Section 5
Universal Access to Investment and Risk Management Products

Chapter 5.1
Introduction and Strategic Direction

The vision statements that are relevant to ensuring universal access to investment and risk management products are as follows:

> Universal Access to a Range of Deposit and Investment Products at Reasonable Charges: By January 1, 2016, each low-income household and small-business would have "convenient" access to providers that have the ability to offer them "suitable" investment and deposit products, and pay "reasonable" charges for their services. By that date each District would have a Total Deposits and Investments to GDP ratio of at least 15 per cent. This ratio would increase every year by 12.5 per cent with the goal that it reaches 65 per cent by January 1, 2020.
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> Universal Access to Range of Insurance and Risk Management Products at Reasonable Charges: By January 1, 2016, each low-income household and small-business would have "convenient" access to providers that have the ability to offer them "suitable" insurance and risk management products, which, at a minimum allow them to manage risks related to: (a) commodity price movements; (b) longevity, disability, and death of human beings; (c) death of livestock; (d) rainfall; and (e) damage to property, and pay "reasonable" charges for their services. By that date each District would have a Total Term-Life Insurance Sum Assured to GDP ratio of at least 30 per cent. This ratio would increase every year by 12.5 per cent with the goal that it reaches 80 per cent by January 1, 2020.

Financial inclusion can be said to be complete only when there is access to a suite of appropriate products and services for all the financial needs of a household or enterprise. Households planning for long-term goals such as retirement require inflation adjusted returns on investment over substantial time-periods. Parents planning for the education of children need to manage inflation risk. Households whose asset profiles are concentrated in the local village economy need access to investments that will provide them exposure to the national economy. Farmers planning for their next crop require credit bundled with weather insurance that will pay out in case of extreme weather outcomes. Each and every household has a combination of such crucial needs that need fulfilment. It is the function of the nation's financial system to provide accessible and economical product solutions that meet these needs.

In order to assess the current state of access to investment and insurance products for low-income households, the case study of an actual rural household and the challenges it faces in accessing appropriate savings, investment and risk management is particularly instructive:

Shivani Devi (45) and her husband Chaman Singh (47) belong to the village of Sagavan Gaon in Uttarakhand. They have four children – Vinod (14), Savita (13) and Rohit (10) are in school, while the youngest Rajesh (7) has not yet started schooling. The household had an annual income of around Rs. 65,000. Shivani Devi kept 13 goats, which they sold as and when money was needed. This usually amounted to selling 3 goats on average each year, with each goat fetching approximately Rs. 3,000. The availability of NREGA work is erratic and contributed an income of Rs. 4,000 annually. Shivani Devi cultivated a patch of land they owned, and incurred expenses for seeds and fertilisers. The entire produce from the land was used up for household consumption with little remaining for sale in the market. The sale of milk from their buffalo earned them Rs. 16,000 annually. Chaman also undertook some construction work, which earned the household Rs.36,000 annually. Shivani Devi was involved in an accident and lost her life in December 2011. Shivani Devi was bringing in more than half of the family's income by being involved in multiple activities, besides also taking care of her family's needs. Her death triggered a chain of events in its wake.

1. To meet the urgent need for money such as for funeral and household expenses, the family resorted to selling off a few goats, as well as selling off their buffalo for a price of Rs.29,000, which was 35 per cent lower than the price at which they had purchased it. Selling off the buffalo meant the loss of Rs.1500/month as income from the sale of its milk. The lack of any liquid assets in the household, such as savings in a bank account, meant that the household had to undertake distress sales of its productive assets. Shivani Devi had taken out some insurance cover that enabled her family access to some insurance payouts after her death.

2. Shivani Devi had purchased an accident insurance policy for Rs. 1,00,000, Chaman received the claim amount after 3 months of her death. Chaman plans to save this money for his kids' marriage and education.

3. Shivani Devi had a life insurance cover (endowment policy) in her name where she used to remit Rs.138 on a monthly basis. She had been saving in this manner for almost 6 years till her death. This came to around Rs. 9,384 in the account. Chaman hoped to receive a payout of Rs. 25,000 with bonus, from this scheme. Endowment policies, such as this rural life insurance product, are 3-4 times costlier than a term life insurance cover. However, in the absence of adequate access to a term life policy, Shivani Devi had deployed her funds in the more expensive endowment product that was available to her. In addition, the formalities in accessing the insurance payout have taken a long time and, as a result, Chaman was not sure when he will get the payout.

