

BC Model & Challenges Faced

ACCION INTERNATIONAL and Swadhaar

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Why Savings

- Because Safe Savings is a big need in our target population.
- In many instances, loan EMI s are "surrogate savings" .
- Long term objective is to provide access to the full range of financial services products, along with Financial Education so they use these appropriately.
- Savings should be built up for lifecycle needs, in the absence of any saving mechanisms especially among urban poor routine life events like children's education, marriage, child birth, pushes the marginalized poor into a debt trap.
- Swadhaar has a deeply entrenched relationship in the community mainly through providing small loans and financial education initiative, urban poor 's need to have a formal saving mechanism presented a natural synergy with Swadhaar's mission .

Genesis of Swadhaar's saving program

- We started with Citibank in October 2006, as they had a product that was appropriate for the urban market and were agreeable to meet costs, at least for the first pilot.
- We couldn't expand beyond one location with Citi, as customer usage was not growing beyond a catchments area of the ATM. Further, given low off take, we could not expand the locations with Citi.
- We thereafter tried to expand with ICICI Bank - as the product looked promising and clients at all our loan locations were asking about savings.

Swadhaar's B.C Association

- **ICICI Bank**

- Association from :- November 2007 till April 2009
- Total Customers :- 4003
- Average Balance of active customers :- Rs 1250/-
- Percentage inactivity :- 80%
- Operations from across 5 location's in Mumbai (Urban Slums)
- Daily average transactions 25-30
- Maximum balance observed in INR 500-600 range

- **Citi Bank**

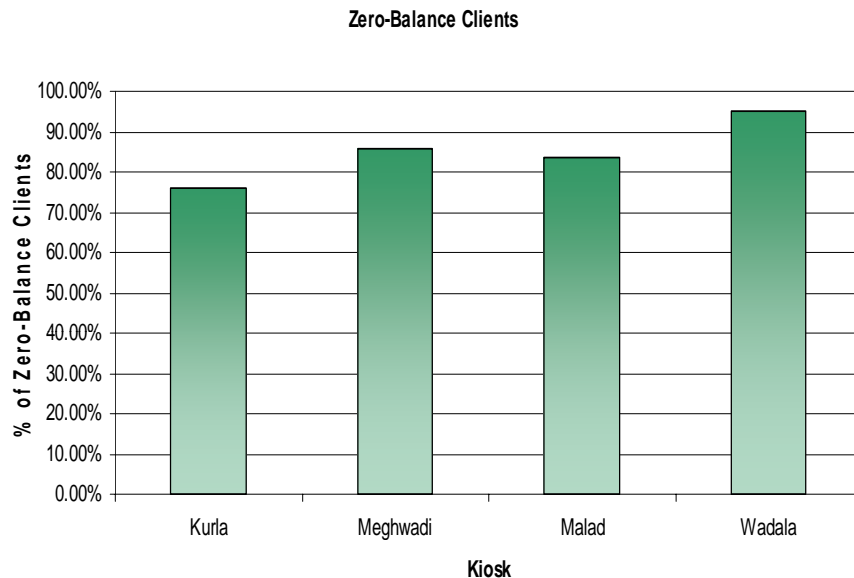
- Association from :- October 2006 till date
- Total Customers :- 2006
- Average Balance of active customers :- 358
- Percentage inactivity :- 58%
- Operation from 1 location in Mumbai (Urban Slums)
- Daily average transactions :- 10-12
- Maximum balance observed in INR 1000-3000 range

Major viability factor with reference to ICICI model in urban setting.

- Promotion
- Commission structure
- Research Inputs
- Customer dissonance
- Product offer
- BC Model Synergies with MFI's
- Infra requirement

Promotion – 80% of the enrolled customer's are dormant.

- The customer profile targeted to be enrolled through the B.C module "The Un-banked"



Question raised ?

- Do they need to be sensitized on the importance of savings through the financial literacy campaigns & education?

