

P E R S P E C T I V E

'Tech'ing Banking to the Last Mile - Rural Customer Servicing



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The vibrant Indian economy and its growth story are fuelled by the rapid and steady growth in the per capita income of our billion strong population. While on the subject of population, consider the fact that 61.35 % of Indians live in rural areas. The rural masses are sharing in the country's economic growth and the significant rise in per capita income reflects that. The following facts present a snapshot of India's rural demography:

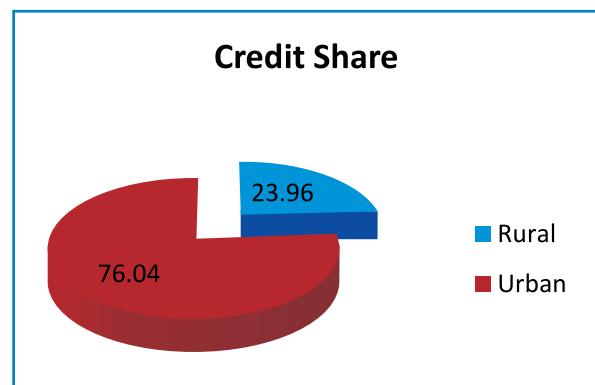
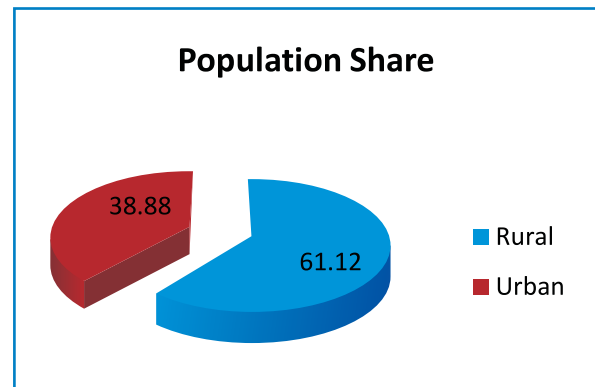
- 740 million people
- 6,38,000+ villages
- Rural GDP of US\$ 460 billion (Rs.20.70 lakh crore)
- 135 million rural households
- Have higher percentage of Disposable Income than urban population

India's banks can't afford to ignore this growing opportunity. A McKinsey report titled 'Indian Banking 2010', advocates focusing strongly on social development by leveraging technology-driven innovation to provide banking services to rural markets. However, past attempts to reach the last mile have been challenged by high costs, which made all the conservative business models unviable.

The 'Rural' Pie

That there is a big opportunity, is obvious from the following:

- Only 5.2% of India's villages are covered by regular banking services
- There is 1 bank branch per 14,000 people, leaving a huge space to be filled
- The market is insulated from global meltdowns
- 61% of India's population has access to only 24% bank credit
- Rural Income is 43% of total National Income
- Rural GDP stands at US\$ 460.08 billion (2010)
- Higher percentage of Disposable Income is due to minimal taxes (read 'NIL' taxes)
- 70% of India's gold demand (US\$ 30billion) comes from rural India - (opportunity for jewelloans?)
- Government policies like NREGS are creating alternative employment opportunities to agriculture



The legacy habits of the rural population – keeping cash at home, or borrowing from the neighborhood money lender at obscene rates – are directly linked to the unavailability of organized banking services. Against this backdrop, let us analyze some innovative models to deliver banking services to the primary economy.

Intermediary Model:

It's impossible for banks to establish the number of branches that are required to service the Indian rural population. Hence, banks have resorted to a model wherein rural customers can be acquired and serviced through intermediaries, who issue them biometric smart cards to be used for further transactions. These intermediaries travel to the remotest rural corners to deliver simple banking services. At present, this model is the foundation of Indian banks' financial inclusion strategy.

'Post' IT Out

The above strategy can be extended by including Rural Post Offices (RPOs) in the existing platform. Post offices have a substantial presence in rural India, and hence are good candidates for the role of banking intermediary. Also, they have already built relevant expertise by serving

products like Money Order, Kisan Vikas Patra, Savings Bank and Recurring Deposit etc. in rural areas. Thanks to technology, even a single rural post office can act as an intermediary for more than one bank, to give customers more options.