4. Shivani Devi contributed 40 per cent of the family's income by utilising her human capital to the extent possible. This income-stream has been lost as a result of her death and the insurance protection she had taken was inadequate to cover the future income lost (present value estimated at Rs. 150,000) as a consequence of her death. As a result, the household will not be able to sustain the standard of living they enjoyed while Shivani Devi was alive.

5. Since her death, cultivation has been neglected and the reduced produce from the land meant an increase in their consumption expenditure for food. Chaman dedicated a lot more of his time to his children, in addition to taking care of the land and their goats. Because of this, he finds it difficult to find enough work since opportunities in the local labour markets are available mostly in the mornings when he is busy taking care of his children. He estimates that he will lose at least Rs. 10,000 in the form of labour income which he used to earn previously.

6. The family has not considered the expenses the household will have to incur for higher education of the children beyond school. In considering long-term education expenses, they will also need to think about long-term inflation risk. They will need access to financial mechanisms that will enable them to systematically save over the long-term and at the same time ensure that the value of their savings keeps up with inflation and earns sufficient returns over this period - so that it can be used to meet the education expenses as they become due.

A well-functioning financial system would help Shivani Devi's family by providing a range of financial services in the following ways:

1. Supply Shivani Devi and Chaman Singh with adequate life insurance that allows the family to continue living (upon the event of either's death) without compromising their living standards. This would entail access to an insurance policy that would cover them to the extent of their remaining human capital in the event of death. This would amount to human capital of Rs. 150,000 for Shivani Devi, assuming that she sustained her current income-earning capacity till the age of 60. The corresponding cover for

Chaman would be Rs. 270,000. They would also have access to purchase accident insurance, which would give them additional disability cover in case of disability due to accidents.

2. Enable her family to collect insurance payouts in an efficient manner without administrative delays, at a physical location that is easily accessible, and store the payout in a financial instrument which offers growth for the corpus as well as liquidity. Liquidity would enable Chaman to receive periodic payouts or to withdraw from the corpus as and when required to meet expenditures.

3. Provide long-term options to save funds for children's education and to plan for retirement, with inflation protection so as to enable the household to secure the future of their children as well as the retirement needs of Chaman.

Low Income households and small businesses need access to a range of investment and risk management products in order to enable financial well-being. These need to be easily accessible to the household. There are therefore two sets of strategic issues that need to be addressed here, one relating to distribution channels for these services and the other related to the types of products that need to be made available through these channels. The issues related to distribution channels will be addressed in this Chapter while those relating to specific products would be addressed in later Chapters which are specific to each regulator.

Integrated Distribution Channels

The current distribution channels available to most households comprises the local post office as a means to save, the agents of one or more insurance companies who offer pure life insurance or endowment plans, besides the possibility of a local bank branch or credit cooperative or MFI that she can approach for her credit needs. Options to invest in the national debt and equity markets as a way to reduce concentration of household investments in local physical assets are virtually non-existent.

The current delivery framework is characterised by dispersed entities focussed on a single product or product category. Even if a rural or semi-urban customer has access to such a front-end, she is unable to avail all the financial services she needs so as to secure herself. Such a situation severely compromises the financial wellbeing of the customer on account of the paucity of access, the absence of comprehensive service providers and the lack of customised solutions, leading to outcomes such as: (a) financial stress due to mismatches between frequency of cash-inflows and debt servicing frequencies; (b) over-investment in assets whose value is highly correlated with the state of the local economy; and (c) under-insurance against risk of accidental death of self or the death of livestock. From the perspective of providers as well a fragmented approach towards the provision of comprehensive financial services has also proved to be very expensive.

While, for access to payments services and routine transactions relating to deposit and investment products, a far more granular and therefore "lighter" presence would be required, for comprehensive financial services to be offered to customers, the Committee envisages the presence of financial institutions that would have a seamless front-end interface for clients to access a full range of services, all of which can be accessed through a one-time KYC process and an enrolment process that meets the requirements of all financial institutions and regulators. The institution may have physical branches that service remote pockets and target every last household and enterprise within its geography. The geographical spread of these local institutions may well be limited, but their strength will be the depth of penetration into local geographies enabling them to harness the benefits from economies of scope. Such a deep branch network will make it possible to build a granular understanding needed to design a range of financial products

and services required by those in that geography, be they individuals, households or enterprises. It would make possible the effective use of “soft” local information. With a granular understanding of the segments they serve, these institutions will be ideally placed to negotiate with AMCs/Insurance Companies and provide products and services that are suited to the context of the customer’s and her household’s realities. For instance, if a customer requires a life insurance cover for Rs. 10 lakh, the institution must be able to provide just that, and not end up under-insuring or over-insuring her due to the rigidity in pre-designed product features. If a customer needs a facility where she can make small investments and redemptions in a debt-linked mutual fund, of as small as Rs.10 a day, she must be able to do so in cash in a seamless manner.

