



Agents of Change

How the Human Touch Is Bringing Digital
Financial Services to New Customers in India

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Executive Summary

India is speeding toward a digital tomorrow, but its success in ensuring everyone enjoys the benefits of a high-tech future hinges on effective human touch today. In the financial sphere, much of the responsibility for human touch in India falls to frontline banking agents: relationship officers, business correspondents, and payment bank agents. While these third parties assist with product adoption and use, their value to the financial sector goes beyond these responsibilities—they are the key to building trust, resolving problems, and ensuring value for customers of digital financial services.

This report puts forward 10 principal insights on training, equipping, and promoting financial product awareness among agents:

1. Many “last mile consumers”¹ in India are not yet ready to transition to digital financial platforms, primarily due to lack of awareness, low digital literacy, lack of access to smartphones and Internet, and infrastructure barriers.
2. Agents play a critical role on behalf of financial service providers (FSPs), especially in facilitating transactions, who are otherwise unable to reach their last mile customers.
3. Agents also play an important role in transitioning customers to digital platforms by encouraging customers to gain knowledge and comfort with the uses and potential of digital finance platforms. Agents effectively bridge the gap between FSPs and customers by connecting with customers regularly and building trust and rapport. In particular, first time users of digital financial services require special attention and a thorough onboarding.
4. Incentives, both monetary and other kinds, play an important role in motivating agents to expand their scope of services. FSPs should consider the impact of different compensation structures—such as commission-based pay versus a fixed salary—on agents’ overall motivation and job satisfaction.

5. Properly-trained and informed agents are more effective at educating customers, which is essential in helping them reap the benefits of a shift to digital platforms.

6. Agents struggle to interact with customers on financial matters due to customers' poor literacy skills. This problem is compounded when services are provided digitally.

7. Agents are able to build high levels of trust among their customers, which makes customers more willing to exchange information about their finances and transactions. Trust must be sustained through continuous reinforcement by the agent throughout the customer journey.

8. Agents often face substantial technical issues and infrastructure barriers when using technological platforms and need better support from FSPs.

9. The introduction of a new digital financial product should be supported by targeted marketing, as well as adequate agent training and appropriate incentive mechanisms for the agent.

10. FSPs will have to make greater efforts to equip their agents to assist customers and to reliably resolve the challenges customers face if they want customers to embrace digital financial services.

While agents assist with product adoption and use, their value to the financial sector goes beyond these responsibilities—they are the key to building trust, resolving problems, and ensuring value for customers.

India's transition to digital financial services will struggle if frontline agents are ill-equipped to effectively engage with customers. This report articulates the state of agent practice in India. It sheds light on the potential of agents to drive digital adoption and use given their unique position and role in the financial system. It also identifies the gaps in the current state of practice that hinder customer transition to digital financial services and active use of such services.

India's Path Toward a Digital Financial Future

Financial inclusion is a key enabler in reducing poverty and boosting prosperity. Yet around 2 billion people globally use no formal financial services, and more than half of adults in the poorest households are unbanked.² Recognizing the potential of inclusive finance for meeting objectives such as those embodied in the Sustainable Development Goals, financial inclusion has become a priority for policymakers, regulators, and development agencies alike. As the figures suggest, the world continues to struggle to ensure poor households can access to formal financial services. In this context, digital financial technology is spurring new optimism by providing accessible and affordable digital financial services to unbanked populations, especially poor and low-income households.

India recognizes the importance of financial inclusion and is promoting formal financial services for poor and unbanked people. From the National Bank for Agriculture and Rural Development's self-help group movement in the late 1980s to the drive to open bank accounts under the Pradhan Mantri Jan-Dhan Yojna Program (PMJDY) launched in 2014, financial inclusion has often been prominent in the government's agenda (Figure 1).

Despite these sustained efforts, 37 percent of Indians remain excluded from the formal financial system and, per the 2014 Global Findex, 43 percent of accounts in India were dormant, implying significant barriers to their use.³ Of the 290 million bank accounts opened under the PMJDY program, as of July 2017 26 percent were inactive and contained no funds.⁴

Given these challenges, there is a more determined policy push for digital financial services as a means to accelerate financial

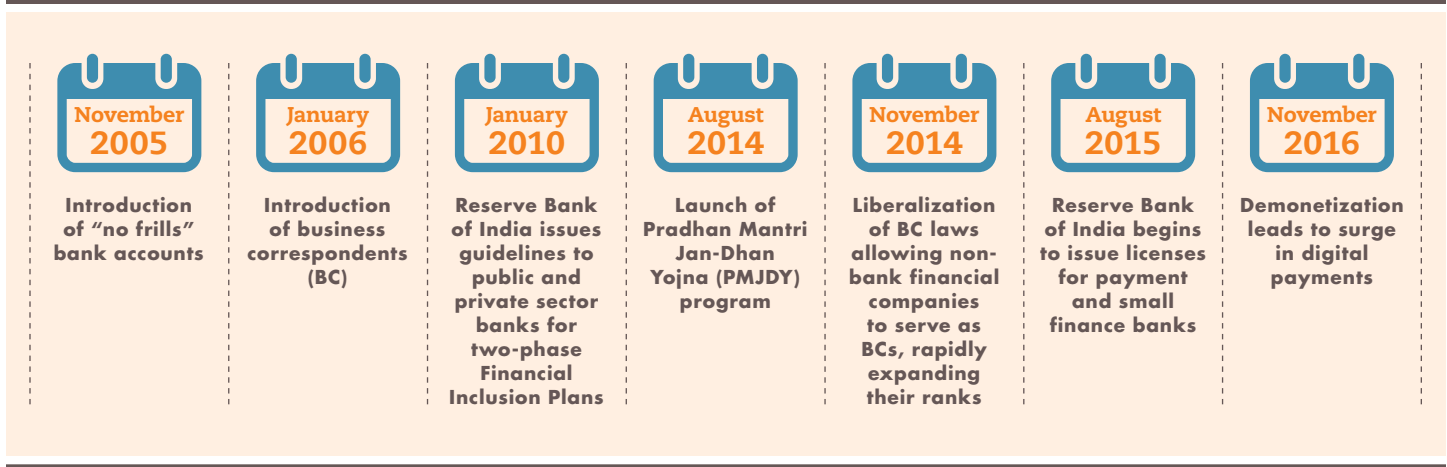
inclusion for the poor, bypassing the challenges presented by traditional financial services channels. The spread of mobile phones allows financial service providers to offer services in remote and rural areas at low cost. In 2015, the Indian government promoted a new approach that uses Jan-Dhan bank accounts, Aadhaar unique identification numbers⁵ and mobile phone numbers (the so-called JAM Trinity) as a way to transfer government benefits directly to beneficiaries' bank accounts, thereby promoting bank account usage among low-income households. In November 2016, the government surprised many by demonetizing 86 percent of cash in circulation with the stated aim of increasing the use of digital financial services. Indeed, data from the Reserve Bank of India on transactions after this development indicated a spike in the value and volume of digital transactions.⁶

The Indian government has also introduced new types of financial institutions, such as payment banks and small finance banks, which are mandated to serve low-income households using technological platforms. Government entities such as the National Payments Corporation of India have made available mobile technology that enables banking transactions through basic and 'smart' feature phones, along with building low-cost, accessible infrastructure through such technologies as Immediate Payment Service, National Electronic Fund Transfer, and the Unified Payments Interface. Together with Aadhaar, these developments have helped facilitate new digital infrastructure such as "India Stack,"⁷ which provides businesses the technology needed to interact with geographically remote consumers in a cashless, interoperable,

Despite significant progress toward digital financial inclusion in India, these innovations have yet to produce corresponding excitement among low-income consumers.

