capital businesses can benefit from instant liquidity for banking operations.

Income from alternative businesses can also impact the motivation of a banking agent. An agent may not be as committed to banking operations if he is financially well off, and the agent business contributes small amounts to his monthly income.

Since the banking business requires visiting the bank regularly for working capital management or resolving client queries, it can affect the agent's alternative business by reducing her availability on the kiosk.

3.2 Banking Experience and Dedication of Banking Agents

3.2.1 Banking Experience of Agents

Agent banking requires handling money, which may not come naturally to all village level entrepreneurs that take up agent banking. However, over time agents can be expected to learn and become more efficient in banking operations.

41% banking agents in HP had strong banking experience of over three years (Figure 3.5). Such agents can be assumed to be better service providers. 15% of agents had less than one year of experience, indicating recent hiring by the banks.

Figure 3.4: Primary Occupation of Banking Agents

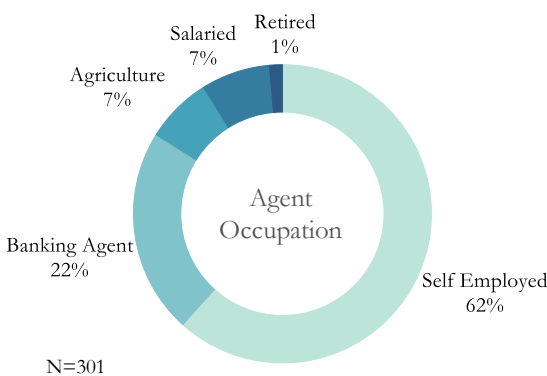
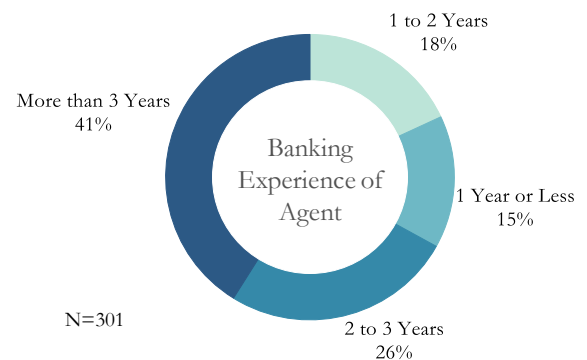


Figure 3.5: Banking Experience of Banking Agents

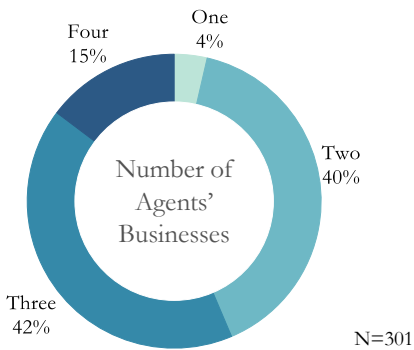


3.2.2 Dedication and Distraction

In Himachal Pradesh, only 4% of banking agents worked dedicatedly on banking operations. 40% of agents had two occupations, 42% of agents had three occupations, and 15% of agents reported four occupations (Figure 3.6).

While agent banking rides on existing retail networks, distraction due to banking agents' multiple occupations can result in poor banking experience for clients.

Figure 3.6: Number of Businesses of Banking Agents



An agent selling shoes, vegetables, and banking operations must divide time, attention, and resources between three unrelated businesses with different operating cycles, working capital requirements, and customer attention demands. Therefore, recruiting thriving retailers may not be the best option strategy for banks.

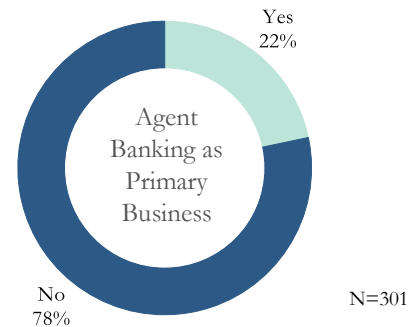
On the other hand, retired professionals that can be dedicated agents may not have the drive to do well. An agent in HP who was a retired professional was content with

a low number of transactions. Also, he was not motivated to make an extra effort to educate the clients on banking products.

3.2.3 Focus on Agent Banking

Only 22% of agents reported agent banking as their primary business (Figure 3.7). Since existing retailers double up for agent banking, this number is not alarming. Banking agents typically considered income earned and time spent while deciding their primary business.

Figure 3.7: Primary Business Focus of Banking Agents



The agents that report banking operations as their primary business can be assumed to be more focused than the rest of the agents, and hence perform relatively better on banking operations.

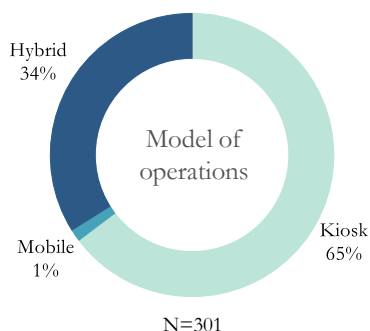
3.3 Operational Characteristics of Banking Agents

3.3.1 Operational Model

Banking agents follow three types of models in Himachal Pradesh – Kiosk, Mobile, Hybrid. In the Kiosk model, the agents operated out of a fixed location i.e. a shop or kiosk. In the mobile model, the agent visited villages of clients to facilitate transactions. The third model involved kiosk-based banking agents that visited clients on demand, i.e., hybrid model.

In Himachal Pradesh, all except 1% of agents operated out of a kiosk (Figure 3.8). Since 71% of agents were e-governance centers, they must maintain their presence on the kiosk. Interestingly, 34% of agents reported that they visited clients on demand in case of old age clients, clients in remote areas, unavailability of transport, etc. This kind of service benefited old age and specially-abled clients.

Figure 3.8: Mode of Operations of Banking Agents



While kiosks are associated with better trust with the clientele, mobile models may provide specific clients flexibility. However, new clients can find it challenging to contact the banking agent who is mobile compared to an agent who maintains his availability on a fixed location.

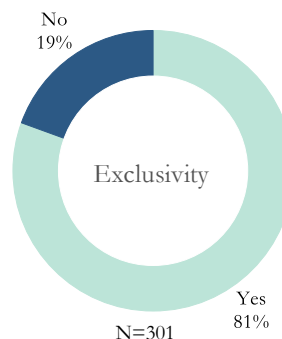
3.3.2 Exclusivity

Banks in Himachal Pradesh have been allocated different sub-service areas to ensure the deployment of a banking agent. Therefore, banks usually have an exclusive agent.

81% of agents reported working exclusively for one bank (Figure 3.9). Some agents had taken a banking agency from another bank in the name of a spouse and operated out of the same kiosk.

Interestingly, a private bank had onboarded many banking agents as their agents. Also, some banking agents were providing the service of payment banks.

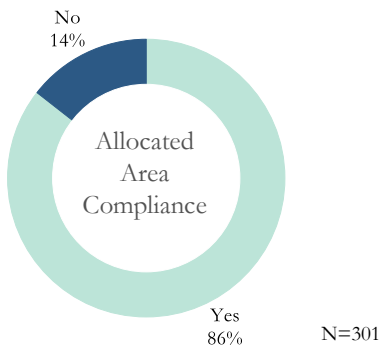
Figure 3.9: Exclusivity of Banking Agents



3.3.3 Allocated Area Compliance

Most agents in HP operated out of the allocated sub-service area. However, the agents had pre-existing businesses that they did not want to uproot for agent banking.

Figure 3.10: Allocated Area Compliance by Banking Agents



Therefore, some agents operated out of non-allocated areas. 86% of banking agents operated out of the area allocated to them by the bank (Figure 3.10). The average distance between their allocated area and place of operations was 4.8 kilometers for the remaining banking agents.

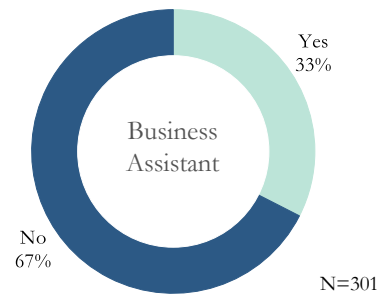
3.3.4 Assistance in Business

Having an assistant can indicate a larger scale of operations of an agent. One-third of banking agents reported having assistance in business (Figure 3.11). 10% of agents had hired a salaried staff, 20% of agents reported taking assistance from family members, and 3% of agents took assistance from friends.

The assistance can be directly for banking operations or alternative business while the

agent took care of banking operations. 10% of agents had formally sublet their banking portal to either hired staff or a family member. Under subletting, the assistant can have separate login credentials to operate the banking portal of the agent.

Figure 3.11: Assistance Taken by Banking Agents



3.3.5 Availability of Banking Agent

Agent banking is known for extended hours of services, flexible access, and on-demand service in remote and rural areas.

In Himachal Pradesh, many agents (70%) reported being available for 10-12 hours during the day (Figure 3.12). One-fourth of agents reported being available on the kiosk for 7-9 hours. Also, 58% of agents reported being available throughout the week, while 40% of agents were available 6 days a week (Figure 3.13).

In many cases, the agents had kiosks outside their residence and were available on call even after regular kiosk time.

The extended availability of banking agents benefited laborers who could access their bank account in the evening after work. The

extended availability also encouraged social interactions with clientele.

In some specific cases, banking agents had limited availability on the kiosk. For example, an agriculturist agent had to spend time in the fields during the apple harvesting season, limiting his availability at the kiosk to four hours a day. Further, an

banks and help the agent in tracking his business performance. The banking agents maintained two types of registers.

In the first register, the agents kept record of accountholder's names, account number, Aadhaar number, and contact number. In the other register, the agent maintained visitors' record including date and time of visit, affiliation, and signature.

Figure 3.12: Availability of Banking Agents in a Day

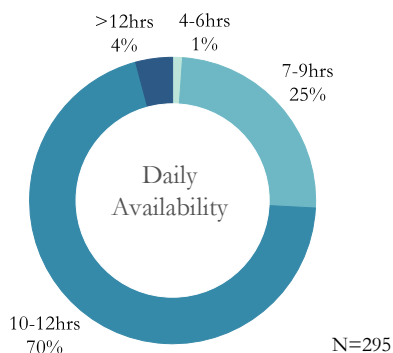


Figure 3.14: Client Record Maintenance by Banking Agents

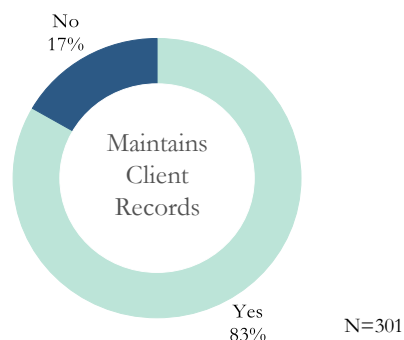


Figure 3.13: Availability of Banking Agents in a Week

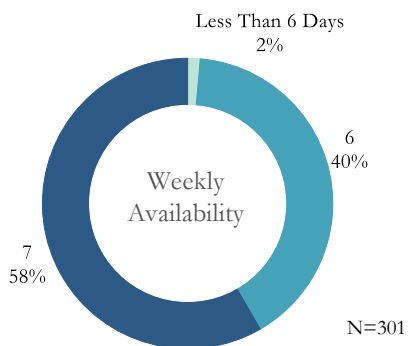
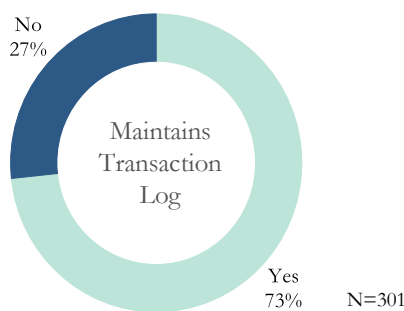


Figure 3.15: Transaction Log Maintenance by Banking Agents



agent whose base branch is far away must shut shop for half of the day a couple of times a week.

3.3.6 Record-Keeping by Banking Agents

Banks mandated the agents to maintain a record of accountholders they onboard and the daily transactions they facilitated. Such records provide supervisory insight into the

83% of banking agents reported maintaining a record of clientele i.e., account details (Figure 3.14), and 73% of agents reported recording client visits and transactions facilitated by them (Figure 3.15).

BCNM ensured the compliance of record-keeping across its agent network.

A bank official visited the agent kiosk periodically to inspect. 54% of agents reported a 15-day visit frequency by the bank official, 25% reported a monthly visit, while 22% of agents reported a visit frequency of more than 30 days.

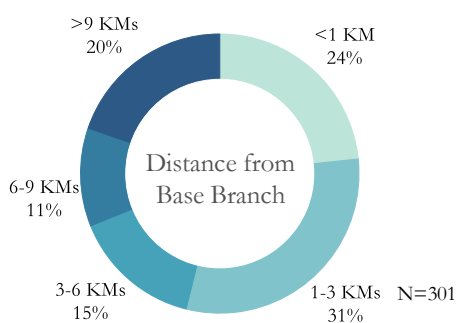
Supervision by the bank can also be linked with the banking agent's performance as it instills discipline and compliance into agent banking leading to better client service and protection.

3.4 Locational Characteristics of Banking Agents

3.4.1 Distance from Base Branch

Every banking agent in HP was attached to the nearest bank branch that is called its base branch. Banking agents periodically visited the base branch to access their bank account, update clients' passbooks, resolve clients' queries, facilitate account opening, etc. On average, an agent operated at 5 km from its base bank branch. However, one-fifth of the banking agents operated at 10 km or more, indicating the sparse geographic spread of banking outlets in the

Figure 3.16: Distance between Banking Agent and Base Branch



hilly state of Himachal Pradesh (Figure 3.16).

3.4.2 Distance from nearest Bank Branch

On average, an agent operated at 3 km from the nearest bank branch (Figure 3.17). This could include base branch or the branch of any other bank in the proximity.

Proximity to a bank branch should ideally be avoided to have meaningful financial inclusion. While the base bank has a direct control over the location of the agent, competing banks may want to capture the market served by an agent if there is enough market size.

Although the banks in HP are allocated target areas through SLBC, a range of reasons can lead to an agent being in proximity to a branch of competing bank – the agent may not be operating from his allocated area, a new branch may have come up without considering the presence of banking agent. In more populated towns, base bank intentionally positioned an agent in vicinity of bank branch as an operational strategy.

Figure 3.17: Distance between Banking Agent and Nearest Branch

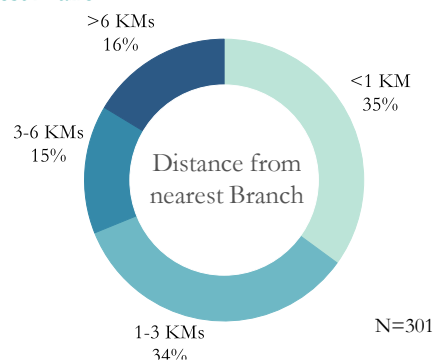
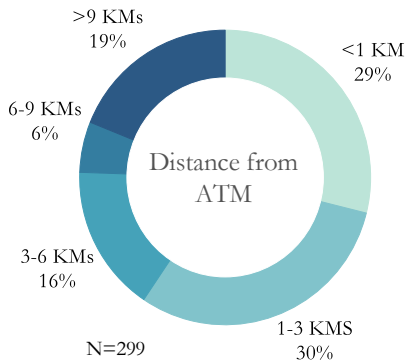


Figure 3.18: Distance between Agent Outlet and ATM



Further, an agent operated at 5 km from an ATM outlet, on average (Figure 3.18). A client can only withdraw money from the ATM. Therefore, ATM is not a direct competition to the banking agent. Also, ATMs are located mostly in more populated towns.

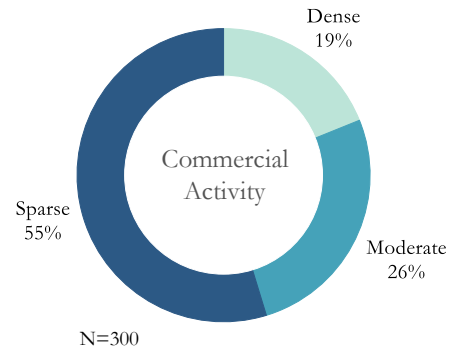
3.4.3 Effect of Proximity to Base Bank Branch

Proximity to a bank branch is associated with area type in HP. Typically bank branches are in areas with more population and economic activity. Therefore, the banking agent near a bank branch benefits from the higher population base.

Some base branches also position the banking agent close to the bank branch and divert low transaction clients to the banking agent. This helps banks decongest the branch while the agent gets more business. However, in a couple of rare cases, the base branch competed with the banking agent by asking customers to transact at the branch.

The agents close to bank branches were more likely to achieve a high transaction

Figure 3.19: Commercial Activity around Banking Agent Outlet



count (>500) in a month. However, other agents were less likely to operate at this scale. Agents that were farthest from the bank branch were most likely to record the low transaction volume in a month (<100).

Distance from the base branch also caused working capital management problems for the agent. Although several agents close to bank branches reported exhausting working capital often, that may be a sign of heavy client footfall. However, for agents that are far from their base branch, frequent stockout of working capital could lead to business loss.

3.4.4 Area Type

Through a visual inspection of commercial activity in the locality, the agent location was categorized in dense (>50 shops in the vicinity), moderate (20-50 shops), and low commercial areas (<20 shops).

19% of agent locations were identified as dense commercial areas i.e., having more than 50 shops in the vicinity. The majority of agent locations were sparse commercial

areas i.e. less than 20 shops in the vicinity (Figure 3.19).

Agents in dense commercial areas performed better than the agents in the sparse commercial areas. However, more variability was noted in the performance of the agents in the dense commercial areas.

3.5 Appearance and Transparency

Banking agents are expected to provide a bank-like experience to the clientele as much as possible. For this purpose, the bank provides marketing material to the banking agents on a paid or unpaid basis. Such material contains the bank’s branding that helps the agent attract rural clientele and establish trust with them as an authorized bank agent. The agents must also ensure good reception, inviting setup, and good service quality to attract and retain the clientele.

3.5.1 Bank Branding by Agents

70% of bank agents had put up bank banners outside their kiosks, while the rest of the agents did not have any bank branding on their outlets (Figure 3.20).

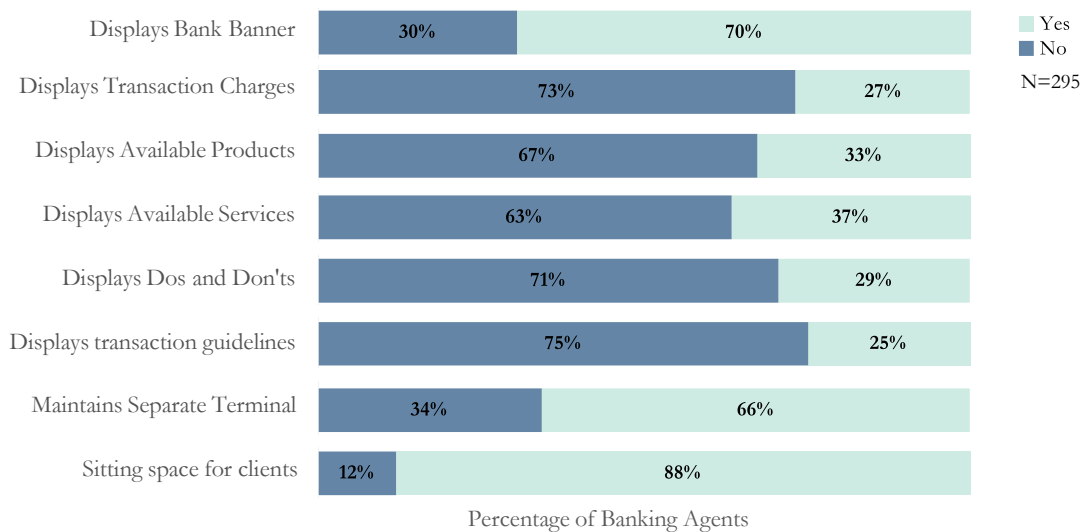
There are two possible explanations for it. The bank charged for the banner, or such agents were onboarded recently by the bank and had not yet provided the banners to the agents.

3.5.2 Transparency Practiced by Agents

Transparency refers to the practice of disclosing to the clients the list of products and services, charges, dos and don'ts. The banks, in most cases, provided the posters containing such information. In many cases, agents themselves printed the posters on an A4 paper and fixed on the wall.

33% of agents in HP had displayed the list of available products, while 37% of agents had displayed the list of services in their

Figure 3.20: Transparency Practiced by Banking Agents



kiosk.

27% of banking agents had displayed transaction charges inside their kiosk (Figure 3.20). 29% of banking agents displayed dos and don'ts banner/board in their kiosk. 25% of agents displayed transaction guidelines in their kiosk.

Overall, most agents used bank branding on their kiosk. However, majority of the agents did not display the product and services related information on their kiosk.

3.5.3 Separate Banking Terminal

66% of banking agents maintained a distinct transaction window/terminal for dealing with banking clients (Figure 3.20).

Most agents had alternative businesses and hence had customer footfall for other than banking products/services. To facilitate banking clients exclusively, banking agents had a designated corner in the kiosk where they placed the technical equipment for banking operations. This helped serve the clients smoothly during rush hour.

3.5.4 Sitting Space for the Client

88% of banking agents maintained a sitting space for banking clientele (Figure 3.20). While some banking agents maintained a distinct sitting space for banking clients, most agents had a common shared space with clientele of alternative occupations.

4. Performance of Banking Agents in Himachal Pradesh

Chapter 4 Highlights

70

Median number of account opened by agents

42%

Agents have opened less than 50 accounts

Account opening has stagnated as new agents are not able to open new accounts

24%

Agents have opened more than 400 bank accounts

Agents also report long processing time for account opening

137

Median monthly transactions

37%

Agents that do less than 100 transactions a month

Some agents do exceptionally well, while majority have a low monthly transaction

56%

Agents that offer saving products

Several agents do not offer saving and social security products

INR 4.3 Lakhs

Median Monthly Turnover

INR 4,300

Median deposit amount

INR 5,000

Median withdrawal amount

4.1 Client Onboarding by Banking Agents

4.1.1 New Bank Accounts Opened by Agents

Onboarding new clientele onto a formal banking system by facilitating a bank account's opening is a key activity of banking agents. After the launch of PMJDY in 2014, millions of bank accounts were opened through special drives by banks and banking agents. However, account opening can not be a big affair on an ongoing basis since it is a one-time event for a given client. Also, small population sizes in rural areas limit the new client base for the banking agents.

42% of agents had opened less than 50 bank accounts. 18% of agents had opened between 100-400 bank accounts. 24% of agents had opened more than 400 bank accounts. 13% of agents reported opening more than 800 bank accounts (Figure 4.1).

