RURAL FINANCIAL INSTITUTIONS PROGRAMME INDIA

# Remittance Needs in India

## NABARD – GTZ Technical Study

14th of August 2009

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**Abbreviations**

| | |
|---|---|
| AML | Anti-money laundering |
| ATM | Automated teller machine |
| BC | Business correspondent |
| BC | Backward caste |
| CBS | Core banking system |
| CFT | Combating financing of terrorism |
| CGAP | Consultative Group to Assist the Poor |
| CSP | Customer service point |
| DCCB | District central cooperative bank |
| DDM | District development manager |
| ECS | Electronic clearing system |
| EFT | Electronic funds transfer |
| e.g. | Exempli gratia |
| GTZ | Deutsche Gesellschaft für Technische Zusammenarbeit<br>German Technical Cooperation |
| i.e. | Id est |
| IFAD | International Fund for Agricultural Development |
| IMF | International Monetary Fund |
| iMO | Instant money order |
| km | kilometre |
| KYC | Know your customer |
| MACS | Mutually aided cooperative society |
| MCID | Microcredit Innovation Department |
| MFI | Microfinance institution |
| NABARD | National Bank of Agriculture and Rural Development |
| NCAER | National Council for Applied Economic Research |
| NCR | National capital region |
| NEFT | National electronic funds transfer |
| NFO | Non-financial organisation |
| NGO | Non-governmental organisation |
| NREGA | National rural employment guarantee act |
| NREGS | National rural employment guarantee scheme |
| NSSO | National Sample Survey Organisation |
| PACS | Primary agricultural credit society |
| PNB | Punjab National Bank |
| POA | Proof of address |
| POS | Point of sale |

| | |
|---|---|
| POSB | Post Office Savings Bank |
| RBI | Reserve Bank of India |
| RFIP | Rural Financial Institutions Programme |
| RRB | Regional Rural Bank |
| Rs | Rupees |
| RTGS | Real time gross settlement |
| SBI | State Bank of India |
| SC | Scheduled caste |
| SHG | Self-help groups |
| ST | Scheduled tribe |
| STCCS | Short-term cooperative credit structure |
| UK | United Kingdom |
| UN | United Nations |
| UP | Uttar Pradesh |
| USA | United States of America |
| USD | US Dollar |

**Quantitative Units and Exchange Rate**

| | |
|---|---|
| 1 lakh | 100,000 |
| 1 crore | 10,000,000 |
| Rs 68 | EUR 1 (as of 13.08.09) |

# 1 Introduction

Under the Technical Cooperation Programme of the Republic of India and the Federal Republic of Germany, the NABARD – GTZ Rural Financial Institutions Programme (RFIP) currently supports the revival package of the short-term cooperative credit structure (STCCS) as well as the promotion, supervision and (self) regulation of microfinance organisations.

Within the framework of this technical cooperation, NABARD and GTZ, under the RFIP, decided to jointly assess the current situation of domestic migration and remittances, to identify the challenges and to conceptualise a strategy on domestic remittances, which may eventually be implemented as a component under the existing technical cooperation programme on financial systems development. With up to 100 million internal migrants set to benefit from such a programme, this component could have a major impact on financial inclusion levels in the country.

The setting up and implementation of a nationwide approach on remittances forms a basis for ensuring an improved and extended payment system for low income households and the rural poor. By creating favourable framework conditions senders are encouraged to remit through the financial system and the Indian Post. A strengthened and enlarged institutional set-up can achieve further outreach to the rural areas.

Against this background, the present scoping study looks at how remittances can contribute to financial inclusion in India. It further considers possibilities and challenges for payment systems and schemes which extend financial services. Examples from case studies and on-site visits illustrate how formal and informal money transfer options respond to the needs of migrant workers. The scoping study, moreover, points out problems in the existing money transfer mechanisms available to migrant workers. Observations are based on three main sources of information: 1) a literature review, 2) interviews with representatives of stakeholder institutions, and 3) field studies conducted in the Maharashtran districts of Beed and Osmanabad and the districts of Ballia, Deoria and Ghazipur in Uttar Pradesh. Constraints have been encountered due to the paucity of remittance data, since remittances are typically sent via informal corridors.

Specifically, the scoping study was to:

- Identify major migration routes and remittance corridors;

- Make an inventory of existing formal and informal money transfer options in India;
- Study migrants' remittance demands, the formal and informal remittance services offered and the underlying challenges;
- Explore existing banking extension services and their relevance for remittances, in particular the business correspondent model;

Members of the study team commissioned by the RFIP in consultation with NABARD were:

- Dr. Y.S.P. Thorat, team leader and backstop, former Chairman of NABARD, Mumbai, India
- Mr. NV Ramana, consultant, former Group CEO of Basix, Hyderabad, India
- Mr. RV Ramakrishna, NABARD-GTZ Rural Financial Institutions Programme, New Delhi, India
- Ms. Therese Zak, NABARD-GTZ Rural Financial Institutions Programme, New Delhi, India

The study was conducted in close cooperation with NABARD's Micro Credit Innovation Department (MCID), Mr. B.B. Mohanty and Mrs. Anne Koshy. The desk and field study took place from the 17th of June to the 15th of August 2009. Detailed interviews were held with representatives from the Reserve Bank of India (RBI), the State Bank of India (SBI), the India Post, the Cooperative Credit Structure, Regional Rural Banks (RRBs) and commercial banks. During field trips in Maharashtra and Uttar Pradesh interviews and focus group discussions have been carried out with remittance senders and receivers, with village post masters and bank branch managers and with staff members of NABARD's regional offices. The study team has informed NABARD's chairman, Mr. Umesh Chandra Sarangi, and senior management, executive director, Dr. Prakash Bakshi, of the procedures, progress and outcomes of the study.

The present technical study forms a major input for an appraisal mission and for further actions required, including activities necessary for the preparation of an eventual NABARD-GTZ cooperation in the field of improving the domestic remittance system.

Following this Introduction, Chapter Two provides a literature review on migration, remittances and financial inclusion. The major money transfer systems are examined in Chapter Three while Chapter Four identifies the challenges faced in these remittance systems.

# 2 Review of Migration, Remittances and Financial Inclusion

## 2.1 Introduction

This chapter of the report provides a literature review in the areas of migration, remittances and financial inclusion. The report begins by briefly examining these areas in relation to international migration and remittances; the main focus of attention to date. It is further noted how internal migration and domestic remittance flows have been comparatively under-researched, even though they can be very significant and may not experience the same degree of negative factors that can be associated with international flows, and proceed to provide an overview of internal migration, financial inclusion and remittances with respect to India; drawing upon available literature and selected results of the two fieldwork studies in Maharashtra and Uttar Pradesh, undertaken for the purposes of this report.

## 2.2 International migration, remittances and financial inclusion: international perspectives

Households' access to financial services is important. It matters in terms of poverty reduction, risk mitigation and inclusion, while firms' access to finance matters because of their objective of achieving growth[1].

With the UN estimating that over 200 million people now live outside their country of birth, it is not surprising that money they send home is a major focus of academic and practitioner interest – as a source of development finance and as a step towards greater financial inclusion.

Although there may be caveats regarding the use of IMF Balance of Payments Yearbook data for comparative purposes, for many poor countries remittances provide more than aid and foreign direct investment combined[2]. With the World Bank reporting international remittances flows in the order of USD 240 billion a year and with IFAD arguing that USD 300 billion worth of remittances went to poor countries in 2006, it is sobering to note that The Economist suggests that perhaps "one in ten" people on the planet gains from remittances.

The same article notes two further striking features of remittances, both of which strike a chord for remittances in India: they are not new and the use of informal money transfer channels can predominate. At the beginning of the previous century The Economist notes how foreigners in America sent home

[1] Demirguc-Kunt, 2007, Research Programme on Access to Finance, Presentation at the World Bank, Washington, D.C.

[2] The Economist, January 5th, 2008.

USD 275 million in one year (1907) and used 2,625 informal agents to do so. Fast forward to 2008 and the same article notes how in the UK there are 2,700 "informal" remittance agents registered in the UK. Although the use of such informal channels make global estimates of remittance flows all the more difficult, the continued importance of informal money transfer agents can indicate the types and characteristics of services valued by remittance senders and receivers.

The potential benefits of remittances, at both the household and economy levels are well documented, even though exact causality may be difficult to establish[3]. Remittances go directly to the individuals, they help smooth consumption, they are stable and counter-cyclical, they are cheaper than borrowing and do not incur the risk of loan refusal, and they can increase the status of recipients. Moreover, with at least 10 per cent on average of remittances used for savings and investment, this has important positive impacts on health and education, and induces important multiplier effects for the local economy. Furthermore, not only can migrants send substantial proportions of their salaries back home but such support can also be long-term; a study of 9,000 African doctors in the USA found they sent an average of USD 20,000 a year with some of them doing this after 20 years away from home[4].

However, negative consequences of migration and the sending of remittances are also reported. Human capital may leave a country with a scarcity of much needed skilled labour, there may be conspicuous consumption and a reduced incentive to work on the part of recipient households, and existing inequalities may be worsened with only the relatively better off households able to finance the costs of migration. Moreover, employment conditions for the migrant may be hazardous and insecure, with the workers susceptible to new forms of exploitation. Other family members, particularly the children, may suffer as a result of prolonged parental absence. Over time these negative impacts may be mitigated, with, for example, the growth of migrant support groups and networks, and inter-generational benefits may be experienced even if short-term initial benefits are few and far between.

[3] ID21 Insights 60 (2006) Sending Money Home. Can Remittances Reduce Poverty? Institute of Development Studies, University of Sussex, UK.
[4] The Economist, January 5th, 2008.

With regards to remittances and financial inclusion Toxopeus and Lensink[5] (2008) examine both demand and supply factors.

