

**REPORT OF THE
WORKING GROUP TO REVIEW THE
BUSINESS CORRESPONDENT MODEL**



RESERVE BANK OF INDIA

AUGUST 2009

LETTER OF TRANSMITTAL



Chairman

Working Group to Review the
Business Correspondent Model
Reserve Bank of India
Central Office
Mumbai

August 18, 2009

Smt. Usha Thorat
Deputy Governor
Reserve Bank of India
Mumbai

Madam,

I have great pleasure in submitting the Report of the Working Group to Review the Business Correspondent Model. The report, inter alia, examines the ways for improving the BC model and suggests additional entities that could be considered as BCs.

On behalf of the members of the Committee, colleagues and on my own behalf, I convey my sincere thanks for entrusting us with this task of considerable relevance.

With regards,

Yours sincerely,

Sd/-

(P.Vijaya Bhaskar)



Report of the Working Group to
Review the Business Correspondent Model

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SECTION I

INTRODUCTION

1.1 Financial inclusion (FI) by way of access to formal financial system is of critical importance for economic upliftment of the common man. Despite rapid expansion of the banking network over the last four decades, there is a vast majority of people, in our country, which do not have access to basic banking services resulting in financial exclusion. One common measure of FI is the percentage of adult population having bank accounts. Going by the available data on the number of savings accounts and assuming even that one person has only one account, on an all-India basis, only 59 per cent of adult population in the country has bank accounts. In other words 41 per cent of the population is unbanked. According to NSSO data in the situation assessment survey on "Indebtedness of Farmer households" (2003), 45.9 million farmer households in the country (51.4%), out of a total of 89.3 million households do not access credit, either from institutional or non-institutional sources. Further, only 27% of total farm households are indebted to formal sources.

1.2 Reserve Bank has taken several policy initiatives to address this situation to facilitate access for the common man to the banking system. In the Annual Policy Statement of the Reserve Bank for the year 2005-06, it was stated that the Reserve Bank will implement policies to encourage banks, which provide extensive services while disincentivising those, which are not responsive to the banking needs of the community, including the underprivileged. In the broader perspective, Reserve Bank aims at 'connecting' people with the banking system. This will provide them access to savings, credit, payments and remittance services, foreign exchange services, etc.

1.3 With the objective of ensuring greater financial inclusion and increasing outreach of the banking sector, Reserve Bank, in January 2006 permitted banks to use intermediaries as Business Facilitators (BF) or Business Correspondents (BC) for providing financial and banking services. The BCs were allowed to conduct banking business as agents of the banks at places other than the bank premises. The categories of entities that could act as BCs were also specified. In recent times, there have been demands from various sectors that the eligible entities to act as

BCs be enlarged, with a view to facilitating increased outreach for the banking system.

Constitution of the Working Group

1.4 In the Annual Policy Statement of the Reserve Bank for the year 2009-10, it was proposed "to constitute a Working Group to examine the experience to date of the business correspondent (BC) model and suggest measures, to enlarge the category of persons that can act as BCs, keeping in view the regulatory and supervisory framework and consumer protection issues". Accordingly, a Working Group was constituted under the chairmanship of Shri P. Vijaya Bhaskar, Chief General Manager in-Charge, Department of Banking Operations and Development, Reserve Bank of India with the following members:

- i. Smt Soundara Kumar, Managing Director, State Bank of Indore
- ii. Shri Gobinda Banerjee, General Manager, Punjab National Bank
- iii. Shri Govind Singh, Business Head, Microbanking, ICICI Bank Ltd.
- iv. Shri Sandip Ghose, Principal, College of Agricultural Banking, Pune
- v. Dr J. Sadakkadulla, Regional Director, RBI, Chandigarh
- vi. Shri Kaza Sudhakar, Regional Director, RBI, Bhubaneswar
- vii. Shri B.P.Vijayendra, Chief General Manager, RPCD, RBI- Member Secretary

Terms of Reference

1.5 The Terms of Reference assigned to the Working Group were:

- (i) To review the experience so far of the business correspondent (BC) model.
- (ii) To suggest measures to enlarge the category of persons that can act as BCs, keeping in view the regulatory and supervisory framework and consumer protection issues with special focus on the North Eastern Region.
- (iii) To examine any other matter relevant to the above.

Approach of the Working Group

1.6 The Working Group adopted a consultative approach, held wide-ranging discussions with various stakeholders and also elicited field level feedback through the Regional Offices of Reserve Bank.

The Working Group has benefited greatly from the guidance provided by Smt. Usha Thorat and Dr.K.C.Chakrabarty, Deputy Governors, who shared their insights and perspectives during the meetings of the Group.

The Working Group has interacted with technical service providers and Associations of Micro Finance Institutions and also examined the various suggestions received from banks and other entities with regard to expanding the category of BCs.

Structure of the Report

1.7 The Report has six Sections. While Section II gives a background of the BC model and enumerates the extant regulatory framework and permitted entities, Section III highlights the experience gained so far and inferences drawn therefrom. Section IV examines suggestions for enlarging the entities that can act as BCs. In Section V, a road map for the future is drawn up. The final Section gives a summary of the recommendations.

Acknowledgements

1.8 The Committee wishes to place on record its gratitude to Smt. Usha Thorat Deputy Governor, Reserve Bank of India, for her constant encouragement, support and guidance. It is also indebted to Dr. K.C.Chakrabarty, Deputy Governor, for his insightful observations and for enlarging the Committee's perspectives.

The Committee acknowledges the inputs received from the various stake holders consulted during the course of deliberations, in particular, Ms. Achla Savyasachi (Sa-Dhan), Shri Kalyanasundaram (INAFI), Shri Rishi Gupta and Tarun Agarwal (FINO), Ms. Sarika Bondre (A Little World Ltd.) and Shri Arijit Dutta (India Grameen Services). The Committee is grateful to Smt. Sewali Choudhury, then Regional Director, Reserve Bank of India, Guwahati and Shri S.Viswanathan, MD&CEO, SBICAPS (earlier CGM, SBI LHO Guwahati) for sharing with the Committee the ground level situation in the North Eastern Region as also for their valuable suggestions.