Agents that had been operational for 4-5 years had opened the greatest number of accounts, while agents that started operations more recently reported a lower

Figure 4.1: Number of Bank Accounts Opened by Banking Agents

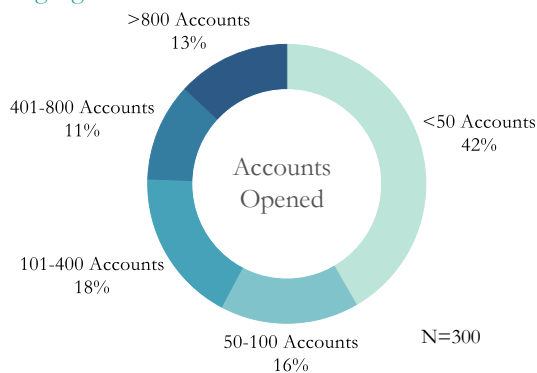
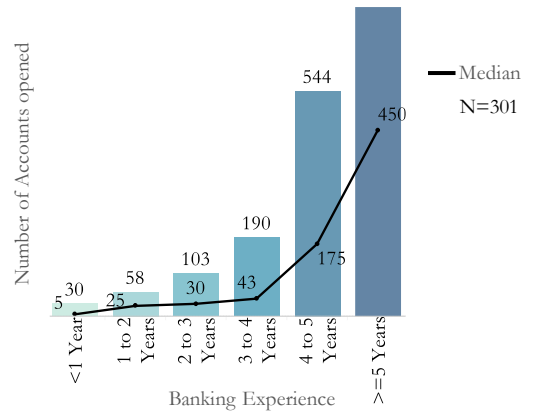


Figure 4.2.: Number of Accounts opened by Banking Experience of Banking Agents



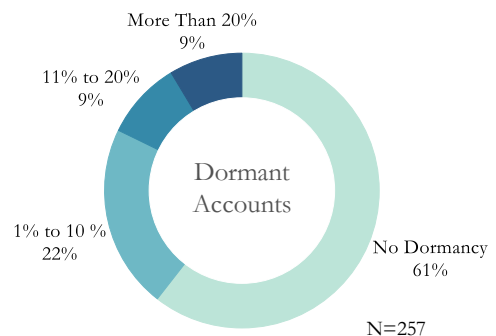
number of new accounts (Figure 4.2).

4.1.2 Account Dormancy

61% of agents reported no dormancy in accounts opened by them. 22% of agents reported less than 10% dormant accounts. 9% of agents reported 10-20% of accounts being dormant. 9% of agents reported more than 20% of accounts being dormant (Figure 4.3).

Several reasons have been cited for dormancy, including multiple account ownership by clients, lack of suitable product features and information about operational procedures (Sharma et al., 2016).

Figure 4.3: Account Dormancy reported by Banking Agents



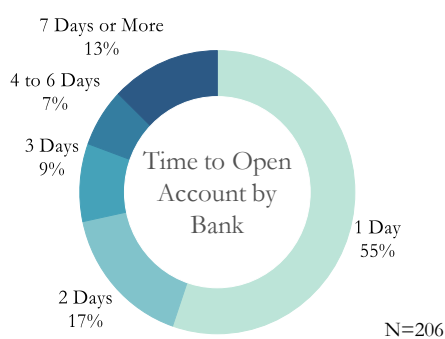
4.1.3 Time to Open Bank Account

The account opening process at the banking agent kiosk involves filling an application form, which is forwarded by the agent to the bank for approval through banking software. The majority of banking agents reported that they processed the account opening request on the same day of application. However, processing from the bank required some time.

72% of agents reported that the bank processed the account opening requests within two days (Figure 4.4). 16% of agents reported a processing time of 3-6 days. 13% of agents experienced more than one week of processing time for account opening requests.

Several banking agents reported delays or difficulty in account opening for clients. In many cases, the agent requested clients to visit the bank branch to open the bank account and then transact through the banking agent.

Figure 4.4: Processing Time Taken by Bank for Account Opening



4.1.4 Nature of Bank Account

The bank accounts opened by the banking agents were categorized as Basic Savings Bank Deposit Account (BSBDA) under the PMJDY. The bank account under this category has several limitations in transaction amounts and maximum balance in account. While this account category was more suitable for low-income groups, better-off people in rural and remote areas found this problematic. After opening the bank account through the banking agent, such clients visited the bank and changed the account category to a normal savings account.

4.2 Offerings of Banking Agent

While agent banking was called a mono-product business a decade back, its use cases have grown multifold in the past few years, particularly due to the government's public welfare schemes (Kapoor & Shivshankar, 2012). A complete bouquet of products and services are provided by the banking agents to the clients in rural areas.

In addition to basic banking services of deposit, withdrawal, and transfers, agents also provided insurance and pension products specially targeted at low-income groups.

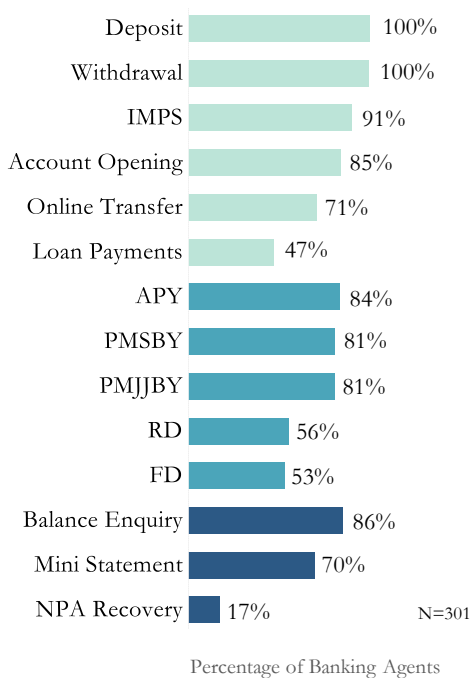
All banking agents provided cash-in and cash-out services to the clients. 91% of banking agents reported providing IMPS, and 71% provided transfers (Figure 4.5).

Regarding financial products, 84% of agents reported that they offered APY, 81% offered PMJJY, 81% offered PMSY. 53% of agents provided a fixed deposit, and 56% provided recurring deposit products.

86% of agents facilitated balance inquiry, while 70% of agents reported that they provided mini statements to the clients.

17% of agents reported facilitating NPA recovery for the banks. It required the banking agent to qualify for a test and offered a handsome commission on recovery.

Figure 4.5: Percentage of Banking Agents Providing Different Products and Services



Large product & services portfolio provided more options to the rural clientele and more revenue lines for the banking agents.

4.2.1 Number of Products Sold by Agents

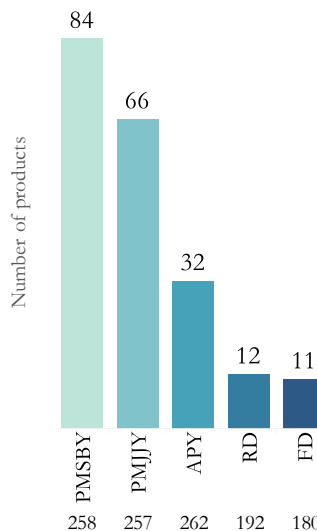
On average, banking agents reported selling PMSBY to 83 clients, PMJJY to 66 clients. On average, agents were able to sell APY to only 31 clients indicating low popularity of the product among rural banking clientele.

Agents reported that they had not sold many recurring deposits and fixed deposits products to the clients. On average, an agent had sold 11 and 10 FDs and RDs, respectively (Figure 4.6).

Banking agents found it difficult to sell APY as the scheme's value offering did not convince the clients.

For these products, the agent did an e-KYC online for the client and took the hard copy of the form to the bank. The agents earned a lump sum for each unit of product sold. However, manual procedures and requirements of visiting the bank branch made things difficult for the banking agents.

Figure 4.6: Number of Products Sold by Banking Agents



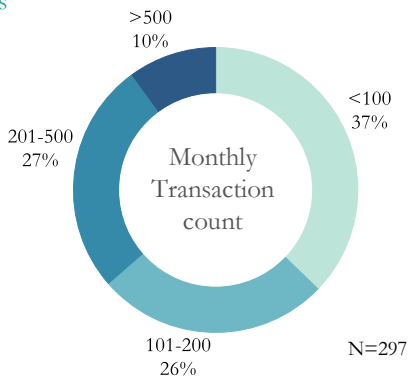
4.3 Monthly Transactions of Banking Agents

The banking agents' performance is measured based on the recurring business that they do with banking clientele. The banks and BCNMs used the monthly transaction number to assess how well an agent performed. Two of the banks also stipulated monthly transaction targets for the banking agents.

Overall, 37% of banking agents in the state reported facilitating less than 100 transactions in a month, and 10% of agents reported more than 500 transactions a month, which is exceptional (Figure 4.7).

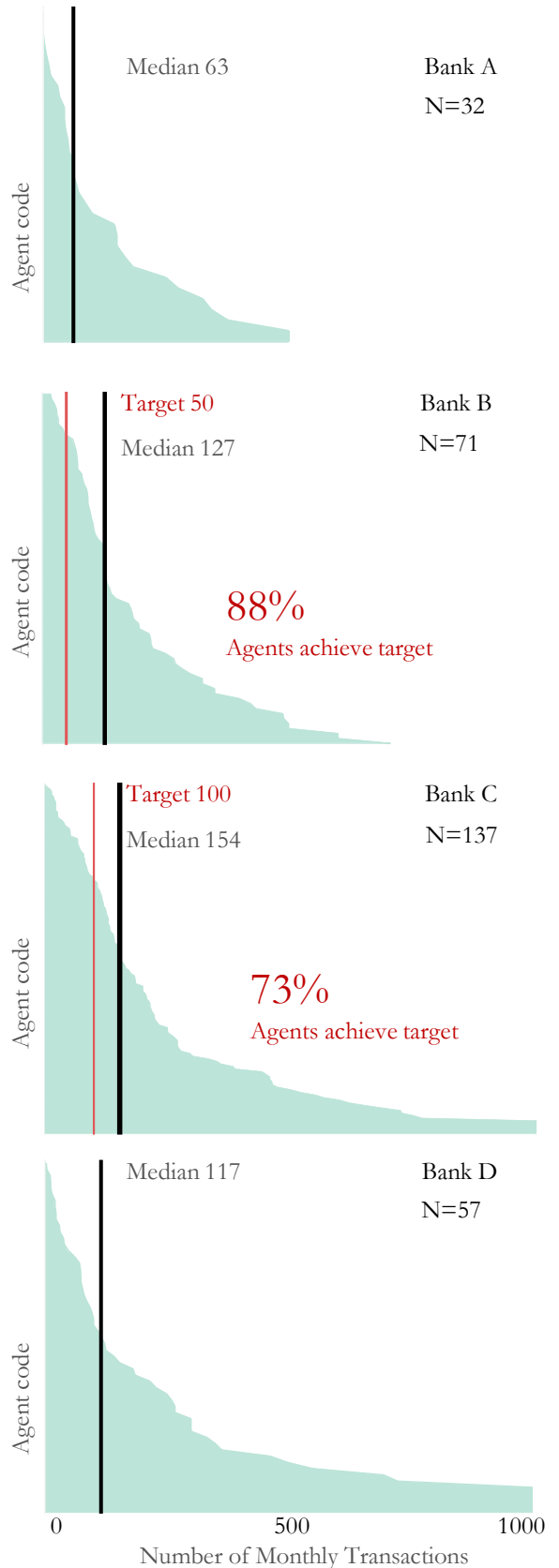
On average, banking agents reported 245 transactions a month. However, the median transaction count is 137, indicating a positively skewed distribution of monthly transactions.

Figure 4.7: Monthly Transaction Count of Banking Agents



There seems to be quite a variation in agent performance across the four banks indicated by median transaction count (Figure 4.8).

Figure 4.8: Distribution of Monthly Transactions by Agents of Four Banks



Bank B and C had monthly transaction targets of 50 and 100, respectively. The other two banks did not specify a target. Also, Bank B and C provided a fixed minimum commission if the agent met the monthly target.

Agents of the two banks that laid down transaction targets achieved higher median monthly transactions than the other two banks' agents. This indicates that the target-based incentive structure is yielding better results.

Further, 88% of Bank B agents and 73% of bank C agents met their targets (Figure 4.8).

The agents had more footfall during the first ten days of a month during to clients withdrawing salary, pension, etc. Any technical issues during this time hindered an agent's ability to meet the targets.

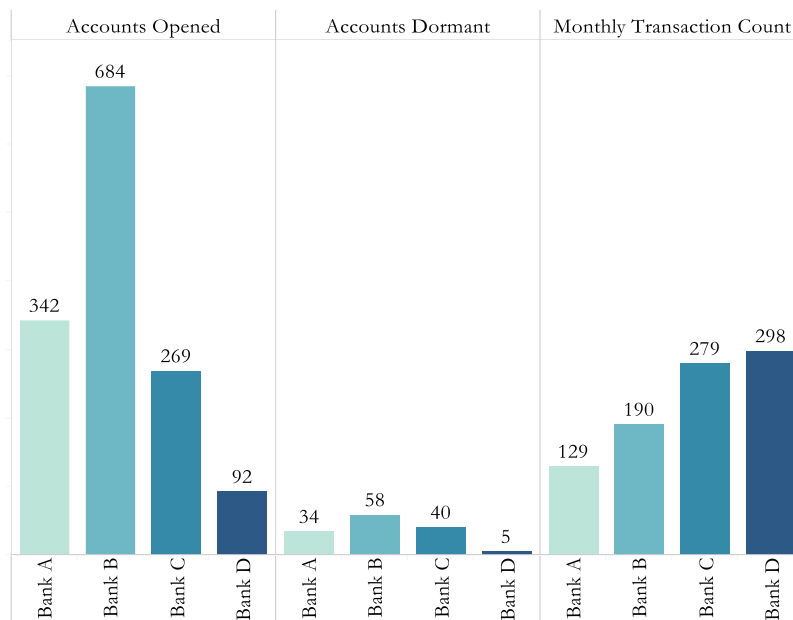
4.3.1 Bank-wise Account Activity at Agent Outlet

There is variation in the performance of banking agents of different banks. While bank B agents have the highest average number of accounts opened, Bank D agents have the highest average number of transactions in a month (Figure 4.9).

Bank-specific factors, including incentive structure, target location, technology, support etc., influenced an agent's transaction numbers.

Bank B agents had been associated with the bank for the longest and operated at the highest distance from their base branch. While a long gives a time advantage to the agent, distance from the base branch provides a client base that is distant from formal banking. Such clientele has higher likelihood of adopting banking through the banking agent.

Figure 4.9: Accounts opened, Accounts Dormant and Monthly Transaction Count of Agents of Different Banks



Distribution of agents' monthly transactions is skewed for the most banks. While bank D reported the highest average number of transactions, the median number of transactions was much lower. For all banks, some agents outperform the rest by a great margin.

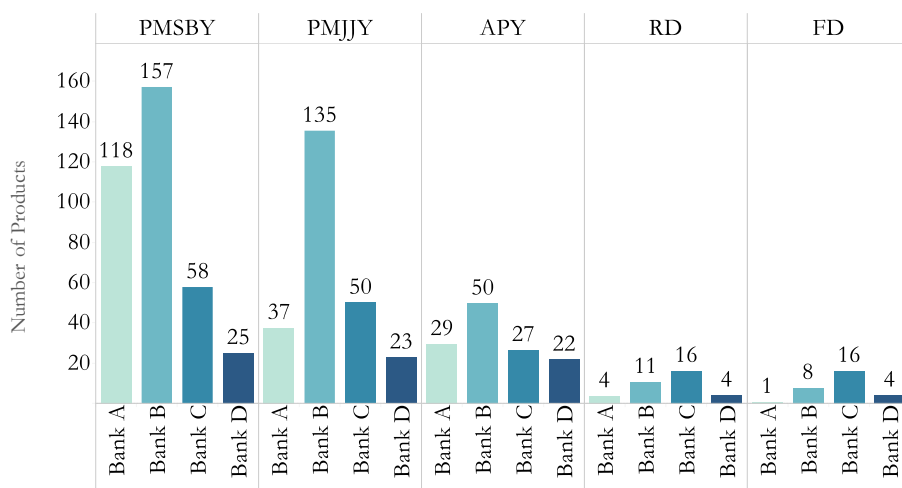
4.3.2 Bank-wise Products Sold by Agents

There is variability in the number of products sold by banking agents of different banks. The variability can be due to the agent's banking experience, training, and support from the bank or the BCNM.

particularly affected by elevation, population density, industrial activity, education level, etc. Una is a relatively plane region, has a higher population, and possibly more economic activity. Chamba has remote villages, and the winter season freezes the activities in general. Kangra, solan, and Shimla have more economic activities (Figure 4.11).

Agents in Kullu, which has lower banking penetration, has the highest average for the number of bank accounts opened by the banking agents, followed by Una and Chamba.

Figure 4.10: Number of Products Sold by Agents of Different Banks



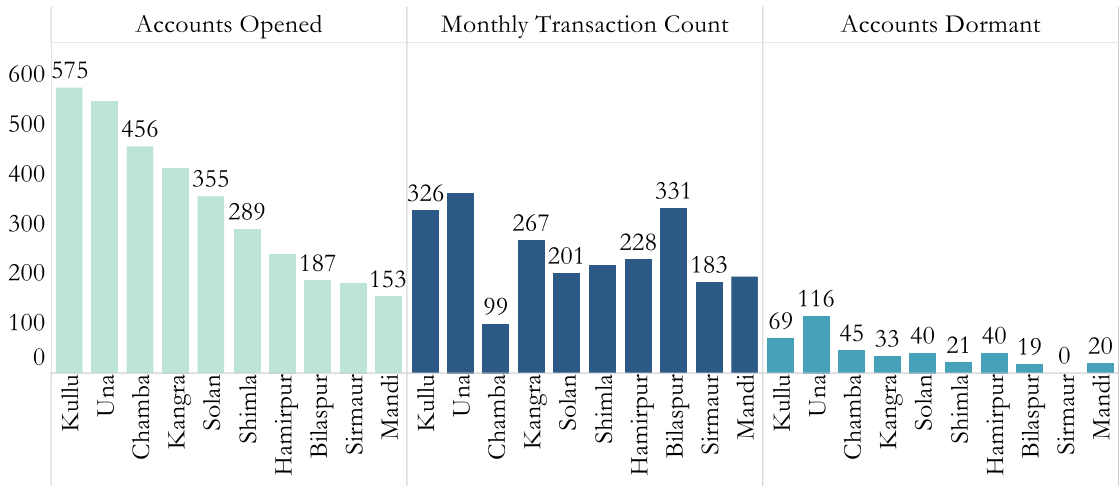
Overall, it appears that banking agents of Bank B have sold more products compared to the agents of other banks (Figure 4.10).

4.3.3 District wise Agent Performance

In general, geographical characteristics can have a bearing on the economic activities in the region. Banking activities can be

Agents in Mandi, Sirmour and Bilaspur reported the lowest number of accounts. Banking agents in Kullu, Una and Bilaspur reported the highest average monthly transactions. Agents in Chamba report the lowest average monthly transaction count. The highest account dormancy was reported by the agents in Kullu and Una.

Figure 4.11: Accounts Opened, Monthly Transaction Count and Dormant Accounts by District

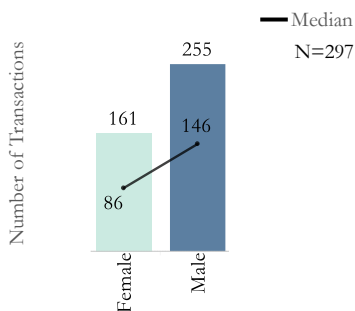


4.3.4 Agent Gender and Performance

Male banking agents outperformed female banking agents in Himachal Pradesh in the number of transactions facilitated in a month (Figure 4.12).

The distribution of monthly transactions for agents is positively skewed as the median transaction for both male and female agents are significantly lower than the averages.

Figure 4.12: Monthly Transaction Count of the Agents by Gender



4.3.5 Agent Age and Performance

Agents below the age of 30 years perform better than the agents in other age groups. As we move towards higher age groups, the median monthly transaction falls consistently, but agents between 30-35 and 35-40 years exhibited a comparable performance.

Agents above 50 years of age reported a significantly lower number of transactions (Figure 4.13).

Figure 4.13: Monthly Transaction Count of the Agents by Age Group

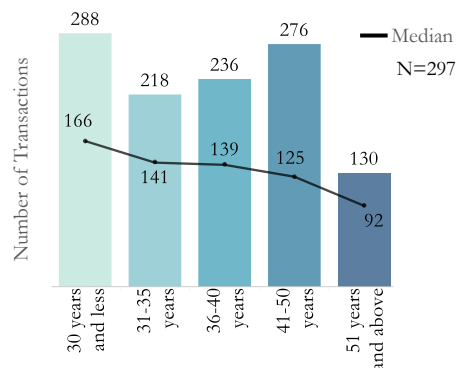


Figure 4.14: Monthly Transaction Count by Education Level of Agents

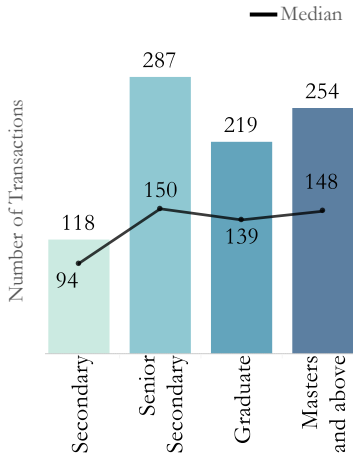


Figure 4.15: Monthly Transaction Count by Occupation of Agents

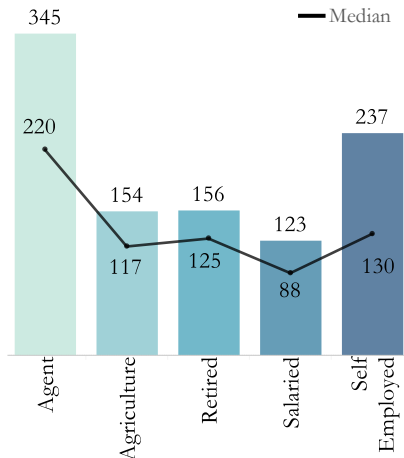
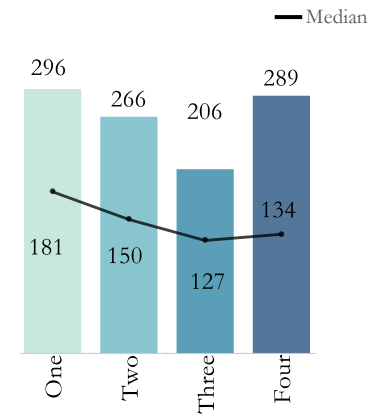


Figure 4.16: Monthly Transaction Count by Number of Businesses of Agent



4.3.6 Agent Education and Performance

The agents with secondary education (matriculate) exhibited significantly low monthly transaction count. Agents with higher education levels performed relatively better. Agents with senior secondary education had the highest average transactions, but median transactions are comparable across the three agent groups except for the agents with secondary education level (Figure 4.14).

4.3.7 Occupation Count and Performance

Agents that considered banking their primary occupation reported the highest monthly transaction count. Agents that were self-employed in small shops reported the second-highest transaction count. Salaried and retired individuals reported relatively low number of transactions (Figure 4.15).

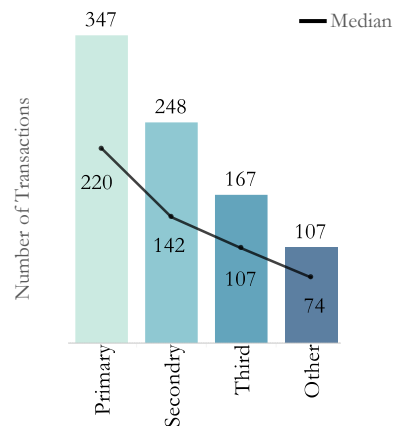
Since the agents were involved in multiple business lines, monthly transactions and

occupation numbers may be associated. The transaction count drops as the occupation count goes up. However, agents reporting four occupations exhibit a superior performance (Figure 4.16).

4.3.8 Priority to Banking Operations

Agents were asked to identify their primary, secondary, and third business based on the priority they attached to each. It is noted that transaction count dropped as a banking agent's priority for banking operations dropped (Figure 4.17).

