FINANCIAL

BUSINESS MODEL LOCAL AGENT
BOP IMPACT CONSUMERS
CONNECTIVITY LOW TO HIGH SPEED

FINO PayTech Ltd.

A Payments Technology Company for the Unbanked and Under-banked in India

FINO PayTech Ltd. (FINO) is a business and banking technology platform created in 2006 in India. It deploys technologies such as biometric devices and transaction systems as well as a network of Business Correspondent called bandhus who provide financial services to remote customers on behalf of banks, insurance companies, and governments. As of January 2014, FINO had served more than 72 million persons at the BOP in rural and semi-urban regions across 26 states of India.

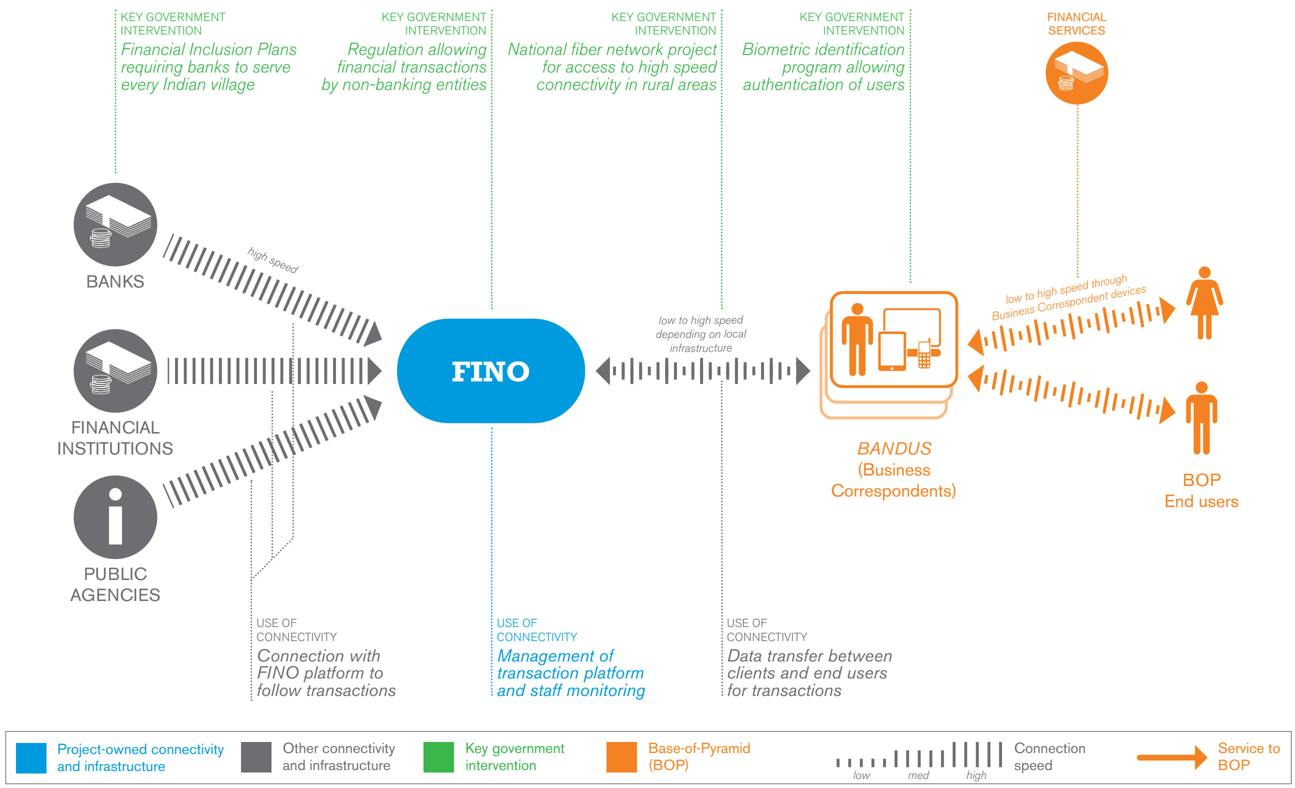
Role of Broadband and Data Connectivity

The use of second- and third-generation-enabled devices allows for collecting and transferring data on enrollments and financial transactions in real time between customers and the banking system. This results in higher efficiency for financial institutions and government agencies because it enables them to reach new customers and beneficiaries at lower costs. Consequently, it results in more financial inclusion for remote customers who can now access affordable financial services.