On the demand side they note that remittance senders need at least one financial service and that this in itself may induce people to look for the first time for financial services outside their immediate neighbourhood. The authors continue to note that the proportion of remittances saved, invested, and used for entrepreneurial activities indicates a demand for complementary financial products to that of money transfer. Moreover, it is only the formal sector (the banks) that is able to offer such a range of financial products.

On the supply side, Toxopeus and Lensink note how commercial banks are increasingly interested in remittance business given the size of the flows and the opportunities for cross-selling. Regular remittances can reduce information problems for the banks, can help clients build up a good financial history and a regular future inflow of funds can repay loans. Moreover, they note adverse circumstances at home generally increase remittances from abroad (thereby lowering risk profiles) and receiving families tend to move into a higher-income group that is more attractive for a bank.

Even so, such potential benefits, and of banks' entry into the microfinance market more generally, have yet to be translated into widespread formal sector access. Basu[6] (2007) identifies two major reasons for bank reluctance to serve the rural poor in India: first, uncertain repayment capacities due to irregular income streams, volatile expenditures, lack of collateral and enforcement difficulties; second, high transaction costs because of small loan size, frequency of transactions, geographical spread and a heterogeneous and sometimes illiterate clientele. Migrants may well face additional barriers e.g. lack of identification documents valid for different parts of the country.

While attention tends to be concentrated on international money transfers, both North to South and South to South, it is important not to forget the scale and value of internal remittances e.g. for China alone, estimated to be in the order of USD 31 million. While international transfers of money, from source to destination points, have been subject to intense scrutiny in the form of corridor analysis, the same cannot be said for domestic money transfers. Moreover, a number of negative factors associated with international remittances may not

[5] Toxopeus, H.S. & R. Lensink (2008) "Remittances and Financial Inclusion in Development" in Addison, T.&G.Mavrotis (eds.) Development Finance in the Global Economy. The Road Ahead
[6] Basu, P. (2007) Improving Access to Finance for India's Rural Poor. Washington, D. C.: The World Bank

be quite so pronounced, or even reversed, with respect to internal remittances e.g. there is no human capital flight out of a country, and given that poorer households tend to migrant internally rather than internationally, then domestic remittances may well assist those households needing help most and not have the same exacerbating effects on inequalities associated with international migration and money transfers.

It is clear that domestic remittances and financial inclusion now deserve the attention and enquiry that their international counterparts have long experienced. This scoping study is a first step in addressing this situation with respect to India. The rest of this chapter now examines domestic migration, remittances and financial inclusion with specific reference to this particular country.

## 2.3 Domestic migration, remittances and financial inclusion in India

One estimate indicates there are up to 100 million circular migrant workers in the country.[7] Most come from low-income households searching for seasonal work in metropolitan areas, other districts or even other states. Hopes are high and despite slow asset accumulation, migration helps to prevent the workers and their families from sliding into further poverty. Often unbanked, migrants need channels to send money from the destination back to their home village. This need is mostly met by the informal market. However, the World Bank argues that remittances channelled through bank accounts may encourage savings, and enable a better match for savings and investment in the economy. Formal financial services should therefore be regarded as essential and be available to any who want to access them.

**Financial Inclusion**

It was noted earlier how financial services like those involving savings, credit, insurance, payment and remittances are necessary for employment and economic growth. These services can also enhance social cohesion and contribute to poverty reduction. By making adequate financial services available and accessible to the lower income families through formal financial institutions, financial inclusion becomes a form of empowerment for the disadvantaged.[8] People who wish to access financial services should be able to

[7] Deshingkar, Khandelwal and Farrington, Support for migrant workers: The missing link in India's development, Natural Resource Perspectives 117, Overseas Development Institute, September 2008

[8] Report of the Committee on Financial Inclusion, January 2008

do so. This may entail increased efforts in marketing and financial education services.

In India, as in other countries, banking technology is developing at high-speed. ATMs, credit and/or debit cards, internet banking and/or online money transfer are banking technologies that serve clients efficiently, at low cost and without delay. Yet these advances only serve a very small section of the population. The more sophisticated technology becomes the more exclusive it can get. The financially excluded are those who live on low incomes and cannot access even basic financial services, such as savings, credit, insurance, payment and remittance services.

In remote and poor areas of India the extent of exclusion is substantial. According to the 59th Round NSSO Survey more than half of all farmer households (the total number of farmer households is 89.3 million) are excluded from formal and informal financial sources. Only 27 per cent borrow, inter alia, from formal sources, while 73 per cent have no access to formal sources of credit at all.[9] Delivering financial services to the poor in a sustainable manner is therefore an enormous challenge. Especially for labour migrants, away from their home village and without a family safety net, using remittance services can provide a means of financial inclusion because they need to send money home. There are many labour migrants in India, often living under dreadful conditions and belonging to the country's most vulnerable groups. The extent of their exclusion demonstrates the imperative of building an inclusive financial system.

**Migrants and Migration**

While there is relatively little literature and documentation on domestic remittances in India there is a substantial literature on migration. Research conducted by the Overseas Development Institute, London (notably by Priya Deshingkar), provides many insights into migration trends, push and pull factors at origin and destination points, and the demographics and sociology of migrants. Jones' studies of livelihood diversification (including migration) and access to both formal and informal financial services provides a detailed picture of migration patterns for one part of Rajasthan. Samal's and Ghate's research on remittances presents both the recipients' and the senders' viewpoints.

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[9] Report of the Committee on Financial Inclusion, January 2008

Generally, India is witnessing a sharp increase in population mobility, in long-term and short-term migration as well as in commuting. The number of migrants within India is difficult to assess and therefore contested. Estimates go up to 100 million of circular (rural-urban) migrants[10] while official data from the 55th NSSO round speak of 10 million people "staying outside their village due to employment reason" during 1999-2000[11]. At the same time researchers refer to 30 million internal migrants, a figure that is likely to be an underestimate. Particularly affected are people living in rural areas and even more so the "chronically poor".[12] The vast majority of short-term, predominantly male and unskilled, migrants come from low-income households and belong to Scheduled Castes (SC), Scheduled Tribes (ST) and Backward Castes (BC).[13] The most typical forms of migration are short-term, rural-urban and, to a lesser degree, rural-rural.

The increase in migration numbers can be observed in Rajasthan. Between the 1970s and 2001/2, migration has increased from 4 to 15 per cent for households migrating to other states and from 8 to 20 per cent for those moving to metropolitan cities. Another example is the annual migration of 300,000 persons from the drought prone district of Bolangir in Orissa, with the deterioration of agricultural opportunities being a major push factor. Similar large outflows have been witnessed for poor districts in Andhra Pradesh (Ananthapur) and for areas of Madhya Pradesh. Equally, Bihar has doubled its emigration numbers since the 1970s.[14]

Among rural-rural migrants, seasonal migration prevails, with agricultural wage labour migrating to neighbouring states.[15] Migration, in particular circular migration, has become a livelihood strategy. It may also constitute an investment in cases where the more years a migrant spends at the destination, the better his/her contract and the more profitable the undertaking becomes; costs of middlemen no longer arise, while, generally, skills improve leading to higher incomes. In some villages as many as 80 per cent of households rely on a migrant to provide their income.[16]

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[10] Deshingkar, Khandelwal, Farrington 2008
[11] National Sample Survey Organisation Ministry of Statistics & Programme Implementation Government of India
NSS 55th Round (July 1999 – June 2000) September 2001 Report No. 470 (55/10/8), Migration in India 1999-2000
[12] Deshingkar 2009
[13] Deshingkar, Khandelwal, Farrington 2008
[14] Deshingkar 2009
[15] Samal 2006
[16] Deshingkar and Start 2003

***Box 1. Migration from the districts Ballia, Deora and Ghazipur***

*The field study in the district of Ballia in Uttar Pradesh is a point of origin for migrant workers who are fleeing the flood prone area for work in Mumbai or Kolkata. There, they engage in construction work or work for a daily wage in the markets. Few are employed as watchmen or drivers, or work as crop workers in Punjab during the season. Up to two months a year are spent at home sowing crops. People from the other field study districts Deoria and Ghazipur mostly migrate to Mumbai, Kolkata or Gujarat for higher income or better opportunities. Their situation is slightly better than for the migrants from Ballia, who migrate because they have to, rather than because it is more profitable to do so.*

Yet, despite the economic benefits of migration, people can also face the risk of greater exclusion and costs. The exclusion is twofold: social, because the person no longer participates in the life of a village community and financial, because he or she may be unable to access banking facilities or welfare programmes. The underlying difficulty is linked to having no proof of address at the destination end, and above all, failure to possess an identity card. Lack of these, not only prevents the migrant from accessing social services but also from opening a bank account.

Moreover, migrants often find work in the informal sector characterised by low productivity, with little prospect for sustainable improvement in their economic circumstances and even, on occasion, facing oppressive employers. Accidents are frequent and often without compensation; injuries may be slow to heal, even once the worker has returned to his/her place of origin.[17] These and other costs (for lodging at destination, for example), are often underestimated by the migrant. Seventy-five per cent of all migrants are unable to save much, due to high costs at the destination, and are unable to meet the remittance expectations of their families. Once a person leaves their home area they are often no longer eligible for social insurance, health benefits or entitlements to livelihood support systems, even formal welfare schemes. Given the greater risks they are exposed to, their vulnerability and financial exclusion increases.[18]

Once at their destination the migrants find themselves in one of the three employment types: wage labour (80 per cent mostly on construction sides),

[17] Samal 2006
[18] Deshingkar and Start 2003

contract employment (10 per cent mostly watchmen or petty jobs) or self-employment (10 per cent skilled workers and artisans). Contractual workers are generally hired by middlemen and accrue advance costs to repay their debt at home and cover initial costs for transportation and accommodation at destination.