In the context of the architecture discussed in this report, these comprehensive financial services providers would be either branches of Banks or NBFCs or their agents and would be stand-long agents of insurance companies or Asset Management Companies. One example of this is Cashpor Micro Credit, a Micro Finance Institution based in Uttar Pradesh.

Cashpor is established as a Section 25 Company and was one of the first Micro Finance Institutions in India. Cashpor is the Banking Correspondent of IndusInd Bank and mobilises savings on behalf of the bank. So far, in FY 2013 Cashpor has opened 69,458 savings accounts in 131 branches across 8 districts, of which 66 per cent have non-zero balances, with a total transaction volume of Rs. 12 crore - aggregate deposits of Rs. 7 crore and aggregate withdrawals of Rs. 5 crore. Cashpor also brought out two new products in this financial year to add to the BC savings account offering: recurring deposit accounts and fixed deposit accounts, with an eye to encouraging customers to develop stable, long-term, and consistent savings habits, earning higher rates of interest on their deposited funds. So far, 542 fixed deposit accounts have been opened with an aggregate balance of Rs. 1 crore, and 2,545 recurring deposits account opened, with an aggregate balance of Rs. 4 lakh.

Cashpor is a lender with its own balance sheet, where it largely provides the classic Micro Finance Joint Liability Group (JLG) loan, which it offers in weekly, fortnightly, and monthly repayment options. The ticket size of these loans ranges from Rs. 2,000 to Rs. 25,000 and the rate of interest charged is in the range of 25 per cent. Cashpor has also started branching out into newer credit products as indicated in the table below.

Table 5.1.1
Cashpor’s Credit, and Savings and Investment Products

Cashpor’s Credit Products		Cashpor’s Savings and Investment Products	
Micro Finance: Joint Liability Group (JLG) Loans	Women Empowerment Loan Safety (Emergency) Loan Energy Loan Health (Water, Sanitation) Loan	Micro savings: Savings and Deposit accounts available with IndusInd Bank via BC model	Old Age Pension: NPS-Swavalamban

In addition to mobilising savings and providing credit, Cashpor is also an Aggregator for the NPS-Swavalamban scheme, providing a pension like product for households in the

unorganised sector. The NPS-Swavalamban scheme was launched on a pilot basis in four branches in two districts in November 2012, with an uptake of 17,000 customers within two months. This was later expended to 206 branches in nine districts by February 2013. By the end of March 2013, a total of 20,012 clients had been enrolled. Most of these customers were eligible for the NPS-Swavalamban contribution of Rs. 1000.

However, to ensure that there is an orderly growth in the number and reach of such integrated providers, particularly in the context of small businesses and low-income households, a number of issues would need to be addressed including, the need for a Universal Electronic Bank Account (UEBA), consistent cross-regulator KYC guidelines, and consistent cross-regulator guidelines on agents.

Universal Electronic Bank Account

IRDA's AML/CFT Guidelines for General Insurers permits cash remittance of premiums up to a limit of Rs. 50,000. Beyond this amount, premium payments are only allowed through cheques, demand drafts, credit cards or other banking channels, excluding cash, in order to ensure that premiums are paid out of clearly identifiable sources of funds. Payments from insurance companies on account of realisation of claims are required to be made into the bank account of the beneficiary. This is done in order to ensure that funds reach the appropriate person. In the case of life insurance, claim payments upon death where the payment exceeds Rs.10,000 can be done only through Account Payee Cheques, or electronic payment methods approved by RBI.