Key Success Factors

FINO's success lies in its ability to leverage technology and existing levels of connectivity (from general packet radio service [GRPS] to broadband) to address existing bottlenecks in the financial sector (e.g., high costs for branch banking, especially in remote areas), as well as its ability to take advantage of favorable regulations promoting financial inclusion (e.g., Financial Inclusion Plans (FIP-1 & FIP-2) launched by the Reserve Bank of India). FINO also managed to overcome traditional hurdles in BOP markets, such as the lack of formal financial education, by conducting financial literacy programs, and the lack of connectivity, by integrating an offline mode on its mobile devices.

System Diagram: FINO PayTech Ltd.



Implications for Policymakers

FINO's story is emblematic of how an active commitment from the government – through investments in broadband infrastructure, as well as incentives and constraining policies to serve the BOP – creates business opportunities and lowers costs, allowing a financial inclusion industry to emerge. In FINO's market, this push allowed various stakeholders including the government itself to reach more people and in particular remote customers, who are now better included in the formal economy.

Website

www.finopaytech.com

Description of Business Model

History of Organization

FINO PayTech Ltd. (FINO) is an institutional-investor-driven company with a strong board and management. It was established at the ICICI Bank in July 2006 to act as a technology provider to banks and microfinance institutions, promoting low-cost payment solutions in India. It is now a business and banking technology platform with an extensive services delivery channel. Through the FINO Fintech Foundation, a Section 25 company created in 2007, FINO is dedicated to improving financial inclusion and financial capability, especially for rural customers, through a network of over 30,000 active Business Correspondents acting as mandated banking intermediaries. FINO started taking over banks' front-end operations and doing the due diligence to bridge the access deficit by onboarding previously unbanked and under-banked masses and offering them four basic financial products: savings, credit, remittances, and insurance. FINO largely extended the range of services starting in 2009 when the Reserve Bank of India (RBI) launched a national Financial Inclusion Plan. As of January 2014 FINO's clients included 24 banks, 10 microfinance institutions, 14 government entities, and six insurance agencies. FINO has implemented financial literacy programs in collaboration with entities like Citi Foundation Financial Capability Fund, UNDP-NABARD (National Bank for Agriculture and Rural Development), MFO-Mastercard Foundation, World Bank-IFC, OECD Fund for Financial Literacy, Microfinance Opportunities, NABARD, and several Indian Banks. FINO received the Forbes India Leadership Award 2012, the 2011 Young Global Leader Award by the World Economic Forum, the Bloomberg-UTV CXO Award 2011, the FT/IFC Sustainable Banking Awards, the Banking at the Bottom of the Pyramid Award 2010, the Skoch Financial Inclusion Award 2011, the Manthan 2010 Award, the eIndia Health Award 2010, the INTEL Duet Award, the Frost & Sullivan South Asia Product Line Strategy Award, the Excellence in Innovation Award at the Indira International Innovation Summit, and the Edge Network honors. As of January 2014, FINO served 72 million customers in 26 states of India. Consulting services and technology solutions are provided in neighboring countries such as Nepal, Bangladesh, and Sri Lanka.

Value Propositions

FINO provides technology solutions to government entities and financial institutions such as banks, microfinance institutions, and insurance companies (hereafter "clients") to perform field operations and biometric authentication. Through the FINO Fintech Foundation, it also provides a service delivery channel through a network of field agents, known as Business Correspondents (also called bandhus), who act as intermediaries between clients and end-users (hereafter "customers").

Clients: Whereas FINO clients used to face high costs of customer acquisition and servicing, FINO provides them with systems that are flexible, customizable, scalable, and ready for deployment to reach the BOP at lower cost:

Hardware solutions: A full suite of biometric products for enrollment, storage, and verification – including hand-held devices, laptops and mobiles, biometric smart cards, backend switches, financial institution gateways, and micro deposit machines – enables various remote transactions, reducing the cost of customer acquisition and service distribution.

Operations systems: To collect and make the most of operational data, FINO offers field force monitoring and transaction processing systems.

Consultancy services: FINO PayTech Consultancy Services trains both private and public clients in technology architecture, strategy and planning, implementation, product design, regulation and policy frameworks, channel management, and capacity building.