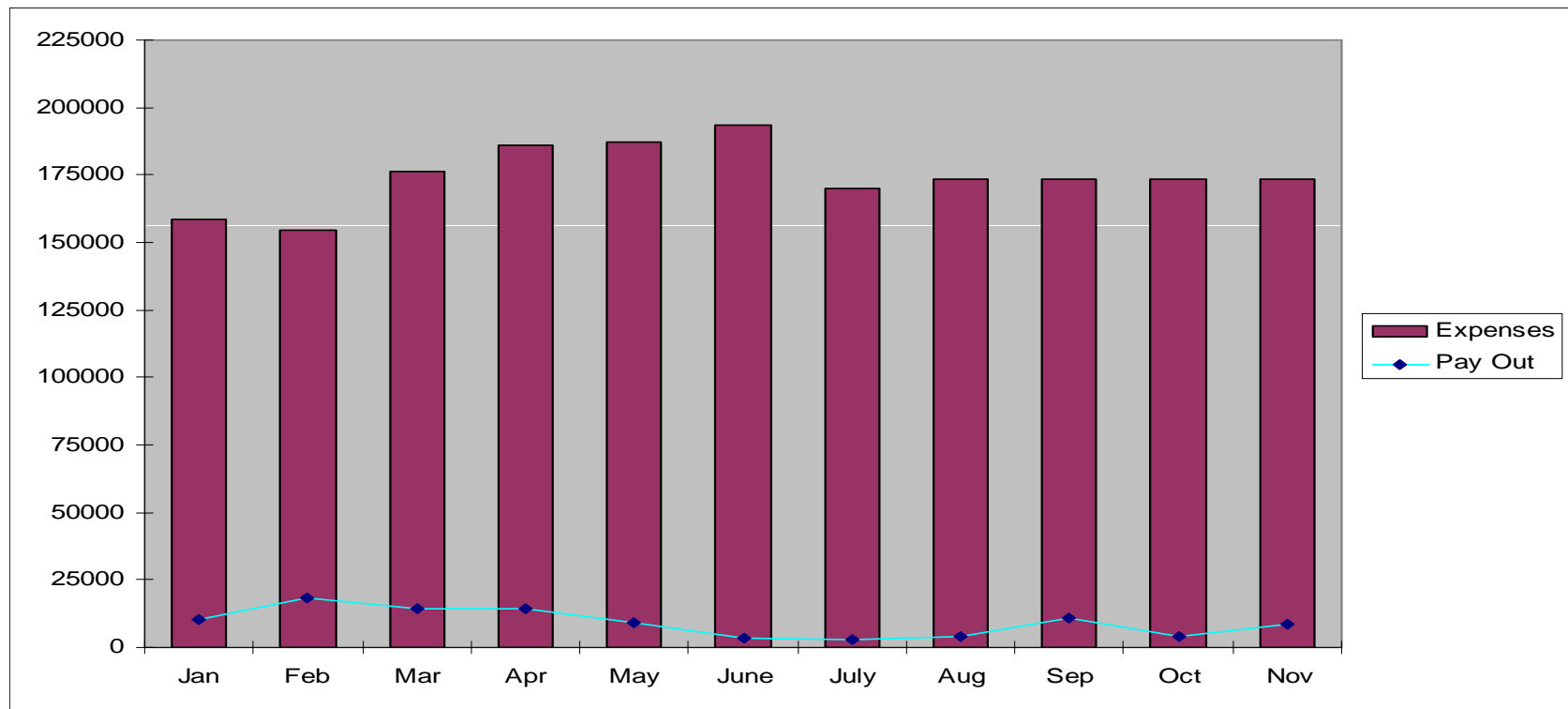
OR

- Do they not trust this channel?
- Resources are required for addressing issues related to low usage.

Who will meet this cost?