The Committee acknowledges the dedicated efforts put in by members of the Secretariat, comprising Shri T.B.Satyanarayan, General Manager, Department of Banking Operations and Development, Shri Navin Bhatia, Deputy General Manager, Shri R.Sudeep Assistant General Manager and Shri D.G. Nalawade, Assistant Manager of the Rural Planning and Credit Department, Reserve Bank of India, Central Office, Mumbai in bringing out this report.

SECTION II

BACKGROUND, EXTANT REGULATORY FRAMEWORK AND PERMITTED ENTITIES

2.1 The Hon'ble Finance Minister in the Union Budget 2005-06, announced as under:

Government intends to continue with its effort to turn the focus of commercial banks, regional rural banks (RRBs) and cooperative banks towards providing credit, especially production credit, to rural households and farm households. Particularly in agricultural credit, innovations are possible. I propose to request the Reserve Bank of India (RBI) to examine the issue of allowing banks to adopt the "agency model", by using the infrastructure of civil society organisations, rural kiosks and village knowledge centres, to provide credit support to rural and farm sectors (Paragraph 48)

At present, micro finance institutions (MFIs) obtain finance from banks according to guidelines issued by RBI. MFIs seek to provide small scale credit and other financial services to low income households and small informal businesses. Government intends to promote MFIs in a big way. The way forward, I believe, is to identify MFIs, classify and rate such institutions, and empower them to intermediate between the lending banks and the beneficiaries. Commercial banks may appoint MFIs as "banking correspondents" to provide transaction services on their behalf. (Paragraph 53)

2.2 Following the above announcements, the RBI constituted an Internal Group to Examine Issues Relating to Rural Credit and Microfinance with Shri H. R. Khan, then Chief General Manager and Principal, College of Agricultural Banking (CAB), RBI, Pune as the Chairman. To deepen and widen the financial services provided by banks particularly to the under-serviced areas and the rural poor, the Group suggested two Models, viz. the Business Facilitator Model and the Business Correspondent Model for providing non-financial support services and financial services as "pass through" agents respectively by leveraging MFIs/NGOs, Civil Society Organisations and other external entities. The Group also made recommendations relating to promotion, development and rating of MFIs and other outreach entities and mechanisms including widespread use of Information and Communication Technology (ICT) for expansion of banking outreach in a convenient, secured and cost effective manner.

2.3 Based on the recommendations of the above Internal Group, the Reserve Bank vide its circular DBOD.No.BL.BC.58/22.01.001/2005-06 dated January 25, 2006 permitted banks to utilise the services of non-governmental organizations (NGOs), micro-finance institutions (other than Non-Banking Financial Companies) and other civil society organisations as intermediaries in providing financial and banking services through the use of Business Facilitator (BF) and Business Correspondent (BC) models.

2.4 The BFs were allowed to undertake facilitation services like identification of borrowers and fitment of activities; collection and preliminary processing of loan applications including verification of primary information/data; creating awareness about savings and other products and education and advice on managing money and debt counselling; processing and submission of applications to banks; promoting and nurturing Self Help Groups/ Joint Liability Groups; post-sanction monitoring; monitoring and handholding of Self Help Groups/ Joint Liability Groups/ Credit Groups/ others; and follow-up for recovery.

2.5 Under the BF model, banks were permitted to use intermediaries such as, NGOs/ Farmers' Clubs, cooperatives, community based organisations, IT enabled rural outlets of corporate entities, Post Offices, insurance agents, well functioning Panchayats, Village Knowledge Centres, Agri Clinics/ Agri Business Centers, Krishi Vigyan Kendras and KVIC/ KVIB units, depending on the comfort level of the bank, for providing facilitation services. As these services were not intended to involve the conduct of banking business by BFs, no approval was required by banks from Reserve Bank for using the above intermediaries for facilitation of the services.

2.6 As regards the BCs, in addition to activities listed under the BF model, the scope of activities that could be undertaken included (i) disbursement of small value credit, (ii) recovery of principal / collection of interest (iii) collection of small value deposits (iv) sale of micro insurance/ mutual fund products/ pension products/ other third party products and (v) receipt and delivery of small value remittances/ other payment instruments. The activities to be undertaken by the BCs were to be within the normal course of the bank's banking business, but conducted through the permitted entities at places other than the bank premises.

2.7 As per the extant guidelines, the following entities can act as BCs of banks:

- (i) NGOs/ MFIs set up under Societies/ Trust Acts;

- (ii) Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States;
- (iii) Section 25 companies that are stand alone entities or in which NBFCs, banks, telecom companies and other corporate entities or their holding companies do not have equity holdings in excess of 10%;
- (iv) Post Offices; and
- (v) Retired bank employees, ex-servicemen and retired government employees.

While appointing individuals as BCs, banks have to ensure that these individuals are permanent residents of the area in which they propose to operate as BCs and also institute additional safeguards as appropriate to minimize agency risk.

Payment of commission/ fees for engagement of BFs/BCs

2.8 Banks were permitted to pay reasonable commission/ fee to the BFs and BCs and were advised that the rate and quantum of the same may be reviewed periodically. It was also stipulated that the agreement with the BF/ BC should specifically prohibit them from charging any fee to the customers directly for services rendered by them on behalf of the bank.

Capacity building of BCs

2.9 In order to strengthen the capacity building of BCs/BFs, the Indian Institute of Banking and Finance (IIBF) is offering a certification course and NABARD vide circular dated July 24, 2009 has advised the banks that support in the form of meeting a part of the costs will be provided from the Financial Inclusion Fund to the successful candidates, subject to certain conditions.

Risk mitigation

2.10 Banks were advised that as the engagement of intermediaries as BFs/ BCs involves significant reputational, legal and operational risks, due consideration should be given by banks to these risks. They should also endeavour to adopt technology-based solutions for managing the risk, besides increasing the outreach in a cost effective manner. It was stipulated that the arrangements with the BCs shall specify:

- (i) suitable limits on cash holding by intermediaries as also limits on individual customer payments and receipts;

- (ii) the requirement that the transactions are accounted for and reflected in the bank's books by end of day or next working day; and
- (iii) all agreements/ contracts with the customer shall clearly specify that the bank is responsible to the customer for acts of omission and commission of the BF/BC.