In addition, clients can mandate FINO Business Correspondents to deliver their products to their most remote customers. Fees depend on the type of services provided, the number of customers served, and the number of Business Correspondents required. For example, partner banks pay 1.75 percent of the amount disbursed to FINO for government social benefit transfers such as MGNREGA wages[20] and social security payments. Similarly, FINO commercial terms vary depending on product type and client for products like remittances, insurance, credit, and basic savings bank deposit accounts.

20 MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act) is a job guarantee scheme that ensures 100 days of employment in every financial year to adult members of any rural household willing to do public work-related, unskilled manual work. MGNREGA payments are part of the Indian jobs program. Through FINO, participants in the program are able to receive their full payment electronically on their third day of work with no cost to them.

Customers: Most customers are unbanked. Much of the BOP population lives in rural and semi-urban regions, where financial services are typically limited, expensive, and time-consuming (long delays for service, long travel time to bank branches, etc.). Through field agents, FINO provides:

Financial transactions: Bill payments, remittances, saving accounts (opening, consultation, deposits, and withdrawals), and loans (for individuals as well as microfinance groups).

Electronic services: Mobile and television recharge, ticket booking, and sales of mobile SIM cards.

Insurance schemes: Life and disability insurance, "cashless" health insurance including the Rashtriya Swasthya Bima Yojana (RSBY), and a national health insurance welfare scheme offered to people living below the poverty line (US$0.8 insurance premium for up to US$498 hospital coverage).

Government scheme benefits: Disbursement of MGNREGA payments and social security pension payments

Customers are not charged for any service except for remittances, for which fees range between 1 and 2 percent per transaction (versus 3-6 percent through informal channels). By offering access to formal banking services, FINO enables customers to save costs as compared to informal alternatives. Customers usually start only by opening a deposit account, before upgrading to new services.

FINO has technology leadership on the market of Business Correspondents (direct-to-consumer banking model) with a rural market share of over 65-70 percent. Its competitors include Invest India Micro Pension Solution, Integra Micro Systems, Atom Technologies, A Little World, EKO, TATA Consultancy, and Vakrangee Softwares.

Technology Aspects

At the central level, FINO uses Accounting and Management Information Systems to facilitate and track transactions, and an Internet-based dashboard for monitoring real-time performance of Business Correspondents and analyzing clients. Its technology platform can support multiple front-end transaction points and is fully integrated with clients' back-end systems to allow interoperability.

At the Business Correspondent level, a mobile phone and a Bluetooth-enabled printer serve as handheld Point-of-Transaction (POT) terminals that allow correspondents fill out online applications, take and send photos, carry out transactions, pay bills, etc. POT terminals are GPRS-enabled to transfer the data collected over the Internet to the banking system and to FINO's central platform. They require a minimum connectivity of 256 Kbps (which is typically available in the field), but can use an offline mode to store the data collected if connectivity is too low on-site, before transferring data whenever a connection is available. Business Correspondents use a personalized smart card to authenticate themselves before using the device.

At the customer level, biometric smart cards allow consumer authentication (through customers' fingerprints and photo) and data registration (demographic and financial details), linked to the host bank's online system. Each card memory is able to support 10,000 transactions for 10 years; data remain stored in the servers of the bank and of FINO, and can be retrieved in case the card is lost. Whenever a transaction is completed, customers can get an SMS message on their mobile phone so that they can collect the money.

Data security management is done by a Centralized Processing Centre (ISO 27001 certified). All innovations are developed in-house. A team of FINO tech executives in each zone is responsible for tech maintenance and troubleshooting. The network of Business Correspondents and partners is trained in POT terminal use and maintenance, and customers are trained on how to use smart cards for transactions.

The use of technology enables clients to uniquely identify customers, record their transactions over time, and improve the efficiency of client servicing. More specifically, using Internet allows for connecting remote customers with financial institutions (for banking services), firms (for merchant and bill payments), and relatives (for remittances). It results in higher financial inclusion and higher trust for banks in serving remote clients. Upgrading to broadband allows for providing more real-time services (rather than waiting for accessing connectivity to transfer data)

Business Design

Operations and distribution: Services are provided through FINO's Business Correspondent network. FINO's Block Coordinators act as an immediate supervisory layer, and they are in turn monitored by District Coordinators and state- and central-level monitoring teams, themselves supervised by vertical heads and top management executives. Around 30,000 active Business Correspondents are deployed across 499 districts, with a density that allows for each to earn enough money (on average each correspondent caters to ~1,000 customers in two to three villages). Business Correspondents are local people who are formally educated and have a good reputation in their villages. They are selected, trained, and appointed by FINO. Each correspondent provides services for one specific bank that has the mandate from government to deploy its services in its district (though intra-operability enables customers to use their bank card and account in any district). Business Correspondents are in charge of identifying, enrolling, and servicing customers. They work out of a Customer Service Point, i.e., any FINO and partner bank co-branded convenient location (e.g., their home, a central village building, or a mom and pop store). Close to 60 percent of Business Correspondents are mobile and visit customers at their doorsteps; 40 percent are stationary and operate only out of their site, where people come to carry out transactions.