FIGURE 1

Steps Toward Digital Financial Inclusion in India



transparent, and secure manner. Private players including commercial banks, non-bank financial companies, microfinance institutions, and mobile network operators are also pursuing digitization with an eye on reaching last mile customers affordably. Collectively, these developments suggest an India on the cusp of a digital financial revolution.

For all the hyperbole, such innovation is yet to generate corresponding excitement among low-income consumers. The 2016 Financial Inclusion Insights survey found only 30 percent of the Indian population was digitally financially included, meaning individuals were able to

access their accounts via any number of electronic platforms including debit and credit cards, electronic money transfers, or mobile phones.⁸ The survey also showed that while a majority of bank account holders had digital access, a lack of awareness of available digital products was hampering actual use. Less than 10 percent of the population surveyed was aware of mobile money as a means to make financial transactions and less than 1 percent had such access. This lack of awareness is significantly higher among low-income groups, women, the elderly, and those working in the informal sector.

Why Agents (Still) Matter

Ironically, at present, these dramatic transformations are highly dependent on a very non-technological element: the human being acting as an agent. Financial service providers (FSPs) often employ third-party individuals, commonly referred to as agents, to assist with offering services on their behalf to their client base. Agents play a crucial role in digital financial services, both by performing or facilitating digital transactions (acting as alternatives to both automatic teller machines [ATMs] and traditional bank tellers) and by presenting a human face for the FSP.

In addition to providing cash-in/cash-out services, agents can assist FSPs in educating and onboarding new clients, troubleshooting technical issues, and introducing new products to existing clients. Most importantly, agents help FSPs appreciate a community's social and cultural fabric and in turn use this knowledge to better serve their customers. Given their proximity to last mile consumers, agents have the potential to handhold new (especially base-of-the-pyramid) customers in their journey from cash-based to cashless transactions.

Accordingly, given the gap between the technological literacy of the low-income population in India and the sophistication of the products under development, agents could be the linchpin of the whole digitization effort. They occupy a critical place in the financial system by enabling the connection between provider and customer. As such, they must be equipped to perform this aspect of their job well.

For this study, we investigated how agents are deployed to offer the human touch in India as financial service providers shift their offerings to digital platforms. We looked at three distinct channels: business correspondents (BCs) deployed by commercial banks, payment bank agents (PBAs) deployed by payment

banks, and credit officers (COs) employed by microfinance institutions. We examined their success in assisting customers in transitioning to digital modes of financial transactions.

To investigate this question, we looked at the ways in which agents perform their varied tasks, their levels of knowledge and awareness of digital financial services, and the incentives (both monetary and other) that they receive. This study does not outline the business case for FSPs in terms of the costs and benefits associated with expanding agents' roles in the delivery of financial services. It primarily examines the role of agents in transitioning customers to digital financial platforms and identifies effective as well as unsuccessful strategies for agents assisting their customers in this transition.

This research allows us to illuminate the degree to which agents succeed in assisting customers transitioning to digital platforms. Given the unique positioning of digital financial service providers and the low-income consumers who are yet to be 'digitally ready,' agents have the potential to change the Indian digital financial sector by providing services while at the same time imparting knowledge and spreading awareness about the use and benefits of digital financial services. As the system evolves, many transactions will become digital from end to end, and the need for agents to perform transactions (especially cash-in and cash-out) will ultimately decline. However, that future is still distant and until consumers have become fully comfortable with digital options, agents must bridge the gap between digital product offerings and what products consumers can be expected to use. Needless to say, for agents to perform effectively, they need ongoing support from their FSPs.

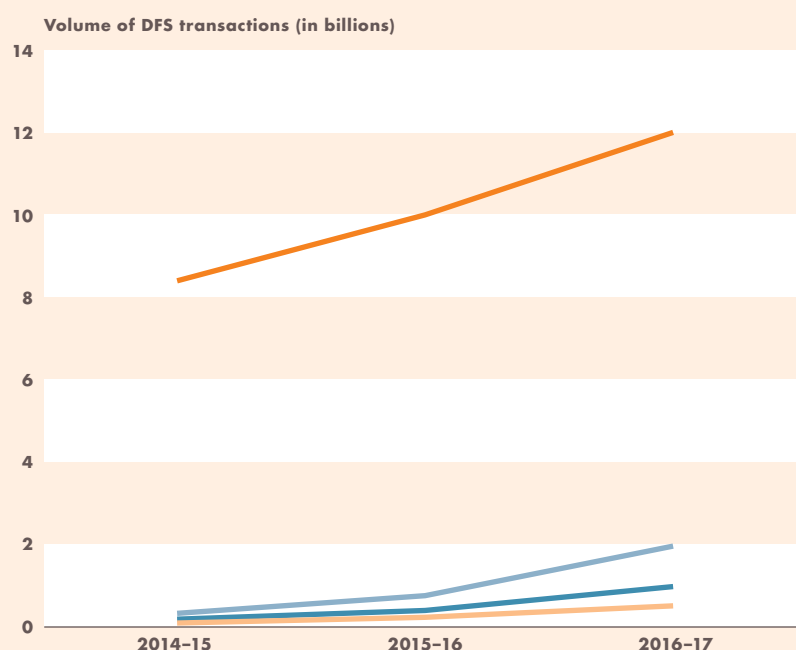
Why Low-Income Consumers in India Need the Human Touch

Digital platforms have registered a six-fold increase in the annual volume of transactions over the last three years (Figure 2).⁹ However, Indian consumers of digital financial services have yet to entirely embrace available digital platforms. India has a cash-to-gross domestic product ratio of 11 percent, which is significantly higher than other emerging economies such as China and Brazil where the ratio is at 9 percent and 3 percent, respectively.¹⁰ For the financially-included segment, continued use of cash suggests that consumers still find cash more convenient despite digital access to bank accounts. This could be due to factors ranging from infrastructure barriers to customers' limitations in terms of literacy and awareness of or trust in digital modes of transacting. The 37 percent of the Indian population that have no bank accounts also nearly exclusively use cash. These customer segments primarily belong to the informal sector, living and working at low incomes.

