

# MicroSave India Focus Note 67

## Clients' Willingness to Pay "Reasonable Fee" for BC Services

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A major concern around the Business Correspondents (BC) model for both banks and BC is financial sustainability. Recent policy changes by RBI suggest that banks can levy a "reasonable fee" on the customers for various services provided through the BC channel.<sup>1</sup> Banks are still struggling to identify what is a "reasonable" fee. This Note discusses whether end customers are willing to pay for financial services delivered by BCs, and if yes, how much are they willing to pay. This IFN draws from MicroSave's recent "Cost and Willingness to Pay" research conducted in the states of [Uttar Pradesh](#), [Rajasthan](#) and [Tamil Nadu](#).

### Factors Affecting Willingness To Pay

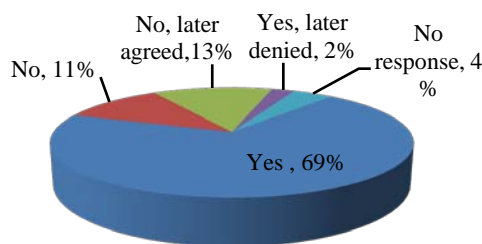
Willingness to pay for financial services delivered through BCs is directly proportional to the perceived benefits of using a BC, and the ability to pay for such services. The following factors make up customer's mind to pay:

- *Distance from the nearest bank branch:* People who reside far away from the bank branch face more problems and incur costs to visit the bank and, hence, are more inclined to pay for BC services closer to their homes.
- *Security concerns:* People are willing to pay for BC services as it eliminates cash risk to a large extent. It also eliminates the risk of saving with private companies' agents, who are often fraudulent.
- *Direct costs:* The costs of travel and snacks that occur when a customer visits the bank branch to make a transaction are saved.
- *Opportunity costs:* The cost of loss of work is saved; this varies from Rs.50 to as high as Rs.300.
- *Ability to save regularly:* With the convenience provided by a BC close to home, account holders are able to make more frequent savings deposits, even if those deposits are small.
- *Withdrawal during emergencies:* Availability of a BC service in the vicinity allows potential customers to make withdrawals in times of emergency.
- *Increase women's participation in banking:* As banks are often located far from villages, women are not able to visit the branches. Proximity to banking services through BC encourages women to save. This also leads to increased saving base of households.
- *Easier interactions with local agent:* Customers do not always feel comfortable with branch staff. A local, trusted agent in the form of BC is preferred.

- *Economy of BC:* People understand that banks also have to incur costs to provide these services in the village; and that the agent offering these services must be able to recover his costs. So, many people are willing to pay some fee to cover such expenses.

A portion of potential BC service users who initially do not wish to pay a fee, agree to pay once they understand the benefits of having a BC in their village to provide

Figure 1: Willingness to Pay for BC

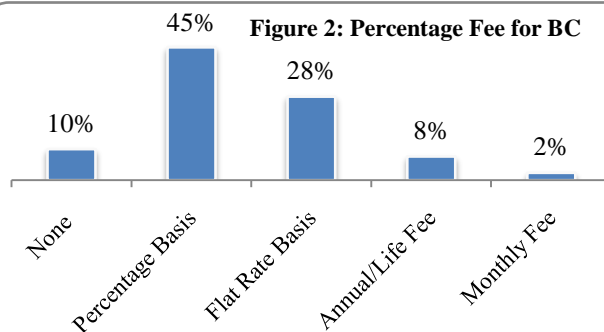


proximate, quick and easy banking (as can be seen in Figure 1 in "No, later agreed" category).

### How Will They Pay?

The model of fee-to-be-charged can be based around

Figure 2: Percentage Fee for BC



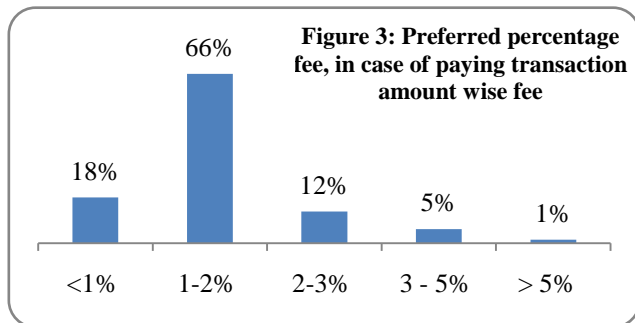
either the amount per transaction (percentage basis) or a fixed charge for every transaction (flat rate basis).