Staff recruiting and training: FINO recruits Business Correspondents from among local residents in nearby villages and areas. Correspondents include farmers or small shopkeepers, most of whom were previously unemployed or underemployed. It leverages local mass media to raise awareness about job vacancies. FINO selects applicants via a two-round process. First, applicants are rated on various criteria (familiarity with local geography, culture, and people, tenure of stay, technological and soft skills, etc.), and verified with local community stakeholders (e.g., village heads, school teachers, government officials, and police). Then, selected applicants follow an induction process composed of classroom and on-the-job exposure, conducted by a Channel Empowerment and Management Team. A new selection round is run, and approved candidates take three days of training in soft skills, customer service, basic banking, POT machine handling, technical troubleshooting, cash management, etc. A final examination serves to select the new correspondents who will be deployed in the field. The correspondents are then closely monitored via an SMS-based system and by the Block Coordinators, who visit each correspondent every other day, collect excess cash (over US$83), or deliver new cash (if withdrawals exceeded deposits). Thirty-nine percent of FINO agents are women.

Marketing and consumer education: FINO promotes its services through village and door-to-door visits, posters at bus stops, leaflets, and other visual advertisements. A team of 500 persons is in charge of customer acquisition, successively moving from one district to another according to mandates obtained from banks. FINO advertises its presence one to two days in advance, and can process up to 200 enrollments per day. During the enrollment process FINO takes pictures and issues smart cards for each customer. In parallel, the FINO Fintech Foundation conducts financial literacy programs to teach skills for good money management practices, with the support of audio-visual media, brochures, and comic books (sessions are also open to non-FINO customers in the area). Business Correspondents themselves are also trained in raising financial awareness and literacy among their customers, which results in more transactions and commissions. The choice of correspondents among trusted members of the community, including 39 percent who are women (perceived as more trustworthy than men), helps establish trust in FINO. To ensure trust in technology, transaction receipts are emitted instantaneously and local technicians are available in each district in case of technical issues. For e-banking services, a call center answers customers' queries.

Business model: FINO's main revenue sources are ongoing rental fees (for space on their back-end system and for POT terminals), annual maintenance fees for the terminals, new card issuance fees, enrollment charges, and sales of POT terminals. About two-thirds of revenues come from RSBY insurance and electronic benefit transfers (social security payments, MGNREGA, etc.) and one-third comes from basic saving bank deposit accounts, remittances, credit, non-RSBY, insurance, etc. Clients are charged on transaction- and disbursement-based models. FINO has foolproof and ultra-secure cash management processes in place. When a Business Correspondent records a payment, his or her device instantaneously generates a receipt with the amount of the transaction and sends it to the cash management monitoring team, which monitors field transactions and takes all necessary steps as per set processed.

Policies and regulations: FINO obtained official authorization to conduct financial transactions for nonbank entities, ratified by the government in January 2006 (Reserve Bank of India [RBI] guidelines that allow banks to use the services of a third-party to expand coverage), and obtained accreditation for financial literacy from NABARD in early 2011. It has received strong support for promoting financial inclusion from government agencies and public sector banks. In addition, new policies and regulations are significantly impacting FINO's business. A recently released RBI report on comprehensive financial services for small businesses and low-income households holds great promise for FINO as it aspires to become a payments bank in the future.

Banking deployment: In 2010, RBI launched the Financial Inclusion Plan (FIP) that mandates banks to provide banking services (opening branches or deploying Business Correspondents) in each village of India by 2015. The first stage of the plan (FIP1) resulted in the deployment of banking outlets in 268,000 new villages, among which 221,000 are served by Business Correspondents. The next phase of the plan (FIP2) will focus on 74,000 villages with less than 2,000 people. As these villages will be mostly covered by Business Correspondents, this plan is a significant opportunity for FINO, which is the leader in this market. According to RBI's report on comprehensive financial services for small businesses and low-income households, every citizen above the age of 18 should have access to a Universal Electronic Bank Account with a banking retail outlet at a distance of a maximum 15 minute walk from home by January 1, 2016.