Grievance redressal

2.11 Banks were advised to constitute Grievance Redressal Machinery within the bank for redressing complaints about services rendered by BFs /BCs and give wide publicity about it through electronic and print media. It has also been stipulated that the name and contact number of designated Grievance Redressal Officer of the bank should be made known and widely publicised. The designated officer is to ensure that genuine grievances of customers are redressed promptly. Banks were also advised that their grievance redressal procedure and the time frame fixed for responding to the complaints should be placed on the bank's website. Further, if a complainant does not get satisfactory response from the bank within 60 days from the date of his lodging the complaint, he will have the option to approach the Office of the Banking Ombudsman concerned for redressal of his grievance/s.

Compliance with Know Your Customer (KYC) Norms

2.12 The banks were advised that compliance with KYC norms will continue to be the responsibility of banks and since the objective was to extend savings and loan facilities to the underprivileged and unbanked population, banks may adopt a flexible approach within the parameters of guidelines issued on KYC from time to time. It was also clarified that in addition to introduction from any person on whom KYC has been done, banks can also rely on certificates of identification issued by the intermediary being used as BC, Block Development Officer (BDO), head of Village Panchayat, Post Master of the post office concerned or any other public functionary, known to the bank.

Oversight of operations of BC

2.13 With a view to ensuring adequate supervision over the operations and activities of the BCs by banks, it has been stipulated that every BC will be attached to and be under the oversight of a specific bank branch to be designated as the base branch. The distance between the place of business of a BC and the base branch, ordinarily, should not exceed 30 kms in rural, semi-urban and urban areas.

In metropolitan centres, the distance could be upto 5 kms. However, in case a need is felt to relax the distance criterion, the matter can be referred to the District Consultative Committee (DCC) of the district concerned for approval. Where such relaxations cover adjoining districts, the matter may be cleared by the State Level Bankers' Committee (SLBC), which shall also be the concerned forum for metropolitan areas. Such requests may be considered by the DCC/SLBC on merits in respect of under-banked areas or where the population is scattered over large area and where the need to provide banking services is imperative but having a branch may not be viable, keeping in view the ability of the base branch of the bank making the request to exercise sufficient oversight on the BC. Where currently BCs are operating beyond the distance limits specified above, DCC/SLBC may be kept informed and steps should be taken to conform to the stipulated limits within six months time, unless specific approval is accorded by the DCC/SLBC on the grounds indicated above.

Appointment of sub-agents

2.14 It has been advised that in case the duly appointed BCs of banks desire to appoint sub-agents at the grass root level to render the services of a BC, banks have to ensure that the sub-agents of BCs fulfil all relevant criteria stipulated for BCs and the BC appointed by them carries out proper due diligence in respect of the sub-agent to take care of the reputational and other risks involved and the distance criteria from the base branch. It has also been made clear that where individuals have been appointed as BCs, they cannot in turn appoint sub-agents.

Monitoring

2.15 Banks have been advised that the implementation of the BF/BC model should be closely monitored by controlling authorities of banks, who should specifically look into the functioning of BF/BCs during their course of their periodical visits to the branches. Further, banks should also put in place an institutionalised system for periodically reviewing the implementation of the BF/BC model at the Board level.

SECTION III

EXPERIENCE GAINED SO FAR AND INFERENCES DRAWN

3.1 The Working Group sought information from banks as well as stakeholders with regard to the experience in using BCs as agents of banks. The response received has been varied. Although a variety of entities/ individuals have been permitted by the Reserve Bank to act as BCs, only a few have actually been so engaged.

3.2 Information was sought from banks regarding the number of BCs employed by them and the number of no-frills accounts opened through the BC model. The data received is presented in **Annex I**. It may be seen that while some public sector banks and a few private sector banks have experimented with the model, none of the foreign banks have done so. Overall, the data reveals that out of 50 public sector and private sector banks, only 26 banks have so far reported appointing BCs, through which 88.60 lakh no-frills accounts have been opened as on March 31, 2009. The number of accounts opened forms only 26.82 per cent of the no-frills accounts reported to be opened by banks so far. Most of the banks that have employed BCs have appointed Section 25 companies/ Trusts/ Societies as BCs. Further, almost all the Section 25 companies appointed as BCs have been floated by the technology service providers who had provided the smart card or biometric solutions for account openings, etc.

3.3 The Group also attempted to gather some details of field level feedback regarding the BC model, based on experience of the various banks. The same are presented in **Annex II**.

Issues highlighted

3.4 The Working Group, through its interactions with various stakeholders, was apprised of various issues which have arisen during the implementation of the BC model. These are presented in the following paragraphs.

(i) Cash handling

3.5 As almost all BC transactions are cash based, the flow of cash with BCs has been highlighted as the biggest issue. Besides the logistics of handling large volumes of cash, it leads to increased costs and added operational risks. These assume greater importance in the context of the North Eastern region of the

country, on account of higher security risks, vast and difficult terrain and poor connectivity.

(ii) Client Profile

3.6 Beneficiaries of BC services are mostly illiterate and susceptible to misguidance. Further, at times, clients tend to perceive the BCs themselves as banks and as not functioning on behalf of the banks.

3.7 Lack of proper financial education of the clientele was a barrier to the effective utilisation of the banking facility provided to the clients through the BC model.

(iii) Viability issues

3.8 The viability of the BC model has remained the most critical issue which has led to the model not taking off as envisaged. There have been various factors which have contributed to this issue. A majority of no-frill accounts opened by BCs have remained non-operational. As such, opening of the accounts to provide deposit services to begin with and subsequently widen the coverage of activities, with a view to making these accounts profitable, have not made the desired progress. Retaining customers after the initial transactions proves to be a big challenge. The Group has received feedback that there is a mismatch between the revenues earned and costs incurred while undertaking the BC operations, resulting in non-viability of the model.