While the use of digital financial services has steadily increased, the adoption of digital platforms is skewed towards higher-income segments. An IFMR LEAD study found that among low-income households, debit cards were the most dominant channel among the various digital platforms available, with a very small percentage using mobile banking, online banking, or mobile wallets.¹¹ Low-income households, women, the elderly, and those earning a livelihood from the informal economy are the groups most likely to be excluded from digital financial services. Some of the key barriers to adoption for these groups involve lack of ownership and access to smartphones and Internet, lack of awareness of digital products, poor digital literacy, lack of trust in digital channels and infrastructure

FIGURE 2

Comparing Usage of Digital Financial Service Platforms in India



	2014-15	2015-16	2016-17
Cards	8.424	10.037	12.054
Prepaid instruments	0.314	0.748	1.964
Mobile banking	0.172	0.387	0.977
Immediate payment service	0.078	0.221	0.507



It is increasingly clear that agents play a critical role in fostering customers' product usage.

Customers waiting for a business correspondent (BC) to arrive in Tamil Nadu. They have assembled at the BC's house to make financial transactions since it is conveniently located and spacious enough to accommodate large groups.
Photo by author.

bottlenecks.¹² We can consider these barriers broadly in terms of barriers to access and barriers to use. The access barriers tend to be technology-based, while the usage barriers are mostly, though not exclusively, related to knowledge and attitudes.

First, while mobile phone access is nearly ubiquitous in India,¹³ women, people over the age of 45, and those with only primary-level schooling are more likely to lack access to mobile phones.¹⁴ Moreover, only 22 percent of Indian adults use the Internet and 17 percent own smartphones; both essential for many digital financial services platforms.¹⁵ Additionally, consumers face infrastructure barriers such as poor network connectivity and irregular electricity, especially in remote and rural areas.

Limited acceptance of digital infrastructure by local merchants hampers wider adoption of digital financial products. Even when armed with debit cards or mobile wallets, consumers have few places to use these digital products due to the lack of electronic point of sale terminals (EPoS) and retailers who accept digital payments. As of May 2017, India had 2.6 million EPoS terminals¹⁶—far fewer than the number of the retail establishments and small and medium businesses (15 million and 36 million, respectively). Cheaper solutions like Quick Response (QR) codes only work for smartphone users, excluding a significant proportion of the population.

Consumers also need to be adept at using smartphone features effectively to conduct higher-order functions like financial transactions. The 2016 Financial Inclusion

Insights survey found that 49 percent of a representative Indian sample had low levels of digital literacy, with digital literacy being even lower for vulnerable groups: the elderly were 18 percent more likely than youths to be digitally illiterate, and both women and those with lower levels of education were also less digitally literate than average.

A less tangible element is the lack of trust in digital services that is often common among new consumers, especially when the interface is cumbersome. Such was the case of National Unified USSD Platform, which failed to take off after its introduction in 2014 owing to its convoluted customer interface. When transactions fail due to poor connectivity or confusing instructions, the customer's initial trust in the platform is quickly revoked and the customer reverts to cash.

Agents were perhaps initially thought of primarily as part of an access strategy and providers have focused (though not always successfully) on ensuring that agents are well-equipped with the technology and liquidity needed to conduct transactions. It is increasingly clear, however, that agents play a critical role in promoting product usage. Agents can bypass the obstacles faced by consumers with poor digital literacy or numeracy skills, performing transactions on their behalf and in the process improving customers' level of awareness of digital financial services. Given the potential agents have to bypass the challenges faced by both last mile customers and FSPs, we study their roles and effectiveness in transitioning low-income consumers to adopt and use digital options.

Types of Institutions and Agents

This study identifies three types of agents, each with a somewhat different profile, their relationship to the parent organization, and their function: business correspondents deployed by commercial banks, payment bank agents deployed by payment banks, and credit officers employed by microfinance institutions (Table 1).

Commercial Banks and Business Correspondents

Since 2006, commercial banks have been allowed to use third-party, non-bank individuals, known as business correspondents (BCs), to extend financial services. BCs perform a variety of functions on behalf of banks, such as filling out “know your customer” forms, facilitating withdrawals and deposits, introducing the customer to financial products, and providing other payment services. BCs enable banks to provide services in remote locations at a low cost. BCs are not direct employees of bank but rather work for banks, corporate BCs, and other private financial entities on a commission basis.¹⁷ As of March 2016, BCs facilitated 826 million transactions worth US\$25.93 billion.¹⁸

Payment Banks and Payment Bank Agents

In order to broaden the reach of payments and other financial services to small businesses, low-income households, and similarly vulnerable populations, the Reserve Bank of India (RBI) introduced the concept of payment banks, issuing the first licenses in February 2015.^{19,20} Payment banks function like any other bank, except that they do not advance

loans, and therefore they operate free of credit risk. They can, however, accept deposits of up to US\$1,500 per customer, offer remittance services, and facilitate transfers and purchases. They can issue debit cards and offer online and mobile banking services. Payment banks provide their services through third-party individuals, referred to as payment bank agents (PBAs). The PBAs are not direct employees of payment banks and receive commissions based on the number of payment bank accounts opened and number of transactions made.



Financial services being offered by BC agent in Rajasthan. **Photo by author.**

TOP: Airtel Payment Bank located at a grocery shop. The shop also offers payment services from other financial services providers. **BOTTOM:** Credit officers at an MFI office in Tamil Nadu. **Photos by author.**



Microfinance Institutions and Credit Officers

The Indian microfinance industry has evolved dramatically since its inception as microfinance institutions (MFIs) have matured and broadened their range of services. As of June 2016, there were 71 MFIs licensed by RBI as non-banking financial company-microfinance institutions (NBFC-MFIs) with a total gross loan portfolio of approximately US\$8 billion.²¹ Recently, the microfinance industry has been undergoing substantial changes with more sophisticated MFIs converting to small finance banks and commercial banks. Despite this evolution, most MFIs across India still transact with customers in cash and are only gradually integrating digital platforms into their disbursement and repayment processes. Very few MFIs currently offer digital financial services to their customers. MFIs typically employ credit officers (COs) on a full-time basis to connect them with their clients, paying them a fixed salary. COs perform a variety of tasks, ranging from onboarding customers, orientation to the financial service offerings that MFIs provide, and related services such as opening bank accounts, fielding customer queries, collecting repayments, and providing other handholding services.

Even though COs are not, strictly speaking, banking agents, and even though their primary credit functions remain manual, they are included here to better evaluate the readiness and potential of MFIs (via their agents) to bring customers onto digital financial platforms in the future. MFIs offer significant potential in promoting digital financial access given they reach so many otherwise unbanked people and their credit officers constitute a major potential “human touch” resource. Discussions with MFIs revealed that they have gradually begun implementing digital solutions in the wake of demonetization. For example, post-demonetization one MFI introduced digital prepaid cards for loan disbursements to address the severe liquidity crunch but was forced to revert to cash disbursements amid a strong backlash from customers.

TABLE 1

Types of Services Provided by Agents*

TRANSACTION	COMMERCIAL BANK BUSINESS CORRESPONDENT	PAYMENT BANK PAYMENT BANK AGENT	NBFC-MFI CREDIT OFFICER
Withdrawal	✓	✓	✗
Deposit	✓	✓ (up to about US\$1,500)	✗
Online Purchases	✓	✓	✗
Money Transfers/Remittances	✓	✓	✗
Issuing Debit Cards	✓	✓	✗
Loan Disbursement*	✗	✗	✓
Loan Repayment*	✗	✗	✓

* This table is representative of the institutions in our study, not necessarily of all institutions and all agent types. For example, in our BC sample, Sub-K does not perform loan disbursements and repayment services, unlike a number of other BC providers.

