



भारतीय रिज़र्व बँक

RESERVE BANK OF INDIA

www.rbi.org.in

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November 30, 2009

All Commercial Banks (including RRBs and LABs)

Dear Sir

Financial Inclusion by Extension of Banking Services – Use of Business Correspondents (BCs)

As announced in the Annual Policy Statement for the year 2009-10, a Working Group was constituted by Reserve Bank of India 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. The Working Group has submitted its report which has been placed on the Bank's website on August 19, 2009. The recommendations of the working group have since been accepted by Reserve Bank of India with slight modifications. Accordingly, banks are advised to take necessary action for implementing the various recommendations of the Working Group as indicated in the **Annex**.

2. Banks are permitted to appoint the following entities as BCs, 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 and (vi) Authorised functionaries of well run Self Help Groups (SHGs) linked to banks.

3. With a view to ensuring the viability of the BC model, banks (and not BCs) are permitted to collect reasonable service charges from the customer, in a transparent

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हिन्दी आसान है, इसका प्रयोग बढ़ाइये।

manner under a Board-approved policy. Considering the profile of the clientele to whom banking services are being delivered through the BC model, banks should ensure that the service charges/fees collected from the customer for delivery of banking services through the BC model is not only fair and reasonable but also seen to be so. A copy of the Board-approved policy in this regard may be forwarded to us (The Chief General Manager-in-charge, Reserve Bank of India, Department of Banking Operations and Development, Central Office, World Trade Centre, Centre -1, Cuffe Parade, Colaba, Mumbai – 400 005 in the case of Scheduled Commercial Banks and LABs and The Chief General Manager, Reserve Bank of India, Rural Planning and Credit Department, Central Office, Central Office Building, 10th Floor, Shahid Bhagat Singh Marg, Mumbai – 400 001 in the case of RRBs). Banks should in particular ensure that there are no complaints from the customer about the charges being non-transparent/not reasonable. Any unfair practices adopted by banks in this regard would be viewed seriously by Reserve Bank of India.

4. With the inclusion of the above entities, it is estimated that there will be substantial addition to the available universe of BCs. Keeping in view the operational and other risks implied, banks are advised to ensure that they carry out suitable due diligence in respect of the entities proposed to be appointed as BCs and also institute additional safeguards as may be considered appropriate to minimise the agency risks. ICT solutions that ensure proper authentication and other security measures may be adopted to minimise the risk while upscaling the model as already advised. Further, banks may ensure that while appointing the above entities as BCs, the fundamental principle that the individuals are residents of the area in which they propose to operate as BCs, stands fulfilled.

5. As regards the North Eastern Region, it has been decided to implement the recommendation made by the Committee on Financial Sector Plan (CFSP) for the North Eastern Region (Chairperson: Smt. Usha Thorat) regarding the entities which can be appointed as BCs in the North Eastern Region. Accordingly, where a local organization/association not falling under any of the forms of organizations listed in the Reserve Bank guidelines is proposed to be appointed by a bank as Business

Correspondent after due diligence and is recommended by the DCC for being approved as Business Correspondent, the same would be considered by the Regional Office of the Reserve Bank for granting suitable exemption from the Reserve Bank guidelines for appointing such entities as BCs. Banks may therefore approach the Regional Director of the Reserve Bank at Guwahati for the purpose.

6. Further, banks are also permitted to allow, with suitable and adequate safeguards, the BCs in the North Eastern Region to account for the transactions in the bank's books latest by the end of the second working day from the date of the transaction.

7. Regarding cases referred to DCCs for relaxation of criteria in respect of the maximum distance between the place of business of the BC and the base branch, the DCCs may give their decision 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 are permitted to treat it as a 'no objection' for relaxation of the distance criterion.

Yours faithfully

(P.Vijaya Bhaskar)
Chief General Manager-in-charge
Encl: as stated above

Action required to be taken by banks based on the recommendations of the Working Group to Review the Business Correspondent Model

Sl. No.	Recommendation of the Working Group	Action required to be taken by banks
1	<p>Realising the full potential of the BC model</p> <p>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)</p>	<p>Banks to implement the Business Correspondent model to achieve greater penetration of banking services.</p>
2	<p>Cash handling</p> <p>Banks could think in terms of streamlining cash management 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 to be borne by the banks. (Paragraph 3.22)</p>	<p>For streamlining cash management, banks may consider 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.</p>
3	<p>Financial Education and Consumer Protection</p> <p>(i) 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</p>	<p>(i) Banks may scale up their efforts substantially towards educating their clientele in their respective vernacular languages regarding the benefits of banking habit.</p>

	<p>administered by NABARD may be considered. (Paragraph 3.23)</p> <p>(ii) 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)</p> <p>(iii) 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)</p> <p>(iv) 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)</p> <p>(v) 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)</p>	<p>(ii) Information regarding BCs engaged by banks may be placed on the respective banks' websites. The Annual Report of the 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 the BC model by them.</p> <p>(iii) 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.</p> <p>(iv) Banks should ensure the preservation and protection of the security and confidentiality of the customer information in the custody or possession of the BCs.</p> <p>(v) Banks may 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.</p>
<p>4</p>	<p>Ensuring viability of BC model</p> <p>(i) 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)</p> <p>(ii)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)</p> <p>(iii) 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</p>	<p>(i) Banks may have a relook at the compensation structure for BCs to effectively ramp up the use of the BC scheme for banking penetration.</p> <p>(ii) Banks may ramp up the range of services to be delivered through the BC model to include suitable small savings, micro-credit, micro-insurance, small value remittances etc.,</p> <p>Please see paragraph 3 of the Circular.</p>

	<p>view the profile of customers using these services. (Paragraph 3.30).</p> <p>(iv) 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)</p> <p>(v) 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)</p>	<p>(iv) Banks may consider bearing the initial set up cost and other costs of the BCs and extend a handholding support to the BCs, at least during the initial stages.</p> <p>(v) Banks may consider providing reasonable temporary overdrafts to the BCs.</p>
5	<p>Risk Mitigation Measures</p> <p>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)</p>	<p>Banks may put in place suitable and adequate risk mitigation measures to address the various risks involved in rendering banking services through the BC model. Banks may also 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.</p>
6	<p>Adoption of appropriate technology</p> <p>Banks may adhere to the RBI guidelines on adoption of appropriate technology while implementing the BC model. (Paragraph 3.37)</p>	<p>Banks may adhere to the extant RBI guidelines on adoption of appropriate technology as contained in the circular DBOD.No.Leg.BC./94/09.07.005/2006-07 dated May 7, 2007, while implementing the BC model.</p>
7	<p>Training for the BCs</p> <p>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)</p>	<p>Banks may develop suitable training modules in the local language/s, in order to provide proper attitudinal orientation and skills to the BCs.</p>