***Box 2. Seasonal sugar cane workers from Beed, Maharashtra***

*Seasonal sugar cane workers from Beed a district in Maharashtra, for instance, are contractual workers. They spend three to four months per year in neighbouring districts or states to earn a living for their families. As marginal farmers, agricultural labour during sugarcane season, husband and wife migrate for additional income. The advance money (Rs 30,000 to Rs 40,000 per couple) received from the contractor is used to balance debt and buy grains for consumption and seeds to plant before they leave.*

Yet, with experience, and due to the social networks that develop at origin and destination points, customary migration routes are created, so that middlemen become increasingly insignificant. This is the case in Andhra Pradesh where up to 90 per cent of migrants now use social networks.[19] Networks grow after a migration route from the same destination to the same end has been established for many years. Migrants then rely on a network composed of friends, relatives and employers instead of on a contractor or other intermediary.

It is clear that domestic migrants are among the most vulnerable in a society; including them in the formal financial system is a step towards integration and towards economic betterment.

**Money transfers**

Current financial services for the rural poor are often limited to agricultural production requirements instead of encompassing the broader needs of rural households, among them money transfers from the destination to the origin, namely remittances. A “continued dependence on the informal financial sector” leaves the rural population without choice.[20] But remittances are important, not only to meet the consumption needs of a household, but also for investment in agriculture. Research has shown that remittances “provide scope for accumulation of wealth and asset creation for households in addition to

[19] Samal 2006
[20] Jones 2008

providing basic consumption needs.[21]" But to send money back to their villages, migrants have few options: a) carrying it back themselves or sending it through friends and relatives visiting home b) sending it through the post office by a money order c) sending it through a bank by bank draft or d) sending it through an informal remitter.[22] Among these options the first and the last involve the informal market; the second is seen as expensive and sometimes difficult by remitters (a form has to be filled out in the language of the destination). Finally, sending money through a bank is rarely feasible since most migrants don't have a bank account, either at origin or destination or both. Because of this lack of options for money transfer, migrants cannot send money home as regularly as necessary. A study of remittances to Andhra Pradesh has shown that only 15 per cent of remittances are sent to families on a regular monthly basis. Instead, 35 per cent are irregular and 44 per cent are sent only every three to four months.[23]

***Box 3. The experiences of Ballia migrants in securing remittance services***

*Migrants on the route from Ballia to Kolkata or to Mumbai made the experience that in the receiving end, Ballia, banks are far, do not offer remittance services and their employees not motivated. Hence an agent from the village of origin, a Pradhan, acts as a courier on the Kolkata-Ballia route. He charges 5 per cent. After sending money through friends and relatives or taking it on one's own, using a courier system is the second most popular channel.*

When sending remittances the transaction costs are of concern. The cost of doorstep delivery is high. The post office, for instance, charges five percent, while clients reportedly have to travel to the post office to pick up the remitted amount.[24]

***Box 4. Remittance routes and preferences in Beed, Deoria and Ghazipur***

*In Beed, the origin of many agricultural migrants, money is usually remitted through the contractor (Mukkadam) first in advance then again as necessary. But the risk is high. Beed's migrant worker would rather use a safe and fast money transfer route. But even*

[21] Samal 2006
[22] Ghate 2005
[23] Samal 2006
[24] Ghate 2005

*banks cannot always serve their clients' needs. Clients approach the nearby cooperative bank only for credit not for a remittance product, because they are not aware of services a bank could deliver. Moreover, as the families receive an advance payment by the contractor, remittances are for most cases sent in emergencies. Still friends are more trust worthy than any other informal remitter. Technology and operational constraints and lack of awareness of both, clients and bank employees do not allow for usage of formal channels.*

*In Deoria the situation is different. Here the Central Bank of India serves most of the clients with its 51 branches, of which 3 are equipped with CBS. The bank is currently also delivering money transfers from NREGA, pensions and other government related accounts. But they are facing competition from SBI, PNB and ICICI due to their core banking system (CBS). The branch manager would like a biometric ATM to deal with the payments and prefers small clients to be served outside the banks' premises. Since remitting money informally is ill-reputed due to robberies, fraud, hidden cost and shortage of money delivered, remittance recipients pool around one account. When pooling, neighbours and relatives use the account of another person to receive remittances. In the case of Deoria one account holder allowed 15 people to use it for receiving remittances. In interviews conducted remittance users stated their preparedness to pay for adequate services provided by the formal institutions. But the current situation in the area faces infrastructural constraints. More than half of the 20 ATMs in Ghazipur are out of order and insufficient power supply impedes the efficient use of CBS. Further, the NABARD DDM states financial literacy and awareness about products is an issue.*

The volume of domestic remittances is often underestimated. In Surat, Ganjam migrants send Rs 400 crore a year to their Oriyan home villages. One quarter of it is sent through the informal Tappawala courier system. One hundred Tappawalas cater to the needs of mostly seasonal migrants and remittance senders. Because migrants don't have bank accounts and feel intimidated in the bank's premises, and are not in a position to fill out a postal money order form, they choose the Tappawala, who charges 3 per cent (4 per cent for next day delivery).[25] (See the following chapter for further details)

MFIs can also fill the gap in formal remittance services, where banks are absent. Once a critical number of migrant senders and receivers have been reached at each side of the sending route, MFIs can broaden their portfolio and at the same time achieve financial inclusion of migrants. The case of Adhikar, an NGO/MFI in Gujarat, demonstrates the advantages of using remittance handlings as an entry point for further financial services, i.e. savings and credit. (See the following chapter for further details)

What kinds of remittance services migrants need is suggested by The Report on Financial Inclusion: accessibility, timeliness and certainty of delivery, cost effectiveness and receipt of delivery status.[26] More generally, models to extend financial service outreach to rural areas exist. The renowned SHG Bank Linkage Programme, for instance, today covers 3.5 million SHGs, which have been linked to banks, and reaches out to 49 million SHG members and their households. Similarly, the business correspondent model (see Annexe) provides a strategy for extending financial inclusion.

## 2.4 Summary

Remittances are now a major focus of interest for policy makers, practitioners and researchers. Ever increasing migration and money transfer flows mean that remittances form an increasingly vital source of development finance and can act as an important gateway for increasing financial inclusion. To date, attention has been largely focussed on international migration and remittances. However, in a country such as India, internal migration and domestic remittance flows are very substantial, even if inadequately documented, and require the attention their international counterparts have enjoyed. This is not just a matter of scale. Domestic remittances are generated without a country suffering human capital flight. Moreover, receiving households are more likely to be the poorer households in a country, the very households most likely to be excluded from formal financial services. Thus the potential for securing financial inclusion through the transfer of domestic remittances through formal channels is substantial. Moreover, including migrants' remittances into the formal financial system not only improves security and convenience for the migrants and their families, but also improves

[25] The Hindu, 18 July 2009

[26] Report of the Committee on Financial Inclusion, January 2008

transparency in the country's national payment system, e.g. the transfer of NREGA benefits.

The next chapter takes a more detailed look at existing money transfer systems in the country.

# 3 Money Transfer Systems

It is argued that there should be an increase in the use of the formal financial system for making retail and small value payments. In order to facilitate this increase, alternative and inclusive paths have to be put in place. This chapter describes India's payment system and provides an assessment of the degree to which it serves to maintain financial exclusion of its migrant workers. The chapter gives an overview of money transfer options provided by the post office and describes examples from the microfinance sector, the informal sector and a business correspondent using mobile phone technology.

## 3.1 India's National Payment and Settlement System

The National Payment and Settlement System in India is an evolving system. This means that there is always an element of reform or modification in its architecture and its landscape. While the system in India has proven to be safe, it is still lacking efficiency, in particular when serving low-income clients. Hence, when discussing financial inclusion for migrant workers in India and access to remittance services, the payment system plays a major role.

**The Retail Payments System**

The retail payment systems in the country comprise both paper-based as well as electronic-based systems that offer relatively timely settlement. These payment systems are managed by multiple entities and are regulated by the Reserve Bank of India (RBI). The paper-based systems handle transactions of both small and large value through the approximately 1,100 clearing houses, which can be owned by the RBI/SBI or any other public sector commercial bank and are operated by the human resources personnel of the respective institutions. The RBI plans to increase this number in the long-term to one clearing house per five bank branches. Cheque clearing accounts for close to 70 per cent of the retail payment by volume and about 30 per cent by value, the remaining percentage going to real time gross settlement (RTGS).

The electronic-based system handles transactions of mostly large value through the approximately 55,000 RTGS enabled bank branches. In addition, the electronic clearing system (ECS) caters to making bulk payments/ receipts of a similar nature especially where each individual payment is of a repetitive nature and of a relatively smaller amount. Another electronic system is the electronic funds transfer (EFT) operated by the RBI in about 15 cities. The RBI is in the process of converting this into a national electronic funds transfer (NEFT) system. This would then have an outreach of close to 56,000 branches spread over 4,500 centres. The other types of retail payments system are card based transfers through ATM/credit/debit cards which are by design not currently accessible to the poor population.

**Future Plans for the Payment System**

The RBI is supporting the setting up of a national entity entrusted with the responsibility of national retail clearing function. This entity will be owned and operated by the banks. The advantage of setting up a single national entity is that it could perhaps lead to settlement efficiency. The diverse local practices in the operation of the close to 1,100 clearing houses would be standardised by the national entity. The new entity holds much promise for improvements in the speed and efficiency of the payments system.

**Importance of the system for the migrant population**

Access to money transfer services at economical rates by the vast majority of India's population would be essential for securing financial inclusion and also for reducing the dependence on non-banking and informal channels for remittance of funds[27]. From a supply side point of view a vibrant payment system improves financial transparency. It brings cash into the banking system which would otherwise have been kept out of the system. This is especially significant in the Indian context, where, as per NCAER estimates, more than 90 per cent of the consumer spending is handled on a cash basis – money which never enters the payment systems[28]. Making informal money transfer formal must be supported by an inclusive payment system.