Biometric authentication: In 2013, the Unique Identification Authority of India launched a new system of online authentication, having thus far registered 400 million citizens with demographic and biometric data. Consequently, FINO has developed the expertise to link bank accounts to Unique Identification Authority of India numbers.

ATM penetration: Nonbanking entities can now operate white-label ATMs, which will increase ATM penetration in the country (112 ATMs for 1 million people versus 1.734 in the United States).[21]

Broadband infrastructure: The Indian government has announced its intention to bring the Internet to 600 million citizens by 2020.[22] In 2013, the government launched the National Optical Fiber Network (NOFN) Project, which aims to connect over 200,000 gram panchayats[23] with optical fiber by 2016 (at least three Internet connections and one Wi-Fi hotspot in each gram panchayat). Service providers are given nondiscriminatory access to the fiber network. The cost of the NOFN project is estimated at US$4 billion. With broader access to broadband, more FINO services will become accessible in real time.

Other ecosystem aspects: As connectivity is improving, people are increasingly able and willing to use digital money for all types of payments (including directly at retail outlets), which will drive FINO business strategy.

---

21 World Bank Databank, Automated Teller Machines (ATMs) (per 100,000 adults). http://data.worldbank.org/indicator/FB.ATM.TOTL.P5.

22 Nachiket Mhatre, "The State of Internet Connectivity in India" Tech 2, March 23, 2013. http://tech.firstpost.com/news-analysis/the-state-of-internet-connectivity-in-india-82006.html.

23 The smallest Indian administrative division, typically three villages of 200-500 households each.

Evaluation Framework

Is the project solving the problem?

Problem Magnitude

There are 500 million unbanked people in India (40 percent of the population, 60 percent in rural areas), and some 400 million internal migrants, among whom 70 percent use informal channels for remittances at high cost. Financial institutions face barriers to serve them: illiteracy, inadequate infrastructure, and low margins due to small transaction size. In addition, there is often an issue of mistrust on both sides.

Solution Provided

Tool quality: Widely available through a far-reaching network of Business Correspondents, secure and flexible systems, and robust POT devices that can be used in all conditions and easily transported.

Service quality and comprehensiveness: Full range of services for financial identification, insurance, credit, deposits and investments, savings accounts, remittances and government benefits.

Scale and Reach

Total number of service delivery points: 30,000 active Business Correspondents in over 50,000 villages across 499 districts of 26 states.

Total number of users: 72 million customers (including 26 million enrolled in RSBY health insurance and 45 million with bank accounts, among which 22 million receive electronic benefit transfers from government schemes, 2.5 million receive remittances, and 1 million have a loan); ~50,000 enrollments per day, 1.5 million per month; a target of 100 million users by 2015.

Total number of transactions: 4.5 million transactions per month, over 5,000 remittance transactions per day.

Rate of penetration in target communities: Depends on mandate of enrollment in each state.

Growth rate: Compound annual growth rate of 56 percent between 2006 and 2012; 1.5 to 2 million new customers per month.

Acceptance and Usage

Acceptability: Good fit with people's habits and preferences – Business Correspondents work in local languages and with customers nearby, minimizing customer travel time.

Usability: High usability, overcoming literacy barriers through intermediary agent; 30 to 40 percent of opened accounts are active in a particular year.

Scale and BOP Reach

FINO has served 72 million people in rural and semi-urban regions across 26 states of India. Most customers are from the BOP and were previously unbanked.

Sustainability

FINO has a profitable business model that generated $55 million in revenues in 2012-2013, attracting many investors including the IFC, PE Funds, and public and private sector banks. At the Business Correspondent level, net income is typically low and drives correspondents to work part-time to get additional sources of revenues. Financial services are affordable for the BOP, on average 10 times cheaper than traditional banking services.

Replicability

Replication requires strong government incentives for financial inclusion to push financial institutions to serve remote areas, a national authentication system to secure transactions, and a sufficient network infrastructure to operate data transactions at local level.

Socio-economic Impact

Economic impact: Access to new or cheaper financial services for 72 million people; ~33,000 people employed; income generation (particularly for women, who account for 39 percent of Business Correspondents); lower transaction costs for clients; and opportunities for microfinance institutions to attract more capital and increase credit offering.

Social outcomes: Access to health, life, and disability insurance.