Framework for Evaluating Agent Effectiveness

In this report, we define human touch as the support provided by an agent who acts as a bridge between the financial services provider and the ultimate customer, facilitating the use of financial services that the consumer would otherwise be unable or hesitant to perform. Agents can perform several functions that accelerate the inclusion (both access and usage) of their target customers into the ambit of digital financial services, and this study examines their effectiveness. We study this question by developing a framework for key components of effective human touch and assess the effectiveness of agents across selected cases by measuring them against a predetermined set of parameters:

Adequate Resources

Do agents have sufficient technical, financial, and administrative resources?

Access to adequate resources is the most basic requirement for agents to perform their functions effectively. Relevant resources range from adequate financial liquidity and devices for carrying out transactions to the substantial time required to manage all aspects of their job and reach out to as many customers as possible. Access to resources also refers to the infrastructure that supports agents in performing their responsibilities. To function seamlessly, agents also must have effective and reliable mobile and network connectivity.

Awareness and Knowledge About Digital Financial Services

Do agents have the knowledge to make customers aware of the existence and uses of digital products, and build trust in the process?

A. Improving awareness: Agents should be able to effectively inform consumers not only of the range of digital financial services they support but also how consumers can access, use, and benefit from digital financial services. Agents must play a key role in providing consumers with information about the uses of a product, along with its features and limitations. There is also an opportunity for agents to take on a broader educational role in informing customers about platforms available in the market.

These factors—resources, knowledge, and motivation—ensure that agents can effectively assist novice digital financial services customers and convert them into habitual users, and are therefore clear priorities for the FSPs the agents represent.

B. Compensating for customers' poor digital literacy: Given that customers in this segment are often ill-equipped, either in the absence of a smartphone or in digital literacy, agents should be able to effectively carry out financial transactions on behalf of customers or assist them in learning to use the technology platforms. This requires FSPs to hire and properly train relatively well-educated individuals with computer skills.

C. Improving trust: FSPs can help improve consumer trust by employing respected individuals within the community. To build and retain that trust, agents must be reliable and stable sources of help for consumers when they face technical difficulties or doubts. As such, the FSP needs to ensure their agents are well-equipped to troubleshoot and resolve issues.

Motivation

Are agents willing and motivated to spend the time needed to promote awareness and assist customers?

An agent's role is often challenging and many have conflicting priorities, such as other occupations. It is important to understand whether the agents are motivated in terms of the job satisfaction that their role provides. Additionally, it also becomes important to ensure that agents are given the monetary incentives—which includes the nature and structure of their compensation—to reward them for the challenging nature of their role. Increasing the commissions for transactions could be one way to motivate agents to achieve higher targets and reach more customers.

These factors—resources, knowledge, and motivation—ensure that agents can effectively assist novice digital financial services customers and convert them into habitual users, and are therefore clear priorities for the FSPs the agents represent.

Evaluating Agent Effectiveness

Our work in the field confirmed that agents—business correspondents, credit officers, and payment bank agents—play a crucial role in India’s transition to digital financial services and its achievement of broader financial inclusion goals. Given the policy push for digital financial services by the Indian government and other private and public sector stakeholders, agents must form part of the foundation upon which India’s transition is to be built. We believe it is vitally important for these stakeholders to have realistic expectations and be well-informed about the current state of digital financial services within India; many customers just are not ready to make the switch, and numerous technical issues and infrastructure barriers remain a significant impediment to broader adoption. We also recognize the critical FSP responsibility in supporting agents to ensure they are empowered, well-equipped, and motivated to tackle the daunting task of transitioning even the least financially- and technologically-literate customers to digital financial services.

This section recounts our findings in each of the areas in which we evaluated agent performance.

Adequate Resources

Do agents have sufficient technical, financial, and administrative resources?

Under this category, we evaluated whether agents had access to adequate resources—financial, administrative, and related infrastructure—to serve their clients in a timely and efficient manner. Discussions with all three agent types revealed that the degree of resource availability differed by institution type.

Financial resources: The challenges of cash management and liquidity among agent networks have been well-documented in previous studies.²² Frequent withdrawals compared with relatively few deposits often lead to a liquidity crunch among agents, delaying transactions and adversely impacting the reputation of the agents among their customers. BCs and PBAs in our survey reported struggling with financial liquidity, while COs did not. While BCs and PBAs must maintain their own liquidity accounts, COs work from MFI accounts. Moreover, COs can fairly easily anticipate the loan disbursements and repayments that are their main transaction types well in advance.

BCs and PBAs provide services that are more variable, since they depend on customers’ daily needs and demands, which are not planned in advance. This makes it very difficult for the agents to predict in advance their exact liquidity requirements, often leading to a mismatch. However, agents are aware of certain patterns in customer demand. For example, in Tamil Nadu, BCs often complained of inadequate liquidity at the beginning of the month as several customers came for cash withdrawals under various government benefit programs. BCs could use this information to communicate more effectively with the bank regarding their liquidity requirements in order to provide better services to their customers.

Due to the novelty of their product, PBAs did not yet see high demand for their services and therefore liquidity was not their top concern. However, in rural areas, agents reported that among those customers who had taken up this product, most used their services as a withdrawal rather than deposit point. This

Degree of resource availability differs by institution type and affects agents' ability to assist customers with digital financial services in various ways.

mismatch between withdrawals and deposits often led to financial liquidity challenges for the PBAs, discouraging them from offering these services. In Rajasthan, for example, agents reported discontinuing the product after a few months, as customers lost interest in the service after withdrawals became an issue and were not regularly feasible.

Administrative resources: We define administrative resources as: access to, and the quality of, equipment and other materials required to process financial transactions; support from FSPs in completing those transactions; and time available for agents to manage their responsibilities.

We found that BCs and PBAs had adequate access to technical equipment to digitally process financial transactions, but that this equipment did not always function well. This equipment most commonly involved customized smartphone applications (apps) that the FSP developed for the agents, allowing them to record customer-specific financial information. FSPs also provided the agents with biometric devices used to verify customer identity before processing transactions. Although they had this equipment, BCs and PBAs often reported technical issues such as server errors on apps or biometric devices failing to recognize customers' fingerprints (especially for customers engaged in manual labor).

COs, on the other hand, used pen and paper both for filling loan application forms and recording other information about their customers. Discussions with branch managers at one MFI revealed that they were in the process of transitioning their operations onto digital platforms.

We also find that PBAs, BCs, and COs receive widely varying levels of marketing and related support from their FSPs. This is one of the most crucial factors in the smooth functioning of agent operations and is reflected in the uptake of products and services. Discussions with PBAs revealed that payment banks provided little or no support to their agents in marketing the product, even though the product was new to the market. Customers were not aware of this product, leading to low demand. In both Rajasthan and Tamil Nadu, agents reported receiving visits from payment bank representatives only at the outset, when the representatives helped the agents download the relevant mobile application and briefly familiarized them with the features of the product. The FSP subsequently did not perform follow-up visits. There was no support from customer service helplines either, sometimes leading PBAs to discontinue their services.