**Challenges for the lower end customers**

The Indian payment system is considered relatively efficient as far as local cheque clearing is concerned. Where there are inefficiencies, these tend to arise in the clearing and settlement of outstation cheques. This kind of payment system is likely to be used by labour migrants in the bigger cities who have left their families behind in the rural areas.

In India, currently, existing legal provisions and extant policy permits only banks and financial institutions both of which are registered with and regulated by the RBI to engage, as a primary activity, in collecting money. In

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[27] Dr Y V Reddy, former Governor of the Reserve Bank of India in his valedictory address at the International Conference on Payments and Settlement System in Hyderabad in 2006.
[28] N R Narayanamurthy, Chief Mentor, INFOSYS in his inaugural address at the International Conference on payment and Settlement Systems at Hyderabad in 2006.

other words, only banks and financial institutions are allowed to collect funds for payment to third parties. Therefore, a nonbank may provide "payment services" only if these services do not categorise the provider as a bank or as a financial institution or if it facilitates these services on behalf of, or as, agents of banks. The only exception to this is the Post Office Savings Bank (POSB) which has been approved as a special category institution authorized to collect money from the public. The POSB is in the process of computerisation and networking the approximately 650 head post offices in order to obtain approval to plug into the NEFT after which it will be able to offer money transfer services similar to the services in the banking system.

The major challenge of the retail payments system is that a substantial number of people are excluded from access to it. This could be due partly to inadequate design and partly to the challenges arising out of anti-money laundering/ combating financing of terrorism (AML/CFT) strategies. For instance, ideally the sender and the receiver should both have bank accounts in order for money transfer services to take place efficiently; even if the sender does not have a bank account, the receiver at the end of the money transfer value chain must have such an account. Since the amounts involved in money transfer for the migrant population are generally small in value, the rigour and the requirements of holding a bank account discourages them from using the banks for such transfer services.

Further, the current slowness of small value money transfers, especially in dispersed locations of the country, indicates that the 1,100 clearing houses are either not sufficient or are not adequately decentralized. Essentially the products offered under swift money transfers through RTGS/ EFT/ NEFT/ ECS bypass the requirements of the poor remittance senders and receivers due to their inherent design.

### 3.2 India's Post

Generally, the Indian Post enjoys a good reputation and benefits from its high rural penetration and customer proximity. With its 155,204 post offices it can reach out to almost every address. About 130,000 branch post offices are on the ground level in villages, close to 20,000 are sub post offices on a block level, and 838 head offices are either on the district level or general post offices (on average 1-2 in every state) in metropolitan areas. Most of the staff working in the branch post offices in the villages and to a limited extend in the sub post office, i.e. 2.9 lakh in number, are part-time. Village post masters (Grameen Dak Sevaks) work on a part-time basis and provide accommodation for the post office in their residence. They are not transferred and therefore know their clients well.

Clients of the India Post can chose from three money transfer services: Electronic Clearance Services (ECS), Instant Money Order (iMO) or single money order. However, only the latter option is of relevance to most migrating workers, who are not web-based and mostly unbanked. Under the single money transfer migrants can remit up to Rs 5,000. The few migrants, who have web access and send higher amounts, can also use the iMO to send between Rs 1,000 and Rs 50,000. In the first and more traditional case, the post man delivers the domestic transfer, which the remittance sender has placed at the post office to the doorstep of the remittance receiver. It is sufficient to mention the name and address on the form, the receiver does not require more than that. The remitter adds his/her signature or thumb marks to the completed form and gets a receipt for the amount remitted. Once the transfer has arrived, the sender receives an acknowledgement of the payment signed by the receiver.

Generally, reliability of the system is high, even though clients have reported cases of misuse of remittances. In Uttar Pradesh, for instance, a post man has admitted to having lent the remittance amount at an interest rate and then delivered it many weeks late. Of more concern than safety is the length of time taken for transfer. While iMO is safer and faster, it is accessible to few. One thousand seven hundred post offices are providing the service but only 54,000 iMOs were executed last year. The number of post offices providing iMO is planned to grow by 10,000 in the next years to cover 4,000 post offices. The traditional money order, on the other hand, is slower but easy to handle.

Financial services form 50 per cent of the India Post's business. While it is overall not loss-making, most of its small scale products require cross subsidising. Ninety-nine million single money transfers worth Rs 8,000 crore were handled by the post office last year - that makes an average of Rs 800. Yet 60 to 70 per cent of money transfers are below Rs 500, while break-even is only reached at Rs 4,000. The post office sees its service provision as a social responsibility (universal service obligation), but is taking care of its technology; it is planned to implement CBS in 4,000 post offices.

Despite its rural penetration and popular product, the post office is losing its market share in those areas where banks' services are reaching the clients in a safer, more discrete and more efficient manner. In the Ballia district of Uttar Pradesh, for example, banks with CBS and a growing number of ATMs have attracted post customers. Indications are that the post office has lost 30 to 40 per cent of business in money transfers. Here the iMO is hardly being used. A similar observation was made in Beed, Maharashtra, where the head of the post office reported a 50 per cent decline. Despite its effectiveness, the iMO is not a product that appeals to the masses because too few can actually make use of it. Oriyan migrant workers in Gujarat remarked that money order forms are not available in their mother tongue, neither can they be filled out in the same, making the product almost useless for migrants who do not speak Hindi, English or the language of the district (languages to be used on the money order form) and who are not helped to fill it out.

While international remittances work efficiently via the international money transfer, collaborating with Western Union/Money Gram Money Transfers, domestic remittance services lag behind. Despite declining business for the post office in money transfer services, Ghazipur's superintendent is hopeful. In a few years, he states, the post office will have picked up with their CBS and use of hand held services to reach remote areas. One hundred and sixty million clients are saving with the post office an amount of Rs 16,789 crore, which averages to roughly Rs 1,000 per account. There is a cap on how much an individual can save in the postal savings account. Small domestic savers (below Rs 1 lakh for an individual saver and below Rs 2 lakh for joint accounts) are subject to an interest rate of 3.5 per cent.

### 3.3 Microfinance Institutions – The case of Adhikar in Gujarat

Adhikar, an NGO-MFI in Gandhidham, has formed an organisation called Shramik Sahayog, of which migrant workers can become members. Senders are Oriya migrants (migrants from seven blocks of Khurda, Puri and Nayagarh districts in Orissa, working in Gujarat (Gandhidham district). The remittance product is linked to compulsory saving accounts. The NGO charges 2 per cent of the remitted amount.

Shramik Sahayog offers a recurring deposit account, where members must deposit at least Rs 100 per month. An interest rate of 6 per cent p.a. is given, when a member has participated for at least one year. Withdrawals of Rs 100 are only permitted after one year. For remittances the amount must be topped up by the remitting amount. Staff of Shramik Sahayog collect money from the work sites and the migrant's colonies, or funds can be delivered to the organization during office hours. The office in Orissa receives by email a statement of remittances and savings of the accounts from Gujarat and disperses the amounts to be remitted within 24 hours or, at the latest, 48 hours to the Oriyan receiving families.[29]

### 3.4 The Business Correspondent: Eko Aspire Foundation

Eko Aspire Foundation (a section 25 not for profit) functions as a business correspondent to the SBI. Eko India Financial Services Private Ltd. provides all the support services like technology, document management, data processing and call centre facilities. To reach out to the unbanked as an extension of SBI, Eko uses a mobile phone technology and 160 Customer Service Points (CSP). Currently they service around 2,500 customers in the NCR region. At each customer service point, e.g. a pharmacy, the designated and carefully selected CSP has a mobile phone which is connected to an account at simplibank, Eko's banking platform. A customer can, through a number combination/numeric password now open a bank account, deposit savings and withdraw savings at the CSP. For example: a customer deposits Rs 200; he/she physically hands over Rs 200 to the shop keeper, then through a number combination credits his or her own account, through another number combination/use of password the CSP debits his/her own account for the cash received, and the transaction is completed at the banking platform of the BC ie Simplibank. These transactions are merged with the CBS of SBI at the end of the day. Confirmations are sent through sms and the number combinations are safely noted in a booklet, carried by the customer. For safety reasons the numbers can be used only once and include a pin code, that is shown as **** and only known to the customer. Within the Delhi region customers under this arrangement can even remit money to each other without approaching the CSP. Even though the procedures are simple and the amounts small, the Know Your Customer norms (KYC), i.e. due diligence and customer identification, as followed by SBI still apply. The client needs a proof of address (POA) in the Delhi region as well as a Delhi mobile phone number. While the approach works for some it does not for others, especially migrant workers. They have no POA of their destination, and often hold an election card for their home village. The strategy is still limited to one region and while the technology is easily extendible, the institutional set-up is not because to remit an amount to UP, Orissa or Bihar, for example, a CSP would have to be there to walk the last mile.

[29] Ghate 2005

### 3.5 Family, friends and couriers

The majority of remittances are made through the informal or semiformal system. Together they account for an estimated 50 to 60 per cent of all transactions. Friends and family are perceived to be the safest and most cost efficient remittances channels, because trust among peer groups is high. Although fraud is low, ambush and robbery have increased. Being chosen as money-carrier is apparently as much an honourable as a dangerous task. Thus, the effective cost of this channel is probably underestimated by users.

The courier or agent system operates as urban "pay-in-point". He telephonically informs the agent in the rural receiving end who then delivers the money to the families. The cost is approximately 4 to 5 per cent up to Rs 10,000 and 3 per cent for amounts greater than Rs 10,000. Agents are closely linked to the local communities and highly entrusted with the money transfers. The relationship and business is extended through multiple services, e.g. selling of insurance products, savings schemes, and intermediate loans (purportedly free of interest). The working capital of the agent was reported to be Rs 150,000. Many of the small transactions are not cost-efficient.