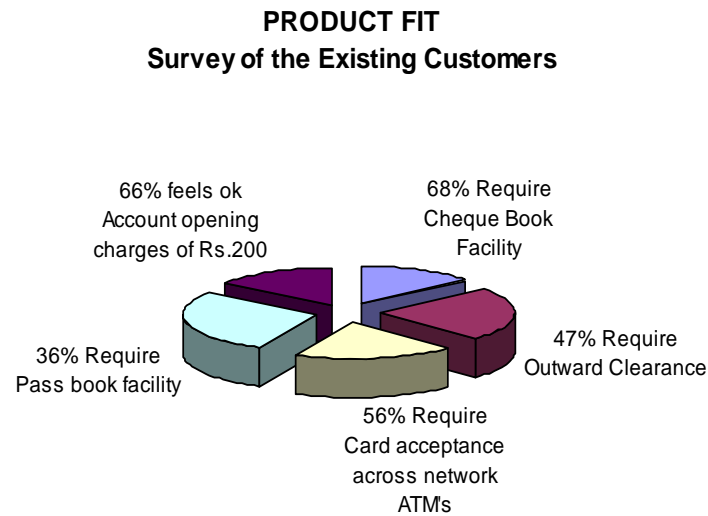
This made us ask ourselves: why were so many clients, who had paid 200 INR for a card, not carrying any balance in their account?

Commission Structure barely covers variable overheads



Author:- Santosh Daniel
Date :- 02/04/09

Research :- Assumptions needs to be validated through research

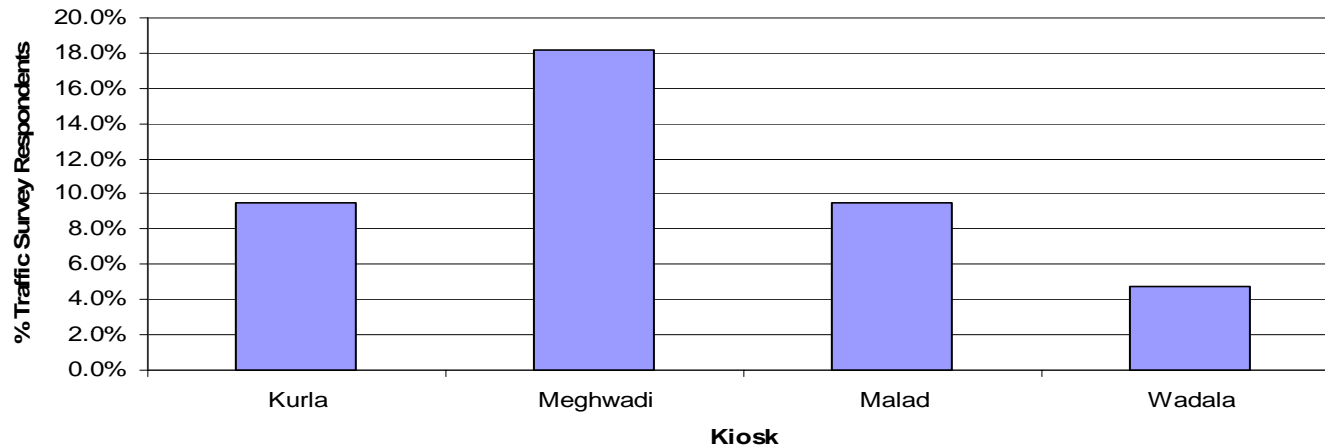


- Various research undertaken by Swadhaar through external agencies and in-house resources helped demystify long held views on customer segment , profile, and customer aspirations.
- Research on existing customers revealed
 1. 63% Require Cheque facility
 2. 47% Require Outward Clearance.
 3. 56% require card usage across ATM's