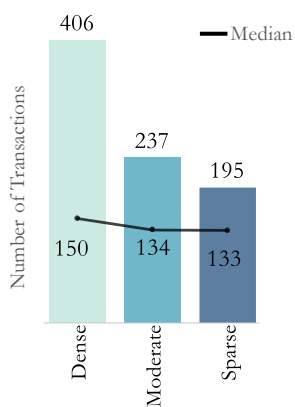
Figure 4.17: Monthly Transaction Count and Agents' Priority to Banking Operations



4.3.9 Location and Performance

The agents in dense commercial areas perform better than the moderate or sparse commercial areas. However, it may be noted that there were more high-performing banking agents in proximity to banks, which were located in dense commercial areas. Therefore, the average is much higher for agents in dense commercial areas. However, median transactions are not significantly different for the three types of locations (Figure 4.18)

Figure 4.18: Monthly Transaction Count by Area Type



4.4 Turnover and Ticket Size

4.4.1 Monthly Turnover of Agents

Turnover refers to the total monetary value of transactions facilitated by the banking agents in a month. This provides more insights into the size of operations of a banking agent and influences the banking agent's working capital needs.

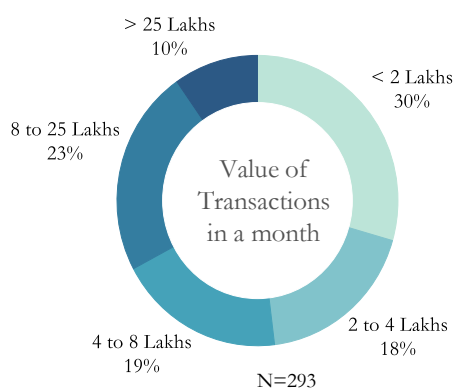
Turnover of agent in HP is distributed across a wide range. 30% of the banking

agents turned over transactions worth less than INR 2 Lakhs. 35% of agents facilitated transactions between INR 2 Lakhs to INR 8 Lakhs. 23% of agents reported a turnover of between INR 8 Lakhs to 25 Lakhs. 10% of agents reported over INR 25 Lakhs of turnover (Figure 4.19).

4.4.2 Transaction Ticket Size

Ticket size indicates the monetary value per transaction facilitated by the banking agent. Ticket size can help estimate the clients' financial needs and behaviour.

Figure 4.19: Monthly Turnover of Banking Agents



A median deposit amount of INR 4,300 and the withdrawal amount of INR 5,000 were noted in Himachal Pradesh (Figure 4.20 & 4.21).

Typically, rural population withdrew money before a planned visit to the town. The ticket size was larger in the first few days of the month as salaried or pensioners withdrew money. Also, ticket sizes were larger during festival or harvest season.

Figure 4.20: Distribution of Deposit Ticket Size reported by Banking Agent

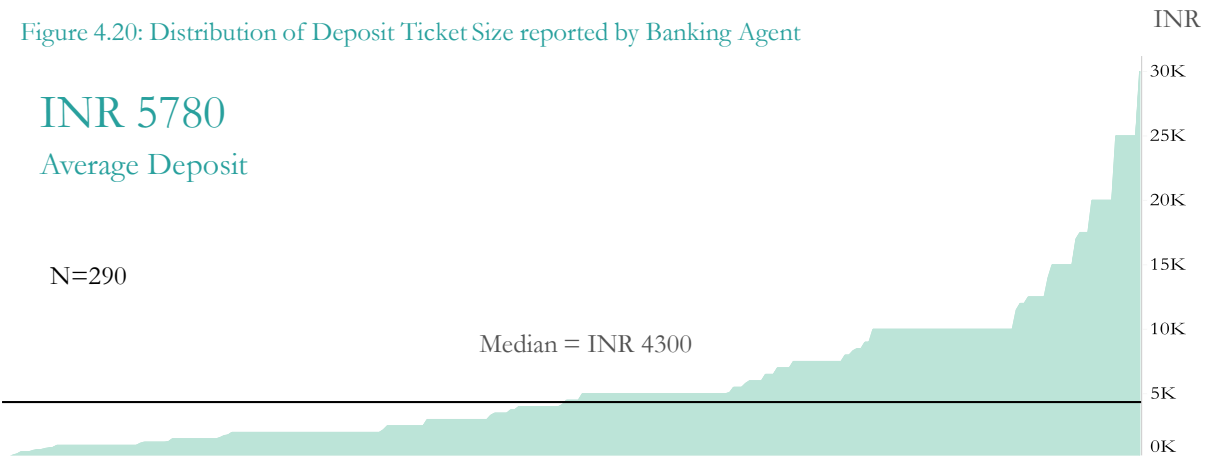
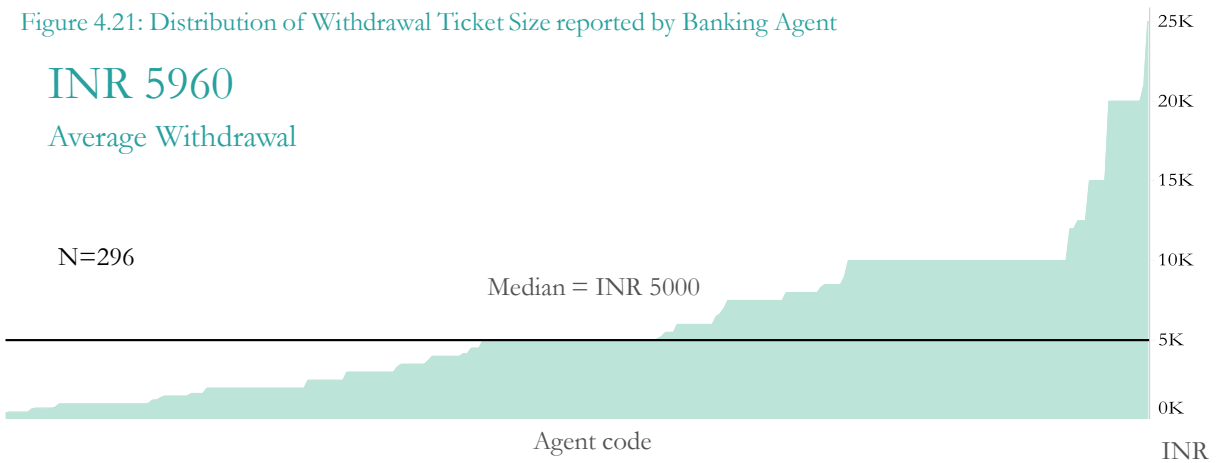


Figure 4.21: Distribution of Withdrawal Ticket Size reported by Banking Agent



5. Economics of Banking Agents in Himachal Pradesh

INR 3,500

Average monthly commission of agents

24%

Agents earning less than INR 1,000 a month

60%

Agents unsatisfied with commission

All four banks follow a slightly different commission model for banking agents.

INR 1,100

Median monthly expenses of Agents

INR 26,500

Median fixed investment by Agents

21%

Agents with no fixed investment

Nature of alternative occupation influences the recurring expenses and investment by an Agent

INR 70,000

Median Working Capital

26%

Agents experience working capital stockout regularly

23%

Agents have taken loan for banking operations

Agents that facilitate high monthly transactions face the working capital stockout the most

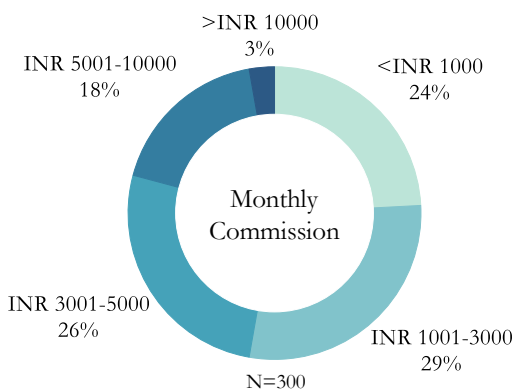
5.1 Commission of Banking Agents

5.1.1 Commission Earned by Agents

The financial sustainability of banking agents has been a key concern since the agent banking model's inception. Low commission of banking agents due to small scale operations poses challenges to the banks to ensure the sustainability of the model.

Agent banking is a high effort business that consumes a lot of time of the banking agent. In several cases, agents reported having to attempt the transactions multiple times before a successful attempt due to technical issues with the biometric machine used for AePS based transactions. Further, the agent must maintain the relationship with clients, the bank manager, and BCNM. It consumes agents' time in small pockets throughout the day. The average commission is INR 3,500, with a median of INR 2,900, indicating a positively skewed distribution.

Figure 5.1: Monthly Commission Earned of Banking Agents



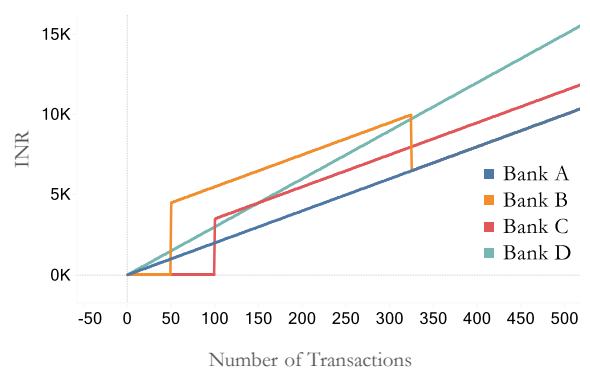
One-fourth of agents earned less than INR 1,000 a month, while another 29% earned less than INR 3,000 a month. About 21% of banking agents earned more than INR 5,000 a month (Figure 5.1).

5.1.2 Commission Model of Banks

Banks in HP followed different commission models. These can be categorized into two: a hybrid commission model and a pure variable commission model (Figure 5.2).

In the first model, the bank provided a fixed monthly commission amount to the agent to achieve a minimum number of transactions during the month. Also, the agent earned a percentage of the transaction value. Two banks followed this model. One of these banks also required the banking agent to log in to the banking software at least 21 days a month to be eligible for a fixed monthly commission. This was in addition to the monthly transaction target. In some cases, the BCNM changed the monthly transaction target based on the agent's local factors.

Figure 5.2: Indicative Commission Models of Banking Agents*



*Assuming ticket size of INR 5000

In one bank, the fixed commission amount was revoked if the agent made more than INR10,000 in a month.

In the second model, banks provided a variable commission that ranged between 0.4%-0.6% of the transaction value. There were no transaction targets, login requirements, or upper cap on the commission earned.

5.1.3 Commission Distribution

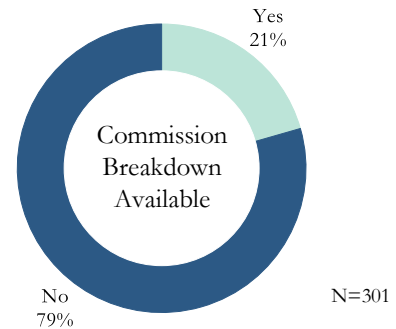
The commission is distributed between the BCNM and the banking agent in a ratio of about 20:80. In most cases, the bank directly paid the BCNM and banking agent after BCNM produced monthly records and filed commission release requests with the bank.

The bank released the commission within one-two weeks from the end of the month. There seemed to be a lack of clarity among the agents on the timing of the commission release. Due to this, many agents reported delays in commission release.

5.1.4 Availability of Commission Breakdown

Breakdown of commission earned can help agents be more aware of their performance and plan operations better in future. 79% of banking agents reported not having access to a breakdown of commission (Figure 5.3). The commission breakdown option was available on the banking software, but not all agents were aware of its availability. In some cases, BCNM reported the commission breakdown

Figure 5.3: Availability of Commission Breakdown on Banking Portal

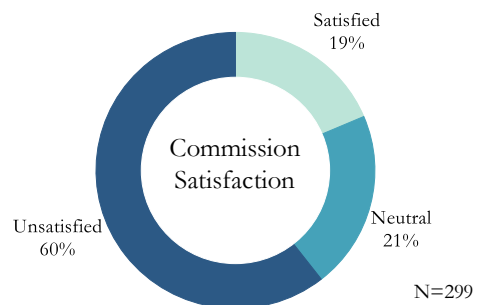


through IM or email.

5.1.5 Satisfaction with Commission Earned

Agent banking is a high effort, low reward business. Agents maintain regular interaction with multiple stakeholders, invest working capital, face technological issues, and earn a low commission amount. All these factors can have an effect on the satisfaction level of banking agents.

Figure 5.4: Agents' Satisfaction of Commission Earned from Banking Operations



19% of banking agents were satisfied with the commission earned through banking operations, 21% were neutral, and a large majority of 60% agents were not satisfied with the commission they earned (Figure 5.4).

5.1.6 Commission Structure Induced Behaviours

A fixed minimum commission induced the agents to at least achieve the minimum transaction targets. But agents could resort to manipulative practices to show more transaction count. For example, some agents asked the clients to deposit INR 5,000 twice rather than INR 10,000 at one go. Some agents used their family or friend's bank accounts to artificially increase number of transactions.

After achieving the target, some agents' incentive to do better can go away. Such agents focus on their alternative business after meeting the target.

Commission structure involving only variable commission rate was good for the high performing agents. It did not incentivize the agents that had low banking transactions.

Bank B revoked the fixed commission amount after the agent earned INR 10,000

in a month. This discouraged the high performing banking agents. Such agents resorted to declining clients' transaction requests to avoid breaching the INR 10,000 commission threshold in a month.

5.2 Recurring Expenses

The nature of recurring expenses was dependent on the nature of the alternate occupation of the banking agent. In some cases, agents reported no recurring cost since their alternate business was complimentary, and they were able to use the same supplies for agent banking operations.

47% agents reported had a monthly recurring cost of less than INR 1,000, while 20% reported monthly recurring expenses between INR 1,000-2,000. Only 11% agents reported a recurring cost of more than INR 5,000 a month (Figure 5.5). Median of recurring expenses was INR 1,100 (Figure 5.6).

Figure 5.5: Recurring Expenses of Banking Agents

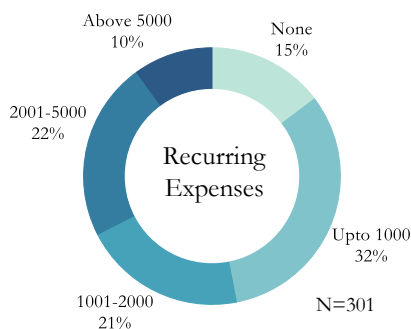
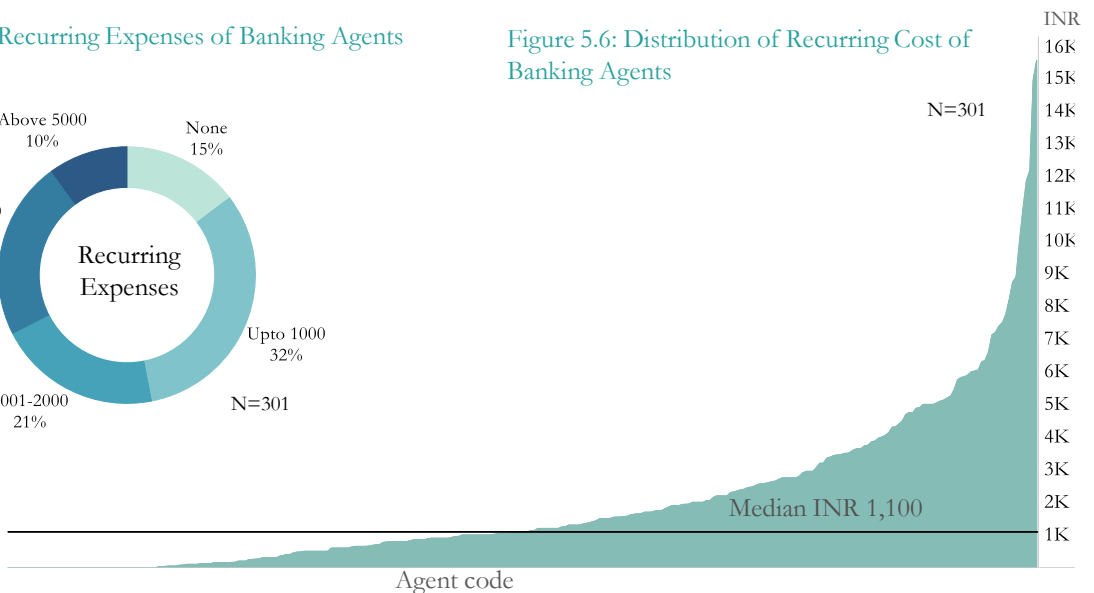


Figure 5.6: Distribution of Recurring Cost of Banking Agents

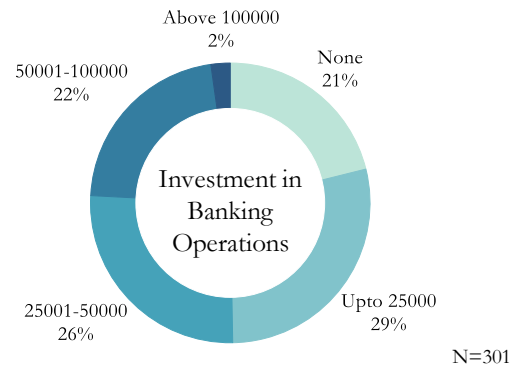


The recurring expenses included any of the following items:

- **Rent for kiosk:** For the agents that rely on agent banking for income, rent of the premises should be counted as the recurring cost. However, for most agents who had alternative occupations/lines of business before they took over agent banking, rent was not really an incremental cost due to agent banking operations. For 70% of agents, there was no incremental rental cost. For the remaining, median rental was approximately INR 2,300, which could be allocated between the banking agent's multiple business lines.
- **Power for kiosk:** Since banking operations necessitate the use of electric power-based equipment, the agent must factor the electricity cost into banking operations. The agents reported an average of INR 760 as the monthly electricity expenses with a median of INR 500. However, this could also be allocated among the business lines of the agent and was not specific to agent banking.
- **Travel to bank:** Banking agents must travel to the bank to access their bank accounts, manage working capital, resolve customer requests, etc. The agents reported a monthly travel cost of INR 600 with a median of INR 275.
- **Stationary expenses:** Stationary included register, printing cartridges,

paper rolls for receipts, etc. Banking agents reported a monthly average of INR 536 with a median of INR 250.

Figure 5.7: Investment by Banking Agents in Banking Operations



- **Internet Connection:** Agents reported a median of INR 275 for internet usage.
- **Travel for Banking:** 12% of agents reported spending on traveling to service the banking clients. A median cost of travel for banking was INR 1,000.

5.3 Investment

The agent needed to spend on one time set up costs of equipment and installation. Agents with alternative businesses that required technical equipment saved their investment for starting banking operations. For example, an LMK or computer center already had a computer setup and peripherals such as a printer, UPS, fingerprint scanner, internet connection, etc.

22% of agents reported no additional investment into the banking operations. 27% of agents reported an average investment of INR 25,000, while another

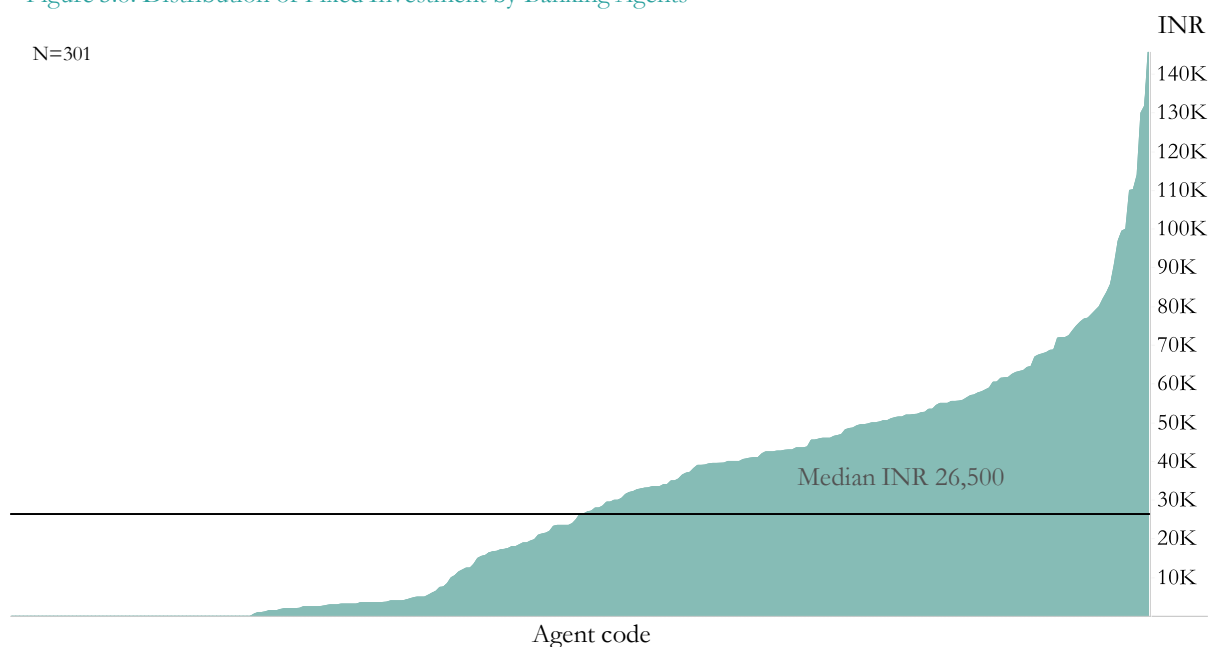
27% reported an average investment of INR 25,000-50,000. 22% of agents reported an investment between INR 20,000-1,00,000 (Figure 5.7). The median investment amount was INR 26,500 (Figure 5.8). The one-time expenses included the following items:

- **Printer:** An average spending of INR 12,000 was reported by the agents. 10% of agents did not report any cost of the printer.
- **Internet Installation:** 32% of agents did not report one time cost of internet connection setup, while others reported an average cost of INR 1500.
- **Cost of computer system:** 10% of agents did not report any computer system cost for banking operations. Other agents reported an average amount of INR 20,000 for the purchase of a computer system.

- **Cost of biometric device:** The agents required a fingerprint detection device. 32% of agents reported spending no money on this, while others reported an average of INR 3,300.
- **Cost of UPS:** 52% of agents did not report any cost for UPS, while others reported a median cost of INR 4,500.
- **Cost of micro ATM:** 80% of agents reported that the bank provided micro ATM to them. 10% did not use a micro ATM at all and facilitated only AePS based transactions. 10% of agents reported purchasing micro ATMs at a median value of INR 18000.
- **Other costs:** Several banking agents reported other expenses including furniture, renovation, marketing material, etc.

Figure 5.8: Distribution of Fixed Investment by Banking Agents

N=301

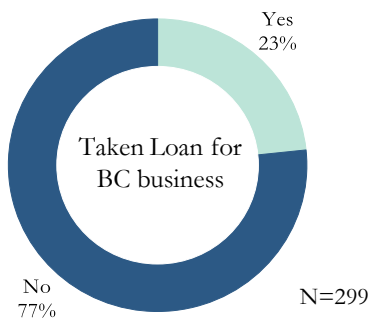


5.4 Credit for Banking Operations

5.4.1 Amount of Loan taken by Agents

23% of banking agents reported taking a loan for banking operations (Figure 5.9). Among those who borrowed money, one-fourth borrowed less than INR 50,000, and 27% of agents borrowed between INR 50,000-100,000. Agents reported an average loan amount of INR 1,66,000, with a median of INR 1,00,000.

Figure 5.9: Loan Taken by Agent for banking Operations



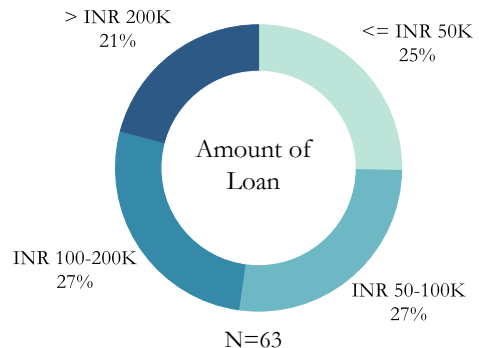
Another 27% of agents had a loan between INR 1-2 Lakhs, and 21% of agents had taken a loan of more than INR 2 Lakhs (Figure 5.10). The sources of the loan included commercial banks and cooperative

societies. Some agents reported making use of Mudra Loan Yojana.