In the case of commercial banks, BCs could contact their regional supervisors and even a specialized hotline to assist them with transactions or technical issues. However, in Rajasthan, agents reported difficulty accessing these hotlines, often aggravating them and their customers. In Tamil Nadu, the situation was slightly improved: agents got timely support from FSPs, leading to better turnaround times for last mile customers. However, we saw a significant opportunity for commercial banks and BC aggregators to increase their support by providing more frequent touch points to agents and interacting with them regularly to better understand their daily challenges.

COs, in comparison, enjoy high levels of support from MFIs. COs reported having regular check-ins with their supervisors to

assess their performance, perhaps reflecting their status as full-time employees. The weekly deliverables and targets given to COs helped them stay connected with the MFIs on a regular basis, and MFI supervisors were also available to provide support on a wide variety of issues, ranging from defaults, customer interaction, and bank-related queries. Given the high level of support, agents were well-equipped to serve their targeted customers with specific products and services offered by the MFIs.

Lastly, in terms of time available to perform all aspects of the job, we found COs to have the most adequate time to manage their responsibilities, followed by BCs and PBAs. Work as a CO is a full-time job with little opportunity to engage in a secondary occupation. Almost none of the COs we spoke to had secondary occupations and therefore had substantial time to fulfill their responsibilities. BCs, for the most part, did not report difficulty finding time to work as an agent. This was due to the flexible nature of BC operations. In Rajasthan, agents' secondary occupations were primarily small businesses that often shared similar infrastructure (e.g., computer training institutes, printing shops or customer service point outlets), making it easy to manage both jobs at the same time. In the case of Tamil Nadu, where most of the agents worked in agricultural activities, specific hours of the day tended to be devoted to agriculture while the rest of the time was comfortably left for agents to conduct BC operations. Nevertheless, some BCs with large and active customer bases reported that they often came up against time management constraints. In contrast, PBAs performed very poorly under this criterion as



Electronic devices used by BC agent. These electronic devices are, from left, micro-ATM, biometric device, and smartphone.
Photo by author.

their agent work provided only a secondary source of income. All the surveyed PBA agents already had a full-time primary occupation, making it difficult for them to spend adequate time providing agent services.

Infrastructure: We also surveyed agents about network connectivity and access to electricity. Access to electricity was sufficient in both rural and urban areas, as agents mentioned having at least 20 hours of electricity per day. Network connectivity, however, differed significantly between rural and urban areas. Urban areas had high connectivity while rural areas suffered from significant downtime, leading to technical issues while processing digital transactions. This proved to be most challenging for BCs since they relied heavily on micro-ATMs, biometric devices, and smartphone apps to process their transactions, all of which rely on Internet connection. Network downtime meant failed transactions, leading to dissatisfied customers and therefore a bad reputation for the BC agents.

To assess the penetration of formal financial services, we also asked agents about the availability of banks and ATMs in their areas. On average, agents mentioned their customers having access to two or three banks and ATMs within a distance of one to five kilometers from their place of residence. Additionally, we also gauged the acceptance of digital financial services by asking agents about the availability of electronic point-of-sale machines and mobile

wallets at retail stores for making payments. Agents revealed that, with few exceptions, none of the shops in the areas they served had access to digital options for making payments, dissuading customers from adopting digital financial services.

Awareness and Knowledge About Digital Financial Services

Do agents have the knowledge to make customers aware of the existence and uses of digital products, and build trust in the process?

To build customer awareness about the array of digital financial services available from their FSPs, agents need to know about the products and services that exist and have functioning knowledge of available digital platforms. We asked agents about their awareness of digital financial services, the level of training they had received from the FSPs, and their ability to overcome their customers' poor digital literacy and lack of trust in digital alternatives.

Training: We found that COs and BCs received rigorous training in comparison with PBAs who had little or no training in the payment bank's services.

BCs had received in-depth training on such topics as bookkeeping, financial literacy, basics of banking services, customer interaction, and troubleshooting technical issues on mobile apps. The agents were largely satisfied with the training. The training helped them develop a nuanced understanding of the services they provided, and they were able to tackle customer queries fairly easily. When asked about interest in more training, they mentioned topics that could help them to better perform their duties—new payment technologies, disseminating new financial products to customers, and attracting more customers to BC services. Similarly, we found that COs received intensive training on mobilizing groups, organizing and managing group meetings, opening bank accounts, disbursing loans, and collecting repayments. COs were also well-trained in customer interaction and were able to build strong

rapport with customers and thereby develop a comprehensive understanding of their lives and financial needs.

PBAs, however, reported receiving very little training about the products, and they lacked understanding of product features, which adversely affected their ability to motivate customers to take up and use the payment bank services. Given the novelty of the product, agents needed thorough explanations of its nuances, the objectives behind launching such a unique product, and how to tap unserved individuals by facilitating this service. However, our discussions with PBAs revealed that the product had not taken off with customers due to their lack of awareness of its existence. Unfortunately, the lack of training discouraged PBAs from talking about the product, and some seemed insufficiently aware of its features. For instance, several agents did not know that customers could transact using basic phones (as opposed to smartphones) and make transfers from one account to another without the help of the agents.

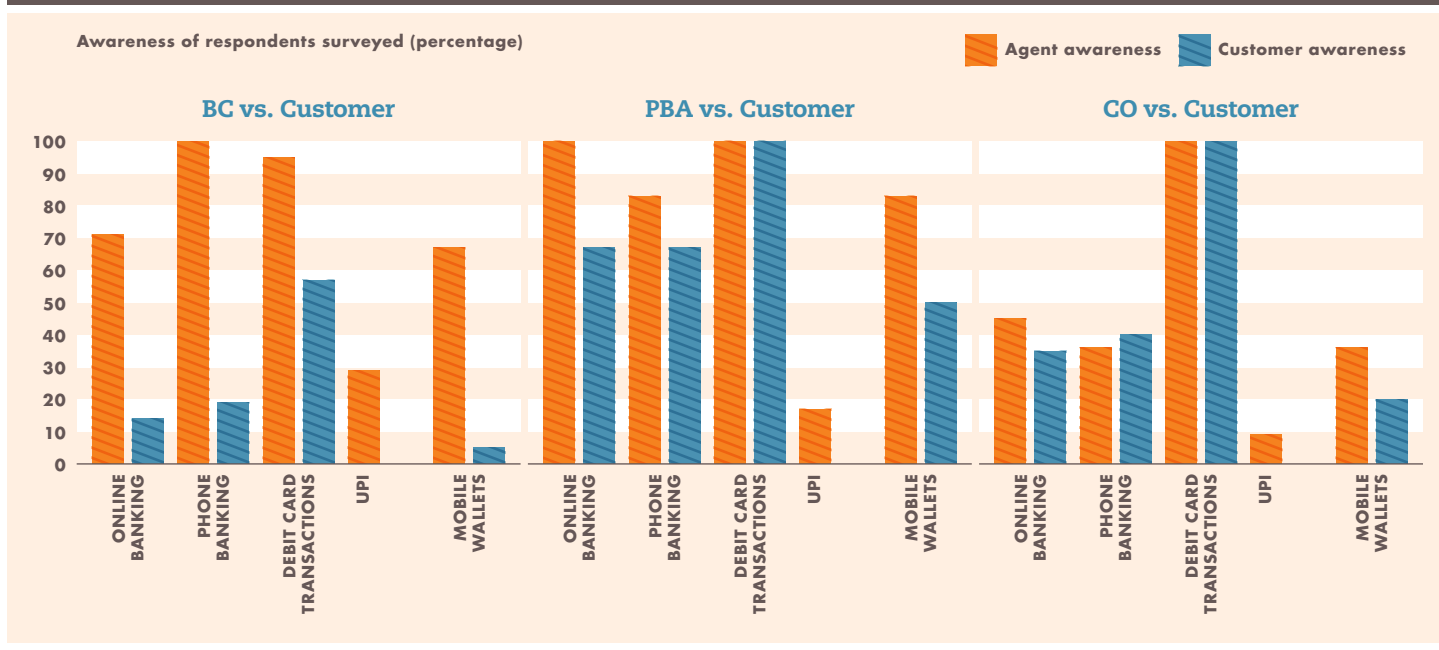
Awareness of digital financial products and services:

We found that agents' ability to describe the specific products and services they provided on behalf of FSPs was in alignment with the training they received. BCs and COs were well aware of product features, terms and conditions, while PBAs had a limited understanding and awareness of the services offered and their role in providing those services (Figure 3). The agents suggested that a detailed onboarding and orientation of the key features of a payment bank account would help them to better understand and market the product to target consumers.

We also interviewed the agents about their level of awareness of some of the other popular platforms of digital financial services available in the market and compared it with their perception of their customers' level of awareness. On average, we found PBAs to be most aware of the array of digital financial products available in the market, which suggests that if they were trained and well-

FIGURE 3

Agent and Customer Awareness of Available Digital Financial Platforms



informed, PBAs could easily grasp the features of the payment bank product. BCs and COs had lower awareness of other digital financial products. In the case of PBAs and COs, there was a similar awareness among agents and their customers, suggesting that, in some sense, agents serve customers with a similar profile to their own and they may possibly be seen as peers. This might offer an opportunity to build trust and influence customers if agents make an effort to familiarize themselves with their customer and build rapport. There was a substantial gap between BCs and their customers, however, suggesting substantial potential for the agents to address their consumers' awareness gap.

While COs were well aware of the products and services provided by the MFIs they worked with, they were not up to date about digital financial products and services available in the market, except for debit cards. Similarly, given customers' low level of understanding of digital financial products and services, credit officers often struggled with educating and informing customers about new financial products that are increasingly available digitally. COs often found themselves to be ill-equipped to effectively explain digital products that were gradually being made available by the MFI. For COs to better facilitate and promote use of digital transactions, it is essential for MFIs to create and distribute effective communications

itches for their interactions with customers. Although very few MFIs have introduced digital financial services, the potential of MFIs to leverage their network to promote digital services among their customers is enormous. Initially, MFIs could employ incentive mechanisms that motivate credit officers to promote digital financial services for loan disbursement and repayments collection, along with motivating clients to use it in their daily financial activities.

Ability to compensate for customers' poor digital literacy skills: We found that PBAs are well-equipped in their knowledge and skills to compensate for customers' poor digital literacy, while BCs were less knowledgeable and skilled relative to PBAs. COs ranked lowest in this category.

Given that BCs and PBAs use digital platforms to process customers' financial transactions, those surveyed were familiar with using smartphones, had a good understanding of how digital financial transactions work, and were therefore able to compensate for their customers' lack of awareness by providing financial services on behalf of their FSPs in real time.

Credit officers, however, while fairly comfortable using smartphones to make calls, send messages and browse the Internet, were not very comfortable using them to conduct financial transactions. COs also reported being uncomfortable using management information systems on computers. In this regard, if credit officers are to compensate for the lack of digital literacy of customers, they need to be extensively trained on how to conduct financial transactions and troubleshoot issues.

Ability to build trust among customers: We found that BCs and COs enjoyed high levels of trust among their customers due to their strong rapport, while PBAs did not necessarily enjoy the same level of trust, potentially due to customers' skepticism toward the product that PBAs offered.

BCs reported struggling initially to establish credibility and trust within the community. At first, community members were often

unwilling to entrust them (as opposed to traditional banks) with their money. However, agents tried to overcome this barrier by branding and advertising their BC outlets, for example, and inviting village heads to inaugurate them to solidify their legitimacy in the eyes of the community. Over time, BCs felt that they had established greater trust among their customers, as their customer base increased and more customers began to transact through the agents.

Given their existing relationships with customers, COs were uniquely positioned to dispel distrust of digital financial services by introducing customers to the platforms and regularly addressing their concerns. It is important for MFIs to train COs on smartphone and Internet use for financial transactions so they can percolate this knowledge among their clients, drawing on the high levels of trust that already exist.

In contrast, the surveyed PBAs failed to build adequate trust among customers and convince them of the benefits and uses of the payment bank product. In both Rajasthan and Tamil Nadu, agents struggled to effectively overcome the novelty of the products offered by payment banks. Given consumers' familiarity with Airtel as a telecom brand rather than a banking service, customers did not view the payment bank product as having the same amount of credibility as similar products offered by traditional banks. Agents found it difficult to win over customers, as many did not understand or trust payment bank accounts as regular bank accounts delivered through agents, rather than at bank branches. Customers questioned the safety and security of their money and the authenticity of the product. Additionally, agents often failed to convince the customer of the need for the product relative to time-tested platforms like bank branches and ATMs. This was more the case in urban areas, where there was high presence of bank branches and ATMs. In rural Tamil Nadu, the demand for the payment bank product was relatively higher due to lower penetration of bank branches. Overall, PBAs were inadequately prepared to dispel common misconceptions regarding the product

The least motivated agents were also the most poorly compensated. For these agents, orienting new customers to use digital financial services was hardly worth the effort.

or to convince customers to accept its less attractive features. For example, customers were often uncomfortable paying service charges on each transaction, often associating the charge with paying government taxes. PBAs needed considerable time to dispel these misconceptions and they were neither adequately equipped nor incentivized to tackle these barriers.

Motivation

Are agents motivated to spend time to promote awareness and assist customers?

Agents need adequate incentives—both monetary and other kinds—to maintain motivation to stay in the job and provide services that are beyond their explicit scope of work. Informing and assisting customers, especially new and poorly-prepared customers, requires agents to spend considerable time and effort. We found BCs and COs to be more incentivized in serving their customers, while PBAs were less motivated.

