BUILDING SUSTAINABLE BUSINESS MODELS FOR PROVIDING FINANCIAL SERVICES TO THE POOR

Study of Cashpor’s Business Correspondent Model
As part of its Microsavings Initiative, Grameen Foundation has been engaged in a four-year project to assist Cashpor in its transformation from a credit-only MFI into a Business Correspondent (BC) model.

In July 2011, Grameen Foundation worked with Cashpor to create a three-way partnership between Cashpor, ICICI Bank and Eko India Financial Services Private Limited (Eko), the technology provider, to offer savings accounts to Cashpor’s customers.

Cashpor utilizes its existing credit infrastructure to offer savings services. It uses a mobile based technology and its loan officers also function as Customer Service Points (CSPs) providing saving services to credit customers in eight districts in North India.

**Business Correspondent Model (BC)**

The BC Model promotes branchless banking and financial inclusion. The legal relationship of BC-Bank is that of an Agent and Principal by legally enforceable contract.
CASE STUDY STRUCTURE
OVERVIEW

1. BC Financial Viability
2. Cashpor Business Model
3. Cashpor Revenue & Cost
4. Conclusion
Grameen Foundation was looking to support enabling savings in a sustainable manner for the poor, and Cashpor wanted to deliver savings to its customers. They partnered as they saw potential in the BC model.

This case study analyzes the Cashpor BC model and describes the infrastructure used to deliver BC services. It studies the financial viability and the process of the BC model. This case study analyzes the financial model in terms of marginal costs incurred and revenue earned.

The case study also looks at the strengths and weaknesses of Cashpor’s business model and proposes some general principles that BCs could adopt in order to attain financial viability.

Insights from the Cashpor project show that leveraging existing infrastructure keeps the fixed costs low and also proves beneficial in acquiring customers for the savings operations.

**BCs** operate in urban and rural areas where banks do not have branches. **Technology** plays a critical role by bringing the service closer to the client.
Even though BCs have been entrusted with the task of making financial inclusion a reality, the financial viability of the model is a concern as various BCs struggle to break even.

Half of the BCs in India could not cover their costs and the other half has just started earning nominal profits.*

**HIGH COST + LOW MARGIN**

= **LACK OF FINANCIAL STABILITY**

*found by Microsave

BC is an expensive and labor intensive model with high fixed and recurring costs such as:

- **Technology**
- **Infrastructure**
- **Agent Commission**
- **Staff Salaries**
Providing savings services to Cashpor existing loan customers = good **business sense** & ensured **customer stickiness**

Cashpor cannot directly mobilize deposits

*60% have access to mobile phones*

Using existing **infrastructure** for credit

**Cashpor earns revenue through commission paid by ICICI Bank**

**Cashpor shares a portion of this with CSPs for incentives**

Grameen Foundation worked with Cashpor to create a 3 way partnership and supports in:

- **Project Management / Change Leadership**
- **Market Research & Product Design**
- **Marketing & Financial Literacy**
- **IT**
**CASHPOR REVENUES & COSTS**

**REVENUES**

- **Commission on account enrollment**: Paid by bank for each new account opened
- **Income from transaction**: paid by bank for each withdrawal or deposit
- **Income from float**: Paid by bank on basic of savings account with balances maintained

**COSTS**

- **Staff incentives**: Provide to CSPs for each new accounts and transactions
- **Salaries**: managing the account opening process
- **Capacity building**: Staff training, exposure visits, change & leadership training; and training of trainers (TOTs)
CASHPOR STRENGTHS & WEAKNESSES

1. **Customer Centric**
   Utilize existing channel. Bring service to last mile in the customer’s local village.

2. **Trusted Intermediary**
   Establish reputation and business interest in operations. Leverage existing relationship and build confidence and trust.

3. **Cut Cost**
   Use existing MFI infrastructure and leveraging existing staff from other operations to keep fixed and operating costs low. This helps to incur only marginal costs.

4. **Technology**
   Streamline back-end and front end technology. Build a sound risk manage system.

5. **User Charges**
   Account opening and transaction charges act as big deterrents for customers to frequently use their account.

6. **Marginal Costs**
   Marginal costs exceed income even when superimposed on an existing infrastructure for the first few years.
**RECOMMENDATIONS**

**Business Correspondent (BC) Model**

1. **Leverage existing structure**
   - Keep fixed cost low & acquire customers
   - Do not create parallel BC structure

2. **Improve customer experience**
   - Help reduce dormancy
   - Make transaction the main income source

3. **Implement select measures such as**
   - Customer awareness
   - Automation of account opening forms
   - Staff capacity building

4. **Partners & Stakeholders**
   - Select partners with similar interests
   - Seek support from stakeholders such as banks & policy makers

---

**Sustainable business model to provide financial services to the poor**
For a complete look at the full case study and its findings, visit
www.grameenfoundation.org/resources/publications