As indicated earlier, customers can pay insurance premiums up to amounts of Rs. 50,000 in cash. However, there are restrictions on the routing of cash premiums that specifically impact NBFCs. NBFC customers are required to pay their premiums directly to the insurance company without the money touching the account of the NBFC[225]. In the current environment, this is a critical barrier in the ability of NBFCs to meaningfully provide insurance services. Since NBFCs do not have deposit taking capability, the committee recommends that the restriction on NBFCs being BCs of Banks be removed. Permitting NBFCs to source deposits on behalf of Banks will mean that customers of NBFCs can get a bank account (with the Sponsor Bank) that will enable savings and also allow insurance premiums to be paid directly from customer accounts. The concern around commingling of funds from deposit mobilisation and the NBFC's lending business can be addressed with the help of technology today which enables intra-day clearance of funds to greatly minimise this risk.

In this context, the Committee reiterates the need for a universal full-service electronic bank account for every citizen of India above the age of 18. Without this bank account a citizen can find herself excluded from many financial services crucial to her well-being. It also recommends that rather than being barred by regulation from doing so individual Banks be permitted to decide if NBFCs (including NBFC-MFIs) can be appointed as their BC or not. This will ensure that a full range of providers can start to serve the customer in a seamless and a low-cost manner.

Cross-Regulator KYC Guidelines

IRDA's AML/CFT Guidelines for General Insurers[226] places the responsibility of a robust AML/CFT on the insurer. It also requires a strengthening of the control of insurers (both general and life) over Corporate Agents through a list of rules and regulations covering performance of agents including mandatory assessment of KYC norms. The KYC process requires verification of documented identity and address proofs and a recent photograph. SEBI's circular on Uniform KYC for the Securities Markets[227] requires verification of both Proof of Identity and Proof of Address by the Asset Management Company.

As indicated in Chapter 3.1, proof of identity can be obtained by the individual from local authorities at the place at which they were born but proof of local address is much harder to obtain. The Committee therefore believes that a superior approach would be to insist on a strong proof of identity like Aadhaar in all cases and to require financial institutions to internally develop their own risk based processes which are linked to transactions monitoring and usage patterns to identify and address high risk cases once identity has been clearly established. And, since the UIDAI letter containing the Aadhaar number is itself not a very secure form of authentication, as there is the possibility that it can be forged. Aadhaar e-KYC provides for greater security with verification done through biometric authentication of the customer with the Aadhaar database. IRDA, SEBI and PFRDA have all issued circulars[228] permitting Aadhaar e-KYC to be used as proof of identity and address.

The Committee also recommends that instead of requiring each of their regulated entities to carry out their own KYC checks, Insurance Companies, Asset-Management Companies, Banks, and Non-Banking Financial Companies be permitted to rely on the KYC carried out by each other. Since all regulators have permitted the use of e-KYC, effectively UIDAI becomes the central repository for identity related information for the entire system.

Cross-Regulator Suitability Guidelines

A multi-product environment blurs the lines between regulatory domains and the worry with such an environment would be the task of ensuring protection of customers from miss-sale and from any dishonouring of post-sale service agreements. It is essential that a uniform framework for consumer protection be applicable across all regulators. This will be discussed in detail in Section 6.

Recommendations

5.1 Every resident should be issued a Universal Electronic Bank Account (UEBA) automatically at the time of receiving their Aadhaar number by a high quality, national, full-service bank. An instruction to open the bank account should be initiated by UIDAI upon the issuance of an Aadhaar number to an individual over the age of 18. The bank would need to be designated by the customer from amongst the list of banks that have indicated to UIDAI that they would be willing to open such an account with the understanding that it would attract no account opening fee but that the bank would be free to charge for all transactions, including balance enquiry with the understanding that such transactions' charges would provide the host banks with adequate compensation. The Bank would be required to send the customer a letter communicating details of the account thus opened. The Committee recommends that the RBI issue a circular indicating that no bank can refuse to open an account for a customer who has adequate KYC which specifically includes Aadhaar. [Identical to Recommendation 3.1]

5.2 RBI should require a strong Proof of Identity (POI) for each and every customer and a documentary proof of one national address but waive the requirement of documentary proof for the current address, for the purpose of opening a full-service bank account. It should instead enjoin upon banks to carry out careful tracking of usage and transactions patterns to ascertain the risk levels of the customer and take necessary action based upon risk-based surveillance processes developed internally by each bank. RBI must take the lead in developing this as a convergent approach to KYC across all regulators for their respective products. [Identical to Recommendation 3.2]

Chapter 5.2
Appointment of Agents

There are large variations in the guidelines relating to the appointment of agents by each regulator for each type of channel which are acting as an active barrier for the spread of investment and risk management products.