3.9 It has been reported that banks charge interest to BCs for the temporary accommodation/overdraft provided by banks to them. This adds to the operating costs of the BCs. Moreover, the insurance costs as well as security costs for the cash-in-transit are also passed on to the BCs, which affect their viability.

3.10 Where the BCs have to cover large distances, the transport cost often becomes prohibitive. Further, where power supply is a problem, the BCs have to move with generator kits/ batteries.

3.11 The commission paid by banks to the BCs is not considered adequate for a viable business model. There are costs involved in staff salaries, trainings, etc for which the current compensation structure is not generally adequate. A majority of BCs have reported losses and some of them have even suspended their operations.

This, in turn affects the banks as it becomes difficult for banks to substitute these BCs with others.

3.12 In case of SHG Bank linkage models, there is no support provided to BCs for meeting the group promotion costs. Further, capacity building through training of BC staff also involves financial outlays, which is seldom provided by banks.

3.13 From the bankers' perspective, it was pointed out that as the banks were not allowed to pass on to the ultimate customer/beneficiary the compensation/commission paid by them to the BCs, they were not able to bear the various other costs incurred by BCs.

(iv) Regulatory issues

3.14 Current regulations mandate BCs to settle cash with bank branches by the end of the day or next working day. Given that the area of operation of BCs predominantly extends to rural areas with erratic connectivity, it becomes difficult to complete the settlements within the prescribed timeframe. This issue assumes considerable importance in the North Eastern Region.

3.15 Reaching unbanked areas warrants higher delivery costs and the extant interest cap of BPLR for advances upto Rs.2.00 lakh does not allow much room for banks to compensate BCs adequately.

3.16 Banks have reported that their requests for relaxing the distance criterion remain pending with DCCs for a long time. Further, many requests have been rejected without any explanation.

(v) Multiple risks associated with the BC model

3.17 The engagement of BCs by banks for delivery of banking services exposes banks to the multiple types of risks : (i) credit risk (ii) operational risk (iii) legal risk (iv) liquidity risk and (v) reputational risk, to mitigate which banks need to take appropriate action.

(vi) Other issues

3.18 Sometimes the customers may want to carry out the transactions at the base branch (instead of at the BC outlet) which could be considered.

3.19 It has been suggested that RBI can consider specifying the technology parameters for implementing the BC model.

Inferences drawn

The above issues were examined by the Working Group in depth and the inferences drawn therefrom are as under:

(i) Acceptance of BC model by banks

3.20 Given the right impetus, the BC model has the potential to speed up the process of financial inclusion in the country and bring the vast majority of population within the banking fold. The Group recognises the fact that the process of financial inclusion involves the three critical aspects of (a) access to banking markets, (b) access to credit markets and (c) financial education. The BC model should, therefore, encompass each of the above three aspects in order to be able to address the issue of financial inclusion in a holistic manner. Towards this end, there should be a proper understanding and appreciation of the BC model by all stakeholders, in particular, by the banks. Banks need to appreciate the benefits arising out of adopting the 'branchless' BC model and implement the same with missionary zeal so as to achieve the ultimate goal of financial inclusion. The full scope of the model can be realised not just by opening no-frills accounts but by including the above three aspects as integral components of the model. Further, it also needs to be recognised that the BC model may not be a viable activity on a stand-alone basis.

(ii) Cash handling

3.21 Given the problems relating to cash handling, generally only those entities which have cash inflow/outflow as part of their normal activities would be better suited to take on the role of BCs.

3.22 Cash management could be streamlined by adopting "Cash Routes" (linking various BCs which are in close proximity to each other to a base branch) wherever warranted with suitable cash transit insurance, which may be borne by the banks.

(iii) Financial Education and Consumer Protection

3.23 One of the important components of Financial Inclusion is financial education of the customer in the vernacular language/s. Although banks have started taking

initiatives in this regard, the need to scale up their efforts substantially towards educating the clientele regarding the benefits of banking habits is evident from the experiences gained. For this purpose, drawing up appropriate awareness modules and extending necessary financial support from the Financial Inclusion Fund administered by NABARD may be considered.

3.24 Information regarding BCs engaged by banks is not put in public domain. The Annual Reports of banks generally do not include the progress in respect of extending banking services through the BC model and the initiatives taken by banks in this regard. This information should be given wide publicity through print and electronic media.

3.25 The banks may educate their customers through various means - print, electronic etc., - the role of the BC and their own obligations towards the customers in the vernacular languages.

3.26 The banks would be required to ensure the preservation and protection of the security and confidentiality of customer information in the custody or possession of the BC. Access to customer information by the staff of the BC should be limited to those areas where the information is required in order to perform the function assigned to the BC by the bank. The BC should be able to identify and segregate the information relating to the transactions as BC from the other transactions carried out in the normal course of business.

3.27 Banks also need to put in place an appropriate grievance redressal mechanism, which should be widely publicised and also placed in public domain. The details of the grievance redressal officer should be displayed at the premises of the BC as also at the base branch and made available by the bank/BC at the request of the customer.

(iv) Ensuring viability of BC model

3.28 It is apparent that the BC model can be successful only if sufficient business is generated, the commission earned by the BC is commensurate and banks own up the BCs as their agents. Banks may, therefore, need to have a relook at the compensation structure for BCs.

3.29 At present, the BC model is largely perceived as a channel for undertaking only liability side business (deposits). Experiences from the field suggest that in many cases, banks are using the BCs for opening no-frills accounts through which

the various government payments like NREGA, pensions and other social security payments are routed. If the BCs are used merely for this purpose, the income generated by the BCs will not be sustainable over a period. For a BC to become viable, the range of services to be delivered through the BC should be ramped up to include suitable small savings, micro credit, micro insurance, small value remittances, etc.

3.30 Banks (and not BCs) may be permitted to collect reasonable service charges from the customer, in a transparent manner, for delivering services through the BC model. Suitable guidelines may be issued by RBI in this regard, especially keeping in view the profile of customers using these services.