5.4.2 Purpose of Loan

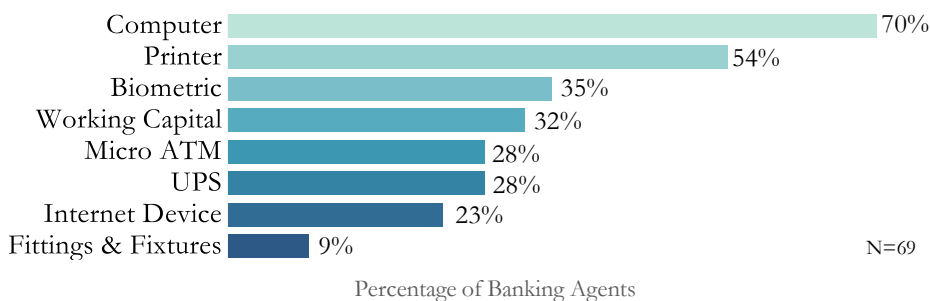
The majority (70%) of agents reported taking a loan to purchase a computer system for banking operations. 5% of agents borrowed the money to purchase the printer, and 35% purchased biometric devices. 28% of agents borrowed money for purchasing UPS, and 23% of agents purchased internet device from the borrowed funds. 31% of agents reported

Figure 5.10: Amount of Loan Taken by Banking Agent for Banking Operations



using the money for working capital in the banking operations. The rest of the banking agent needed funds to purchase furniture and fittings (Figure 5.11).

Figure 5.11: Purpose of Loan taken by Banking Agents



5.5 Working Capital Needs

Banking agents had to maintain cash in hand in the current account/wallet account (varied from bank to bank). Given that Cash-in and Cash-out are the major transaction types in agent banking, it is necessary to maintain an optimal working capital level.

45% of agents reported maintaining a daily working capital of less than INR 50,000,

while around one-third of agents maintained working capital between INR 50,000-100,000. 19% of banking agents reported maintaining more than INR 100,000 in working capital (Figure 5.12). On average, banking agents maintained working capital of about INR 95000, and the median for the same was INR 70,000 (Figure 5.13).

Figure 5.12: Amount of Working Capital Maintained by Banking Agents

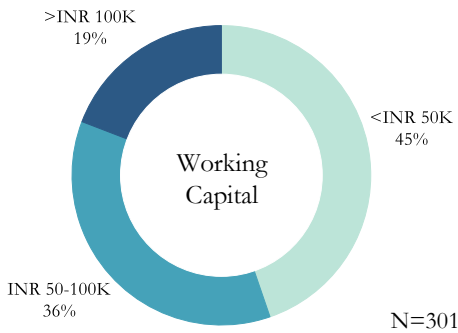


Figure 5.14: Sources of Working Capital of Banking Agents

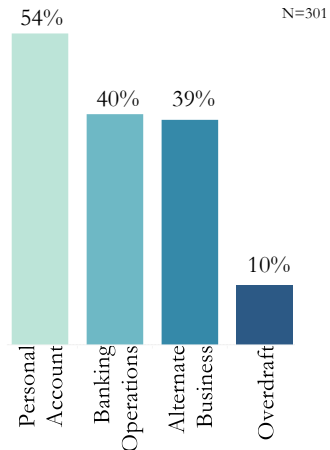
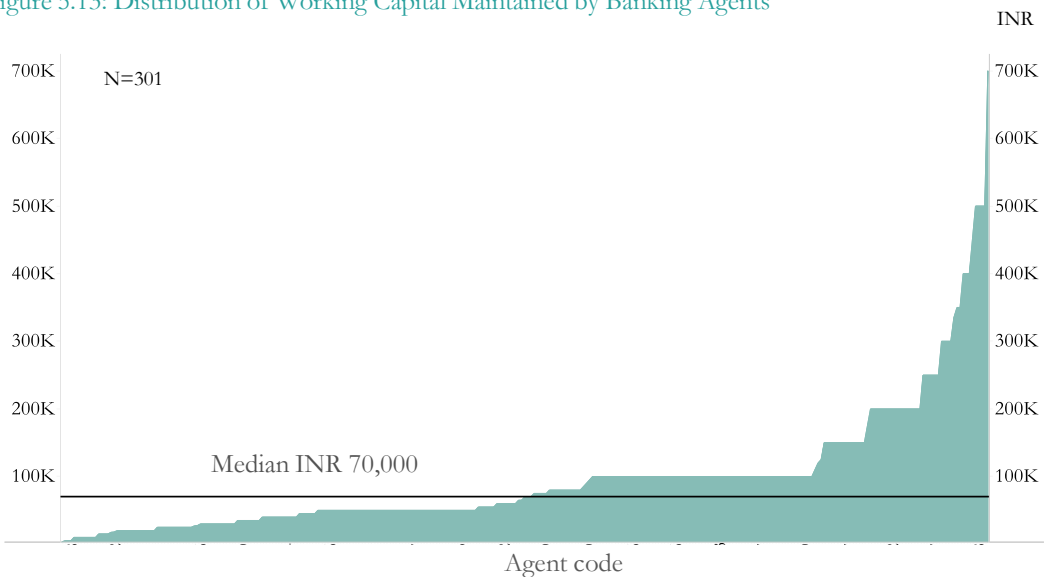


Figure 5.13: Distribution of Working Capital Maintained by Banking Agents



5.5.1 Source of Working Capital

In addition to the available formal sources, the agents pooled in their personal resources to manage their daily banking operations. 54% of agents sourced their working capital from personal savings, while 40% managed working capital from within the banking operations. 39% of agents were able to use cash from their alternative business. 10% of agents reported borrowing for working capital needs (Figure 5.14).

5.5.2 Working Capital Stockout

Working capital stockout refers to an event when the agent does not have sufficient cash or account balance to facilitate client's transaction. 26% of banking agents reported that facing working capital stockout always or often. 40% of agents faced this situation sometimes. 33% of agents experienced working capital stockout rarely or never (Figure 5.15).

In one case, the banking agent did not

entertain repeat transactions for a client. Some agents didn't allow transactions above a particular amount to ensure cash availability for other clients during the day. In some cases, the agent requested the clients to inform him of cash requirements in advance so that he could arrange working capital accordingly.

Banking agents with very high monthly transaction counts faced the problem of working capital stockout most often. About half of high performing banking agents (monthly transaction count >500) reported facing working capital stockout often or always.

On the other hand, 40% of banking agents with less than 100 transactions rarely or never face working capital stockout.

Of the agents with 100-500 transactions a month, about one-fourth of banking agents reported facing working capital stockout often or always (Figure 5.16).

Figure 5.15: Frequency of Stockout

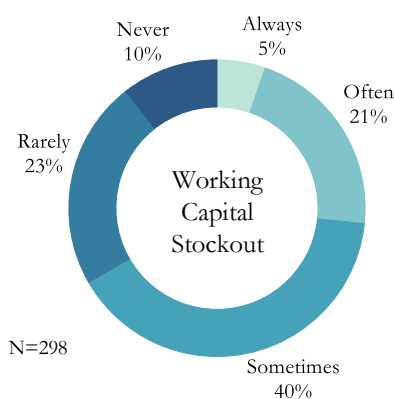
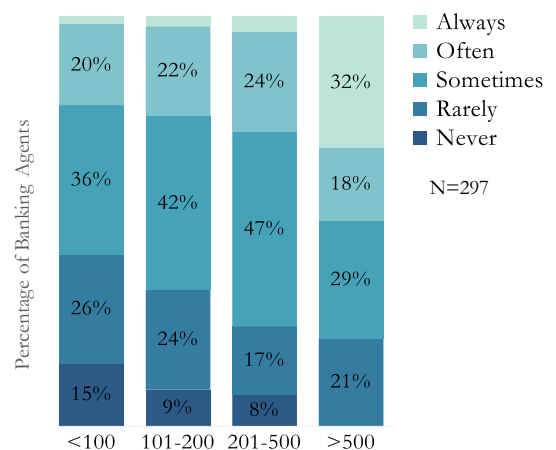


Figure 5.16: Number of Monthly Transactions and Stockout Frequency



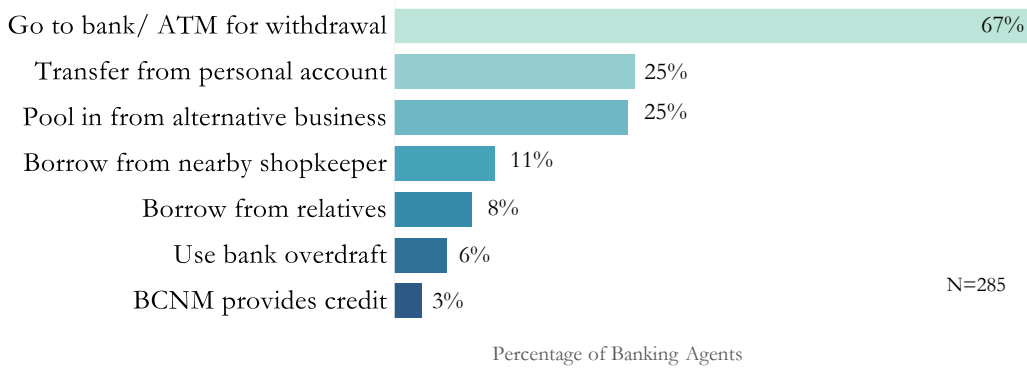
5.5.3 Stockout Management by Agents

The majority of banking agents (67%) travelled to the bank to deposit or withdraw cash when they exhausted their working capital in hand or in account. 25% of agents used their personal savings to bridge the working capital needs during stockout.

25% of agents were able to borrow from

their alternative business. 11% of banking agents reported that they borrowed cash from shopkeepers nearby. 8% resorted to borrowing money from relatives, while a small number of agents used bank overdraft during working capital stockout (Figure 5.17).

Figure 5.17: Alternatives Used By Agents to Replenish Working Capital in Case of Stockout



6. Motivation and Satisfaction of Banking Agents

Chapter 6 Highlights

64%

Agents take up Agent baking for extra income

Banking agents take up banking operations for additional income.

But many of them understand that they provide a service to the society

69%

Agents help clients in financial planning

45%

Agents are satisfied with banking operations

78%

Agents are likely to continue banking operations

Several banking agents are not satisfied with the banking operations.

However, most of unsatisfied agents are likely to continue operating.

56%

Agents are not satisfied with marketing support

49%

Agents are satisfied with support from base bank branch

82%

Agents are satisfied with the treatment at bank branch

Banking agents have good rapport with banks, satisfaction level can be improved

40%

Agents need training in resolving technical issues

Banking agents need to be trained on a range of areas to help them do better.

6.1 Motivation of Banking Agents

6.1.1 Motivation for Banking Operations

The motivation behind taking up banking operations can influence the effectiveness of a banking agent. The agents reported multiple reasons for opting for banking operations.

Typically, retailers doubled up as banking agents for additional income as 64% of banking agents indicated additional income as the major motivation. 36% of agents said that service to society motivates them. 17% of banking agents reported agent banking to be the primary source of income. A small fraction of agents (11%) also emphasized the social connection and reputation due to the banking agency. Only 7% of agents believed that there were synergies with their other business and banking operations (Figure 6.1).

6.1.2 Agent Client Relationship

In addition to the paid products and services, the agent also provides a range of unpaid services to the client that can help

establish trust with the clientele and get them to transact more.

The rural population can feel hesitant in approaching formal bank branches for various reasons. The banking agent, being the local retailer, brings in more rapport for such clientele. 78% of banking agents reported that they answered clients' questions on banking products and services. 69% of agents also reported helping clients in investment planning. 51% of agents helped to get passbooks updated for the clients (Figure 6.2).

32% of banking agents reported helping clients generate first time PIN for debit cards. 27% of agents assisted clients in depositing checks in the bank accounts. These mainly included clients that ran small businesses or were agriculturists.

Banking agents frequently visited the bank branch and did not mind helping the clients. However, the agent's expected priority from the bank branch in printing passbooks and other banking-related matters. In many cases, clients were ready to pay to the agent for passbook update service.

Figure 6.1: Reasons for taking up Agent Banking

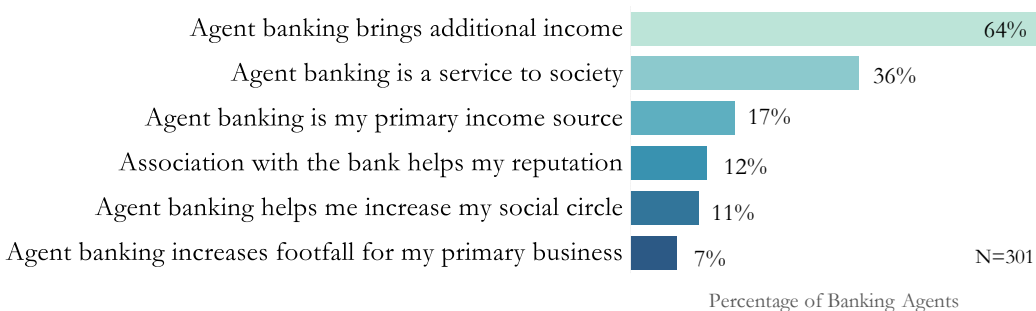
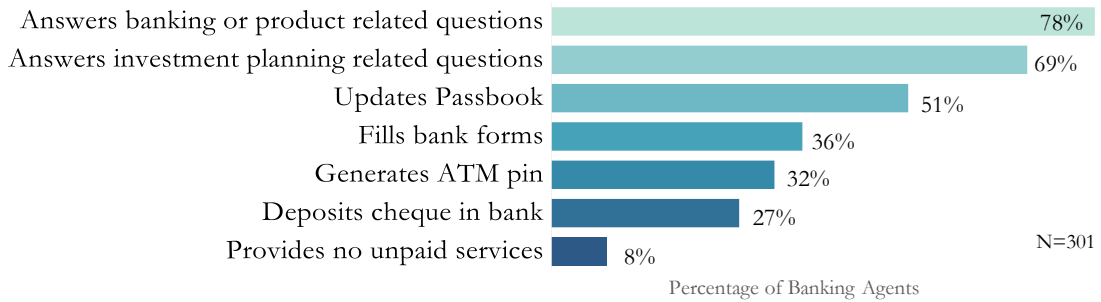


Figure 6.2: Unpaid Services Provided by the Agents



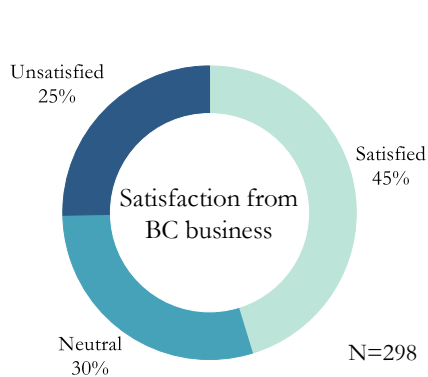
36% of banking agents also reported helping clients fill up details in bank forms such as deposit, withdrawal, loan application, etc.

6.2 Satisfaction from Agent Banking

6.2.1 Satisfaction from Banking Operations

Satisfaction can indicate the good or bad experience of banking agents with agent banking operations. 45% of the surveyed banking agents reported that they were satisfied with the banking operations overall. One-fourth of the agents were not satisfied, while 30% were neutral (Figure 6.3). While the satisfaction indicates the

Figure 6.3: Agents' Satisfaction of Banking Operations



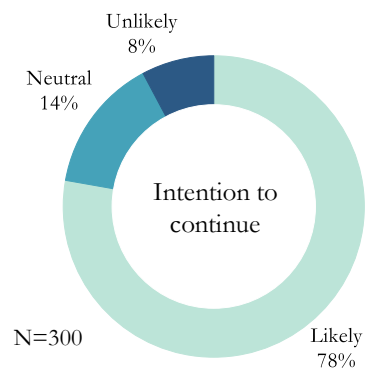
experience, it can also shape an agent's intention to continue or discontinue the banking operations.

6.2.2 Intention to Continue

78% of agents reported that they were likely to continue the agent banking operations. Only 8% of banking agents reported that they intended to discontinue, while 14% of agents had not made up their mind about it (Figure 6.4).

The satisfaction leads to the continuance, as most satisfied agents were likely to continue operating as banking agents. More importantly, most of the agents that were neutral on satisfaction leaned towards continuing the banking operations.

Figure 6.4: Agents' Intention to Continue Banking Operations

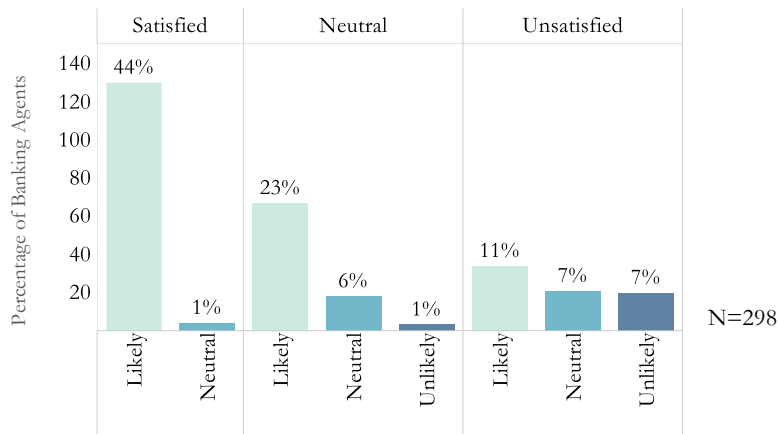


Out of the banking agents that are not satisfied, many reported that they are likely to continue (Figure 6.5).

The possible explanation for the above is that the banking agent, having invested time and effort in banking operations are willing to experiment more since there is no more fixed investment required going forward, and most of them can cover their recurring costs. So, it makes business sense to continue the banking operations despite small earnings.

BCNMs in HP deployed field supervisors that managed agents in specified geographies. The field supervisors maintained an IM group with the banking agents for instant and regular communication. BCNM posted solutions to the common problems in the IM group. For the other problems, field supervisors spoke to the banking agents on the phone. If required, the supervisors remotely connected to the agent's computer to solve technical challenges.

Figure 6.5: Agents' Satisfaction Level and Intent to Continue



6.3 Support from BCNM

6.3.1 Critical role of BCNM in Agent Banking

BCNM is the first point of contact for banking agents in case of any difficulties in running agent banking operations. Banks do not have the capacity and dedicated workforce to handle a large network of banking agents. Rather, an active BCNM can keep the agent network active and ensure the agent banking model's success.

6.3.2 BCNM Support Satisfaction

44% of agents were satisfied with the hardware support provided by the BCNM, while 31% of agents were dissatisfied (Figure 6.6). Regarding software support, 56% of agents were satisfied, and 26% were not satisfied (Figure 6.7).

In addition to technical support, BCNM also provided marketing support to the banking agent.

Figure 6.6: Agents' Satisfaction of Hardware Support provided by BCNMs

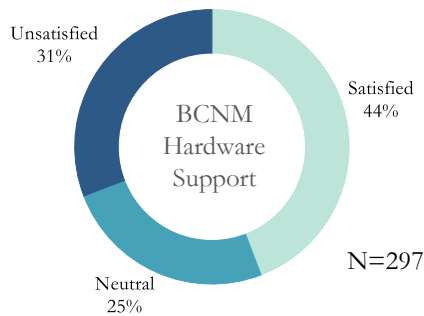


Figure 6.8: Agents' Satisfaction of Marketing Support provided by BCNMs

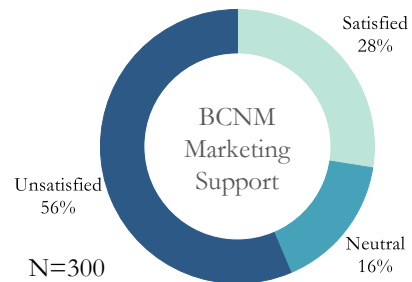


Figure 6.7: Agents' Satisfaction of Software Support provided by BCNMs

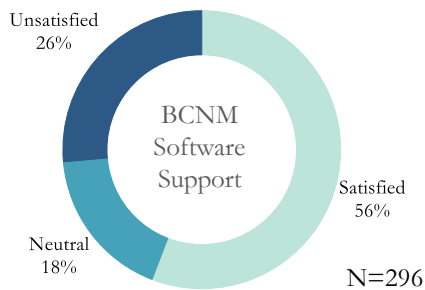


Figure 6.9: Agents' Satisfaction of Guidance provided by BCNMs



This included helping agents better sell the products and services, attract more clients, and efficiently manage the banking operations.

Only 28% of agents were satisfied, and as many as 56% of agents were not satisfied with the marketing support (Figure 6.8). This is a point of serious concern.

Likewise, only 36% of banking agents were satisfied with the guidance provided by the BCNMs on best practices for banking operations (Figure 6.9). This included suggestions for working capital management, interacting with clientele, transparency, etc.

6.4 Support from Bank

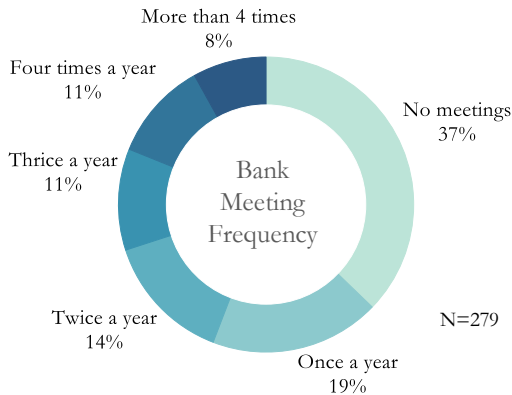
6.4.1 Critical Role of Bank in Agent banking

For banking agents, support from the base bank branch can be critical. Endorsement from the bank can influence the rural population to transact through the agent. Encouragement and support from the bank officials can keep the enthusiasm high for banking agents.

6.4.2 Meeting Frequency

Banks organized meetings with banking agents to motivate them, instruct them on guidelines, introduce new products or other related businesses. Such meetings also allowed the banking agents to bring up any concerns/complaints that they may have.

Figure 6.10: Meeting Frequency with Bank

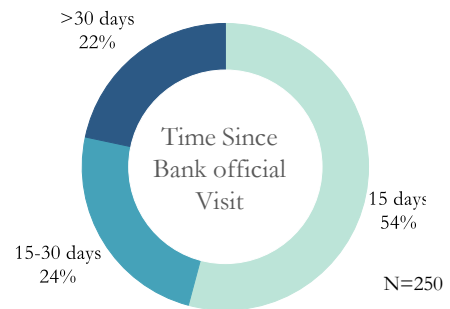


37% of agents reported having had no meeting with their bank, while 19% of agents reported once a year meeting frequency (Figure 6.10). An equal proportion of banking agents reported meeting frequency of twice, thrice, four times or more in a year.

6.4.3 Visit Frequency of Bank Official

The manager of the base branch visits the banking agent regularly for supervision purposes. 54% of agents reported that a bank official visited them within the past 15 days, while 24% of agents reported bank official visit in the past month. 23% of banking agents reported that a bank official had not visited them in more than a month (Figure 6.11).

Figure 6.11: Time since Bank Official Visit

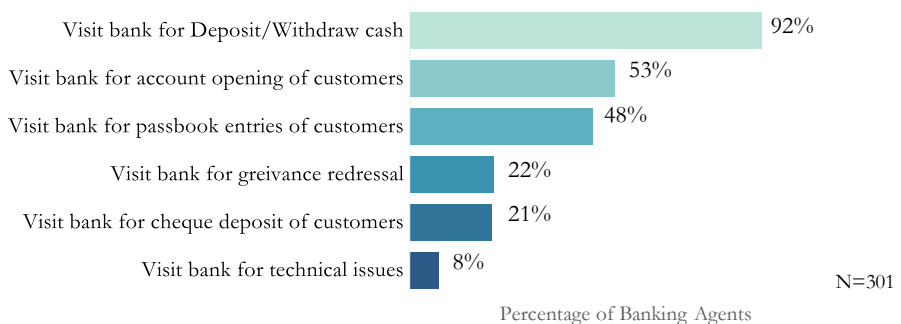


6.4.4 Visit to Base Branch

The banking agent visited the base branch for various operational purposes such as accessing his bank account, account opening of clients, update clients' passbooks, deposit cheque on clients' behalf, and resolving any technical issues (Figure 6.12).