***Box 5. Informal remittance services: The Tappawala from Orissa***

*Oriyan migrants in Gujarat trust the Tappawala with their remittances. The money courier receives around Rs 2,500 from his 200-300 clients each month. The Tappawala takes the collected money to a bank in Surat, issues a bank draft and recollects the amount in a bank branch in Berhampur, the main town in Ganjam, where the migrants originally came from. While the money is safe for most of the journey the first and last miles are a security concern. For three hours or between 80 to 100 kilometres, the Tappawala carries the cash with him. Robberies and ambushes are not rare. The Tappawala serves the better earning migrants; poorer ones, carry the seasonal earnings home themselves.*[30]

### 3.6 Summary

The National Payment and Settlement System in India is not static but is evolving, and plays a major role in discussions concerning financial inclusion of migrants in the country. Payment systems, both paper-based and electronic, are managed by multiple entities, regulated by the Reserve Bank of India (RBI).

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[30] The Hindu, 18 July 2009

A RBI proposal to establish an entity with a national retail function holds promise for improvements in the speed and efficiency of the payments system. The clearing and settlement of outstation cheques, the system most likely to be used by labour migrants, poses particular challenges for efficiency. Moreover, a substantial number of people, through inadequate design and/or AML/CFT strategies, are excluded from access to the retail payments system. Although the Indian Post has high rural penetration and offers three money transfer services, just one of these (the money order) is generally available to migrants as they are largely unbanked and lack access to the internet. While the Indian Post plans to implement CBS in 4,000 post offices, it is presently losing its market share in money transfers in those areas where banks are reaching the clients in a safer, more private and more efficient manner. The example of an MFI providing remittance services shows the flexibility such an organisation can have in the collection of funds to be remitted: from the worksite, the migrant colonies, from deposits made by the migrants in the office. The example of the Tappawala, informal money couriers catering to the remittance needs Oriyan migrants in Gujarat, shows how although generally safe, the first and last miles of journey can pose security concerns. The Eko Aspire Foundation provided an example of a business correspondent linked to the State Bank of India, using mobile phone technology and Customer Service Points to reach out to the unbanked. While showing great promise in the Delhi region, due diligence and customer identification still apply; consequently, it is not a system that works easily for migrants. Finally, although sending funds through friends and family may be regarded by migrants as safe and cost-effective, ambush and robbery have increased.

Having reviewed the overall payments system in India and given examples of the different institutions and agents involved, the following chapter will now take a more detailed look at the challenges for effective domestic remittance services in the country.

# 4 Challenges for Effective Domestic Remittance Services

The opportunity to send money back to the family, at a particular point in time, is one of the principal goals of a migrant worker. The relatively higher rates paid for remittance services in the informal sector suggest that clients would be prepared to pay for a better service in the formal sector. The challenge lies in the availability of and access to banks, and in the acceptability of clients to these institutions. However, in order to service migrant workers adequately, the banking system and the India Post face institutional challenges. Furthermore, migrants suffer other forms of social exclusion at their destination points, as well as lack of acceptance in the banking environment.

## 4.1 The challenge of accessing formal financial services

Low-income families have great difficulties in opening a bank account, hence in accessing formal financial services. Working migrants in particular, often fail to produce the necessary documents at their destinations. Proofs of address, mostly an election or ration card, only state their address of origin, not the one of destination, and therefore migrants are hardly ever permitted to open a bank account at their destination. Not only does lack of proof of address form an obstacle, an additional problem lies in the inability to prove identity. Endeavours to produce identity cards have been undertaken in many areas and should continue. Such cards will help to facilitate access to social services and the financial system.

Under the "Know your customer" (KYC) norms, financial institutions must have relevant information on their customers and ascertain that the financial business is conducted in line with banking standards. It is a protective measure to avoid intentional or unintentional fraud, and to avoid money laundering and the financing of terrorism. It is also a risk management tool because it helps banks to understand their business better.

In operational terms, the KYC is a due diligence of the client. In a profile the bank registers their customers' information, which generally includes verification of the customers' identity and address, their social and financial status, and the nature of their businesses. It is clear that rigorous KYC norms make access to the financial system difficult for the poor, and especially for migrants. Regulatory measures to support small customers through a relaxation in KYC norms have been put in place, but are almost not in operation.

The RBI announced in its 2005-2006 mid-term review, that clients who do not intend to keep balances above Rs 50,000, and whose total credit in one year does not exceed Rs 1,00,000, should be subject to a simplified procedure to open a savings account. The RBI circular of August 2005[31], too, emphasizes that KYC procedures for clients in the low income groups should be simplified, because in most cases these clients are not in a position to present the documents required by banks. In these circumstances a client can now open an account under the above mentioned conditions, with regard to a balance below Rs 50,000, and credit below Rs 1,00,000 each year. In such a case there are two options for opening an account. Under the first option, the client finds an introducer who has passed the entire KYC procedure and has been an active account holder with "satisfactory transactions" for at least six months. The introducer then verifies the future client's photograph and address. Under the second option, the client can produce an alternative proof of identity and address which is to the satisfaction of the bank.

Even though the RBI has put regulations in place which are favourable for migrant workers, effective implementation of these regulations is not taking place. Changes on the policy level have been made accordingly; nonetheless, these modifications have not trickled down to the operational units of most banks. Even when a bank uses the business correspondent model as an extension of its branch network, it still is responsible for the KYC norms used, even though banks are encouraged to make use of the flexibility offered when dealing with small clients.

### 4.2 The institutional challenge

The network of India's banking system is vast, comprising private sector banks, public sector banks, foreign banks, urban banks, RRBs, state cooperative banks, central cooperative banks, and primary agricultural credit societies. Despite its size, the rural infrastructure, in particular, suffers from inadequate technology, low financial viability, and a lack of human resource capacities and capital.

Commercial banks, local banks and post offices each deal differently with rural penetration and often complement each other. After the post office, the cooperative banking system reaches out to the farthest customers through its branch network. The provision of its services includes delivery of National Rural Employment Guarantee Scheme (NREGS) payments, pension payments, including widows' pensions. These transactions are carried out free of charge.

[31] RBI circular: RBI/2005-06/135, 23 August 2005

The delivery of comprehensive financial services, especially small remittances, even though in large numbers, poses a challenge to profitability and its risk management is cumbersome. Furthermore, branch expansion in remote areas is costly, infrastructure is lacking and human resource capacity is insufficient. Thus providing small and frequent financial services is a challenge for commercial banks and is perhaps more easily dealt with by locally rooted banks, like the RRBs, the DCCBs or the PACS or other contact points which can function as a business correspondent.

The sending of remittances through the banking system has benefitted from technological progress. The growing number of core banking systems (CBS) and ATMs has facilitated a market share of the remittance market going to banks. If potential customers have a choice, then banks operating with CBS are more attractive to individuals looking for remitting services. Even low-income clients who do not like to enter intimidating bank premises choose to use a bank because of their ATM network. Furthermore, banks with CBS can function more efficiently.

The majority of the lower income clients who are banked and those who are the focus of the present study are mostly served by local banks, i.e. RRBs and cooperative banks. These generally have low or no computerisation, and an often unreliable power supply and limited connectivity. Local banks are strongly involved in government payments. In comparison to commercial banks, local banks may be more understanding towards the customer, and relate to them more closely in terms of customs and business ideas. However, without more efficient technology these banks face difficulties in serving the large number of the unbanked. As noted earlier, the proportion of the population who are unbanked is high - about 70 per cent in rural areas, and cannot be reduced by technology alone, as this mostly benefits higher income customers. Mobile phones are an important innovation and can be used to track money delivery and serve as a proof of identity. Although, the use of technology can increase safety and reliability for customers it does not overcome the last mile, because people require cash. Therefore, low-tech solutions e.g. the use of agents, could be further explored.

The post office, though it accounts for the largest network in rural areas and is widely popular, is losing clients for its financial services and with its present systems in place, cannot assure a sound and fast system. Sixty to seventy per cent of remittances transferred through the post office are of a value below Rs 500. Hence it is difficult and too costly to monitor post masters at village levels, even though corruption and lack of privacy in remittance transfers are reported to be issues of concern to clients.

Safety is not guaranteed when sending remittances via friends and family. Robberies of private persons carrying remittances can be frequent. Often the remitters face a trade-off between safety and speed. Customers feel that this trade-off is best met by family and friends. But the real cost can be far higher than the cost perceived by customers. The price of informal remittance transfer varies and is often high.

With a network of 70,000 bank branches (of which approximately 30,000 are rural branches of scheduled commercial banks, including RRBs) and 1.5 lakh post offices, a supporting institutional framework and mechanism is in place. Nevertheless, an institutional approach together with the business correspondent scheme could allow financial institutions to extend their services further. The aim should be to reach out to all of India's 600,000 villages.

### 4.3 The social challenge

Banks can be intimidating, especially for the low-income population and migrant workers. Coming from small rural villages, many migrant workers try to send remittances from an urban bank branch. In many cases access is already denied by the security guard at the doorstep. Generally, a client wishing to execute a transaction below Rs 500 would not approach a bank. Even though the RRBs are meant to service these clients, they often do not. A recent paradigm shift in RRB policy is gearing the RRBs more towards the commercial banks. Hence they are increasingly seeking larger clients and imitating the supercilious behaviour of commercial bank staff that may be experienced by the rural low-income population. In addition, inhibitions are felt by migrant workers due to their financial illiteracy and their lack of awareness of available services.