3.31 The BC model provides an opportunity to banks to save on costs which they would have incurred in case they had gone in for the 'brick and mortar' branch model. Further, BCs help banks in taking their low value/high volume transactions out of the branch premises and to that extent there is a potential saving in costs. Some of these cost savings by adopting the BC model could be passed on to the BCs by banks, to a certain extent, to make the model viable. Banks may consider bearing the initial set up cost of the BCs and extend a handholding support to the BCs, at least during the initial stages. Banks may also need to bear the costs relating to transit insurance of the cash handled by BCs.

3.32 In order to improve the viability of the BC model, banks may consider providing reasonable temporary overdrafts to the BCs free of interest charges.

(v) Regulatory issues

3.33 Considering the special features of the North Eastern Region, BCs in that area need to be permitted to account for the transactions in the bank's books by the end of the second working day from the date of the transaction.

3.34 As regards cases referred to the DCCs for relaxation of distance criteria, they would require to give their decisions at the earliest and in any case within a period of three months from the date of reference to them. In case no decision is conveyed by the DCCs within this period, the banks may be permitted to treat it as a 'no objection' for relaxation of the distance criterion.

(vi) Risk Mitigation measures

3.35 To address the various risks involved in rendering banking services through the BC model, banks need to put in place suitable and adequate risk mitigation measures. Further, the guidelines on 'Outsourcing of Financial Services' issued by the Reserve Bank on November 3, 2006 have to be kept in view by banks while entering into an outsourcing agreement. Banks may be guided by the instructions contained therein, as relevant, while implementing the BC model.

(vii) Others

3.36 In case a customer so desires, banks may, subject to suitable safeguards, allow the customer to carry out the transactions at the base branch. RBI may issue suitable clarification in this regard to banks.

3.37 As regards technology issues, RBI has already advised banks to adopt appropriate technology in their financial inclusion efforts, which would be highly secure, amenable to audit and follow widely accepted open standards to allow inter-operability among the different systems adopted by different banks. Further, providing the required support to banks from the Financial Inclusion Technology Fund for the above purpose may be considered.

3.38 Banks may also develop suitable training modules in the local language/s, in order to provide proper attitudinal orientation and skills to the BCs. Indian Institute of Banking & Finance (IIBF) has already developed training modules for BCs. These modules may be translated in vernacular languages and leveraged extensively so as to reach a wider group.

SECTION IV

ENLARGING THE CATEGORY OF ENTITIES PERMITTED AS BCs

4.1 The Working Group examined the need for enlarging the category of permissible entities that can act as BCs to further strengthen the BC model. While examining this aspect, the Group took into consideration the various relevant issues as also the special conditions prevailing in the North Eastern region of the country such as difficult terrain, sparse population, poor infrastructure, low connectivity, etc.

Suggestions received

4.2 The Group had invited suggestions from various stakeholders with regard to the entities that can be considered as BCs. The following categories have been suggested for being included as BCs.

(i) Individuals

- Kirana shop owners
- Fair Price Shop owners
- Public Call Office (PCO) operators
- Retired teachers
- Panchayat Officials
- Rural unemployed youth, with a minimum qualification of SSLC/ degree with some basic training by a recognised training institute, IT diploma holders/ educated youth
- Any individual, possessing a minimum educational qualification of XII Standard pass, permanently residing in the area and having a good track record
- Individuals who own petrol pumps (as sole proprietors)
- Owners of medical shops
- Enrolled members of CSCs
- Agents of small saving schemes of GOI
- Agents of Insurance Companies
- Bank's borrowers having dealings with the bank for a considerable period of time and on whom a proper due diligence has already been conducted.
- Farmers' Club members

- Franchisees/Agents of Telecom Companies
- NBFCs and their agents

(ii) Non-individuals

- Common Service Centres (CSCs) and other entities who deliver the e- Governance services, irrespective of their constitution
- NBFC - MFIs
- Self Help Groups (SHGs)
- State Cooperative Bank branches
- Organisations with sound financial background
- Telecom Companies, Oil Companies, NBFCs(in particular those dealing in microfinance) and other corporates
- Institutions operating e-kiosks
- Charitable Trusts
- Village Development Boards (VDBs) in Nagaland
- Rashtriya Gram Vikas Nidhi (RGVN) in North Eastern Region
- Anchal Samitis in North Eastern Region

Suggestions accepted

4.3 The Group deliberated at length on the entities suggested, taking into account consumer protection, customer convenience, regulatory and supervisory issues involved and recommends that, subject to suitable safeguards being put in place, the following entities may be considered eligible for being appointed as BCs in rural and semi-urban areas, in addition to the entities currently being permitted, for the present :

- (i) Individual owners of kirana/medical /Fair Price shops
- (ii) Individual Public Call Office (PCO) operators
- (iii) Agents of Small Savings schemes of Government of India/Insurance Companies
- (iv) Individuals who own Petrol Pumps
- (v) Retired teachers
- (vi) Authorised functionaries of well run Self Help Groups (SHGs) which are linked to banks
- (vii) Non-deposit taking NBFCs in the nature of loan companies whose microfinance portfolio is not less than 80% of their loan outstanding, in the financially excluded districts as identified by the Committee

on Financial Inclusion(Chairman: Dr.C.Rangarajan), only for liability products

Banks may ensure that while appointing the above entities as BCs, the fundamental principle that the individuals are permanent residents of the area in which they propose to operate as BCs, stands fulfilled, so as to minimise agency risks.

4.4 With the inclusion of the above entities, it is estimated that there will be substantial addition to the available universe of BCs.

4.5 The issue relating to considering Common Service Centres(CSCs) as eligible entities for being appointed as BCs was discussed at length and considering the various pros and cons involved therein, it has been decided that a few pilots should be run in at least a couple of States before deciding on the future course of action.

4.6 The Group deliberated at length the desirability of including entities like telecom companies, oil companies and other corporates as BCs. The Group felt that the various aspects relating to these categories need to be considered carefully vis-à-vis the present regulatory stand taking into consideration the long-term implications for the banking sector. The Group is of the view that the experiences gained after engaging the above list of additional permitted entities may be examined and after a thorough review, a decision may be taken about permitting further additional entities.