During such visits, the agent expected preferential treatment from the base branch. In some cases, the agents reported that they were treated as regular bank clients and made to wait in a queue. In some other cases, the agents reported speedy assistance from the base branch that helped them get back to their kiosk without losing undue business hours.

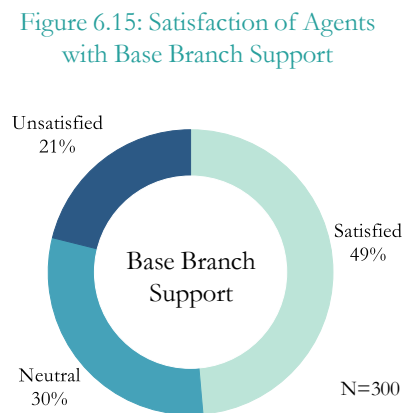
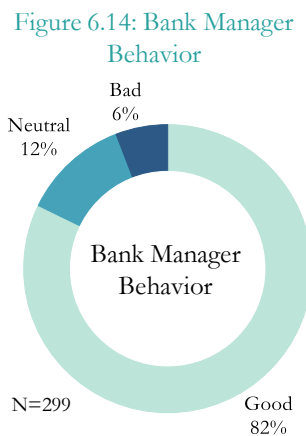
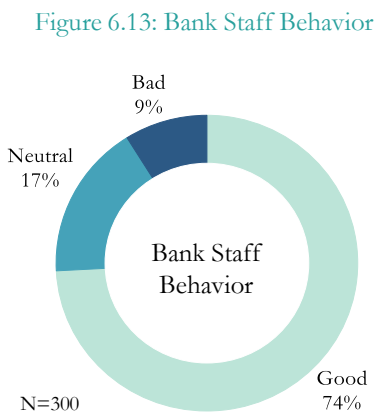
Figure 6.12: Reasons reported by Banking Agents for Visiting Bank Branch



Priority given by the bank branch to the banking agent helps the agent's banking operations and helps establish more trust between the agent and his clientele. If the clients of the agent see him standing in a queue in the bank branch, it may erode their trust in the agent.

6.4.5 Interaction of Banking Agent and Bank Staff

74% of banking agents reported good behavior of bank staff, while 9% reported that they were not happy with the treatment they received at the bank branch (Figure 6.13).



Relatively, banking agents had better experience interacting with the branch manager. 82% of banking agents reported good behavior by the bank manager, and only 6% of banking agents were not happy with their interaction with their branch managers (Figure 6.14).

In two cases, agents reported not visiting the base branch due to a strained relationship with the bank staff. The agents,

in these cases, were not able to provide services like passbook updates to the clientele.

6.4.6 Satisfaction with the Base Branch Support

Overall, 49% of banking agents reported that they were satisfied with the support they received from their base branch. One-fifth of the banking agents were not satisfied with the support and wanted improvement. A good 30% of agents were neutral (Figure 6.15).

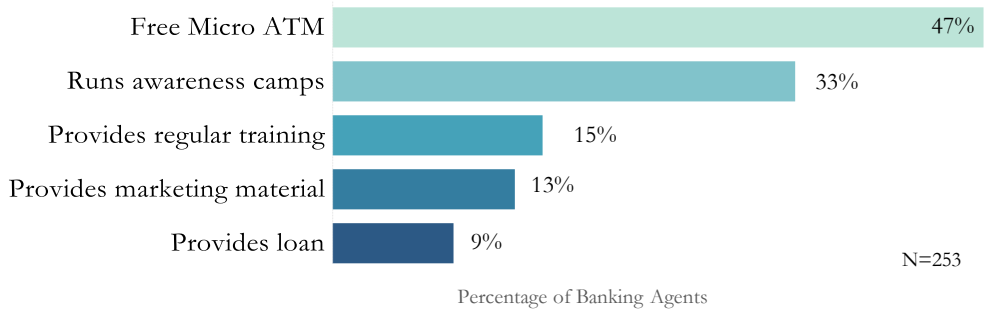
6.4.7 Support Provided by the Bank

Banks provided various types of support to

the banking agent. 47% of banking agents reported that their bank had provided them micro ATM free of cost. 33% of agents reported that the base bank branch organized banking camps in their allocated area, helping them increase clientele.

15% of agents also reported regular training, while 13% reported receiving marketing material from bank. Only 9% of agents had gotten a bank loan for banking operations (Figure 6.16).

Figure 6.16: Support Extended by Banks to Banking Agents

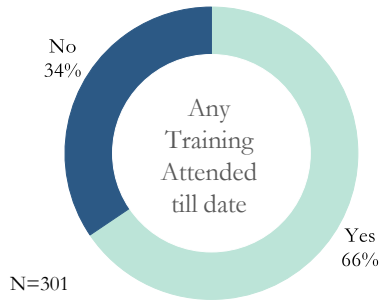


6.5 Training of Banking Agents

6.5.1 Training Attended

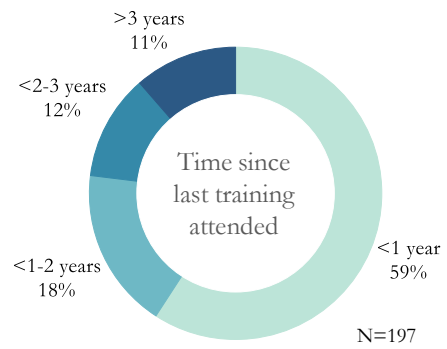
Banking agents need to be trained on technical and business aspects of running banking operations. Banks, with the help of BCNM, conduct training sessions for banking agents from time to time.

Figure 6.17: Agents with Training



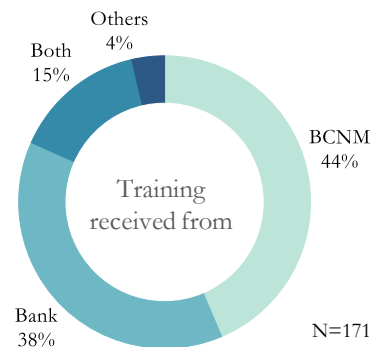
34% banking agents had not attended any training till date, while the rest had attended at least one training (Figure 6.17). Further, 59% agents reported attending a training within the past one year, and 18% agents had attended a training in the past two years. 12% agents had not attended a training in two years, while 11% agents had not attended a training in last 3 years (Figure 6.18).

Figure 6.18: Time since Last Training



Further, 44% of agents reported receiving training from BCNMs, and 38% received training from the bank. 15% of agents had undergone a training program with both the bank and BCNMs (Figure 6.19).

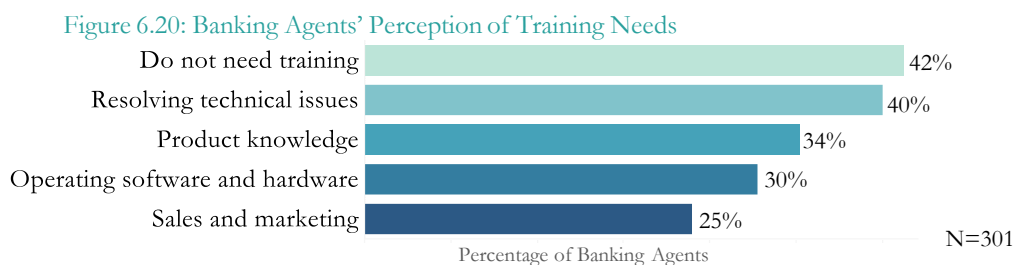
Figure 6.19: Source of recent Training for Banking Agents



6.5.2 Trainings Needs of Agents

Banking agents need to understand better the technical issues and basic training on resolving minor issues themselves. Also, the agents should be trained in cash and working capital management. Many agents did not know the process of facilitating recurring deposit and fixed deposit products to the clientele.

When asked, 42% of banking agents said that they did not need any training. 40% of agents felt they needed training on resolving technical issues, and 34% of agents felt they needed more product knowledge. 30% of agents needed training on handling software and hardware, while 25% of agents needed training in sales and marketing skills to perform better (Figure 6.20).



6.6 Technical Infrastructure Quality

6.6.1 Micro ATM Failure

Technical issues in operating the micro ATM was a prominent issue faced by the banking agents. It mainly included hardware breakdown or software updates of the micro ATM.

26% of banking agents reported facing such problems with micro ATM often or always. While 51% of agents never or rarely faced such problems (Figure 6.21).

6.6.2 Biometric Authentication and Fingerprint Detection

For AePS based transactions, the banking agent had to enter the account number and the Aadhaar number of a client into the banking software, followed by fingerprint tracing of the client through a biometric device.

Two types of problems occurred in this process. First, the biometric device did not recognize the fingerprints of some clients.

Particularly, the clients who were doing labor damaged their fingerprints. The agent had to make multiple attempts at capturing the fingerprint to enable banking access. 21% of banking agents reported facing this issue often or always. On the other hand, 44% of agents rarely or never faced this issue. 35% agents faced this issue sometimes (Figure 6.21).

The second type of problem was that after detecting the fingerprint, the banking software could not authenticate the account that restricted account access to the client. 23% of banking agents faced this problem often or always, while 44% of agents rarely or never faced such problems (Figure 6.21).

6.6.3 Server Downtime

32% of banking agents reported that the banking software did not function often or always due to the back-end problems (which they perceived as server downtime). Typically, the agents tried out a transaction few times before declaring a server downtime. 46% of agents reported that they sometimes faced this issue (Figure 6.21).

6.6.4 Internet Connection Failure

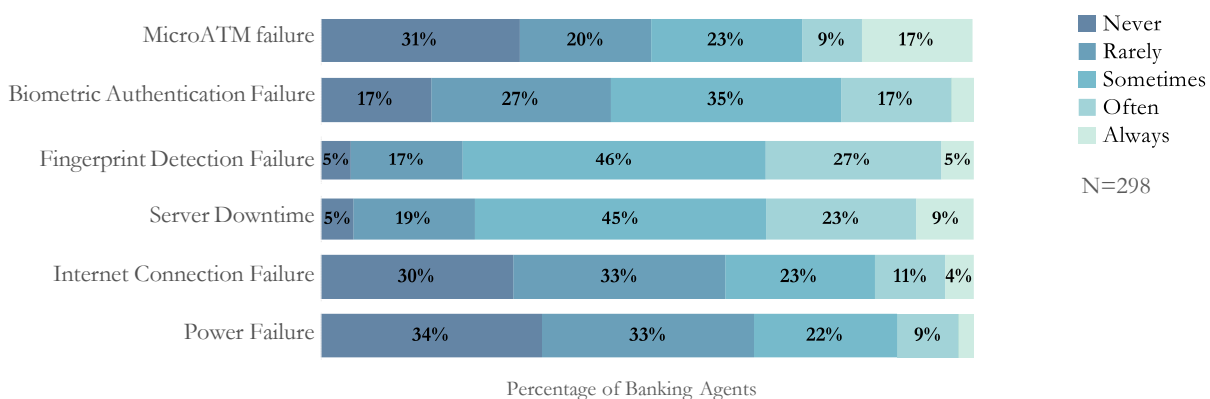
Only 15% of agents reported facing internet connection issues often or always. 63% of agents rarely or never faced problems with the internet (Figure 6.21).

All agents used a wireless USB internet connection device. Some agents also had a hard-line internet connection. Internet problem was more prominent in Shimla, Bilaspur, Solan, and Chamba districts.

6.6.5 Power Failure

67% of agents rarely or never faced power outage issues. Only 11% of agents reported facing often or always. 33% agents reported facing the problem sometimes (Figure 6.21).

Figure 6.21: Technical Issues Faced by Agents in Day-to-Day Operations



7. Rural Banking Clientele: Demographic Characteristics and Banking Behavior

Chapter 7 Highlights

72%

Clients have annual income below
INR 2 L

34%

Clients are self employed

Majority clientele of
agents is low
income

81%

Clients have a banking agents within 2 km

37%

Clients have both the agent and bank branch
nearby

Proximity of banking
agent to the rural
clientele helps bridge the
gaps left by formal
banking

77%

Clients of the agent were bank clients

Largely, banking agents'
clientele includes existing
bank clientele

20%

Clients started using Agent Banking
services in last six months

Agent banking continues
to attract new clients

71%

Clients use agent banking services as it
saves time

66%

Clients recommend banking through
an agent

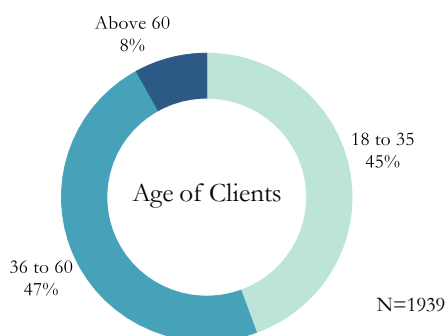
Time saving, flexible
operating hours, and
personal connect attract
rural population to
banking agents

7.1 Demographic Profile of Rural Banking Clientele

7.1.1 Clients by Age Groups

Age can be related to financial behavior of an individual. Individuals in the middle age bracket can be relatively more financially informed due to their business or professional engagement. In contrast, younger individuals, such as students, are likely to have a limited understanding of banking. However, this age group can be more open to technology-based transaction mechanisms.

Figure 7.1: Clients by Age Group



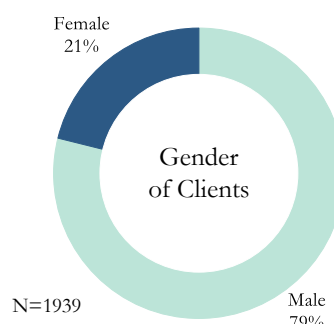
Older people in rural areas can find it difficult to visit the bank or operate an ATM to access their bank account. The banking agent provided assisted banking access to the clients which made the banking experience much better than the formal bank branches.

The sample of agent banking clientele had individuals of all age groups. 45% of clients were in the age group 18-35 years, 47% of clients were between 36-60 years of age. 8% of clients were above 60 (Figure 7.1).

7.1.2 Clients by Gender

21% of clients surveyed were females (Figure 7.2). Gender is understood to shape banking behavior. In general, more males are engaged in economic activities and possibly use the bank account more. Females, on the other hand, are known for more prudent and disciplined financial behavior. The literature on self-help groups and microfinance speaks to female borrowers' creditworthiness and discipline across geographies (Boehe & Barin Cruz, 2013; Yunus & Weber, 2009).

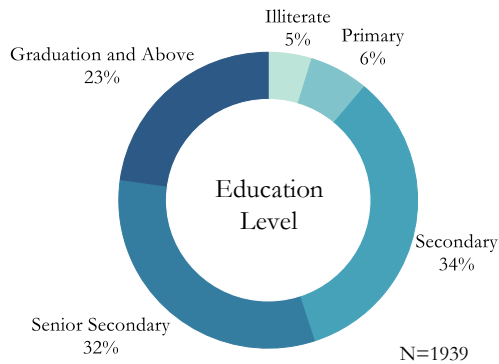
Figure 7.2: Clients by Gender



7.1.3 Clients by Education Level

Education can help an individual develop a better perspective on personal financial management, the importance of banking, risk management, and related ideas important for financial well being. The majority of banking clientele surveyed included individuals with at least a secondary education level (Matric). Only a small 5% clientele was illiterate, and 6% had primary education only. 23% of clientele had at least a graduate level of education (Figure 7.3).

Figure 7.3: Clients by Education Level



7.1.4 Occupation of Agent Banking Clientele

Occupation of an individual can shape her banking needs by influencing income level and financial needs. Laborer typically visited the banking agent before 9 am or after 5 pm, whereas people employed in agriculture had no particular time of visit. Self-employed people transacted during business hours. Students from nearby schools or residential area transacted during a school break or in the afternoon post the school hours.

34% of clients were self-employed, while 28% were salaried either in the government or private sector. 9% of clients reported

agriculture as their occupation. 8% of clients worked as a laborer in construction, agriculture, or industrial areas. The remaining clients included homemakers, students, or people who were unemployed (Figure 7.4).

7.1.5 Income of Agent Banking Clientele

Large sections of rural banking clientele are low-income due to small retail shops, seasonal agriculture, and limited economic activity. 17% of clients reported no income. These mainly included students, homemakers, and unemployed. 18% of clients report an annual income of less than INR 50,000. 37% of clients reported annual income between INR 50,000-2,00,000. 28% of clients reported an annual income of more than INR 200,000. 5% of the clients reported annual income above INR 5.00,000 (Figure 7.5).

Some well-off people also used banking agent services in Himachal Pradesh, but most of the clientele came from lower-income groups.

Figure 7.4: Clients by Occupation Type

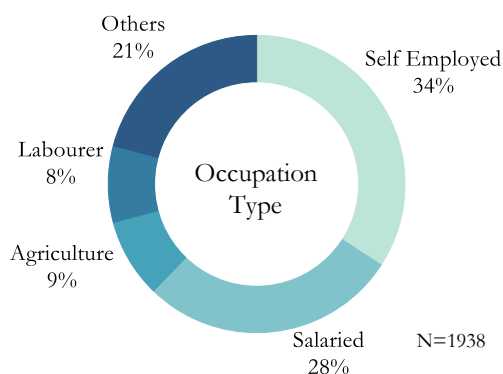
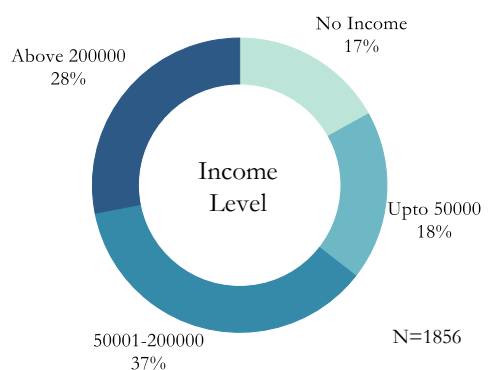


Figure 7.5: Clients by Income Level

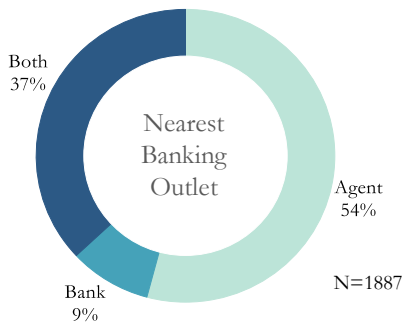


7.2 Access to Banking

7.2.1 Nearest Banking Outlet

For 54% of rural banking clients, the banking agent was the nearest banking outlet. 9% of clients had a bank branch closer to their residence. For 37% of clients, both bank branches and banking agents were at a comparable distance (Figure 7.6).

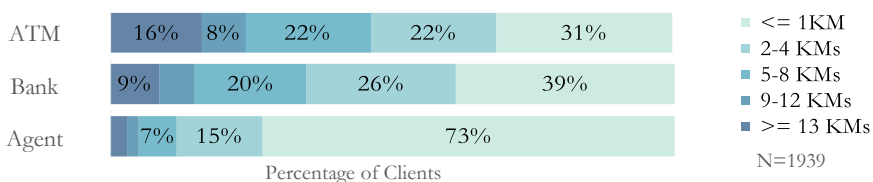
Figure 7.6: Nearest Banking Outlet to the Clients



39% of clients reported having a bank branch within one-kilometer distance. 26% of clients had a bank branch within 2-4 km. This was typically the case in more populous towns where both agent and branch could be found nearby (Figure 7.7).

31% of clients reported that they had an ATM within a one-kilometer distance, while 22% reported having an ATM outlet between 2-4 km distance (Figure 7.7). However, an ATM is not a direct substitute for a banking agent since it only provides

Figure 7.7: Distance between Clients' Village and Banking Outlets



withdrawals. Also, several clients benefited from the banking agent's assisted transaction, which is not available at ATM.

7.2.2 Proximity to Banking Agent

The banking agents are expected to provide better access to the clientele in remote and rural areas. 73% of clients reported that the banking agent was less than one kilometer away from them (Figure 7.7).

Figure 7.8: Clients' Proximity to Banking Agent

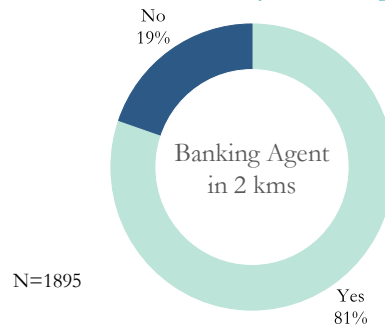
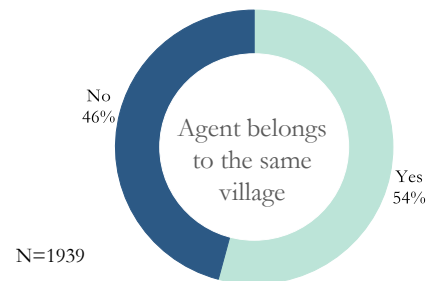


Figure 7.9: Agent and Client belong to the same village



15% of clients reported that the banking agent was within 4 km of their reach. The remaining clients were five or more kilometers away from the banking agent (Figure 7.7).

81% of clients reported having a banking agent within walking distance i.e. 2 kilometers (Figure 7.8). In 54% of cases, the agent belonged to the clients' village, making it easier for clientele to approach the agent (Figure 7.9).

7.3 Banking Behavior of Rural clientele

7.3.1 Account Ownership

Account ownership is a necessity to avail banking services at a banking agent outlet. By design, our sample includes clients that already owned at least one bank account.

46% of clients reported owning one bank account. 36% of clients reported having two bank accounts, while 17% of clients maintained three or more bank accounts (Figure 7.10).

Figure 7.10: Number of Accounts Owned by Clients

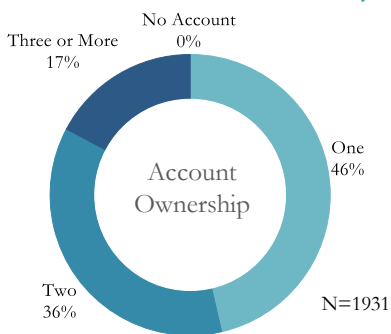
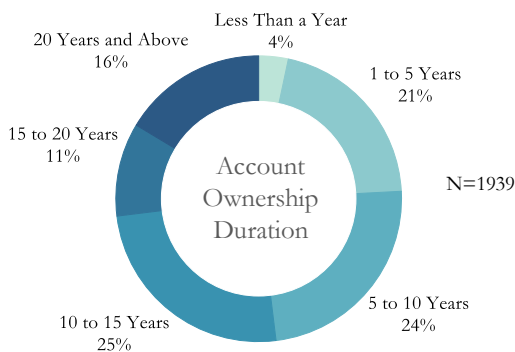


Figure 7.11: Duration of Account Ownership



A large majority of clients (96%) had been a banking client for more than one year. 21% of clients had been an account holder for 1-5 years. The rest of the clients had owned a bank account for more than 10 years (Figure 7.11).

7.3.2 Mode of Account Opening

77% of the clients of banking agents reported having opened the bank account through formal bank branches. Only 8% of clients reported opening their bank account through the banking agent, while 14% of clients reported having opened bank accounts through both the bank branch and banking agent (Figure 7.12). The majority of clients had been bank clients for a long and were being served by the banking agents.

