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## RBI Working Group says BC Model Vital for Financial Inclusion; suggests New Entities for BC

A Reserve Bank of India Working Group has recommended the following new entities for appointment of Business Correspondents (BCs) for banks in rural and semi-urban areas:

- 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
- vii) Non deposit taking NBFCs (non-banking finance companies) in the nature of loan companies whose micro finance portfolio is not less than 80 per cent of their loan outstanding in the financially excluded districts as identified by the Committee on Financial Inclusion (Chairman: Dr. C. Rangarajan)

While making this recommendation, the Reserve Bank of India Working Group has expressed 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 could penetrate into remote areas of the vast country only to a limited extent, this model presented banks with a workable option to provide banking services in inaccessible areas in a cost-effective manner.

The Working Group has noted that BCs should be used not only for opening and servicing no-frills accounts but for the full range of financial activities. 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. As experience showed, the BC model coupled with ICT solutions could help banks substantially increase their outreach facilitating financial inclusion.

The Working Group has further opined that 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 could be achieved by substantially scaling up the BC model.

The other major recommendations of the Working Group include measures for improving the long term viability of the BC Model by permitting banks to collect reasonable service charges from the customer in a transparent manner for delivering the services through the BC and handholding of BCs by banks in the initial stages. The Working Group has also suggested some relaxation in the requirement of obtaining 'no objection' from DCCs regarding distance criterion.

As regards Common Service Centres (CSCs), the Working Group has recommended that a few pilots should be run in at least a couple of States before deciding on further course of action.

In the North Eastern Region, as recommended by the Committee on Financial Sector Plan (CFSP) for the North Eastern Region (Chairperson: Smt. Usha Thorat), such of those local organisations/associations not falling under any of the available entities listed in the Reserve Bank guidelines, may be considered for appointment as BCs, provided banks propose such entities after due diligence and are recommended by DLCC. The Regional Offices of the Reserve Bank will be the decision making authority in such cases.

### **Background**

It may be recalled that the Reserve Bank of India had, in January 2006, permitted banks to use intermediaries as Business Facilitators (BFs) or Business Correspondents (BCs) for providing financial and banking services. This was with the objective of ensuring greater financial inclusion and increasing outreach of the banking sector. As per the current guidelines, NGOs/ MFIs set up under Societies/ Trust Acts, societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, Section 25 companies that are stand alone entities or in which NBFCs, banks, telecom companies and other corporate entities or their holding companies did not have equity holdings in excess of 10 per cent, post offices and retired bank employees, ex-servicemen and retired government employees can act as BCs of banks. The BCs are allowed to conduct banking business as agents of the banks at places other than the bank premises. In recent times, however, there were demands from various sectors that the eligible entities to act as BCs be enlarged, with a view to facilitating increased outreach of the banking system. Following this, as announced in the Annual Policy 2009-10, the Reserve Bank constituted a working group to review the Business Correspondent (BC) Model. The Working Group included officials from select commercial banks and the Reserve Bank as members and Shri P. Vijaya Bhaskar, CGM in-Charge, Department of Banking Operations and Developments as the Chairman.

The Working Group, among other things, reviewed the experiences gained in implementing the BC Model and suggested measures to enlarge the category of persons/entities that can act as BCs of banks, after examining the various regulatory and other incidental issues relating to the Model.

Full text of the [Report of the Working Group to review the business correspondent model](#) has been placed on the RBI Website.