BCs in the North Eastern Region

4.7 The Committee on Financial Sector Plan (CFSP) for the North Eastern Region (Chairperson: Smt. Usha Thorat) had suggested that where a local organization /association not falling under any of the forms of organization listed in the Reserve Bank guidelines is proposed by a bank after due diligence and is recommended by DLCC for being approved as Business Correspondent, the Regional Office of the Reserve Bank may be given powers to grant suitable exemption from the Reserve Bank guidelines. Keeping in view the above recommendations of CFSP, the Group recommends that Reserve Bank may issue suitable instructions in this regard to banks.

SECTION V

ROAD MAP FOR THE FUTURE

5.1 The Working Group is of the view that banks would need to accept the BC model as extremely vital for achieving the goals of financial inclusion. As the traditional 'brick and mortar' branches can penetrate into remote areas of our vast country only to a limited extent, this model presents banks with a workable option to provide banking services in hitherto inaccessible areas in a cost-effective manner. As recommended by the High Power Committee to Review the Lead Bank Scheme in its draft report, the objective of having a banking outlet at every village with a population of over 2000 at least once a week on a regular basis by March 2011 can be achieved by substantially scaling up the BC model.

Ensuring viability of BC

5.2 In order to make the model successful, banks may have to handhold the BCs in the initial years of operations. This may even require some financial support from banks, especially when the BCs appointed are individuals. The banks may adopt any permitted entity as its BC and to begin with carry out pilots to ascertain its compatibility to the operations of the bank. The successful model may be replicated.

BCs to be used for full range of services

5.3 BCs should be used not only for opening and servicing no-frills accounts but for the full range of financial activities as mentioned in Section III. Further, with the Central and State Governments planning to route various government payments through the banking system, the BCs could be the ideal medium for the banks to handle the huge volumes of low value transactions.

ICT enabled BC model

5.4 Experience has shown that the BC model coupled with ICT solutions can help banks substantially increase their outreach facilitating financial inclusion. While adopting technology solutions, it has to be borne in mind that they have to be interoperable, secure and amenable to audit following widely accepted open standards. There is no uniform or unique model ideally suited to the whole country that can be suggested. Accordingly, banks may choose from the range of available models and adapt any of them depending upon the requirements. Such

experimentation is of critical relevance in North Eastern Region, given its peculiar characteristic features.

Disclosures

5.5 The banks must make available in their websites, the details of the BCs they have employed for public information. These details may also be suitably publicised through the print and electronic media in vernacular languages. In their Annual Report, the banks have to give the details of the BC/BF models they have engaged. Such disclosures would further enhance the visibility of the model and help in providing greater impetus thereto.

SECTION VI

SUMMARY OF RECOMMENDATIONS

The major recommendations of the Working Group are summarised below:

Realising the full potential of the BC model

6.1 Given the right impetus, the BC model has the potential to speed up the process of financial inclusion in the country and bring the vast majority of population within the banking fold. The Group recognises the fact that the process of financial inclusion involves the three critical aspects of (a) access to banking markets, (b) access to credit markets and (c) financial education. The BC model should, therefore, encompass each of the above three aspects in order to be able to address the issue of financial inclusion in a holistic manner. The full scope of the model can be realised not just by opening no-frills accounts but by synthesising the above three aspects as integral components of the model. Towards this end, there should be proper understanding and appreciation of the BC model by all stakeholders, in particular, by banks. Banks need to appreciate the benefits arising out of adopting the 'branchless' BC model and implement the same with missionary zeal so as to achieve the ultimate goal of financial inclusion. (Paragraph 3.20)

Cash handling

6.2 Entities which have cash inflow/outflow as part of their normal activities may be generally considered to take on the role of BCs so that the issues relating to cash handling are addressed (Paragraph 3.21)

6.3 Banks could think in terms of streamlining cash management by adopting 'Cash Routes' wherever warranted with suitable cash transit insurance to be borne by the banks. (Paragraph 3.22)

Financial Education and Consumer Protection

6.4 Banks need to scale up their efforts substantially towards educating the clientele in their respective vernacular languages regarding the benefits of banking habit. For this purpose, extending necessary financial support from the Financial Inclusion Fund administered by NABARD may be considered. (Paragraph 3.23)

6.5 Information regarding BCs engaged by banks may be placed on the banks' websites. The Annual Reports of banks should also include the progress in respect

of extending banking services through the BC model and the initiatives taken by banks in this regard. Banks may also use print and electronic media (including in the vernacular language) to give wide publicity about implementation of BC model by them. (Paragraph 3.24)

6.6 The banks may educate their customers through various means - print, electronic, etc. - the role of the BC and their obligation towards the customers, in the vernacular language. (Paragraph 3.25)

6.7 The banks need to ensure the preservation and protection of the security and confidentiality of customer information in the custody or possession of the BCs. (Paragraph 3.26)

6.8 Banks may put in an appropriate grievance redressal mechanism, which should be widely publicised and also placed in public domain. The details of the grievance redressal officer should be displayed at the premises of the BC as also at the base branch and made available by the bank/BC at the request of the customer. (Paragraph 3.27)

Ensuring viability of BC model

6.9 The BC model can succeed only if the banks own up the BCs as their agents. Banks may need to have a relook at the compensation structure for BCs. (Paragraph 3.28)

6.10 The range of services to be delivered through the BC should be ramped up to include suitable small savings, micro-credit, micro-insurance, small value remittances etc. (Paragraph 3.29)

6.11 Banks may be permitted to collect reasonable service charges from the customer, in a transparent manner, for delivering services through the BC model. Suitable guidelines may be issued by RBI in this regard, especially keeping in view the profile of customers using these services. (Paragraph 3.30)

6.12 Banks may bear the initial set up cost of the BCs and extend a handholding support to the BCs, at least during the initial stages. Banks may also need to bear the costs relating to transit insurance of the cash handled by BCs. (Paragraph 3.31)

6.13 In order to improve the viability of the BC model, banks may consider providing reasonable temporary overdrafts to the BCs free of interest charges. (Paragraph 3.32)

Regulatory issues

6.14 Reserve Bank may permit banks to allow, with suitable safeguards, the BCs in the North Eastern Region to account for the transactions in the bank's books by the end of the second working day from the date of the transaction. (Paragraph 3.33)