National Banks

Banks offer life and general insurance through the 'bancassurance' model where a bank and an insurance company form a partnership so that the insurance company can sell its products to the bank's customer base. Banks can carry out bancassurance through the Corporate Agent, Broker and 'Referral' models. Banks have traditionally relied on taking the Corporate Agent licence[229] for selling life and non-life insurance products, where the Bank is a tied agent to one life and one non-life insurance company. In this model, there is no risk participation by Banks and they are compensated by commissions from the Insurance Companies[230]. For instance, State Bank of India is a Corporate Agent for SBI Life Insurance, and HSBC is Corporate Agent for Tata AIG General Insurance.

Until 2013, Banks were not permitted to be brokers as per the Broker Guidelines of 2002[231]. This was because brokers were deemed to be entities that performed the insurance business alone. However, the new IRDA Licensing of Banks as Insurance Brokers Regulations 2013[232] now permit a Bank to act as insurance broker without the need to set up separate entity for the same, as was the case previously. This has been done so as to ensure that banks have the opportunity to represent the interests of customers and use their wide branch networks to offer greater choice and better service to customers. As in the case of Corporate Agents, there is no risk participation by Banks, and they are compensated by commissions from Insurance Companies[233]. Recent Draft Guidelines laid out by RBI on the subject clarify that Banks offering insurance broking services shall not enter into any arrangement for corporate agency or insurance referral business[234]. Banks are also permitted to enter into "referral" arrangements with Insurance Companies[235], whereby they offer branch space to personnel of the insurance company to operate in and sell their insurance products. Banks do not participate in the risk and are remunerated in the form of a fee that is negotiated with the insurance company.

Banks can also act as distributors of Mutual Funds and as Investment Advisors with prior approval of the RBI. Banks can be distributors of mutual funds but only in the capacity of agent of the customer (even if the AMC is a subsidiary of the Bank). As agents, Banks can forward investors' applications for purchase or sale of MF units to the Mutual Funds or the Registrars or the transfer agents. Banks should not acquire MF units from secondary market, or from customers[236]. Entry loads are not permitted and there are no transaction charges for subscriptions less than Rs. 10,000. Beyond that, there is a charge of Rs. 100 for existing customers and Rs. 150 for first time customers[237]. Banks can also act as Investment Advisors. All of the bank's remuneration in this case will be from the client, with nothing from the Asset Management Company. It is expected that the Investment Advisor will disclose any conflict of interest due to other activities to the client. There should be an arms-length relationship of the investment advisory services with rest of the activities of the Bank[238].

Regional Banks

Scheduled or licensed State Cooperative Banks and licensed District Central Cooperative Banks having a minimum net worth of Rs.50 crore are permitted by RBI to undertake insurance sales both as Corporate Agents (with permission from RBI) and on a referral basis (without permission from RBI)[239]. Many Regional Banks are Corporate Agents for the sale of insurance products. For example, Saraswat Cooperative Bank is a corporate agent for

Bajaj Allianz General Insurance and Tirunelveli District Central cooperative bank is an agent for United India Insurance.

AMFI has created two new categories of distributors, one containing Regional Rural Banks, DCCBs and NBFCs, and the other for UCBs and has considerably reduced distributor fees for these categories (now set at Rs. 50,000 and Rs. 10,000 respectively, as compared to previous fees of Rs.250,000), in order to increase retail participation from beyond Tier I and II cities[240].

Business Correspondents

Banks are permitted to appoint Business Correspondents (BCs) whose scope of activities includes the sale of mutual fund products, pension products, and micro-insurance products[241] and other third party products. A Microsave study[242] on the state of BCs in India finds that most BCs are mono-product, with a focus on deposit mobilisation on behalf of the Sponsor Bank. A few are dual product, offering savings accounts and remittances. Some BCs however provide insurance. For instance, Syndicate Bank[243] and Allahabad Bank[244] have tied up with Tata AIG and LIC respectively to sell their micro-insurance products through the banks' BCs. However, it appears that there is almost no activity in terms of investment and pension products being offered through bank BCs.

Non-Banking Financial Companies

Similar to Banks, NBFCs offer life and general insurance through the 'bancassurance' model where an NBFC and an insurance company form a partnership so that the insurance company can sell its products to the NBFC's customer base. NBFCs are also permitted to be Corporate Agent licencees[245] for selling life and non-life insurance products, for which the NBFC receives commissions from the insurance company it is the agent of[246]. In this model, there is no risk participation by the NBFC.