Through various forms of social exclusion the migrant workers at their destination face increasing vulnerability. In the case of sickness, they can utilise their primary health centre in the village, but at their destination health care is not available. Without access neither to social welfare nor to formal financial services, the migrant relies on informal mechanisms and can be exposed to higher risk and fraud. Hidden costs can therefore be high. Greater social and financial exclusion is experienced in the urban context. In rural areas, at least a bank account can be provided by a local bank or a cooperative bank, even though these are mainly used for the availing of credit facilities.

## 4.4 Summary

There are many challenges to the effective operation of domestic remittance services in the country. These challenges exist at the regulatory, institutional and individual levels. Know your customer norms, though implemented through necessity and with the best of intentions, have the unintended consequence of excluding poor migrants from opening bank accounts. In recognition of these difficulties modifications to KYC procedures have been made but are yet to be implemented in practice. India's financial sector is impressive in terms of scale and the diversity of institutions. Each type of financial institution has its own culture and characteristics, and level of ability to provide the frequent and often small value financial services required by poor migrants. The sheer size of the institutional sector, suggests that opportunities exist for achieving more effective remittance services, through innovations and improvements within the sector. These could take many forms e.g. through technology developments (bearing in mind these would need to be pro-poor) and business correspondent schemes, to name but two. Finally, social challenges should not be underestimated. Poor migrants typically face different forms of social exclusion, not just financial exclusion. This can negatively affect how they perceive themselves, and how others, including banks, perceive them.

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# Annexe

## Annexe 1 - Field Reports from Maharashtra and Uttar Pradesh

*Beed, 25th to 27th of June*

**Migrants and their families**

Remittance of money is important for migrant workers. During sugarcane season, people in Beed move out of their home villages to work as contract labourers for three to four months either in other districts of Maharashtra or in the neighbouring state of Karnataka. A contractor (Mukadam) arranges the contracts and pays the labourers and advance of Rs 30,000 to 40,000 per couple, usually husband and wife. This covers costs for grains and food for the season, settles old dues or finances agricultural activities of the family.

Once the workers move out of the village there is no regular money flow between the village and the destination town. However, the family does receive money in bulk at specified times or when in need. Then, the money is typically sent through friends and relatives; in some cases through the contractor. But villagers trust more in their friends.

The formal banking system has never been used. Although many have bank accounts with a local cooperative bank, they only avail crop loans. Other financial services are not known in the village.

The migrant workers, however, are aware of the postal money order system and believe that it is the safest way to send money. Yet, they never use it because they never had the chance to. Meanwhile the channel of friends is the most accessible and in their opinion cheapest one, despite the risk. The risk is even higher when sending money through the contractor. Reportedly many cases of money less have been witnessed. Aggression towards the contractors can get high and end in heavy fighting disrupting the village life.

**Marathwada Grameen Bank**

The bank is widely spread with 247 branches reaching the community in the rural areas including the migrant population. Many are customers availing crop loans. Contractors engaging the workers use these bank branches to deposit the cheques issued by the sugar mills or transport entrprises. Most of the contractors receive cash from the transporters in the late evening no longer able to use bank facilities, leading to cash disbursement by the contractors to the workers. In most of the cases, these contractors prefer to disburse cash to the workers, despite the risk of theft and robbery. Instances of robbery were reported when the contractor was way laid and looted for about Rs 5 lakh, while transiting between Baramati and Assti.

RRB branches are not in the ability to handle remittances as they are not fully computerised and they do not have a core banking system. The bank reports that migrant workers have no frill accounts and also receive money from the contractors. But, they do not use the bank for remittance services for many reasons including awareness. Holding large physical overnight cash balances and interbank cash remittances is one of the problems faced by the bank. The bank has experienced theft of Rs 5 lakh cash during a transit from Kallamb to Shiradhone. This discourages the bank to offer remittances and migrant workers to use the same. A group of branch managers estimated that remittances through banking and postal system are less than one percent.

**Beed District Co-Op Bank Ltd**.

With its 74 branches the bank services all segments of the population in the district. The banks operations are limited to the district and mainly involved in agricultural lending and allied services.

In addition to the regular bank accounts, the bank serves close to 11 lakh accounts amounting to Rs 712 crore under different government, programmes also to marginal farmers and disadvantaged groups. But the bank does not feel compensated for the services they are offering and therefore looks at these services as free services for the state government. The bank is unable to price products and services at the same time having to increase their capacity building. Further, they have an area operation limitation for providing remittance services outside the district, state and all over India. They may have to tie up with national/state level societies which may increase the cost as more institutions have to share the pricing. They do have the same issues like maintain overnight cash balances and their ability to manage funding for such remittance payments. However, when all these services are priced effectively then the DCCB staff and management may see a large potential and opportunity for providing these services. With their existing outreach to remote clients the bank has immense potential in providing remittances and other inclusive services.

**Head Post Office**

The Postal Department offers IMT (International Money Transfer ) to all its customers for international remittances in collaboration with Western Union.

Even for domestic remittances the postal department is providing money transfer services. This facility known as instant money order (iMO) is being offered by the Head Post office at District level to selected Sub Post offices in Taluks of Ambejogai, Parli etc, on experimental basis. This is an instant money transfer for the customers and can be used by various segments of the customers, even without having a bank or post office account. The maximum amount that can be transacted is Rs 50,000. Introduction of electronic money order has also reduced the time lag from 5 days to 1or 2 days, by passing the information electronically and the last mile follows the traditional route.

Traditionally some pockets of the migrant workers used postal systems for sending money from the city to villages especially to parents or relatives. According to the post master, use of postal money orders has come down by more than 50 per cent in the district of Beed. This decline is attributed to the improvement of systems in the bank, in transferring money and development of ATMs. The main reason attributed to the customer switch is due to non adoptability of technology in the postal system. Not loss of money but a large delays made customers chose banks over the post office. Disputes or litigations with the customers are not observed. The team at the post office was very confident that the department will catch up with the technology and also in preparing themselves to be part of the Core Banking System.

**MFIs and NGOs**

**Manavlok: Ambejogai**

These Institutions work with clients in the rural areas of the district. Many of their clients are also migrant workers primarily engaged in harvesting sugar cane. In the region the contractor (Mukadam) takes care of everything that is related to migration. In Manavlok's opinion, the contractor takes care of remittance needs of the workers. Additionally, so it is stated, he offers a timely service which is risk free. In the Ambejogai region people do have accounts in ost offices but use post offices for savings. Money order services are limited.

Manavlok works with banks to open no frill accounts in the region. So far they have opened more than 50,000 accounts with SBI in the district. While the organisation is keen on working on the issues of money remittances of the people in the region, they are not keen in handling cash. In their perception cash handling is risky and they do not want to get involved

**Rural Development Centre (RDC), Telgaon**

Informal means of remittances is popular in the region and they believe it is timely, reliable and so far had been less risky. Presence of mobile phones made the communication and money transfer confirmations easy. Their ability to communicate has eliminated risks to a little extent in terms of knowing whether the money has reached on time. All marginal farmers and workers use the banking system and familiar with the procedures.

The organisation works closely with the migrant workers and their issues. They are willing to take up any project or pilot to help them in improving their inclusion with the main stream financial system. They are already in the process of setting up community based microfinance institutions to meet the financial needs of the community, as many of their members are migrant workers.

**Contractor (Mukadam)**

The Mukadam is the main contact between the family members and the workers once they have left the village. As an intermediary he works for the transporters of sugar cane and sometimes directly with the factories. He receives an advance and in turn advances to the workers. His need for transfer of money from the factories to the villages is very high. He uses formal and informal systems for money transfers. Unpredictable timings in receiving the money from transporters makes him exposed to the risk of handling huge amounts of cash. Contractors prefer using banks as it helps him reduce risk of moving cash.

There were many instances where the contractors were way laid and looted of their cash. In his region villagers do not use money orders for sending or receiving the money. Instead they send money through the members of their own community and occasionally they use the contactor's services if he visits the village or the destination. In many cases workers migrated permanently from the villages, because of outstanding debt to the contractors. By and large he feels that in every village there are at least five cases of this nature. All of them are willing to use the banking system, if they are made aware and trained to make use of the banking facilities.

*Uttar Pradesh, Ballia, 1st – 4th of July 2009*

The district of Ballia is one of those districts that are vulnerable to floods, year after year. In the last few decades, due to lack of sufficient opportunities, people have emigrated; mostly to Kolkata and Mumbai. Many work in sand quarrying, construction and daily waged labour at the markets, others as drivers and watchmen. Some spend the season in Punjab crop harvesting. These workers go home to cultivate their agriculture land in their villages during the sowing season and come back to the cities after spending a month or two with their families. Some even have migrated to Surat for work (diamond cutting). They send money to their families every month. These workers normally bring money in person despite the large risk of being robbed on their way back home. There is a lot of risk in carrying money. Nevertheless people trust the informal system more.

***Ramesh in Kolkata***

*Ramesh, a coolie working in Kolkata, Howrah station has his family living in a nearby village. He visits them once in four to five months. There are twenty people who work in similar conditions in various other jobs. All of them use 'courier system' for their remittances every month. They send approximately Rs. 1,500 to Rs 4,000 every month to their families, living in the villages. They give the amount to a courier in Kolkata and also pay a commission of 5%. Once they remit the money, they call their respective families on mobile phone to inform about the cash being sent by the courier. Yadav, a local courier agent delivers the money. The family need not pay any amount to him. Sometimes they approach him directly and collect their money from him. Yadav also runs a Grocery shop and he is familiar to most of the people in the village.*

**Banks**

SBI and postal services have tied up under an alliance to service the remote areas of the district. The Manager feels that this alliance between postal services and SBI has increased the banking services to reach the poor and those living in the remote areas. Technology and use of core banking made a difference in use of the formal system for remittances. People use ATM services, extensively for money transfer in the district. However, the manager feels that the numbers of ATMs are limited in the district. Banks having core banking solutions are able to transfer the money instantaneously and are being used by the customers. However, some banks like the RRBs or cooperative banks have no core banking solution or shared ATMs. In such cases, these banks are losing customers to the other banks which are operating with a core banking facility. Due to non existences of banking solutions, the demand for such remittances is met by the informal system.