Figure 7.12: Source of Account Opening

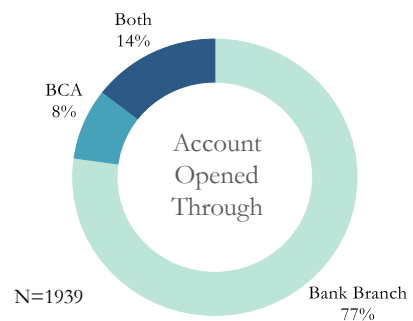


Figure 7.13: Clients Using Payment Apps

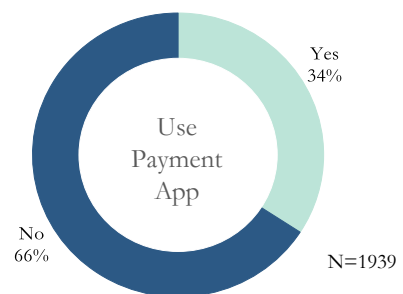
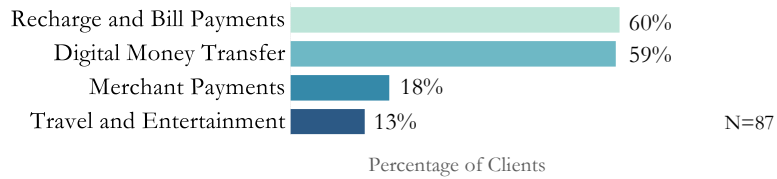


Figure 7.14: Purpose of Use of Payment App by Clients of Banking Agent



7.3.3 Use of Payment Applications

34% of clients also reported using digital payments application on their cell phones (Figure 7.13). These included BHIM, google pay, Paytm, Phonepay, etc. The reported purpose of using such applications was bill payment, phone recharge, money transfer, etc. (Figure 7.14). A higher proportion of clients in younger age groups were using digital payment applications. Also, more clients with higher educational qualifications were using digital payment applications.

7.3.4 Visit and Transaction Frequency

23% of clients reported visiting the banking agent once a month, while 63% of clients visited the banking agent 2-5 times in a month. 14% of clients reported visiting banking agents more than six times in a month (Figure 7.15). The monthly deposit

and withdrawal frequency of clients exhibited similar patterns (Figure 7.16 & 7.17).

7.4 Usage of Agent Banking Services

7.4.1 Association with Banking Agent

19% of the clients had been transacting at the banking agent outlet for the past 6 months, indicating that agent banking continues to attract new clients. Most of these clients opened their bank account with the bank and had adapted to banking agent services. 21% of clients reported using the services of a banking agent for less than one year. 23% of clients had been using agent banking for one to two years. 37% of clients had been associated with the banking agent for more than two years (Figure 7.18). 10% of clients had with the banking agent for over 4 years.

Figure 7.15: Frequency of Visiting Banking Agent

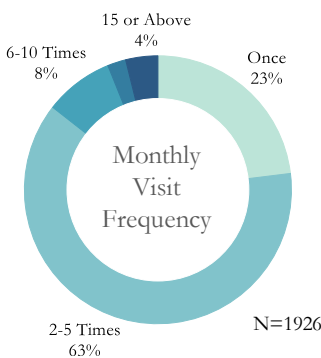


Figure 7.16: Monthly Withdrawal Frequency

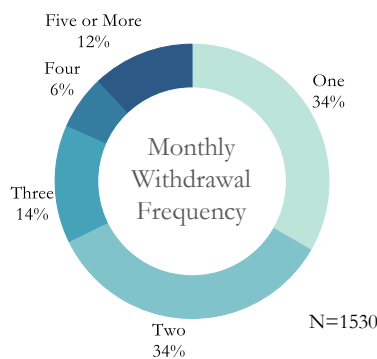


Figure 7.17: Monthly Deposit Frequency

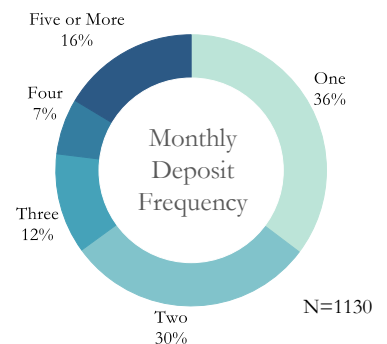
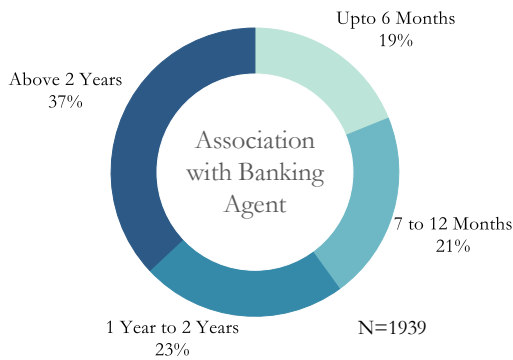


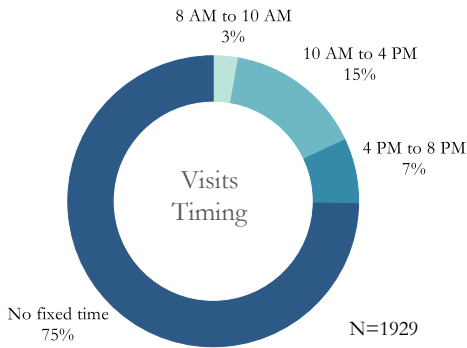
Figure 7.18: Duration of Association with Banking Agent



7.4.2 Visit Timing

A majority (75%) of clients reported following no fixed time for visiting the banking agent for transacting. (Figure 7.19). Certain clients preferred early morning or late evenings to access their bank account due to occupational or personal limitations.

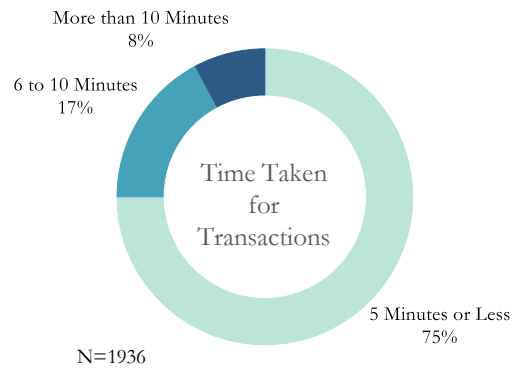
Figure 7.19: Visit Timing



7.4.3 Transaction Time

75% of clients reported a transaction time of fewer than 5 minutes at the banking agent outlet. Given that the banking agent is within walking distance of the majority of clients, small transaction time further incentivizes the clients to use agent banking services. 17% of clients reported 6-10 minutes. 8% of clients reported more than 10 minutes transaction time. (Figure 7.20).

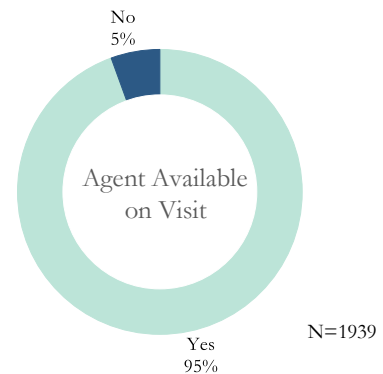
Figure 7.20: Transaction Time



7.4.4 Agent Availability

95% of clients reported that the agent was usually available when they visited the banking agent outlet. Only 5% clients reported that the agent was not usually available at the kiosk (Figure 7.21).

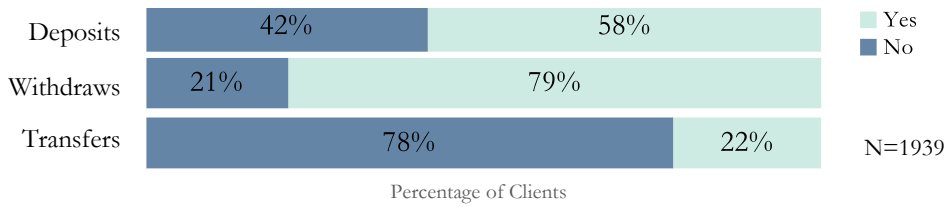
Figure 7.21: Availability of Banking Agent



7.4.5 Use of Banking Services

58% of clients reported using only the deposit facility through the banking agent, while 79% of clients used the banking agent outlet to withdraw money from the bank account. Only 22% of clients used a banking agent outlet for transferring money to someone else (Figure 7.22). Clients engaged in agriculture mostly used withdrawal transactions, while higher

Figure 7.22: Use of Basic Banking Services by the Clients at Banking Agent Outlet



proportions of laborers and self-employed clients used banking agent outlets for deposits. A higher proportion of younger age group clients used deposits compared to older population clientele.

7.5 Transaction Ticket Size

7.5.1 Deposit Ticket Sizes

The average deposit size was INR 5,026 with a median of INR 3,000. 22% of clients reported a typical deposit of less than INR 1,000, while 17% reported a deposit ticket size of INR 1,000-2,000. 36% of clients deposited INR 2,000-5,000 at a go. 25% of clients deposited more than INR 5,000 at one instance (Figure 7.23).

Agriculturists typically received lump sums of INR 15,000-20,000 cash payment for the sale of produce. They deposited this amount in two installments. Sometimes, the clients reported leaving the cash with the banking agent, which the agent deposited

afterward due to a per transaction limit of INR 10,000.

7.5.2 Withdrawal Ticket Sizes

The average withdrawal size was INR 4,600 with a median of INR 3,000. The breakdown of withdrawal ticket sizes is the same as in the case of deposits (Figure 7.24).

7.5.3 Transfer Ticket Sizes

The average transfer size was INR 6,200, with a median of INR 5,000 (Figure 7.35). Transfer ticket sizes were typically larger than the deposits and withdrawals. Typically, transfer amounts involved remittances that can be larger than regular deposits and withdrawals. Particularly, in the case of laborers, they sent money back home in larger sums. Banking agents had to deposit them in multiple transactions due to a transaction limit.

Figure 7.23: Deposit Ticket Size of Clients

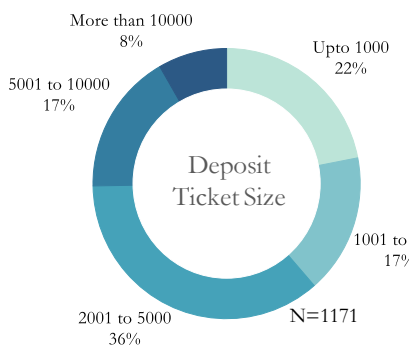


Figure 7.24: Withdrawal Ticket Size of Clients

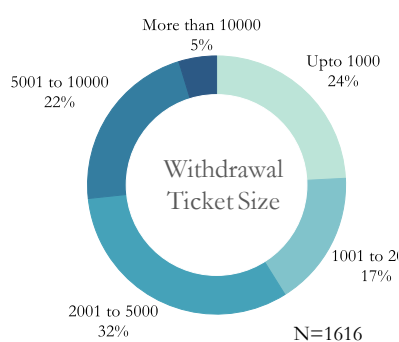
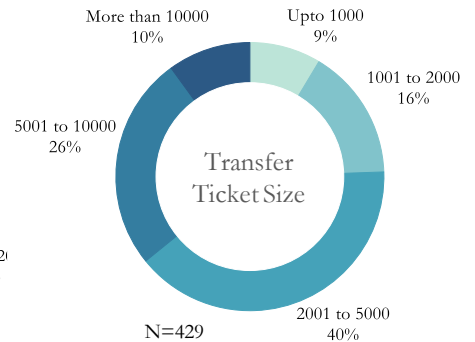


Figure 7.25: Transfer Ticket Size of Clients



7.5.4 Deposit Ticket Size by Client Demography

Further analysis of ticket sizes shows that the average deposit amount for males is significantly higher than the females (Figure 7.26). There is also a variation in deposit size by age groups. The younger and older populations seem to have a smaller average deposit size than the age group of 36-60 (Figure 7.27).

Deposit size consistently increases with the income of the client (figure 7.28). Illiterate clients have a low average deposit size than all the other client groups. Clients with

graduation or above reported the largest average deposit size. The clients with primary education reported a higher average deposit size than clients with secondary or senior secondary education levels (Figure 7.29).

Further, the deposit size also varies by the occupation of clients. Salaried and self-employed clients reported higher average deposit size compared to all other client groups. Clients dependent on agriculture reported smaller deposit amounts compared to laborers.

Figure 7.26: Deposit Ticket Size of Clients by Gender

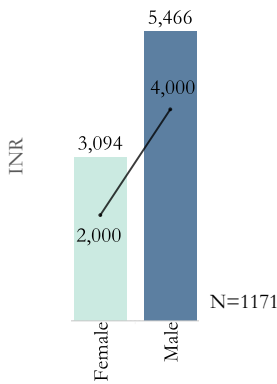


Figure 7.27: Deposit Ticket Size of Clients by Age

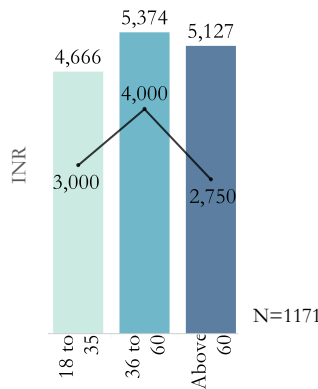


Figure 7.28: Deposit Ticket Size of Clients by Income

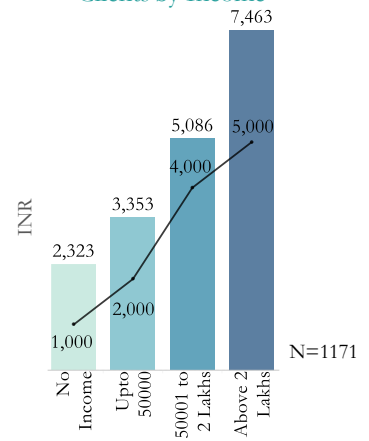


Figure 7.29: Deposit Ticket Size of Clients by Education

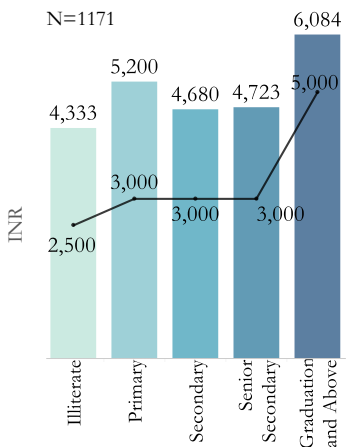


Figure 7.30: Deposit Ticket Size of Clients by Occupation

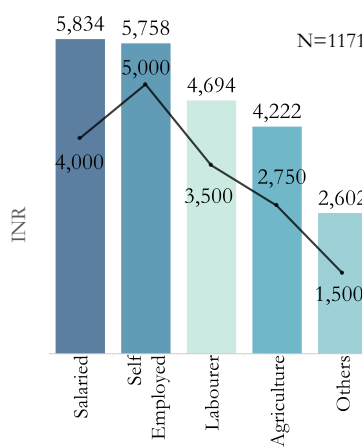
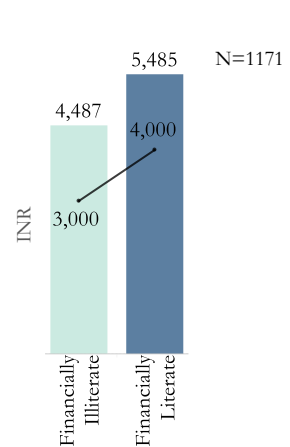


Figure 7.31: Deposit Ticket Size of Clients by Financial Literacy Level



All other client groups reported a lower average deposit size (Figure 7.30).

Clients that were assessed to be financially literate reported higher deposit amounts (Figure 7.31).

7.5.5 Withdrawal Ticket Size by Client Demography

Withdrawal size increases with the age group of clients. Clients above the age of 60 reported the highest ticket size for

withdrawals (Figure 7.33). This population is likely to be dependent on pensions and withdraws larger amounts at one go at the beginning of the month.

Regarding clients' income, withdrawal ticket size has a similar pattern as in the case of deposits. Higher-income groups of clients reported higher withdrawal size (Figure 7.34).

Figure 7.32: Withdrawal Ticket Size of Clients by Gender

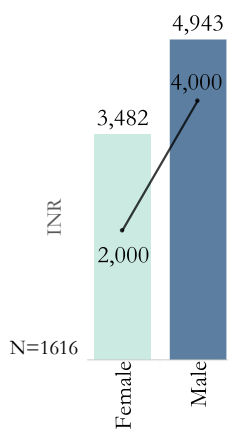


Figure 7.33: Withdrawal Ticket Size of Clients by Age

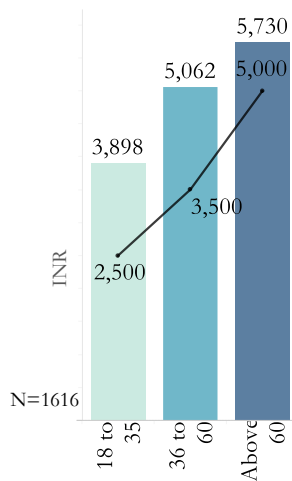


Figure 7.34: Withdrawal Ticket Size of Clients by Income

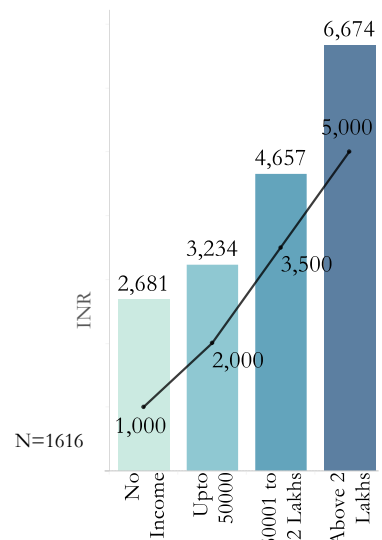


Figure 7.35: Withdrawal Ticket Size of Clients by Education

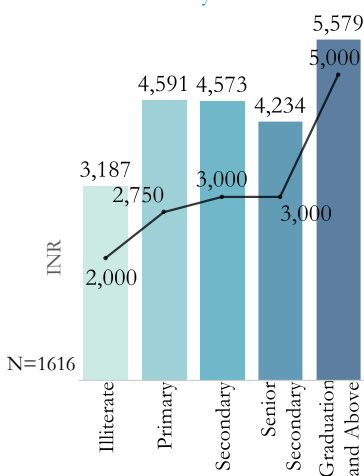


Figure 7.36: Withdrawal Ticket Size of Clients by Occupation

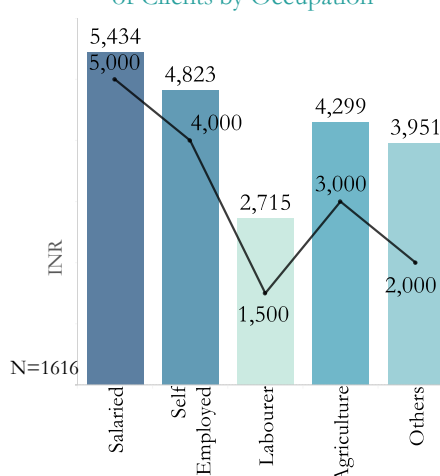


Figure 7.37: Withdrawal Ticket Size of Clients by Financial Literacy Level

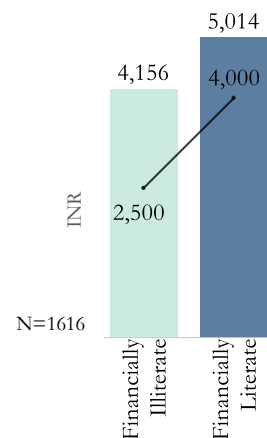
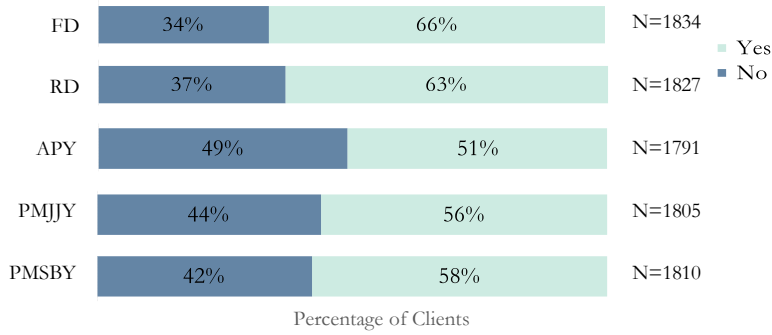


Figure 7.38: Clients Aware of Banking Products Available at Banking Agent Outlet



The education level of clients and withdrawal ticket size show a similar pattern as in deposits (Figure 7.35).

Salaried clients reported the highest average withdrawal amount, followed by self-employed individuals. Clients involved in agriculture reported a higher withdrawal size compared to laborers (Figure 7.36). Laborers used deposit transactions more than withdrawal as they usually wanted to remit the money.

Financially literate clients reported a larger average withdrawal size (Figure 7.37).

7.6 Product awareness and Uptake

7.6.1 Awareness of Financial Products

Rural banking clientele's had a low level of awareness of banking products. More than half of the surveyed banking clients were

not aware of common financial products like fixed deposit (FD) and recurring deposit (RD). Further, about half the clientele was not aware of the special products offered through banking agents such as Atal Pension Yojana, Pradhan Mantri Jeevan Jyoti Bima Yojana, and Pradhan Mantri Suraksha Bima Yojana (Figure 7.38).

7.6.2 Usage of Products

While about half of the clients were aware of the product, the products' uptake turned out to be very low. Only 21% of clients had a fixed deposit, and 18% had a recurring deposit. As regards PMSBY and PMJJY, 19% and 21% of clients reported having purchased. APY was purchased by only 12% of banking clients (Figure 7.39).

Figure 7.39: Purchase of Banking Products by Clients of Banking Agents

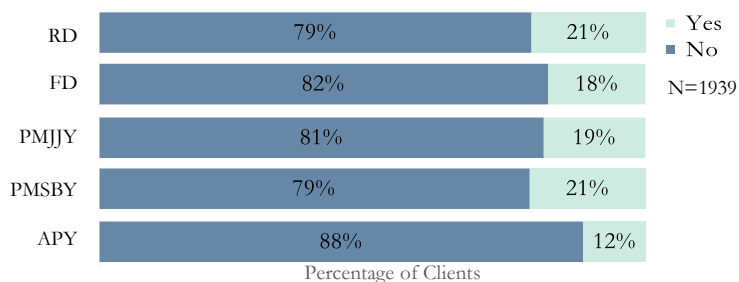
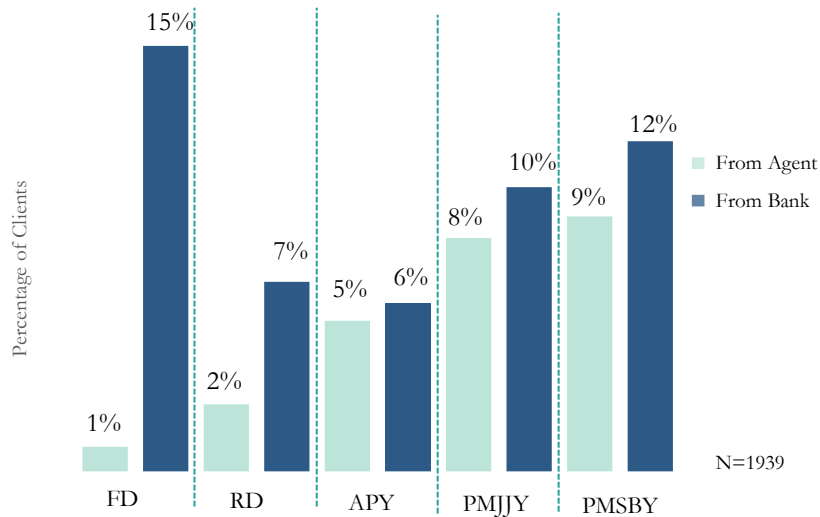


Figure 7.40: Percent Clients Availing Banking Products Through Agent and Bank



A small percentage of clients availed the banking products from banking agents. Relatively, more clients availed had availed products from the bank. More clients bought APY, PMJJY and PMSBY than FD and RD (Figure 7.40).