NBFCs are not permitted to be brokers as per the IRDA Broker Regulations. However, the IRDA "Report on Insurance Sub-broking in India" published in January 2013 envisages increasing the penetration of insurance products in rural locations by appointment of sub-brokers. This is an important pre-requisite for deepening insurance access in Tier 5 and Tier 6 locations of the country and consistent with the initiatives of other regulators such as the Aggregator and Sub-aggregator framework of PFRDA and the Business Correspondent framework of the RBI. NBFCs are ideally suited to this mission and the recommendations of this report now need to be implemented as soon as possible so that work on the ground can begin in earnest. There are however two issues that the recommendations must address:

1. It would be important to allow sufficient flexibility to Brokers and Insurance Companies to respond to the diversity in the distribution landscape. For example, the Report currently recommends limits on the total business volumes of Rs. 10 crore and premium per policy of Rs. 1 lakh for sub-brokers. Such specific operational details of the sub-broker arrangement may be best left to the judgment of the respective Brokers depending on the circumstances.

2. Only formal institutions (such as NBFCs) should be eligible to become sub-brokers rather than individual agents or unincorporated bodies. Stipulating some minimum capital requirement for sub-brokers would be effective in this regard. This would ensure that only serious entities are eligible and policies such as customer protection, and product Suitability, and online issuance of insurance policies becomes the norm since such entities would have the capacity to put in place the necessary infrastructure.

NBFCs are not permitted to enter into "referral" arrangements with Insurance Companies[247]. However, until 2010 there were no restrictions on such an arrangement. The 2010 regulations clarify that the referral company cannot be in the business of extending loans and advances, accepting deposits, trading in securities on its own account or on the accounts of customers. It is again unclear as to why this is a specific concern in the case of NBFCs alone and not Banks. As long as the same restrictions apply in both cases, such as the prohibition on the forced bundling of insurance with credit, in view of the Neutrality principle, NBCFs must be allowed to be able to enter into referral arrangements with Insurance Companies. Additionally, considering the need to reach out to un-served segments of the population, it is essential that an effective channel such as the NBFC be leveraged to its fullest potential in the delivery of insurance and other services.

NBFCs can act as distributors of Mutual Funds with prior approval of RBI. However, they are subject to some additional conditions such as: NBFCs need to have a minimum net owned funds of Rs. 100 crore, minimum capital adequacy levels, and net NPA levels and at least a 3-year history of profitability[248]. These requirements mean that the majority of NBFCs in operation currently will be unable to function as distributors of MFs and unable to use their branches to provide comprehensive financial services. Reaching out to all corners of the country and ensuring broad based participation by retail investors will require significantly large number of NBFCs operating in partnership with AMCs, offering at the very least access to Money Market Mutual Funds and Index Funds. They should be subject to a more dynamic set of criteria on eligibility and experience. NBFCs are permitted to be 'Aggregators' for the NPS-Swavalamban Scheme.

Recommendations

5.3 In keeping with the goal of creating integrated providers for financial services delivery, RBI should publish a guideline towards the appointment of entities regulated by it, including National Banks, Regional Banks, or NBFCs, as agents. This guideline should set out the following eligibility criteria for agents:

a. The Agent must not have been subjected to any disciplinary proceedings under the rules, regulations and bye-laws of a stock exchange, SEBI, RBI, IRDA, FMC, or any other regulator with respect to the business involving either organisation, partners, directors, or employees;

b. All Agents must be required to commit some capital against operating risks and customer protection risks for the business that they are engaged in. While the minimum amount may be structured as a Rs. 5 lakh security deposit from the agent, the amount may vary depending on the number of customers and volume of transactions;

c. There must be suitable limits on cash holding as also limits on individual customer payments and receipts;

d. Transactions should be accounted for and reflected in the Principal's books by end of day or next working day. Where the transfer of money from agent to Principal happens on the next working day, there should also be a stipulation that the agent should transfer the day's collections to a non-operative pooled collections account on the same day itself. To ensure this, the Agent has to maintain the account with a bank which has online fund transfer facility with standing instructions to transfer the funds to the designated pool account at

the end of each day. This ensures that the clients' funds are secure even if the agent goes bankrupt;