However, the branch manager of Union Bank of India feels that over the last two years, the use of postal system has come down considerably. Many people have bank accounts and use these accounts for receiving money from their family members.

While the system of using friends and relatives are also in practice, it is perceived as risky. Occasional looting in trains by sedating the carriers is not rare, while travelling between Kolkata, Maua and Ballia.

Mr. Saxena feels bank on wheels could be another solution for those people who are living in remote villages. These mobile banks could visit villages on the "market/ sandy day" to provide financial services including remittances. This will help families who do not have any accounts yet. However, the cost of operation would be a concern. Moreover, it is a common practice that people pool up and use the account of a family member or a third party to transfer money. Even account holders have to travel to the bank branches, about eight kilometres away. The RRB feels that the main destination area, Punjab, Haryana and Delhi is mainly serviced by the postal department.

Despite their computerised branches, the RRB is not able to offer remittance services due to non availability of CBS. The bank plans to computerize 35 out of 47 branches in the coming year. Availability of power is a main constraint. Even when power is available, low voltage does not allow the computer peripherals to function properly.

RRBs use ICICI bank at par cheques, for remittances to the children who are studying outside the villages and for other out ward remittances. Demand draft facilities are not being.

Allahabad Bank, Baiyara branch of the bank is not computerised and has no CBS. Consequently the usage of demand drafts has decreased by 75%. Customers prefer another branch 15kms away with internet facility and CBS. The staff feels overburdened with NREGA accounts and the pressure on the services rendered by the bank. Moreover, the staff commutes from nearby towns and is not motivated to work for the RRB. They would prefer a commercial bank.

**Post Office – Ballia**

Money Order is still the main channel for remittances in the district. But the service is stagnating the number has decreased by around 30 to 40 per cent compared to last year. The post master attributes this to the availability of CBS and the availability of ATMs. The post office electronic money order system has reduced the delivery time from 5 to 2 or 3 days. The instant money order systemt is being used sparingly. All the payments of MO are monitored nationally and are being followed up on day to day basis.

Under the project ARROW Ballia Post office is likely to be the best in its functioning in UP. They plan to have a CBS by the 30th September 2009 and also provide an ATM facility. The post ofice is designed in the lines of a bank and with all the modern facilities.

Only 10 out of 18 branch post offices in the district have an internet connectivity. Delivery to the wrong persons might happen as names are often common. But mobile phones can correct the delivery.

**Courier Service/Agent**

This informal system of money transfer is quite prevalent. The agents, Mr. Sachin Sinha is generally very familiar with the area and comes from the local village. He operates with a familiar client base of around 200 people, who migrated to Kolkata and acts on behalf of a courier service based in Kolkata. Remittance senders contact the courier office in Kolkata and pay the amount along with a commission. The commission charged is normally around 5% (send less than Rs 10,000). Beyond Rs 10,000, the amount is bargained between the courier and the customer. The courier in Kolkata forwards details of the amount and the address to the agent at the destination. The agent then delivers the amount on the same day. He does not take any money nor the hospitality of the receiving family. Sometimes the agent advances money to his clients for 4 to 5 days without any extra cost to retain his customers. Peak period for remittances is from the 1st to the 10th of each month and the lean period ranges between 20th and 30th of the month.

Mr. Sachin started this business about three months ago and has invested about 1.5 lakh. At times he had to deliver even small amounts, e.g. Rs 1,000 to a distant place as long as 30kms away (Baiyaria to Baviri). In such cases the commission does not cover the cost (fuel cost and time). In case of death or emergency money is delivered immediately; even an amount as low as Rs 200. The agent is also aware of the savings potential. Hence, he sells insurance including some savings policies. The agent gets reimbursements from the Courier on a monthly basis both for the remitted amount and commission.

Sanjay Ojha is a Pradhan and agent of his village. He has multiple channels operating from different cities and has been in the business for decades. Though his business volume reduced to one third of the normal business after introduction of CBS in the banking system, he continues to be an agent and his monthly commission aggregates to more than Rs 40,000 a month.

**MFI**

Cashpor is a major MFI. They agree that the most common way of remittances is through friends and relatives. People the rupee note number as a means of identification. Many of them use ATMs as they are widely available. The team estimated that the usage of money orders is less than 5 per cent. If cashpor was to become an agent for distribution of remittances, managers felt that, identification, and establishing authenticity may be the major problems.

At Cashpor women borrow money for handicraft or cover household expenses. Most of their husbands or men in the families work in cities. As they visit only once in 4 months the send money on a monthly basis through a single money order. The commission is 5 per cent at the city end and baksheesh of Rs 10 or Rs 15 to the postman. Usually the money arrives. They visit only once in four months. The money is usually receives.

Susheela receives money from her husband every month through friends who come regularly from Delhi. Some of the men who belong to the same village and working in Delhi visit the village every month and bring money. Though the money is perceived to be safe, there are instances that the money is lost at times.

Many of the residents of the village would like to open a bank account. But it is difficult because banks are not willing to open accounts. Some of them use other accounts to get remittances from far off cities like Mumbai. LIC cheques submitted in the bank take more than 1.5 months for realisation. Sometimes dates get lapsed for these cheques and the customers go through a lot of inconvenience in the encashment of these cheques.

***Hidden costs for migrant workers***

*Ramji is employed by a contractor to work in sand quarrying in Girali (Maharashtra), 50km from Virar, Mumbai. The labourers work* *in batches loading sand on trucks. Per truck each worker receives Rs 250 to Rs 500.*

*Every 15 days Ramji sends money through the post office to his village. He travels for two hours to Virar, stands in the queue for two hours, then hands in the MO form. Since he cannot fill it out he pays Rs 20 to someone who can. Once the money reaches the village the family pays around Rs 25 or 1 per cent of the amount sent to the post man as baksheesh.*

*Uttar Pradesh, Deoria District, 5th to 6th July 2009*

Mr. JP Singh is regional manager of the Central Bank. The leading bank has 51 branches in the district out of which 3 branches have a CBS. The bank is losing its customers to other banks with CBS. Currently it delivers NREGA payments, pensions and other related government led programmes. But staff availability is a challenge. While the bank is interested in opening no-frill accounts, as far as possible, they also want payments to be executed outside the branch premises. Mr. Singh would appreciate an increasing number of ATMs.

**Voices from the Village**

***Remittance receiving families***

*Dhulji Devi's son Rajinder works in a private company which manufactures cables in Gujarat. Her son sends money to a Punjab National Bank account which is in the name of her friend, Malathi, who lives in the same village. Dhulji pays for the incidental and travel cost but no transaction cost is paid for money transfers. Dhulji also has an account in Purvanchal Grameen Bank, but has never used it for remittances. Malathi allows other women in the village too to receive remittances on her account.*

*Dhulji would like to do her own transactions without entering a bank. Instead she would like to use an ATM. She proudly says, "I can sign now and I can handle my own money and don't want to be dependent on others."*

*Village level Entrepreneur Bhatni Village*

*Misra had invested about Rs 1.5 lakh in setting up his kiosk consisting of a computer, printer, scanner and a phone with internet connection. To start with he would like to offer services like ticket booking, SIM renewal, some payments related to state and panchayat including selling agreement papers, scanning and helping get no- encumbrance certificates. He is positive towards offering financial services including remittances. He is even willing to invest money in these services if they are profitable.*

*Uttar Pradesh, Ghazipur District, 7th to 8th July 2009*

**NABARD, Lead bank and other banks**

According to the NABARD DDM, financial literacy was very important and vital for the migrant. Necessary emphasis has to be provided to increase the awareness on the financial Inclusion. Since, people at large have faith in the banking system, it is necessary that migrants are made aware of money orders, RTGs and ATMs. Very often, power supply is a serious problem which affects connectivity and functioning of technology. Out of 20 ATMs in Ghazipur, more than half do not function. Migrants can use multi branch cheques in specific cases, or at par payable cheques. Farmer's clubs can be of great help in helping the migrants.

Union Bank of India being the lead bank has sponsored Kasi Gomti Samyukt Grameen Bank. The bank is computerised but do not have CBS. They are keen on providing all services under one roof. However, lack of CBS has been a handicap to serve even better. While all the NREGA services and pension payments are made by the bank, all the deposits from governments go to SBI. Many of the inclusive financial services are done by the bank without any service charges paid to the bank. The staff is confident that the bank will do well when they have CBS and ATMs in place. They are sure of their customer loyalty, because they use the same language as them.

The DCCB operates with 21 branches in the district covering about 80 per cent of the households. 15 branches have mini banks, and they are capable of delivering banking services. The branches are not computerised and they are facing problems with aged staff, who are not comfortable working on computers or technology. They charge commission on money transfers using other banks, related to the above inclusive government run services.

**Post Office – Ghazipur**

The electronic money order system has reduced duration from 10 days to 2/3 days. The costs continue to be at 5 per cent.

The department believes in a revival of post offices once they are computerized and CBS has been introduced and regaining customers' confidence. They also plan to reach remote areas through using hand held devices.

The post office plans to provide savings and remittance services together to the remote villages and extend reach by using ATMs. Small accounts will continue to be with the postal department as banks continue to show adverse attitude towards small saving and small transactions. The postal superintendent feels introduction of CBS has certainly affected the business of Post offices in the district. The remittances have come down by around 40%.