6.15 As regards cases referred to DCCs for relaxation of distance criteria, they should give their decisions at the earliest and in any case within a period of three months from the date of reference to them. In case no decision is conveyed by DCCs within this period, the banks may be permitted to treat it as a 'no objection' for relaxation of the distance criterion. (Paragraph 3.34)

Risk Mitigation Measures

6.16 To address the various risks involved in rendering banking services through the BC model, banks need to put in place suitable and adequate risk mitigation measures. Further, banks may be guided by the instructions contained in the guidelines on ' Outsourcing of Financial Services' issued by RBI on November 3, 2006, as relevant, while implementing the BC model. (Paragraph 3.35)

Others

6.17 RBI may issue suitable clarification to the banks to the effect that in case the customer desires, he may be allowed to carry out the transactions at the base branch. (Paragraph 3.36)

6.18 Banks may adhere to the RBI guidelines on adoption of appropriate technology while implementing the BC model. Further, providing the required support to banks from the Financial Inclusion Technology Fund for the above purpose may be considered. (Paragraph 3.37)

6.19 Banks may also develop suitable training modules in the local language/s, in order to provide proper attitudinal orientation and skills to the BCs. Indian Institute of Banking & Finance(IIBF)has already developed training modules for BCs. These modules may be translated in vernacular languages and leveraged extensively so as to reach a wider group. (Paragraph 3.38)

Additional eligible entities as BCs

6.20 The following entities may be considered for appointment as BCs in rural and semi-urban areas, in addition to the entities presently permitted: (i) Individual kirana/medical /Fair Price shop owners (ii) Individual Public Call Office (PCO) operators (iii) Agents of Small Savings schemes of Government of India/Insurance Companies (iv) Individuals who own Petrol Pumps (v) Retired teachers (vi) Authorised functionaries of well run Self Help Groups (SHGs) linked to banks. Further, non-deposit taking NBFCs in the nature of loan companies whose microfinance portfolio is not less than 80% of their loan outstanding may be permitted as BCs in the financially excluded districts as identified by the Committee on Financial Inclusion(Chairman: Dr.C.Rangarajan), only for liability products. Banks may ensure that while appointing the above entities as BCs, the fundamental principle that the individuals are permanent residents of the area in which they propose to operate as BCs, stands fulfilled, so as to minimise agency risks. (Paragraph 4.3).

6.21 As regards Common Service Centres (CSCs) as BCs, a few pilots should be run in at least a couple of States before deciding on further action. (Paragraph 4.5)

6.22 As regards the North Eastern Region, Reserve Bank may issue suitable instructions to banks to implement the recommendation made by the Committee on Financial Sector Plan (CFSP) for the North Eastern Region(Chairperson: Smt. Usha Thorat) that where a local organization/association not falling under any of the forms of organization listed in the Reserve Bank guidelines is proposed by a bank after due diligence and is recommended by DLCC for being approved as Business Correspondent, the Regional Office of the Reserve Bank may be given powers to grant suitable exemption from the Reserve Bank guidelines. (Paragraph 4.7)

**DETAILS REGARDING NUMBER OF BCs APPOINTED AND ACCOUNTS
OPENED BY BANKS**

Sr. No.	Banks	No. of BCs appointed	No. of accounts opened
1	2	3	4
	PUBLIC SECTOR BANKS		
1	ALLAHABAD BANK	NIL	NIL
2	ANDHRA BANK	3	405000
3	BANK OF BARODA	3	33827
4	BANK OF INDIA	10	71000
5	BANK OF MAHARASHTRA	NR	NR
6	CANARA BANK	1	1603
7	CENTRAL BANK	1	1210
8	CORPN BANK	3	456655
9	DENA BANK	1	14146
10	INDIAN BANK	2	23000
11	I O B	3	1131
12	O B C	3	21433
13	P N B	14	2704345
14	P & S BANK	NIL	NIL
15	S B I	24	2574139
16	S B B J	NIL	NIL
17	S B HYD	1	16057
18	S B INDORE	1	61632
19	S B MYSORE	2	2159
20	S B PATIALA	1	1140
21	S B SAURASHTRA	NIL	NIL
22	S B TRAVANCORE	1	699
23	SYNDICATE BK	5	695
24	UNION BANK	3	1654464
25	UNITED BANK	1	998
26	UCO BANK	1	1048
27	VIJAYA BANK	1	626
	Total	85	8047007

NR- Not Reported

	PRIVATE SECTOR BANKS		
1	Bank of Rajasthan Ltd	NIL	NIL
2	Catholic Syrian Bank Ltd	NR	NR
3	City Union Bank Ltd	NR	NR
4	Development Credit Bank Ltd	NR	NR
5	Dhanalakshmi Bank Ltd	NR	NR
6	The Federal Bank Ltd	2	68
7	Yes Bank Ltd	NIL	NIL
8	HDFC Bank Ltd	NR	NR
9	ICICI Bank Ltd	38	136659
10	IndusInd Bank Ltd	NR	NR
11	ING Vysya Bank Ltd	NIL	NIL
12	Jammu & Kashmir Bank Ltd	NR	NR
13	Karnataka Bank Ltd	NIL	NIL
14	Karur Vysya Bank Ltd	NIL	NIL
15	Kotak Mahindra Bank Ltd	NR	NR
16	Lakshmi Vilas Bank Ltd	NIL	NIL
17	Nainital Bank Ltd	1	532
18	Ratnakar Bank Ltd	NR	NR
19	SBI Comm. & Inter. Bank Ltd	NIL	NIL
20	The South Indian Bank Ltd	NIL	NIL
21	Tamilnad Mercantile Bank Ltd	NIL	NIL
22	Axis Bank Ltd	3	676000
	Total	44	813259