Banks can install Point of Transaction (POT) terminals at post offices and impart to their personnel relevant basic training on how to handle these devices. Bearing in mind the poor literacy of customers, these POTs must undertake biometric authentication through fingerprint recognition. In addition, postmen can carry mobile POTs to deliver door-to-door banking services. Cash payment and receipt transactions can be effortlessly completed after authenticating customers at their doorstep using their biometric smart cards. The authentication devices can print receipts that can double up as vouchers when backing up electronic transactions.

In the preliminary stages of deployment, each post office could be attached to the nearest bank branch to host and service the accounts opened, in the branch's databases. Subsequently, the bank could look at offering core banking over the Cloud directly to various post offices. In either case, POTs can upload their transactions into the core banking system by simply connecting to a telephone line.

Other non-financial services requested by the customer, such as statement request, customer data update, and account closure etc. can be captured by the POTs and sent to the base branch to be serviced within a pre-defined turnaround time (TAT). The use of the Cloud to deliver core banking to these intermediaries is another scalable and cost effective option.

Given that the postman is a familiar face for the rural populace, this model is likely to enjoy high acceptance. Even if the Department of Posts continues to operate its own banking services, this model still makes an effective revenue sharing/partnering/product distribution proposition for both parties.

Hybrid Cards

Hybrid cards refer to the smart cards with both chip and magnetic strip. Hybrid cards can be used

with the POT (authentication devices) as well as Automated Teller Machines (ATMs). Hence, it would be forward-looking of banks to establish a technological platform to offer hybrid cards to customers to accommodate them at no extra cost when they graduate to established technologies.

This proposition offers rural customers the flexibility to easily upgrade to normal banking services when they migrate to urban areas and banks the chance to retain these customers even in those highly competitive markets.

Bank on the 'Move'

Banks can look at using mobile vans to reinforce their brand and messaging in rural markets. These mobile vans could be fitted with a personal computer and VSAT (Very Small Aperture Terminal) connectivity to the core server and attached to a certain base branch and manned by its officers, depending on logistical ease and optimal coverage. Each unit can cover a specific area of say, 40 to 50 villages, near the base branch.

These mobile units could effectively act as mini mobile bank branches, besides helping to implement the bank's marketing, promotional and CSR (Corporate Social Responsibility) strategies.

Vernacular Phone Banking

With exponential growth in telecommunication density across the country, the phone banking platform, along with vernacular call center facilities, could be effectively used to service rural customers. A toll free number can be advertised through vernacular media and promoted by the intermediaries who actually interact with the customers.

Using current telecommunication technologies, banks could automatically divert calls based on where they originate from, to the correct linguistic section, and thereby avoid duplicating call centers in each state. Call centers must be equipped with a call back facility to ensure that they don't lose a customer.

interaction opportunity, and the chance to convert it into cross-sales. Indeed, not laying adequate emphasis on call centers could adversely impact the effectiveness of banks' rural customer service strategy.

Social Impact

The availability of affordable and organized credit to the rural population is a very important micro economic growth driver. Developed countries are fairly successful at achieving this. In India, the Government and Reserve Bank of India (RBI) are taking the necessary steps by formulating visionary policies; however, their execution is in the hands of Scheduled Commercial Banks. NABARD and other rural development program (RDP) implementation bodies are advocating a higher outlay in the Annual Credit Plan (ACP) to provide credit to support income-generating activities and emulate the success of Bangladesh's Grameen Bank's Self Help Group (SHG) Micro Finance (MF) model.

It is a matter of shame that the root cause of suicide by farmers in various parts of the country is the unavailability of organized credit, which effectively pushes them to borrow from unscrupulous private money lenders or to take their own lives in desperation. The point here is that, banks, by reaching out to the rural masses, can serve an important social cause, as well as benefit economically from it.

Epilogue

A successful and sustainable rural banking model is one that packs innovative servicing ideas that instill confidence; offers convenient access to credit; and literally draws the rural population into the mainstream economy. The

presence of a robust banking system across the length and breadth of the country will unlock new value for the sector, boost the economy from the grass roots level, and most importantly, enable the rural population to participate in the India growth story. By taking decisive steps towards this goal, banks can make effective inroads into the under exploited rural market and stay there in the greater interest of all stakeholders. the nation needs it.

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