***Dinesh enters the formal system***

*Dinesh Mishra lives in a village called Dhari, in the district of Varanasi. In Mumbai (Prabhadevi), however, he works as a driver with Koushal Travels. There are 30 to 40 drivers from the same region.*

*Dinesh has three brothers of which two live along with him in Mumbai. Ram Prakash who runs an auto rickshaw in Chembur. His family lives in the same village as Dinesh wife. The other brother works with Koushal Travels, too. His family lives in Mumbai.*

*Dinesh's wife holds an account in the Union Bank of India, where she receives remittances from Dinesh. They save in the same account and even hold an insurance policy to which he contributes Rs 11,000 each year.*

*All of the brothers use banks to send remittances. Earlier they sent money through the postal service. Often the money did not reach on time. Later, the post man confessed to have used the money for a personal purpose and made the payments after fifteen days.*

## Annexe 2 – List of people met

| Name | Designation | Company/Org. | Location/ Fieldtrip |
|---|---|---|---|
| **S.S. Parulekar** | DDM | NABARD | Beed |
| **Mr. Ramdasi** | Lead Bank Manager | SBI | Beed |
| **Mr. Jaiswal** | Branch Manager | Marathwada Grameen Bank | Beed |
| | | Beed Central Co-operative Bank Ltd. | Beed |
| **Mr. Sharad Ghayal** | HO - Bidar | Beed Central Co-operative Bank | Beed |
| **Mr. Giri** | | Branch Office, Nitrud | Beed |
| **Mr. Prashant** | Branch Office, Field Location | Basix | Beed |
| **Mr. Eknath Awad** | | RDC, Telgaon | Beed |
| **Mr. Tukaram** | | RDC, Telgaon | Beed |
| **Mr. Kulkarni** | Executive Member | Manavlok | Beed |
| **Mr. Harish Chandra Lagad** | Post Office, HO-Beed | Telgaon | Beed |
| **Mr. Suresh Gaur** | Manager | SBI-ADB | Uttar Pradesh |
| **Mr. Saxena** | Manager | UBI | Uttar Pradesh |
| **Mr. Ramayanji Dwivedi** | Branch Manager | Ballia Khsetriya Grameen Bank (RRB) | Uttar Pradesh |
| **Mr. Anil Prakash** | Sr.Manager | Ballia Khsetriya Grameen Bank (RRB) | Uttar Pradesh |

| | | | |
|---|---|---|---|
| **Mr. R. B. Singh** | Superintendent | Post Office Ballia | Uttar Pradesh |
| **Dr. Hawalkumar Singh** | Branch Manager | Allahabad Bank, Baiyara | Uttar Pradesh |
| **Mr. Sachin Sinha** | Agent | Courier Service | Uttar Pradesh |
| **Mr. Raju Singh** | | NABARD Kisan Club | v |
| **Mr. Surendra Singh** | Social Worker, Teacher | | Uttar Pradesh |
| **Mr. J. P. Singh** | Regional Manager | Central Bank | Uttar Pradesh |
| **Mr. Sahaj** | Village Level Entrepreneur, Batni | | Uttar Pradesh |
| **Mr. Dinesh Mishra** | | Varanasi | Uttar Pradesh |
| **Mr. Achaivar Yadav** | | Dehrakhurd | Uttar Pradesh |
| **Mr. Sidharth** | | Bahadurgunj | Uttar Pradesh |
| **Mr. Puru Seth** | Lead Bank Manager, Ghazipur | UBI | Uttar Pradesh |
| **Mr. Arvind Kumar Singh** | Lead Bank Manager, Ghazipur | UBI | Uttar Pradesh |
| **Mr. M. Chand** | Branch Manager | Kasi Gomti Samyukt Grameen Bank, Kashmabad | Uttar Pradesh |
| **Mr. Suarshan Yadav,** | RDO | Kasi Gomti Samyukt Grameen Bank, Kashmabad | Uttar Pradesh |
| **Mr. Srivastava** | DDM | NABARD | Uttar Pradesh |
| **Mr. J. P. Singh** | DGM | Dist. Co-operative Bank Ltd., Ghazipur | Uttar Pradesh |
| **Mr. Omkar yadav,** | Secretary | Dist. Co-operative Bank Ltd., Ghazipur | Uttar Pradesh |
| **Mr. Rajesh Mishra** | General Manager | Cashpor Micro Credit, Varanasi | Uttar Pradesh |

| | | | |
|---|---|---|---|
| **Mr. Neeraj Sinha** | | Cashpor Micro Credit, Ghazipur | Uttar Pradesh |
| **Mr. R. B. Tiwari** | | Cashpor Micro Credit, Deoria | Uttar Pradesh |
| **Mr. Anant narayan Singh** | | Cashpor Micro Credit, Ballia | Uttar Pradesh |
| **Mr. L. P. Rai** | DGM (RB-IT-P&)SC | SBI | Mumbai |
| **Mr. V. Ramkumar** | DGM | SBI | Mumbai |
| **Mr. Manisha Sinha** | Director (Fin. Service) | Department of Posts, Ministry of Communications & IT | New Delhi |
| **Mr. Dinesh Kumar Sharma** | Asstt. Director,Rural Business | Department of Posts, Ministry of Communications & IT | New Delhi |
| **Mr. S. Samant** | Member (Development) | Department of Posts, Ministry of Communications & IT | New Delhi |
| **Mr. A.S. Prasad** | Deputy Director General Financial Services | Department of Posts, Ministry of Communications & IT | New Delhi |
| **Mr. Abhinav Sinha** | VP - Business Develop. | Eko India Financial Services Pvt. Ltd. | New Delhi |
| **Mr. G Padmanabhan** | CGM | Department of Payment and Settlement Systems, RBI | Mumbai |
| **Mr. Arun Pasricha** | GM | Department of Payment and Settlement Systems, RBI | Mumbai |

| | | | |
|---|---|---|---|
| **Mr. P. Vasudevan** | DGM | Department of Payment and Settlement Systems, RBI | Mumbai |

# Annexe 3 – The Business Correspondent Model

The Business Correspondent (BC) model was implemented in January 2006[32] in order to reach clients beyond the branch network. The model forms part of India's financial inclusion strategy and aims at reaching out to each of the 600,000 villages of the country.

The Business Correspondent, inspired by the Brazilian experience and success, was first introduced in a 2005 RBI report as an outcome of the "Internal Group to Examine Issues Relating to Rural Credit and Microfinance", chaired by H.R. Khan. The report distinguishes between the Banking Facilitator and the Banking Correspondent Model. While the banking correspondent might act in financial functions on behalf of banks, the banking facilitator's responsibilities do not exceed facilitation support, but focus on non-financial tasks, e.g. promotion, marketing, monitoring, preliminary appraisal, data collection. The present study focuses on the Business Correspondent Model.

**Eligible entities and scope of activities**

Under this model the Reserve Bank of India (RBI) permits banks to engage NGOs/ MFIs set-up under the Societies/ Trust Act, societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, Section 25 companies, retired bank employees, ex-servicemen and retired government employees[33] and post offices as intermediaries in providing financial and banking services, thus functioning as business correspondents. Also primary agricultural credit societies (PACS), often the only outlet for financial services in the rural areas, qualify under the BC model (see MACS).

The BC executes the role of its corresponding bank and takes up tasks, financial functions ("cash in cash out") that are within the normal course of the bank's business. Every BC is attached to a bank branch, the base branch, which supervises and monitors the BC. The BC's location is key to the concept. It is always outside the banks premises, in rural areas, within a maximum distance of 30 km of the base branch.[34]

The responsibilities of a business correspondent vary according to the agreement a bank has with its BC, nevertheless they are restricted to the following[35]:

i. Identification of borrowers and fitment of activities;
ii. Collection and (preliminary) processing of loan applications and submission of applications to banks, including verification of primary information/data;

[32] RBI circular: RBI/2005-06/288. 25 January 2006
[33] RBI circular: RBI/2007-2008/295, 24 April 2008
[34] RBI circular: RBI2008-2009/455, 24 April 2009
[35] RBI circular: RBI/2005-06/288. 25 January 2006. Tasks i. – v. are activities that can be taken up by a business facilitator. The scope of activities of a business correspondent encompasses tasks i. – x.

iii. Creating awareness about savings and other products, and education and advice on managing money and debt counselling;
iv. Promotion, nurturing, monitoring and handholding self-help groups/ joint liability groups, credit groups, and others;
v. Post-sanctioning monitoring and follow-up for recovery;
vi. Disbursal of small value credit;
vii. Recovery of principal, collection of interest;
viii. Collection of small value deposits;
ix. Sale of micro insurance, mutual fund products, pension products, other third party products; and
x. Receipt and delivery of small value remittances, other payment instruments.

**Terms and conditions, rules and regulations**

In the implementation of the BC model banks may remunerate their BC, yet at their own expense. Hence, BCs are not allowed to pass on any arising costs to the clients on behalf of the bank. This should be mentioned in an agreement, a formal contractual relationship, between the BC and its corresponding bank. Additionally, the arrangements between bank and BC should specify[36]:

- Suitable limits on cash holding by intermediaries as also limits on individual customer payments and receipts;
- The requirements that the transactions are accounted for and reflected in the bank's books by end of the day or the next working day; and
- All agreements/contracts with the customer shall specify that the bank is responsible to the customer for acts of omission and commission of the BC.

Despite the additional cost for the bank in the inception stage of the BC, the concept is viable and self-sustaining, once a sound client base is reached. The BC model, like other outsourcing arrangements is exposed to risk which the bank wholly bears. The risk might include legal and reputational risk, operational risk or temporary financial exposure. The bank can, however, in its own responsibility, hedge this risk by taking insurance or which other means the bank finds appropriate and has at its availability. Guidelines for exposure monitoring, rating procedures for BCs and standards for due diligence are available for the participating institutions.[37]

[36] RBI circular: RBI/2005-06/288. 25 January 2006
[37] RBI 2005: H.R. Khan, Report of the Internal Group to Examine Issues Relating to Rural Credit and Microfinance, July 2005