NR-Not reported

FIELD LEVEL EXPERIENCES**CASE I: ANDHRA PRADESH FINANCIAL INCLUSION PROJECT**

The Rural Development Department of Government of Andhra Pradesh embarked on a project for distribution of Government benefits directly to the beneficiaries through bank accounts, in six Mandals of the Warangal district in Andhra Pradesh in April 2007. The project was undertaken in coordination with SBI, SBH, Andhra Bank, Union Bank, Axis Bank and AP Grameen Bank. The project mainly aimed at covering the rural customers whose major source of income is the Social Service Pensions and the subsidy/wage portion of the National Rural Employment Guarantee Act. The project utilised both the business facilitator and business correspondent models. Zero Mass Foundation was the Business Correspondent for all the six banks in the pilot, later other BCs were included. In the first phase of the project covering 50,000 beneficiaries in six Mandals of the Warangal District, the Government met the capital cost of the cards, and subsidized the purchase of the hand held devices. In addition, the Government agreed to pay two percent of the funds disbursed as commission to the banks. The smart cards can be used both online and offline. Biometric identification tools are being used. The point of sale device shall provide a print out of each transaction. It is possible to have additional details such as land records etc in the smart card, if required. The project is being implemented by banks through business correspondents using mobile technology to access the data-base server. After the pilot was successful, the project was scaled up in the last two years to cover more than 15 districts in Andhra Pradesh and including almost all the banks in their respective service area. The number of card accounts opened has already crossed five million. The AP project is seen as the model to the State Governments for Electronic Benefit Transfer (EBT) of Government benefits directly to the beneficiaries utilizing business correspondents of banks.

CASE II: SBI-TINY PROJECT IN THREE STATES

The SBI Tiny project was the first project in the country to test the validity of the IT enabled Financial Inclusion utilising business correspondents. Under the project, smart cards were issued in Mizoram (Aizwal), Andhra Pradesh (Medak) and

Uttaranchal (Pithoragarh) in the year 2006 with Zero Mass Foundation as the Business Correspondent. The areas were chosen in such a way that if the project is successful in such places it would easily be successfully replicated in other areas. Under the project, the photo of the applicant is personalized with address on the face of the card and two finger prints captured on the chip of the card for biometric verification at the time of cash disbursement transactions. This is simple, convenient and secured mode of extending financial services to the cardholders. The card is capable of containing 16 wallets (account details). Transactions in the accounts including cash deposits and withdrawals can be carried out by customers without having to go to the bank branch. The project started on a modest scale with 5000 accounts.

CASE III : ICICI BANK'S INITIATIVES IN DELHI

ICICI Bank appointed a leading NGO working in the urban slums of Delhi and NCR as a Business Correspondent in December 2007. After a careful evaluation process the bank launched two BC outlets at Jahangirpuri and Bawana, two settlement colonies in the northern part of Delhi. These are mainly residential areas with a young population. Small workshops and industries in this area are the main source of income for residents.

Through these outlets, the bank offers a zero-balance savings facility using smartcard technology provided by Financial Information Network & Operations, Ltd. (FINO). Customers transact using a personalized smartcard, which provides biometric authentication when used with an Authentication Device (AD). Only a biometrically authenticated operator can operate the AD. At specific intervals, the transactions recorded on the AD are uploaded and updated in the Bank's system through a standard telephone line. In addition to a savings account facility, the bank also offers fixed deposits and recurring deposits to BC customers.

Enrollments are done at small workshops and other locations where customers gathered in groups. The bank and the BC also jointly conducted van campaigns and mass enrollments during the launch of the branch, to increase outreach, and to educate customers about the financial products offered at the BC branches.

The BC outlets in these localities have increased access to financial services for the residents. Customers now have access to a safe and secure means of saving, which enables them to better meet emergency expenditures, and plan for the future. As on March 31, 2009, the BC had acquired a customer base of 2350.

CASE IV: ORIENTAL BANK OF COMMERCE EXPERIENCE IN PUNJAB

Oriental Bank of Commerce (OBC) rolled out its BC model in technical collaboration with FINO in Amritsar district of Punjab in January 2009. The project started with enrolment of NREGA beneficiaries as well as other persons. A Section 25 Company (FINI Finotech Foundation) has been appointed as the BC. The BC ensures that announcements for enrolment were made in Gurudwara/Panchayat well on time so that adequate number of persons gathers on the day of enrollment. The sub-agents employed by the BC are ex-servicemen, ex-bank staff, etc. Each sub agent gives a fixed deposit in his name for Rs. 5000/- as a security deposit to the BC. The cash in transit is insured.

The enrolment involves gathering all ten fingerprints, photo, signature and other details so that smart cards and bank accounts can be opened in the name of each beneficiary. These are carried out by the sub-agents who capture the details using a laptop with fingerprint reader, digital camera and signature reader with full power back up facility.

The customer card is a biometric card which stores the customer ID, signature for verification and has 10 pockets for various products. A customer can put through a transaction and get a receipt. He can get history of transactions upto last 10 transactions. From the base branch of the bank, he can get a passbook also.

As creating biometric data base, taking photographs, and then keying in the beneficiary details resulted in slow enrollment process, a simplified application form has been devised to fill up the details and only biometric data is captured and photos taken during enrollment. Other details like name, etc. are digitised/keyed in by the backup office in the evening or next day at some other location which is fully equipped to complete the enrollment process.

In case the machine malfunctions at the end of the BC, the back up policy ensures that the machines are replaced within 2 hours of reported breakdown/malfunctioning. Also the sub agent carries enough of backup battery power for enrollment so that process is not halted due to erratic power supply.

In a short period of 5 months the BC has opened 13,600 accounts under NREGA scheme in two blocks of Majitha and Anjala. In another two blocks viz. Verka and Jandiala, 1500 beneficiaries have been enrolled.

CASE V: PUNJAB NATIONAL BANK EXPERIENCE IN HIMACHAL PRADESH

In October 2008, Punjab National Bank selected a few villages in Mandi District of Himachal Pradesh for financial inclusion with the help of a technological support provider, FINO and a Business Correspondent M/s. FINO Fintech Foundation.

The project received encouraging response from the rural clientele and having achieved the initial target of 5000 smart cards, the bank decided to extend the coverage of the pilot to the entire district in December 2008. The mandate was to cover all the households in the district. So far approximately 30,000 smart cards have been issued in the district and deposit of Rs 21 lakh has been mobilized.