7.7 Demand for Credit Products

Agent banking has not been able to establish enough confidence in the banks to distribute credit products. Currently, the banks do not extend credit through the agent banking model. Interestingly, a private bank in HP was in the process of onboarding banking agents to extend credit products to the rural population.

The banking agents were usually encouraged to refer prospective borrowers to the bank and assist them in loan applications. But there is no remuneration for banking agents for such referrals.

7.7.1 Loan Taken by Clients

22% of clients reported having taken a loan in the past three years, while the rest had not availed any loan (Figure 7.41).

Most of the clients had borrowed from formal sources such as banks and NBFIs. 4% of clients reported borrowing from informal sources, friends, relatives, moneylenders, etc. 1% of clients reported having taken a loan from both formal and informal sources (Figure 7.42).

Figure 7.41: Loan taken by Clients of Banking Agents

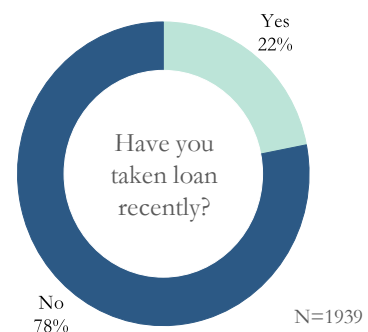
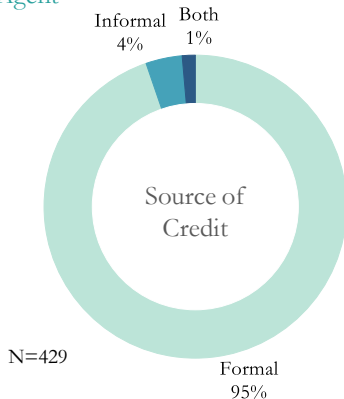


Figure 7.42: Source of Loan Taken by Clients of Banking Agent



7.7.2 Purpose of Loan

41% of clients borrowed for business purpose (Figure 7.43). 25% of clients had taken a loan for either house construction or household expenses. 23% of clients used the loan towards agriculture expenditure. Other purposes of taking the loan included education (3%), medical treatment (3%), land purchase (2%), and debt repayment (1%).

7.8 Motivation for using Agent Banking

7.8.1 Motivation for Using Agent Banking Services

Most clients (71%) reported time-saving as a benefit of transacting at the banking agent outlet. 39% of clients reported that the flexible operating timings of banking agents

suited them. 37% of clients were also motivated by the fact that the banking agent belonged to their own village, due to which they found the banking agent more approachable. 28% of clients reported cost saving to be a reason for transacting through the banking agent. 25% of clients had a banking agent near their workplace, due to which they found it easy to transaction through the banking agent. This was the case for school-teachers and government employees (Figure 7.44).

25% of clients wanted to avoid the paperwork required in the bank for transacting. 16% of clients preferred the banking agent due to proximity (Figure 7.44).

10% of clients reported that the banking agent served two purposes (Figure 7.44). While they could access their account through the banking agent, they also bought other goods or services he offered. This is not a large percentage indicating that the banking clientele may not necessarily help the footfall of the banking agents' alternate business (Figure 7.44).

Figure 7.43: Purpose of Loan taken by Clients of Banking Agent

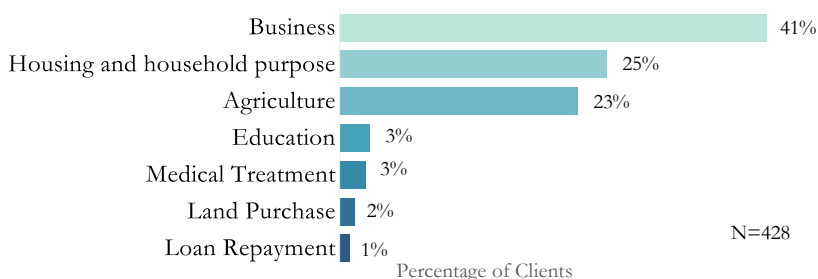
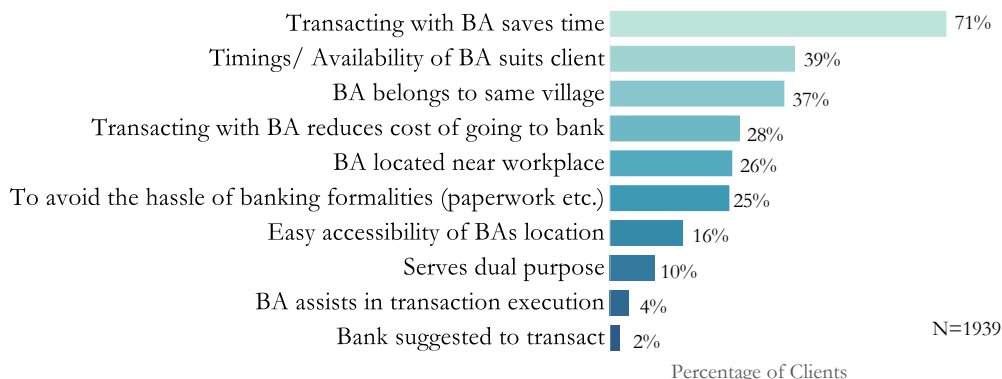


Figure 7.44: Motivation of Clients to use Banking Agent Services

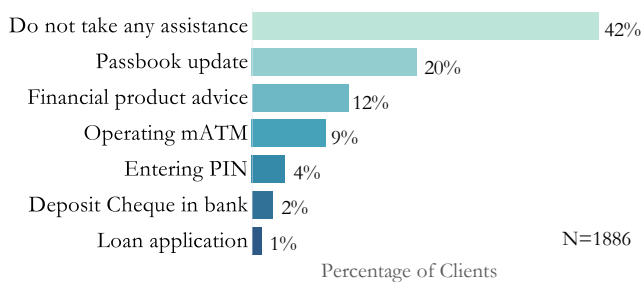


7.9 Assistance provided by the Agent

7.9.1 Assistance Taken by the Clients

42% of clients reported taking no assistance from the banking agent. 20% reported that they usually got the passbook printed through the banking agent. 12% of clients reported that they took financial advice from the banking agent, while 9% of agents reported that they took help in operating the micro ATM. Further, 4% of clients used the agent's help in entering the PIN into the micro ATM. A small section of clientele (2%) reported using banking agents' assistance in depositing cheques into the bank. 1% of clients reported taking assistance of banking agent in filing loan application to the bank (Figure 7.45).

Figure 7.45: Banking Assistance Taken by Clients from Agents

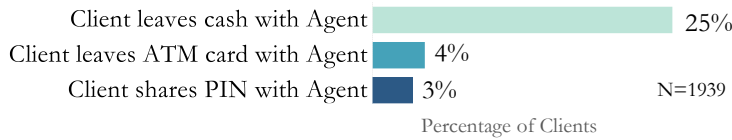


7.9.2 Trust between Clients and Agents

5% of clients reported that they had given money to banking agent to be deposited later (Figure 7.46). The clients were either in a hurry or did not want to wait for the transaction as it did not require their presence.

In some cases, laborers dropped cash in the morning before leaving for work and collected deposit receipts in the evening after work. Clients did such deposit transactions through IMPS. Hence, they did not require clients' presence. The banking agent maintained the record of account details, Aadhaar number, etc., of the client using which he could conduct the transaction on behalf of the client.

Figure 7.46: Indicators of Clients' Trust on Agent



A small proportion of clients (4%) reported leaving the debit card with the agent, and 3% of clients also shared the PIN with the banking agent (Figure 7.46).

7.10 Client Satisfaction

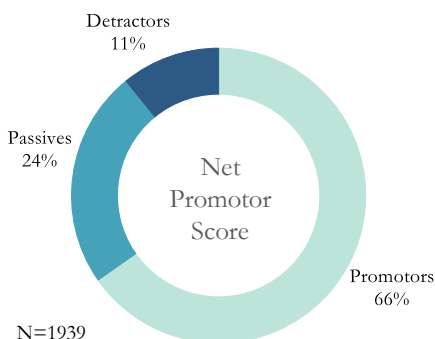
7.10.1 Net Promotor Score

66% of clients reported that they would recommend using banking agents' services to their friends and family. 24% of clients were neutral i.e., not strongly inclined on recommending banking agent services. 11% of clients reported that they would not recommend banking agents to others (Figure 7.47). While this may indicate trust of clients on banking agents, it can lead to unwanted outcomes.

7.11 Issues faced by clientele

Overall, more than half of the banking clientele rarely or never faced

Figure 7.47: Net Promotor Score given by Clients



technological challenges while transacting through the banking agent.

20% clients reported facing issues with micro ATM sometimes. 12% clients faced this issue often or always. A large majority of 86% clients never or rarely faced issue with biometric authentication (Figure 7.48).

69% clients reported never facing issues with fingerprint detection. 26% clients faced this issue sometimes, while the remaining clients faced this issue often or always (Figure 7.48).

61% clients said they never faced server downtime problem. However, 34% faced this issue sometimes, and the rest of clients faced this issue often or always.

Internet connection related issues were reported by only 15% agents. Of this 12% clients reported facing internet problem sometimes, while the remaining 3% faced this issue often or always.

73% clients never faced power related problem while transacting at the banking agent outlet. 22% agents sometimes faced power outage. 5% clients often or always faced this problem.

Issues with Agent's availability and availability of cash were reported by

around 10% of the clients. A large majority of clients never or rarely faced such problems.

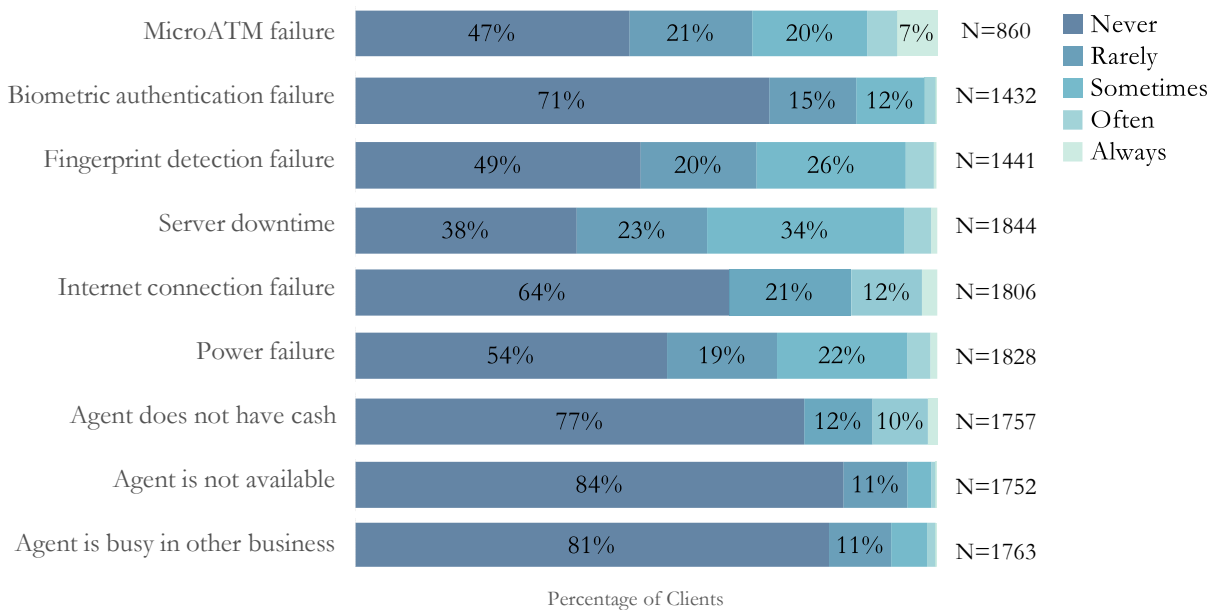
Other issues: Clients reported few other issues. Some banking agents did not assist the clients in updating the passbook through the bank. The agent received no remuneration for this purpose, but clients expected the agent to provide this service. In some cases, banks declined agents' requests to update passbooks of several clients brought in by the agent.

Several clients wanted increase in the limit of INR 10,000 per day for deposits and withdrawals.

Also, the clients wanted the agent to provide the passbook in an event of new account opening. However, the banking norms required the clients to go to the bank to collect the passbook and debit card.

Interoperability issues were also raised by the client. Banking agents of Bank B were not able to facilitate transactions for clients of Bank C and vice versa. Due to this clients' access to their bank account was restricted despite the presence of a banking agent.

Figure 7.48: Issues Faced by Clients of Banking Agent



Section 8: Use of AePS in Agent Banking

Chapter 8 Highlights

92%

Clients are aware of AePS

42%

Clients use only AePS for transacting

More clients use AePS for compared to other modes of transaction

50%

of Female clients use AePS only

86%

of Clients that are illiterate use AePS only

63%

of senior citizens use AePS only

>60%

of laborers, homemakers, agriculturists use AePS only

AePS is popular among the vulnerable sections of society

85%

Clients feel that AePS makes banking easy

4.5/5

Clients' rating of AePS on speed, safety and ease of use

Time saving, flexible operating hours, and personal connect attract rural population to banking agents

8.1 Role of Aadhaar in Agent Banking

Aadhaar enabled payment system (AePS) is a means of accessing bank account through banking agents. In principle, there are two ways in which a client can access her bank account through the banking agent.

First, a client can use a debit card and the PIN on the micro ATM available with a banking agent. This option requires the client to carry a debit card and remember the PIN to transact. The client can deposit, withdraw, or transfer through this option. Second, a client can provide her Aadhaar number and fingerprint on a biometric device, and transact through an online banking portal. The client can deposit, withdraw, or transfer through this option as well.

To facilitate debit card-based transactions, the agent needs to invest around INR 18,000 in purchasing a micro ATM. On the other hand, the AePS transaction mechanism relied on only a biometric device. The device cost between INR 2,000 to 3,500 and was cheaper than a micro ATM.

Maintenance of micro ATM was also a limiting factor. Repairing or replacing micro ATMs is a time-consuming process. For hardware repair of micro ATM, the agent had to send it to the manufacturer through the BCNM.

Therefore, it could take many days to get the micro ATM back. The BCNM could do a software update in micro ATM but usually required the agent to visit its district office or field supervisor's office.

Several banking agents in Himachal Pradesh relied on AePS transaction mechanisms since their micro ATM was not working. If not for AePS, banking agents would not be able to facilitate banking transactions in such cases.

More educated clients and college students were reluctant to use AePS. Many such clients believed that the AePS was for low-income and illiterate people since it involved fingerprint use.

Transacting through AePS was more error-prone compared to the debit card mode of transacting. The agents reported friction in fingerprint detection on the biometric machine and account authentication on the online portal. Relatively, agents reported that debit card-based transactions were more smooth. Therefore, agents having both the transaction methods, available preferred that clients used micro ATM to transact.

Another factor that helped AePS adoption was that the bank took a long time in issuing a debit card to the accountholders. In such cases, AePS was the only option for clients.

8.2 Aadhaar Experience of banking clientele

8.2.1 Possession of Aadhaar Card

All except 1% of clients that were surveyed reported possessing an Aadhaar card (Figure 8.1). The saturation percentage of Aadhaar in India was 88.6% as of 31 May 2020, while it was 101% for Himachal Pradesh (Unique Identification Authority of India, 2020). Banking clientele is more likely to have an Aadhaar number due to the Aadhaar-bank account linkage drive that the Indian government had initiated in 2015 (India Brand Equity Foundation, 2018). Further, most new clients opened bank account through e-KYC that required an Aadhaar number.

8.2.2 Error in Aadhaar Card

29% of clients reported that their Aadhaar card had an error in the personal details mentioned on the card (Figure 8.2). 76% of these clients attempted to get the errors corrected (Figure 8.3), and 93% of such clients got the error rectified (Figure 8.4).

8.2.3 Opportunity Cost of Correction

In the process of getting the errors rectified on the Aadhaar card, 52% of clients reported losing one working day, while 22% of clients reported losing two days. 19% of clients lost more than 5 days on getting the details rectified in their Aadhaar card (Figure 8.5). In rural locations, Aadhaar centers can

Figure 8.1: Aadhaar Uptake by Banking Clients
be far away, leading to further inconvenience to the Aadhaar

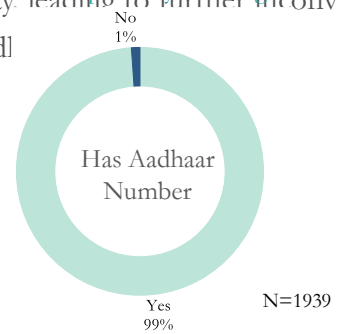


Figure 8.2: Error in Aadhaar Cards

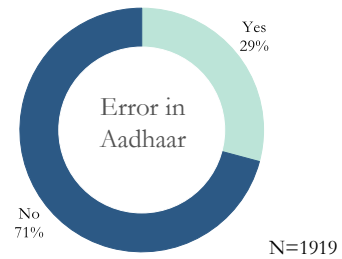


Figure 8.3: Attempted Aadhaar Correction

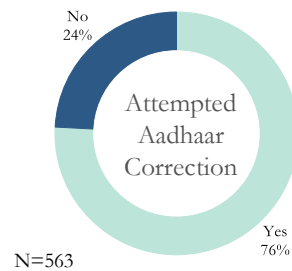


Figure 8.4: Errors Rectified in Aadhaar

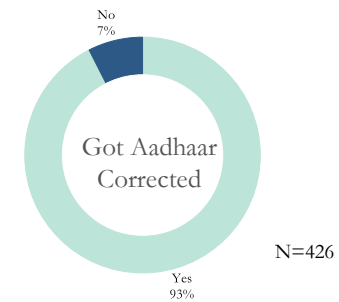
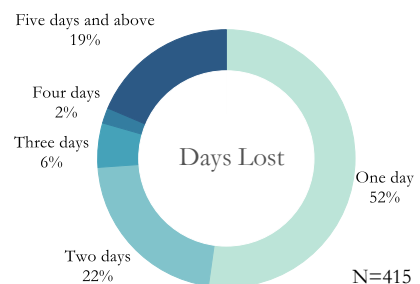


Figure 8.5: Working Days Lost in Aadhaar Correction

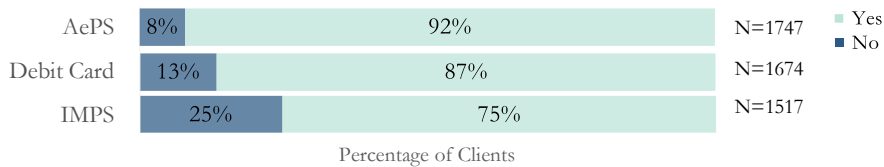


8.3 Awareness and Use of AePS

8.3.1 Awareness of AePS

92% of clients reported that they were aware of AePS based mode of accessing their bank accounts. On the other hand, 87% of clients knew that they could use debit cards to access their bank accounts at the agent banking outlet. 75% of clients reported that they knew about the IMPS

Figure 8.6: Clients' Awareness of Transactions Modes Available with Banking Agent

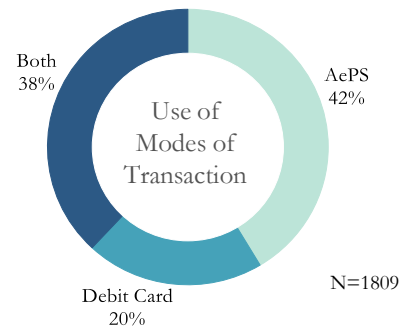


mode of depositing money in the bank account (Figure 8.6). The clients could use IMPS only to deposit the money in a bank account. The client had to provide the account number to the banking agent for such a transaction.

8.3.2 Use of AePS

42% of clients used only AePS to access their bank account. On the other hand, 20% clients used debit cards to access their bank account.

Figure 8.7: Transaction Mode used by Clients

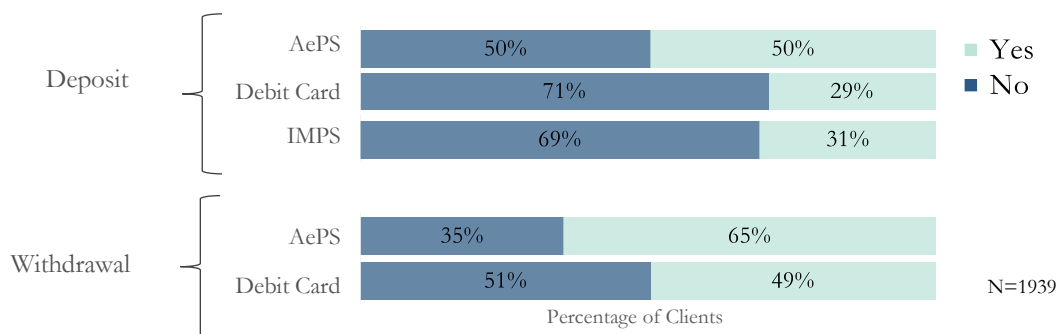


38% of clients reported using both modes to transact at the banking agent outlet (Figure 8.7).

50% of clients had used AePS for deposit transactions (figure 8.8). Only 29% of clients reported using debit cards for deposit transactions. 31% of clients had used IMPS for deposits (Figure 8.8). For withdrawals, 65% of clients reported using AePS, while 49% had used debit cards (Figure 8.8).

Overall, it appears that more rural clients use AePS.

Figure 8.8: Transaction Mode Used by Clients for Deposit and Withdrawal



8.4 AePS use and client demographics

8.4.1 Gender and Use of AePS

More females used AePS exclusively as a mode of accessing their bank accounts compared to males. However, more male clients used both AePS and Debit Card as a mode of transacting. This behavior is called stacking. An about equal proportion of males and females used debit cards exclusively to access their bank account

(Figure 8.9).

8.4.2 Education Level and Use of AePS

Education level and use of AePS seem to be inversely related. More clients with lower education level reported using AePS. Interestingly stacking behavior increases with the increase in the education level of clients. Also, more clients with higher education qualifications are likely to use debit cards exclusively (Figure 8.10).