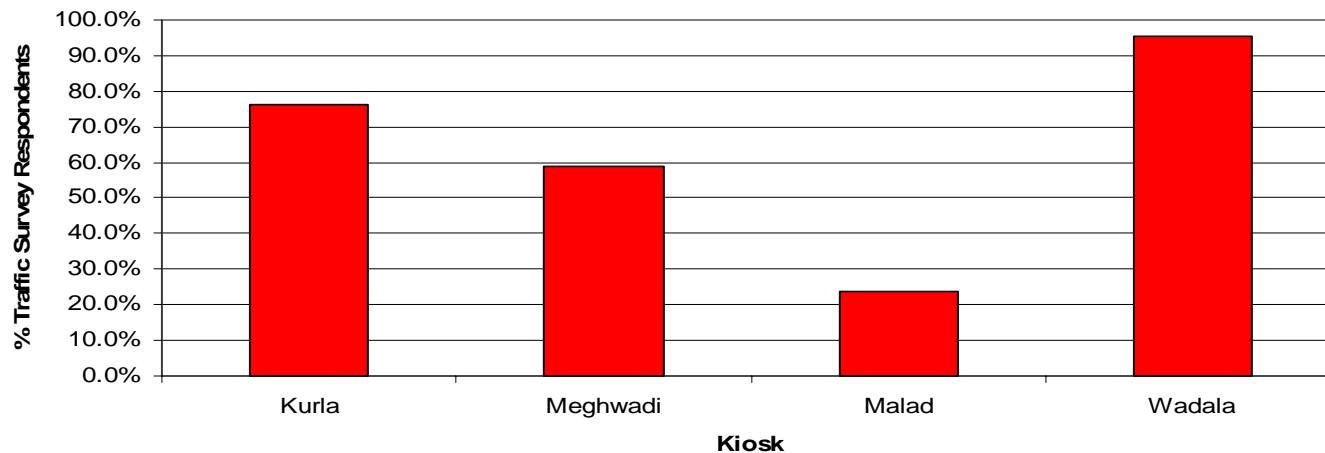
Contrary to the long held view that customer wants only a safe place to store his money is challenged, in a urban setting the service delivery requirements demanded by the customers is beyond the basics , he is more demanding.

Other interesting data was revealed in our traffic survey...

Illiteracy Rates - Saving Clients



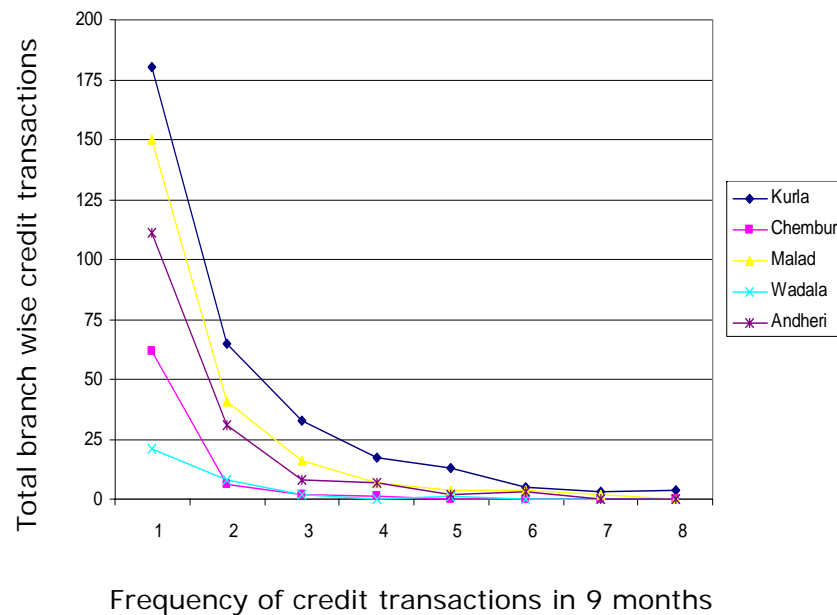
% Sending Transfers - Saving Clients



Most can read, and a very high percentage (except in Malad) send transfers.