Gains in efficiency due to technology: Higher efficiency and productivity for clients thanks to real-time transactions, cheaper customer enrollment, and improved transparency.

Economically sustainable?

FINO has a profitable business model that generated US$55 million in revenues in 2012-2013, attracting many investors including IFC, PE Funds, and public and private sector banks. At the Business Correspondent level, net income is typically low, which drives correspondents to work part-time to get additional source of revenues. Financial services are affordable for the BOP, on average 10 times cheaper than traditional banking services.

At the BOP customer level:

Initial cost: No registration cost to end-customers (borne by clients).

Direct cost of services: Free deposits, withdrawals, and electronic benefit transfer services. Other service (remittances, insurance, etc.) fees variable between banks (e.g., US$0.08-$0.1 per transaction cost on average).

Additional indirect cost: No transport costs thanks to POT devices.

Average household income for target beneficiaries: 68.8 percent of the Indian population living on less than US$300 per household per month.[24]

Cost of best alternatives: Traditional banking services are on average 10 times as expensive as FINO services. For instance, informal remittance fees range from 3 to 6 percent (versus 1 to 2 percent through FINO), and transaction costs in the banking system are US$0.8 to US$1 (versus US$0.08 to US$0.1 through FINO).

Ability to reach the poorest: Most customers are living below the poverty line and were previously unbanked; 90 percent of them live in rural areas.

At the Business Correspondent level:

Wage structure: Guaranteed fixed salary depending on location and bank mandate, plus variable commissions (on account opening, transaction completed, insurance product sold, etc.), motivating Business Correspondents to recruit and educate users on FINO technology.

Monthly salary: Highly dependent on local wage structure, hours of work, and sales performance. Most Business Correspondents work part-time, earning US$30-$70 per month on average.

Initial cost: US$150-$250 to join FINO, for inventory (POT), and mitigating cash risk.

Loyalty/churn: General attrition rate is 20-22 percent. Main reasons for leaving are low direct income, migration of husbands to urban areas, and pregnancy among women Business Correspondents (39 percent of correspondents are women).

At the client level:

Direct cost of services: Depends on type of product and the number of customers and Business Correspondents required (e.g., US$0.20-$0.40 per new opening plus US$17-$33 per month per agent deployed). For electronic benefit transfers, 1.75 percent transaction fee.

Avoided costs: Traditional high banking costs (paperwork, transportation costs, branch costs, etc.).

Additional sales from this service: New clients, previously unreachable.

At the central organization (FINO) level:

Total number of people employed at the central level: 3,000 direct employees, 30,000 agents (part- or full-time).

2012/2013 revenues: US$55 million in 2012-13.

Cost-recovery level: Broke even in 2011:Q1, cash positive since Q4 2009.

Initial funding: Initially established at the ICICI bank (US$1.7 million in September 2006), then raised money from ICICI Lombard (US$83,000 in 2007), IFC, Legatum and Intel Capital (US$15 million in June 2007), HSBC Private Equity (US$15 million in 2009), and Blackstone (US$30 million in 2011).

Ongoing funding: Investors include public sector banks (Corporation Bank, Indian Bank, Life Insurance Company of India, and Union Bank), private sector banks (HSBC, ICICI Group – the first historical investor, as ICICI bank ran the project until April 2006), international agencies (IFC), and other private investors (Intel, Blackstone, Headland Capital Partners, IFMR Trust, affiliated with ICICI). No current operating subsidy for core business. Technical assistance from the World Bank IFC, UNDP-NABARD, and Microfinance Opportunities to develop financial literacy programs.

Cost of technology: US$2-$4 per smart card, US$300-$400 per secure smart card terminal (manufactured by Ingenico).

Scalable?

What have been the key challenges and success factors to date for the project?

Proof of identity as a requirement for access to finance: Know-your-customer regulations in India required documentary proof of identification and proof of residence for clients to access formal financial services. This excluded the large majority of the Indian population, and FINO successfully worked with banking partners in India to open up the system. Relaxed know-your-customer norms for basic saving bank deposit accounts were introduced to successfully onboard previously excluded populations into banking.

Illiteracy: Illiteracy prevented people from having the ability to authenticate themselves formally (e.g., sign their name), which is key for financial transactions. FINO used biometric technology to overcome this, with fingerprint authentication.

Electricity supply: The lack of power in rural areas to use these technologies was overcome with a device that can run on multiple batteries.