Figure 8.9: Preferred transaction mode of Clients by Gender

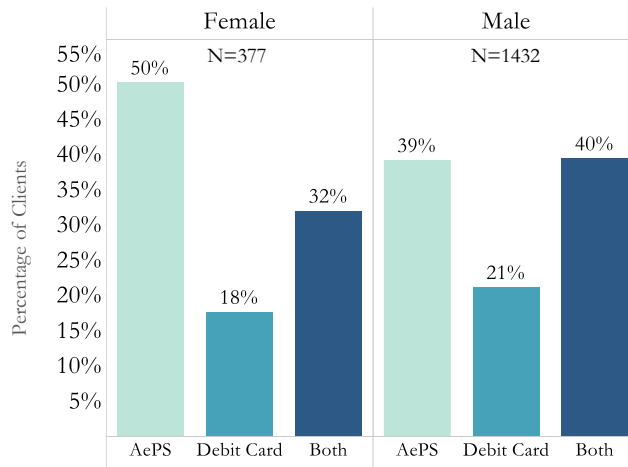
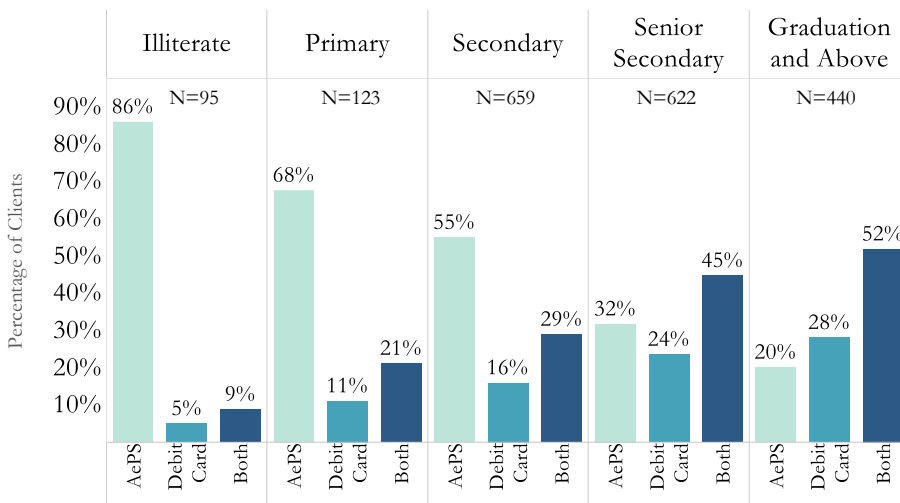


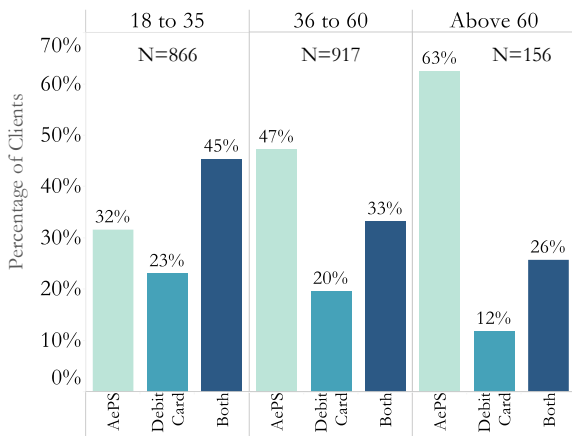
Figure 8.10: Preferred transaction mode of Clients by Education Level



8.4.3 Age Groups and Use of AePS

Exclusive use of AePS increases with an increase in the age group of the rural clientele. More younger clients preferred debit card compared to AePS (Figure 8.11). In all age groups, females are more likely to opt for AePS as an exclusive transaction mode. In the age group above 60, females predominantly used AePS.

Figure 8.11: Preferred transaction mode of Clients by Age group



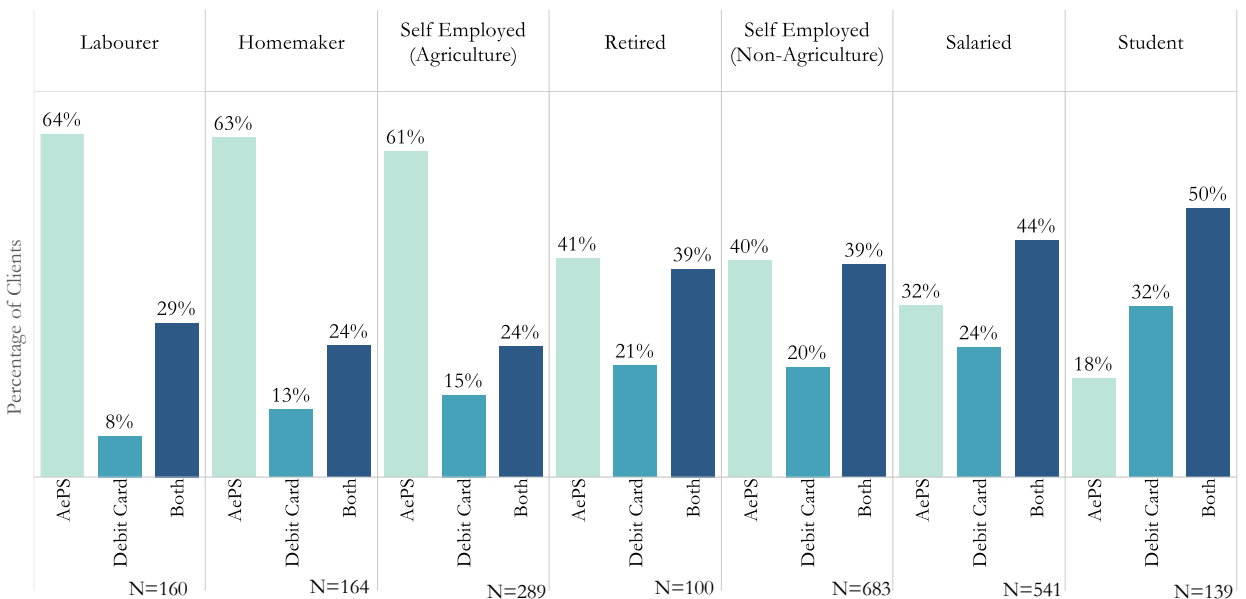
Also, the stacking behavior is more prominent among the younger population groups.

8.4.4 Occupation and Use of AePS

The majority of homemakers, laborers, and agriculturists reported using AePS exclusively. About 40% of retired and self-employed (non-agriculture) clients reported using AePS exclusively. Lower number of salaried and students use AePS exclusively.

Exclusive use of debit cards was more likely among the students. Most students and salaried clients reported using both AePS and Debit Card. Stacking of the two options was lower among other occupation groups, with about 20-30% of clients reporting using both modes of transacting (Figure 8.12).

Figure 8.12: Preferred transaction mode of Clients by Occupation Type



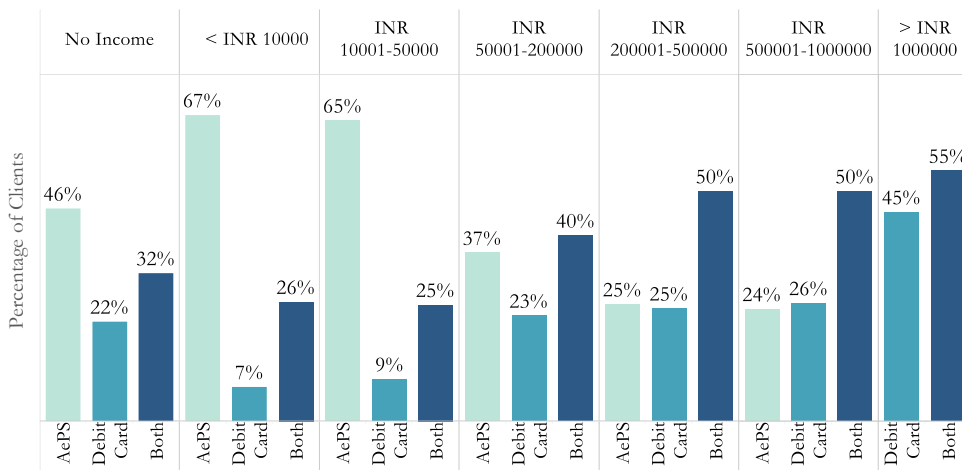
8.4.5 Income Groups and Use of AePS

AePS is more popular among low-income groups. About two-third of clients making less than INR 50,000 per annum reported using AePS exclusively.

8.4.6 Area Type and Use of AePS

Clients of banking agents in the sparse commercial were more likely to be exclusive users of AePS. Half of the clients in sparse commercial areas, 34% of clients in moderate

Figure 8.13: Preferred transaction mode of Clients by Income Level



On the other hand, less than 40% of clients in higher-income groups reported exclusive use of AePS. Clients above the income of INR 10 Lakhs per annum did not use AePS exclusively.

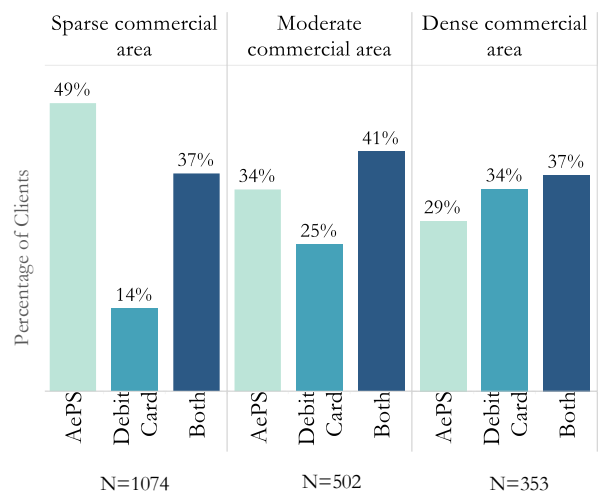
Exclusive use of debit card increases with income level. 45% of clients of the highest income group use debit cards exclusively. Among income groups between INR 5-10 Lakhs per annum, only one-fourth of clients reported Debit Card's exclusive use.

Stacking behavior is more prominent among higher-income group clientele. As many as half of the clients with a higher than the annual income of INR 2 Lakhs reported using both AePS and Debit Card (Figure 8.13).

commercial areas and 29% of clients in dense commercial areas reported using AePS exclusively for transacting at banking agent outlets (Figure 8.14).

Exclusive use of debit card is lower in

Figure 8.14: Preferred transaction mode of Clients by Location Type



sparse commercial areas and higher in moderate and dense commercial areas.

Across the three types of locations, not more than one-third of clients reported exclusive debit card use.

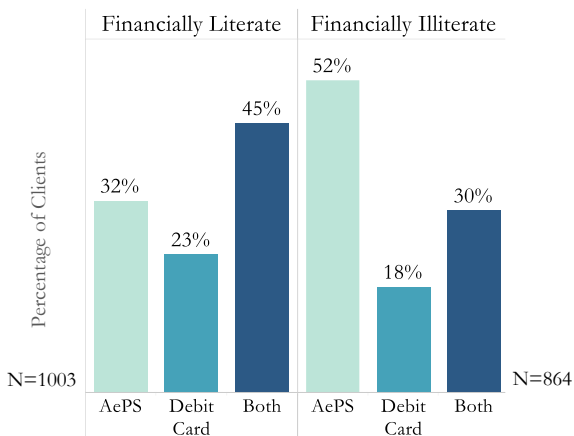
Stacking of AePS and debit card was at a comparable level across the three types of areas, with about 40% of clients using both AePS and debit card to transact.

8.4.7 Financial Literacy and Use of AePS

Financially illiterate clients are more likely to use AePS exclusively compared to financially literate clientele. Only 32% of the financially literate clients reported using AePS exclusively, while 52% of financially illiterate clients reported using AePS exclusively (Figure 8.15).

A slightly higher proportion of financially literate clients use debit cards exclusively. However, exclusive debit card users are 23% among financially literate clients and 18% among the financially illiterate.

Figure 8.15: Preferred transaction mode by Clients by Financial Literacy Level

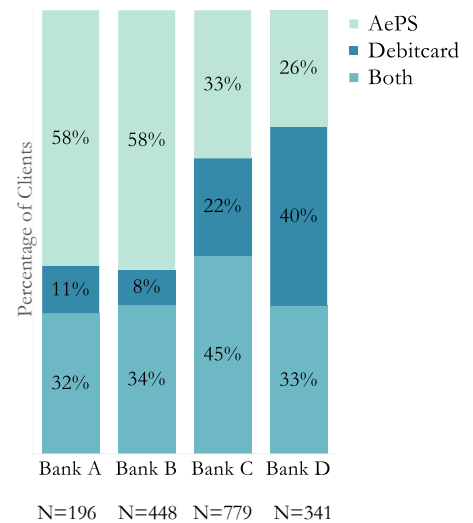


45% financially literate clients reported stacking of AePS and debit card. This client group is more likely to stack compared to financially illiterate clients as only 30% reported stacking.

8.4.8 AePS usage by Bank

Usage of a particular transaction mode varied by the bank. For two (Bank A and B) of the four banks, most clients (58%) reported using AePS exclusively, and only about one-tenth of clients used debit cards exclusively. About one-third of clients of the agents of these banks preferred stacking (Figure 8.16).

Figure 8.16: Preferred transaction mode of Clients by Base Bank of Agent



Interestingly, several agents of these two banks had reported hardware issues with micro ATM, due to which they were not able to offer micro ATM-based transactions for many days. Also, it may be noted that

for the two banks, distance of agents from their base branch was the highest. These two banks had banking agents in most remote areas in the state.

For the clients of agents of the other two banks (Bank C and D), exclusive use of AePS was reported by 33% and 26% of clients. Exclusive use of the debit card was the lowest at the banking agent outlets of Bank D, while stacking was the highest at banking agent outlets of Bank C.

8.5 Direct Benefit Transfer (DBT) and Use of AePS

There are hundreds of government schemes in India that provide direct cash transfers to the beneficiary's account. Due to the direct transfer of benefits from the government to the public, leakage of funds is avoided.

DBT transfer mechanism from the government uses the Aadhar number linked to the bank account of a beneficiary. Therefore, DBT beneficiaries can be assumed to have more familiarity with

Aadhaar enabled banking ecosystem. Such accountholders may be more likely to use Aadhaar enabled payment system to access their bank account.

41% of the clientele received DBT from the government for welfare schemes (Figure 8.17). These schemes included Ujjawala Yojana, MNREGA, Scholarships, Ayushman Bharat, and PM Sukanya Yojana.

Higher proportion of clients that are DBT beneficiaries used AePS exclusively compared to the clients that were not DBT beneficiaries.

On the other hand, exclusive debit card usage and stacking behavior were more prominent among the clients that were not DBT beneficiaries (Figure 8.18).

Figure 8.17 : Are you a DBT beneficiary?

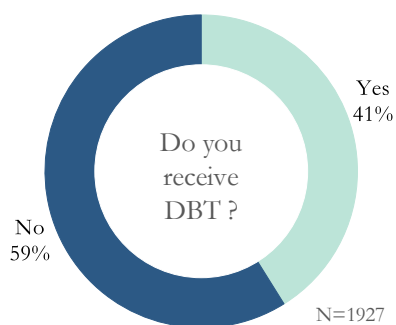
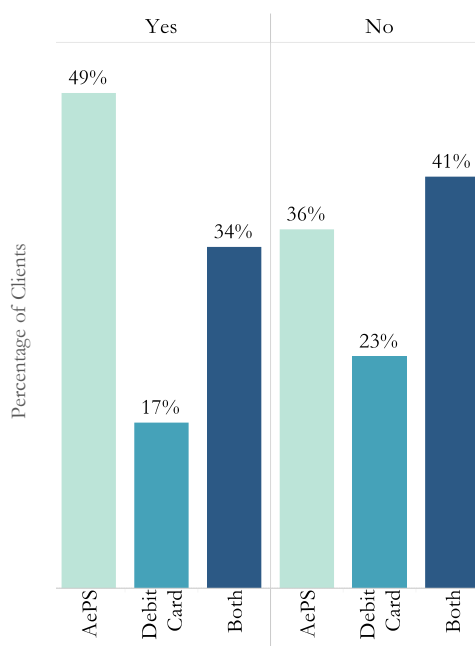


Figure 8.18 : Preferred transaction mode of DBT beneficiaries



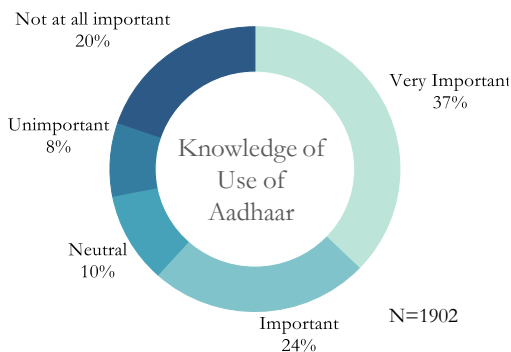
8.6 Perception of Aadhaar based banking

The clients were asked questions to understand their perception of privacy issues and the use of data that the agent has access to. The responses provide insights into the level of trust that the rural banking clientele has in the agent banking services.

8.6.1 How important is it to know where your Aadhaar card information is used?

The banking agents kept records of the Aadhaar number, bank account details, and mobile number of the clientele in a register. 37% of clients reported that it was very important for them to know how their Aadhaar card details were being used, while 24% rated it important. 10% of clients had not made up their mind about this, while 8% thought it was not important for them to know. Interestingly, one-fifth of the clientele were not bothered about how their Aadhaar details are being used (Figure 8.19).

Figure 8.19: Is it important for you to know where your information is used?



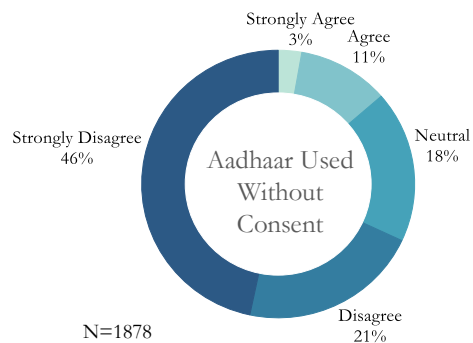
Clients trusted the banking agent not to misuse their personal information since he carried the bank's branding. Some clients trusted that they would know about any misuse of their bank account through SMS sent by the banking system. However, a few clients were wary of providing Aadhaar details to the banking agent. Therefore, they preferred using debit card for accessing their bank account.

8.6.2 Do you feel that your Aadhaar or biometric information might be used without your consent?

46% clients strongly disagreed and 21% disagreed that their Aadhaar or biometric information might be used without their consent.

Only 14% of clients felt that their Aadhaar or biometric information might be used with their consent. This indicates a high level of perceived trust (Figure 8.20).

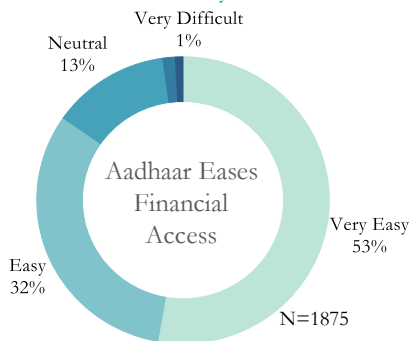
Figure 8.20: Do you feel that your information might be used without your consent?



8.6.3 Did Aadhaar ease your access to financial services?

Majority of clients reported that operating bank account through AePS was easy (32%) or very easy (53%). 13% of clients were neutral, while the remaining 2% of clients reported that Aadhaar made it difficult to access the financial services (Figure 8.21).

Figure 8.21: Did Aadhaar ease your access to financial services?



In case of micro ATM, three wrong PIN attempts led to a temporary account blockade for one day. Micro ATM had a limit of four free transactions in a month, while AePS enabled unlimited transactions. Clients' account was not blocked at failed attempts to access it through AePS.

AePS was particularly useful for elderly and impaired, AePS makes accessing bank

specially-abled. For the elderly and visually account very convenient.

8.7 Ratings for AePS and Debit Card based banking

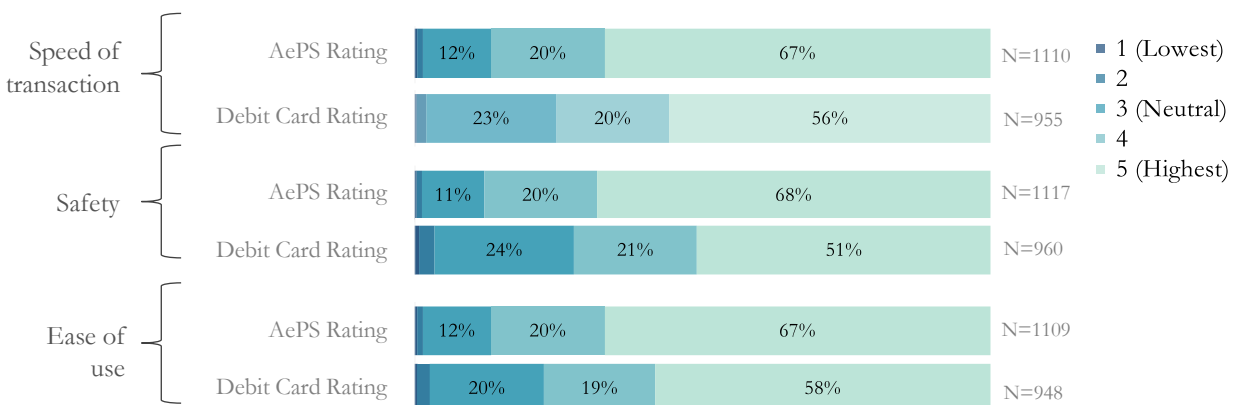
The clients were asked to rate AePS and debit card-based transaction mechanisms on three dimensions i.e., speed of transaction, safety, and ease of transacting.

67% of clients rated AePS the highest on speed than 56% of clients who rated debit card-based transactions the highest on speed (Figure 8.22). Average rating for AePS was 4.4 compared to 4.2 for debit card.

Regarding safety, 68% of clients gave the highest rating to AePS compared to 51% of clients in the case of debit cards (Figure 8.22). Average rating for AePS was 4.5 compared to 4.2 for debit card.

On ease of use, 67% of clients gave the highest rating to AePS compared to 58% of clients in debit card (Figure 8.22). Average rating for AePS was 4.5 compared to 4.3 for debit card.

Figure 8.22: Clients' Rating of Transactions Modes



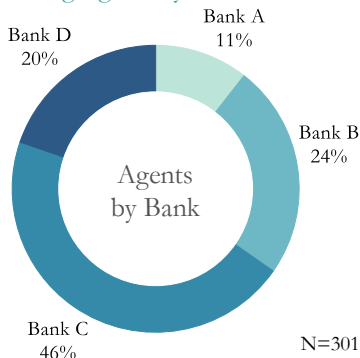
Overall, scales are tilted in favor of AePS in terms of speed, safety, and ease of use compared to the Debit card. However, ratings are not bad for debit card-based transactions at all. It is just that the AePS mode of transaction has more reputation among the rural banking clientele.

Appendix 1: Research Methodology

Sample of Banking Agents

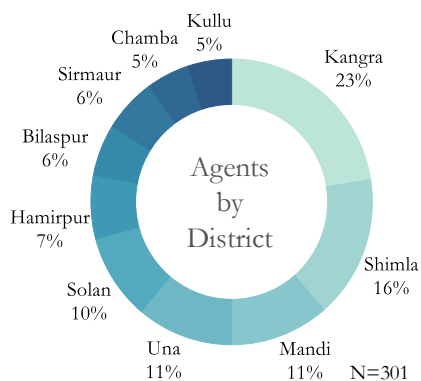
300 agents of four leading public sector banks were included in the sample (Figure A1). The presence of other banks was too small to draw a meaningful conclusion; therefore, they were excluded during sample selection.

Figure A1: Banking Agents by Base Bank



10 out of 12 districts of Himachal Pradesh were covered in the sample (Figure A2). Two districts were excluded during sampling due to a negligible number of banking agents operational in these districts.

Figure A2: Banking Agents by District



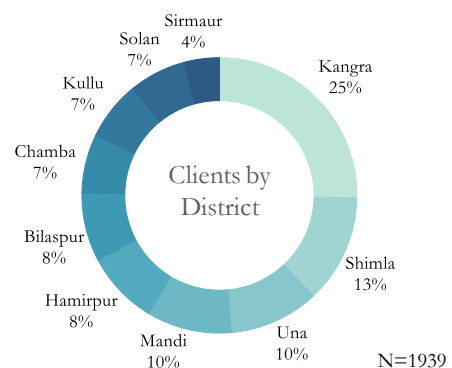
Sample of Clients

Clients that visited the banking agent outlet on the day of the enumerators' visit were requested to participate in the survey. On average, six clients per agent were interviewed (Figure A3).

Data Collection

A team of 10 field investigators was recruited and trained. Structured questionnaires were refined through mock interviews and group discussions. Both questionnaires were hosted on tablets that fed data onto a central server. The survey of agent took about two-three hours, while clients' survey took approximately 20 minutes. The data was collected during September-December 2020. Team briefings and focused group discussions were held periodically to assimilate the qualitative understanding of enumerators.

Figure A3: Clients by District



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