e. To counter the risk of repudiation of transactions, RBI should insist that every transaction be initiated by the customer. Biometric authentication can help achieve this. The log of each transaction must be maintained at the agent level. Each transaction must carry a transaction number and customer must receive the transaction receipt at the time of the transaction;

f. The Agent must have trained staff that can communicate with the clients about the details of the products and take full responsibility for communicating with the clients. The Agent must have a comprehensive human resource policy, including an incentive plan for staff that not only encourages them to achieve the business objectives but more importantly prevents mis-selling;

g. The Agent should adopt the Suitability principles of the RBI as well as those of the Principal's regulator. The Agent should also have a mechanism to address queries and grievance of the customer about the services rendered by it and publicise it widely through electronic and print media. All customer grievances should be addressed within a defined time frame.

RBI could then request each regulator to follow this integrated approach to Agent appointment for its respective products.

Chapter 5.3
Recommendations Regarding Investment and Risk Management Products

5.1 Every resident should be issued a Universal Electronic Bank Account (UEBA) automatically at the time of receiving their Aadhaar number by a high quality, national, full-service bank. An instruction to open the bank account should be initiated by UIDAI upon the issuance of an Aadhaar number to an individual over the age of 18. The bank would need to be designated by the customer from amongst the list of banks that have indicated to UIDAI that they would be willing to open such an account with the understanding that it would attract no account opening fee but that the bank would be free to charge for all transactions, including balance enquiry with the understanding that such transactions' charges would provide the host banks with adequate compensation. The Bank would be required to send the customer a letter communicating details of the account thus opened. The Committee recommends that the RBI issue a circular indicating that no bank can refuse to open an account for a customer who has adequate KYC which specifically includes Aadhaar. [Identical to Recommendation 3.1]

5.2 RBI should require a strong Proof of Identity (POI) for each and every customer and a documentary proof of one national address but waive the requirement of documentary proof for the current address, for the purpose of opening a full-service bank account. It should instead enjoin upon banks to carry out careful tracking of usage and transactions patterns to ascertain the risk levels of the customer and take necessary action based upon risk-based surveillance processes developed internally by each bank. RBI must take the lead in developing this as a convergent approach to KYC across all regulators for their respective products. [Identical to Recommendation 3.2]

5.3 In keeping with the goal of creating integrated providers for financial services delivery, RBI should publish a guideline towards the appointment of entities regulated by it, including National Banks, Regional Banks, or NBFCs, as agents. This guideline should set out the following eligibility criteria for agents:

a. The Agent must not have been subjected to any disciplinary proceedings under the rules, regulations and bye-laws of a stock exchange, SEBI, RBI, IRDA, FMC, or any other regulator with respect to the business involving either organisation, partners, directors, or employees;

b. All Agents must be required to commit some capital against operating risks and customer protection risks for the business that they are engaged in. While the minimum amount may be structured as a Rs. 5 lakh security deposit from the agent, the amount may vary depending on the number of customers and volume of transactions;

c. There must be suitable limits on cash holding as also limits on individual customer payments and receipts;

d. Transactions should be accounted for and reflected in the Principal's books by end of day or next working day. Where the transfer of money from agent to Principal happens on the next working day, there should also be a stipulation that the agent should transfer the day's collections to a non-operative pooled collections account on the same day itself. To ensure this, the Agent has to maintain the account with a bank which has online fund transfer facility with standing instructions to transfer the funds to the designated pool account at

the end of each day. This ensures that the clients' funds are secure even if the agent goes bankrupt;

e. To counter the risk of repudiation of transactions, RBI should insist that every transaction be initiated by the customer. Biometric authentication can help achieve this. The log of each transaction must be maintained at the agent level. Each transaction must carry a transaction number and customer must receive the transaction receipt at the time of the transaction;

f. The Agent must have trained staff that can communicate with the clients about the details of the products and take full responsibility for communicating with the clients. The Agent must have a comprehensive human resource policy, including an incentive plan for staff that not only encourages them to achieve the business objectives but more importantly prevents mis-selling;

g. The Agent should adopt the Suitability principles of the RBI as well as those of the Principal's regulator. The Agent should also have a mechanism to address queries and grievance of the customer about the services rendered by it and publicise it widely through electronic and print media. All customer grievances should be addressed within a defined time frame.

RBI could then request each regulator to follow this integrated approach to Agent appointment for its respective products.