24 World Bank, Poverty Headcount Ratio at $2 per day, 2010. http://data.worldbank.org/indicator/SI.POV.2DAY.

Internet infrastructure: The poor Internet network during the initial period of the program led FINO to design an offline architecture allowing each device to stock information for 48-72 hours before sending transaction data to the system back-end.

Customers' lack of financial literacy: To reach customers who do not understand the financial goals and interest of bank accounts and financial products, FINO needed to convey the advantages of banking services to customers, promote opening and using accounts, and enable end-customers to make informed financial choices. FINO did it both via formal financial inclusion programs (co-funded by entities like NABARD, IFC, Citi, MFO, etc.) that reached 300,000 people, or more simply via trainer programs, workshops, street plays, interactive games, phone-based financial literacy helplines, incentives to Business Correspondents, financial literacy leaflets, flip books, calendars, etc.

Cash management risks between urban and rural areas: To avoid having agents carrying too much cash at any point in time, FINPO developed an extensive monitoring system leveraging technology and strict processes.

What are key challenges today to scale further?

Motivating banks to see financial inclusion as a business opportunity and not just as a compliance obligation (as the government has set up quotas for financial institutions to serve unserved clients). In 2006, the goal of FINO was simply to open bank accounts, and out of the 70-80 million basic savings bank deposit accounts opened through the Business Correspondent channel, more than 45 million were open by FINO alone. At present these account openings are driven by compliance motives; banks see it as a cost that they have to carry, instead of as a business model. They need to change their mindset to offer customers a better value proposition that would be both more useful to customers and more profitable for them.

Coherent policy: Many different government agencies are involved in financial inclusion: the Ministry of Finance, the RBI, state governments, the Unique Identification Authority of India, etc. They sometimes send conflicting guidelines – at one point there was a cluster-based approach of financial inclusion promoted on the basis of reverse bidding, a type of local monopoly in various clusters with an aim to address the question of sustainability and profitability of service providers and banks. Various entities participated in the process but it never really took off. A clearer and sustainable policy direction would help to scale financial inclusion further.

Getting Business Correspondents to be sustainable sufficiently fast: Business Correspondents have a long gestation period (3-4 years), it takes them a long time to become self-sustainable selling bank services only, as they need to build a client base, so quite often they do more than one job at once. It also takes time for them to understand and be able to promote the various financial products FINO offers.

Replicable at scale?

What are external prerequisites for the project to be replicated in a new country?

The regulatory framework needs to be spelled out very clearly and well synchronized between the various ministries and entities playing a role in establishing this framework. A stable environment is a prerequisite for banks to see an opportunity in serving this market.

Availability of locally appropriate technology that answers local challenges is key (technology is now one of FINO's best assets).

Availability of quality manpower (particularly at Business Correspondent level) with sufficient financial literacy can make or break the model, as it is the correspondents who must convince customers to use financial services for the first time in their lives.

Additional Information

Exchange rate used for this case study:

1 USD = 60 INR

Sources:

FINO website: http://www.finopaytech.com/.

Interviews with Ashish Kumar (AVP - Business Management and Growth), Jatinder Handoo (Senior Manager of Strategic Alliances), and Ashish Ahuja (VP and Head of Operations) on 05/12/14, 19/12/14 and 21/01/14.

FINO internal documents: Corporate Factsheet, Corporate Presentation (October 2013).

Leveraging Information and Communication Technology for the Base of the Pyramid, Hystra, 2011, available at http://hystra.com/leveraging-ict.

Building Viable Agent Networks in India, CGAP, April 2010, available at http://tinyurl.com/n88sgz5.

Changing Lives for Profitability, CFO Connect, October 2013, available at http://tinyurl.com/o48xyjz.

Doorstep Banking: Grooming Last-mile Bankers in India, IFC, SmartLessons, May 2012, http://tinyurl.com/lnex8v9.

FINO May Change Remittance Business in India's Hinterland, Livemint, October 2013, available at http://tinyurl.com/lwjgs5h.

FINO, IFC, Inclusive Business Models, August 2012, available at http://tinyurl.com/kxkmnvm.

FINO's Electronic Benefit Transfer System for Tendu Leaf Collectors, MicroSave, 2010, http://tinyurl.com/m7k7297.

FINO Pay Tech LTD: Branchless Banking for the Rural Poor, Case Study by Ivey and ISB, 2008.