- **Percentage basis:** Charging a percentage fee on the transaction amount

**Rationale:** Customers willing to pay a percentage of the transaction are price sensitive, and have concerns about the affordability of low value transactions through a BC if a flat fee is charged. Customers transacting smaller value transaction do not want to pay similar fees to that of customers making high value transactions.

<sup>1</sup>RBI circular dated November 30, 2009 on Financial Inclusion by Extension of Banking Services – Use of Business Correspondents

- **Flat Rate Basis:** Charging a standard fee every time, irrespective of the transaction amount



**Rationale:** Customers willing to pay on a flat rate basis (irrespective of the transaction value) linked their willingness to pay directly with the costs (mostly direct cost, but sometimes including indirect cost) they currently incur to perform a bank transaction without a BC. Though they understand that a flat rate may be punitive while transacting lower amounts, they feel this will be compensated as they will be transacting both high and low amounts in the long run and that the number of transactions will increase.

- **Annual Fee/ Lifetime fee:** Charging one-time fee for availing the service

**Rationale:** Customers willing to pay one-off fees believe that paying a fee every time they transact might become confusing, so banks could charge an upfront fee for life time or on an annual basis.

Almost all the potential customers interviewed during the research were of the view that the overall fee should not exceed the cost of travelling to and back from the bank. A majority are willing to pay a fee only on withdrawals, and not on deposits, as levying a fee on deposits would act as a strong disincentive to save regularly. Furthermore, as banks and non-banking financial companies (NBFCs such as Sahara and Peerless) do not impose such charges for deposits, they feel that the BCs should not charge them either.

### Why A Few Will Not Pay?

It is very hard to convince some people to pay for basic financial services that are available for free at bank branch locations. Also, as there are other agent models of insurance companies and some Residuary Non-Banking Companies (RNBCs)<sup>2</sup> that offer doorstep service free of cost, people expect banking services to be free as well. A section of potential customers might decide not to pay owing to:

- **Security of savings:** People who have had bad experiences saving with private, unregistered groups are reluctant to trust a local BC, even one authorised by a bank. Others find it hard to imagine depositing savings at a grocery store or with an individual. The security of deposits is understandably an issue of great importance to everyone.
- **No charges at the bank branch:** Customers mention that it would be unfair if a banking facility that is available free of cost to other customers (who transact in the branch) is made chargeable for them.
- **Comparison with other savings options available:** They compared BC services with other savings options like *beesi*, Sahara etc. available at their doorstep, without any charges.<sup>3</sup>
- **Opportunity to travel:** Several respondents note that BC services would take away one of the few reasons they have to go out of the village and into town.
- **Preference for going to the bank:** Going to the bank is sometimes combined with other activities like purchase of groceries and household supplies. Therefore, many people do not consider going to the bank a tiresome activity, or associate any cost for these visits. Also, some people find going to the bank to be interesting as they get to know about various new products and schemes.
- **Lack of appropriate product offerings/features:** Products like the ‘No Frills Account’ (NFA) are not very popular amongst some customers as they do not meet one of their major requirements: that of offering loans.<sup>4</sup> Also, more interest is often evinced for other savings options like recurring or fixed deposits. In addition, the NFA product lacks basic features and this also acts as a deterrent to paying fees and using the BC.<sup>5</sup>

### What Do We Know Now?

In conclusion, the majority of customers are willing to pay a fee for a convenient banking facility close to their homes. The service, however, has to offer a range of products suiting to their needs. The note gives insight into factors and mechanisms that could guide the decision on the fee to be charged. This note provides a backdrop for service providers to start with what can be termed as a ‘reasonable’ fee; and once again, clearly highlights the importance of listening to clients.<sup>6</sup>

<sup>2</sup>See Frequently Asked Questions on NBFC for more details <http://www.rbi.org.in/scripts/FAQView.aspx?Id=71>

<sup>3</sup>These channels provide doorstep or within the village savings facility. While NBFCs like Sahara are famous for agent based models, where agents collect savings from households, *Beesis* are much more of village level ROSCAs

<sup>4</sup>“[Exploring Dormancy in No Frills Savings Accounts](#)”, *MicroSave*, India

<sup>5</sup>See also *MicroSave*’s Briefing Note # 80 “[Does Mobile Banking Require Cards?](#)”; India Focus Note 37: “[Listening To Clients of M-banking](#)”

<sup>6</sup>See *MicroSave*’s India Focus Note 47: “[Who Says You Can’t Do MicroSavings in India? Part 3: So Where to Go from Here?](#)”