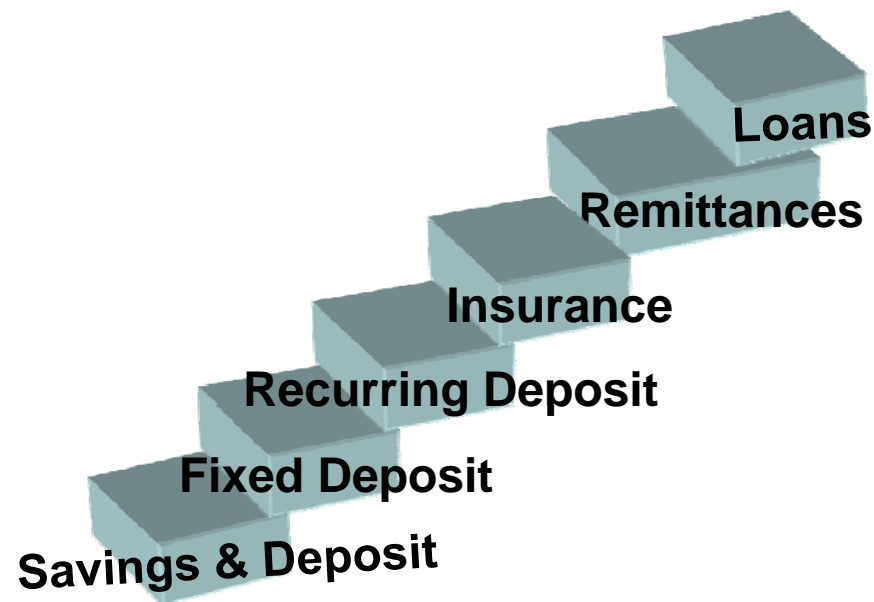
A very high level of customer dissonance is evident from the analysis of customers transaction

- Very High Number of Customers turn in to transact for the first time, there after the customer preferring to transact through the BC facility subsequently diminishes consistently .



Retaining customer stickiness to the savings program through the present BC model a challenge

Since the existing BC model prevents graduating the customer up through the value chain of banking. Hence MFI's is unable to unlock the value of such a association.



BC's models ability to offer better value proposition to MFI customers holds the key for long-term symbiotic relationship between BC & MFI

BC Model - Urban Customer is a aware customer and not satisfied with the bare savings and deposit features

- **CUSTOMER EXPECTATION**

- Outward Cheque Clearance Facility
- Fixed Deposits
- Recurring Deposits
- Remittances
- Small Insurance

- **DELIVERED FEATURES**

- Savings Account
- Cash Deposits & balance in savings
- Remittances (only within BC Circle)

The platform which enables BC facility is housed outside the Core Banking Platform hence critical banking functions in "Disabled mode"

Citi's Product Features (Pragati Savings Account)

- Impressive product packaging and product feel (Joining kit and customized photo card)
- Card transact ability across network ATM's (from April 1st 2009 across ATM of all the leading banks)
- Cheque book facility available on request.
- Account statement on a monthly basis which adequately compensates for a pass book.
- No enrolment fees charged from the customers
- Unlimited ATM access (No Charges)
- Upper limit of cash holding in account 40,000/-
- On the reference and verification of the BC a customer who does not have any documents can open an account.

Though Citi's product has a competitive edge in terms of the product offer it still pose a challenge on scalability front

- Infrastructure support to maintain such a compelling product proposition is huge, biometric ATM, dedicated backend, etc.
- Low level of customer balances and transaction make this channel less attractive for bank, hence restricting scalability.
- The model offers sufficient flexibility for withdrawal transaction from across ATM networks, deposit transaction remains a challenge due to the customers reluctance to trust the machine with money.
- Strict KYC norms requires every high value transaction to be enquired and notified to the bank.

Our Assessment

- The cost of a BC rollout is difficult to recover from a commercial return on savings built up - it needs subsidized funding for an initial period .
- To increase the usage and balances - link savings offering closely to Financial Education .
- The account should not have a high cost of entry.
- Platform to offer complete range of banking experience for the for the BC model to be effective in urban settings.
- Door to door saving collection is required. Handheld is one option/ mobile phone another.

Thank you