For BCs, work flexibility, competitive pay, and the opportunity to serve the community emerged as driving motivators. All agents confirmed that if the business stopped being an economically viable source of income, they would discontinue it. Overall, BCs—both in Rajasthan and Tamil Nadu—were fairly satisfied about the monetary incentives they received. Their non-monetary incentives were also high, acting as one of the driving factors for their engagement as agents. Agents were largely motivated by a sense of pride to provide a sorely-needed service to their community. By providing these financial services, agents occupied a prime position in their community,

giving them a sense of importance and job satisfaction. However, despite these factors, for most BCs financial gain was the critical factor driving their ongoing interest in the business.

Similarly, we discovered that the main motivations of COs to work in the MFI sector were competitive pay, work schedule flexibility, and the opportunity to serve the community by integrating low-income households into the formal financial system. Moreover, for most agents, working as a credit officer opened doors to a prospective regional or even national job at the MFI, which could mean better pay and status. During our discussions, credit officers mentioned that they were interested in working as an agent for a longer term and were also fairly satisfied with the monetary compensation they received.

Digital platforms have the potential of improving the productivity of COs, reducing time spent on logistical issues and improving the quality of financial services provided to customers, all looping back into better job performance. Therefore, if MFIs digitize processes and functions, COs can gradually build their knowledge and can convince their clients to transition to digital platforms.

PBAs, on the other hand, highlighted that the commission they earned for promoting the payment bank product was very low and that the commission-based compensation structure more generally was wholly inadequate. The agents made less than US\$1 per transaction or account opening. Additionally, given the time needed to explain to the customer the process of opening an account and making transactions, agents were not satisfied and felt that management could devise a stronger

TABLE 2

Agent Effectiveness Scores Based on Research Framework

	Type of FSP and Corresponding Agent Type		
	COMMERCIAL BANKS—BC	PAYMENT BANKS—PBA	MICROFINANCE INSTITUTIONS—CO
Adequate Resources			
Financial liquidity	2	2	3
Access to technical equipment	3	3	1
Support from FSPs	2	1	3
Time available to manage all aspects of job	2	1	3
Network connectivity in the service area	1	3	2
Electricity in the service area	3	3	3
Level of Awareness/Knowledge of Digital Financial Services			
Adequate training received to update their knowledge	3	1	3
Awareness of products and services they provide	3	1	3
Awareness of other digital financial products and services available in the market	2	3	1
Ability to compensate for the poor digital literacy skills of their customers	2	3	1
Ability to build trust among their customers	3	2	3
Motivation			
Agents' willingness to work for longer term	3	1	3
Level of monetary incentives	2	1	2
Level of non-monetary incentives	3	1	1
TOTAL SCORE	33	25	32
Scores refer to the levels of success for agents' performance across different categories as follows: 1, low level of success, 2, medium; and 3, high.			

BCs have the right combination of resources, knowledge, and motivation to help customers transition to digital financial services. COs are well-positioned to influence their customers, once MFIs avail these services. PBAs are not yet well-positioned to influence their clients to adopt or use digital financial services.

incentive structure to motivate them to push the product among their customers. Agents found the customer onboarding process, which required an extensive briefing, was time-consuming, and they were further dissuaded from onboarding customers onto the payment bank product.

Agent Effectiveness Rankings

Using the framework previously discussed, we assessed agents' effectiveness in onboarding customers onto digital platforms for financial services (Table 2). Based on our findings and observations, we assigned low, medium and high levels of success for agents' performance across different categories, scoring these levels accordingly: 1, low; 2, medium; and 3, high. While the scores are somewhat arbitrary, they are reflective of what we observed in the field and, taken together, they are strongly indicative of agents' overall performance. Using these categories and summing the scores across all parameters, we find BCs and COs to be most effective, suitable, and well-placed to help customers transition from a cash-based to a cashless mode of financial transaction (with BCs slightly ahead). PBAs lag significantly across all categories.

BCs have the right combination of resources, knowledge, and motivation to assist customers in promoting awareness, adoption, and use of digital financial services. BCs can leverage the trust and rapport they have within their communities and are well-placed to influence low-income consumers to adopt digital modes of financial transaction. Nevertheless, there is room for improvement in these agents'

performance. BCs could be more effective in increasing customer knowledge and awareness about digital transactions, if they received further support from the FSPs, banks, and corporate BC aggregators that deploy them.

PBAs are not yet well-positioned to influence their clients to adopt or use digital financial services. PBAs score very low in terms of motivation to assist their clients, awareness of the payment bank product, and support from FSPs in marketing the product among targeted clients. While this can be partly explained by the short time these products have been available on the market, payment banks need to make significant efforts to leverage the agent's general knowledge and awareness about the digital financial services offerings to promote the product among clients, along with providing competitive incentives.

Based on the scores, we find COs to be well-positioned to influence their customer base to adopt digital financial services, once MFIs begin to make such services available. One drawback for COs seems to be their own lack of awareness and use of digital financial services, making it difficult for them to present a convincing case to their customer base. Given that there is little use of digital financial services in interactions between MFIs and their customers, there is at present little to no case for COs to push MFI clients toward digital platforms. If and when MFIs decide to offer digital financial services, they will need to invest significantly in training before they can effectively leverage their COs as advocates for digital financial services. But they have a strong starting point.

Conclusions and Recommendations

The more we talked with agents during our research, the more we became convinced that agents are an enormous and necessary resource for bringing about India's transition to digitally-based financial inclusion. Agents are the bridge between FSPs and last mile customers, not only in a practical sense, as transaction facilitators, but through their 'human touch.' Agents are essential in marketing, informing, handholding, creating trust, and solving problems, especially for first-time and lower-income customers.

Yet we found that agents are not always well-equipped or incentivized to play these roles. In fact, their levels of training and compensation varied widely. Many agents struggled with gaps in infrastructure (e.g., lack of continuous connectivity) and liquidity. When they were unable to complete transactions on demand, it eroded customer confidence. Many agents also lacked sufficient knowledge and information about the products and channels they offered. Their motivation to invest their own time in supporting customers depended in part on their compensation and on having ongoing connections to the parent company. Some FSPs performed better than others in providing this kind of support. FSPs and managers of agent networks have much to gain from ensuring adequate compensation, investing in training, and offering agents a ready lifeline for problem resolution.

What Can Financial Service Providers Do Better?

Our discussions with agents, branch managers, and senior executives of financial organizations revealed important insights into the opportunities and challenges that exist for each type of financial service provider in building effective agents. Here, we suggest improvements each type of financial service

provider could make to transition their clients to digital financial services through their agent channels.

Commercial Banks

Our field work suggests that BC customers rank among the lowest in awareness and usage of the different types of digital financial services for making cashless transactions. The customers BCs cater to—women, the elderly, the illiterate and those with the lowest incomes—are most likely to have dormant bank accounts, but they are not financially excluded altogether. BCs can leverage the trust and rapport they have within their communities to impart knowledge of digital financial services, first among those customers most likely to transition from cash to digital. They would need to make greater efforts for first-time users.