Impact Evaluation of the FINO Financial Education Program, Financial Literacy and Education Trust Fund, October 2011, available at http://www.finlitedu.org/evaluation/wb/pilots/india/fino/.

Masters of Rural Markets: Profitably Selling to India's Rural Customers, Accenture, 2013, available at http://tinyurl.com/pg5zz4k.

Taking Banks to India's Poor, India Forbes, October 2012, available at http://forbesindia.com/printcontent/33857.

The Bank Account Is Not Enough: Examining Strategies for Financial Inclusion in India, Microsoft Research, 2011, available at http://tinyurl.com/nuho6v7.

Contact person for the project:

Jatinder Handoo, *Senior Manager of Strategic Alliances*
jatinder.handoo@finopaytech.com

Ashish Ahuja

Vice President, FINO PayTech Ltd.

Ashish Ahuja is the Vice President (Customer Service Delivery Group-CSDG) at FINO PayTech Limited. As the head of CSDG, he is responsible for executing projects right from customer acquisition, servicing, and ensuring effective functioning of entire ground-level operations to deliver on mandates accorded by banks, governments, and insurance companies. An ex-armed forces officer, Ashish has over 22 years of experience in various domains ranging from the military to banking, technology, channel set-up, management, and sales in core rural areas.

What are your next steps and future plans?

We will continue pushing our business strategy, further serving the unserved and underserved consumers. We are leaders in the financial inclusion segment with around 65-70 percent market share, and we would like to keep expanding our footprint by offering quality delivery. Our domestic remittance and insurance business is growing, we aim for the first place in that segment too. We would look at all aspects of the policy on payment banks and take a decision with respect to the same at the appropriate time. – i.e., a bank that can offer payments and deposit services. We are also exploring various new businesses in payments space, such as white label ATMs, to expand our rural footprint. Our ambition is to become the preferred choice of customers by fulfilling their needs all the way down to the grassroots level.

What recommendations would you give to an entrepreneur willing to replicate your model in Latin America?

First, a sound business model must be put in place from the start. Pushing a subsidized model is never sustainable. Companies most likely to succeed will specialize in financial inclusion hence have real skin in the game to make this work (as opposed to other entities for whom this will only be a business diversification). They should also integrate all the services financial inclusion requires (technology, support to banks, and service delivery on the front end) to have complete ownership of the business model (rather than doing only the technology provision bit, for example).

You should also convey to your clients (banks and government agencies) that this is a business, and make sure that these clients get involved for business reasons (i.e., providing these additional services will enhance their customers' stickiness and loyalty) and not just as a compulsory compliance mechanism. You should look for a value proposition that brings value both to you and your clients.

It is also key to build a value proposition that is a win-win for the Business Correspondents. As long as your Business Correspondents are happy and stay with you, they will make your end-customers happy.

Another key is to invest in technology from day 1 and let it be an answer to all processes you want to implement, rather than man-supported processes. Mobiles have come a very long way today and can help in that sense.

Finally, you must build a responsible business, accountable to last-mile customers to generate trust between them, you, and the government agency or bank you work for. Then your customers will be loyal and stay with you, and your business will thrive.

What recommendations would you give to a Latin American policymaker who wants to encourage replication of your model?

Policymakers should start with deciding which key challenge they want to overcome (in our case: the lack of financial inclusion), then analyze which current barriers explain this challenge (in our case, the know-your-customer regulation to open a bank account, requiring documents that the majority of the population did not possess), and then decide on the policy that can overcome the challenge. In India, changing the know-your-customer guidelines allowed for enrolling the 70-80 million accounts opened through the Business Correspondent channel.

More generally, for a model such as ours to work, they should make sure that a network is in place, which can be utilized for data transaction at the local level. If the policy framework and connectivity networks are in place, then private players should be able to build robust technology solutions through which the entire financial inclusion process is facilitated. Policymakers should leave this part to the market; it is important to let competition help create the best local solution.

Finally, if there are government benefits that can reach end-beneficiaries through this system, they should go through this channel to strengthen existing players while allowing customers to choose from which player he wants to receive his benefits and gain access to other financial services.

What support would you request from a public or private donor?

Any model built on grants won't work; however, grants are very crucial to fund innovations.

Hence donors should help build innovations: networks that all players can use to make available a robust transaction platform, which once built will last a lifetime. They can also help with financial literacy, supporting programs educating people on the benefits of the model that is being created. This will help all players in the field equally, and promote financial inclusion at large, without infringing on the sustainability of business models like ours.