Banks and BC operators need to provide more regular support to these agents by meeting them frequently and discussing the challenges they face. It is important for them to maintain regular contact with agents to better understand their progress in serving last mile consumers. They can also take steps to increase BCs' awareness about digital financial products and the methods that they can employ to conduct transactions by phone or other digital methods.

However, to provide services beyond their current scope of work, agents need adequate incentives and support. While BCs are socially motivated, as they view their role as an important service to the community, additional financial incentives and support can further recognize their contribution. Financial service providers can also strengthen their app-based digital platforms to improve the customer experience, as many BCs reported downtime and server issues with the mobile apps

they used to conduct financial transactions. Additional support to BCs through call centers could help them troubleshoot customers' problems faster and improve the last mile customer experience.

Payment Banks

Given the novelty of their product, payment banks will need to intensify their efforts and try different approaches. Insights from the field suggest lack of demand for the product, primarily due to lack of awareness. Among those customers who knew about the product, especially in urban areas, there was little interest in using it, since several other options already existed to perform financial transactions. However, there is significant potential for the product to expand into rural areas, given the low density of bank branches and ATMs.

In this context, payment banks need to heavily invest in marketing, especially in rural areas. But in order for agents to provide the product a much-needed push, they must be compensated substantially—ideally, above and beyond the commission-based compensation structure—to be sufficiently motivated to spend time with customers in explaining the benefits of the product. Payment bank agents expressed significant frustration regarding the amount of time that was needed to onboard customers, conduct transactions on their behalf, and walk them through these processes. Payment banks need to explain the features and uses of the product to their agents such that they can effectively transfer this knowledge to the consumer. Currently, agents themselves do not seem sufficiently familiar with product features.

To truly empower retail agents, there needs to be more involvement by payment banks throughout every part of the process; first, through a more comprehensive onboarding strategy that goes beyond simply downloading the application for a retail agent and instead helps them to create an effective pitch for their customers. Next, it is crucial to have systems in place for times when retail agents require technical support through dedicated customer service lines, regular issue-based training, and an immediate and personal contact with an area manager who pays regular visits to the retail outlets.

Payment banks must take a holistic approach, investing heavily in agent training and handholding their agents in the short run to reap longer-term benefits. Agents, in turn, must also provide continued support to customers in terms of assisting them in the uses of the product and resolving problems. A one-time introduction is not likely to be enough for this new product, and customers would need to be gently eased into using it.²³

Microfinance Institutions

MFI customers can be considered relatively mature in comparison to BC customers in terms of their access to and use of financial services, as well as their knowledge about available financial products. However, MFIs have not yet used technological platforms to provide digital financial services to their customers, nor have MFI customers transitioned to digital platforms; even after their experience with demonetization, they still prefer to receive and repay loans in cash.

MFIs can take advantage of their customers' experience with financial services and engagement with the institution through COs to convince their clients to shift to digital services. COs can act as the primary means of knowledge transfer and persuade customers about the benefits of using debit cards and other digital methods of payment. Our field observations suggest that these customers are likely to belong to households that own at least one smartphone with Internet access, therefore access to digital financial services is less of an issue than use, which is where COs can play a vital role. This presents a case for credit officers to assist in their customers' introduction to digital financial methods through sustained persuasion and demonstration of the benefits.

MFIs can also conduct formal training exercises for their COs about digital financial platforms. Discussions with credit officers revealed that they themselves did not conduct digital transactions, such as using debit cards at retail stores, even when the option existed. Given the close relationship that credit officers enjoy with their customers, it is important for MFIs to invest in training their agents so that knowledge of digital financial services can be transferred to their customers in the near future.

Research Methodology

The study was conducted in the states of Tamil Nadu and Rajasthan. We chose Tamil Nadu because of the high levels of financial inclusion it has developed over the years, while Rajasthan provides the perspective of a state still relatively underserved by the formal financial system.²⁴ Specifically, we surveyed the districts of Pondicherry, Villipuram, Cuddalore, and Trichy in Tamil Nadu, and Alwar and Jaipur in Rajasthan. We thereby covered both rural and urban districts. We spoke to a total of 120 agents across the two states (60 from each state and 40 of each type of agent).

To select our agent sample for COs, we partnered with two MFIs, one each in Rajasthan and Tamil Nadu.²⁵ For our BC sample, we partnered with Sub-K, an organization and BC aggregator that manages inclusive transactions on an end-to-end basis through recruiting,

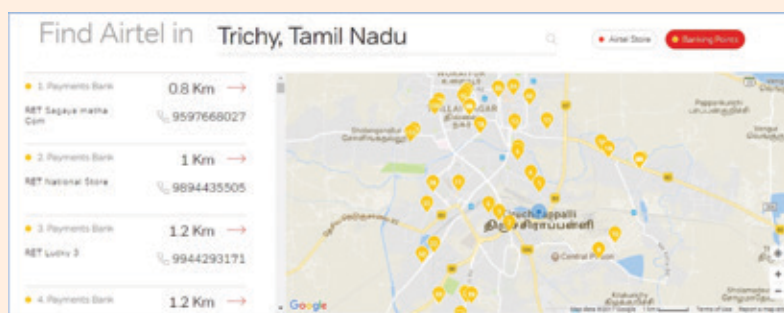
training, and equipping local individuals as BCs.²⁶ The BCs we spoke to provided services on behalf of various commercial banks, however they were all managed by Sub-K. For PBAs, we selected Airtel Payment Bank,²⁷ as it was the first in India to launch its payment bank operations. We located PBAs using the company's online agent locator in each study area (Figure 4).²⁸

Using semi-structured and in-depth interviews, we spoke to agents across the three types of financial institutions about their socioeconomic and demographic profiles, their roles and responsibilities as agents, the challenges they face in their day-to-day jobs and their perception of their customers' readiness to move to digital platforms.²⁹

The data collected through the interviews was qualitative and therefore our study uses qualitative methods to present our findings. We compare the effectiveness of agents across parameters as previously defined in our evaluation framework. It must be noted that while we selected only one entity each for the BC and PBA models across the two states, we partnered with two different MFIs for CO surveys in Rajasthan and Tamil Nadu due to logistical constraints. However, we have presented combined results for the CO survey as the two MFIs largely follow the same model and have similar business operations. We offer one caveat; given that we studied only one or two FSPs in each category, our observations may in part be explained by the nature of particular organization studied and may not hold across all FSPs of that organizational type. Nevertheless, we find that our conclusions about agent behavior have broad relevance across all categories of FSPs.

FIGURE 4

Online Airtel Payment Bank Locator



Source: Airtel India website

Notes

- 1** Last mile consumers refers to consumers who live in remote and inaccessible areas where there is little or no support from formal financial institutions and formal financial institutions are unable to serve these areas.
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- 16** Reserve Bank of India, "Bankwise ATM/POS/Card Statistics," www.rbi.org.in/scripts/ATMView.aspx?atmid=75
- 17** For our study, we surveyed Sub-K, a BC aggregator entity. Business correspondents employed by Sub-K are given a commission based on the number of transactions they perform on behalf of clients and an additional fixed monthly lump sum. We also provide more details about our BC sample in our Research Methodology and Evaluating Effectiveness sections.
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