



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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December 10, 2010

The Chief Executive Officers of
All Urban Co-operative Banks

Dear Sir / Madam

**Financial Inclusion by Extension of Banking Services – Use of Business
Correspondents / Business Facilitators by Urban Co-operative Banks**

The Reserve Bank had announced in its Second Quarter Review of Monetary Policy 2010-11 that well managed and financially sound Urban Co-operative Banks (UCBs) would be allowed to engage the services of Business Correspondents (BC) / Business Facilitators (BF) for furthering the objective of financial inclusion. The relevant paragraph of the Review is reproduced below.

“ Business Correspondents / Business Facilitator Model for UCBs

92. With a view to expanding the outreach of the UCBs, thereby furthering the objective of financial inclusion, it is proposed :

- to allow well managed and financially sound UCBs to engage business correspondents (BCs) / business facilitators (BFs) using information and communications technology (ICT) solutions.”

2. With the objective of ensuring greater financial inclusion and increasing the outreach of the UCBs in providing basic and affordable banking services in their area of operation, in public interest, it has been decided to consider requests from well managed and financially sound UCBs to engage Business Facilitator / Business Correspondent using ICT solutions. Accordingly, UCBs may, with the approval of their Board, formulate a scheme for use of Business Facilitators / Business Correspondents and ensure that the scheme is in strict compliance with the objectives and parameters laid down in this circular. The scheme may be submitted to the concerned Regional

Office of RBI and approval obtained before engaging the Business Facilitators / Business Correspondents.

Eligibility Criteria

3. Urban Co-operative Banks, which satisfy the following criteria are eligible to engage the services of Business Correspondents / Business Facilitators.

- (a) CRAR of more than 10 per cent;
- (b) Net NPAs less than 5 per cent;
- (c) No default in the maintenance of CRR & SLR during the preceding financial year;
- (d) Continuous net profit for the last three years;
- (e) At least two elected professional directors on the Board; and
- (f) Regulatory comfort based on, inter alia, record of compliance with the provisions of Banking Regulation Act, 1949 (AACS), RBI Act, 1934 and the instructions / directions issued by RBI from time to time.

Urban Co-operative Banks fulfilling the above conditions may approach the Regional Office (Urban Banks Department), RBI for permission to engage Business Correspondents / Business Facilitators.

Business Facilitator Model: Eligible Entities and Scope of Activities

4.1 Under the "Business Facilitator" (BF) model, UCBs may use intermediaries, such as, Non-Government Organisations / Micro Finance Institutions set up under Societies / Trust Acts, Farmers' Clubs, co-operative societies other than primary & credit co-operatives, 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, and individuals as Business Facilitators depending on the comfort level of the bank, for providing facilitation services. However, Directors of the UCB and their relatives (as defined in Para 2.2.7 of our Master Circular dated July 1, 2010 on Exposure Norms and Statutory/Other Restrictions) as also serving employees of the UCB are not eligible to act as Business Facilitators. The facilitation services may include: (i) identification of borrowers and fitment of activities; (ii) collection and preliminary processing of loan applications including verification of primary information /

data; (iii) creating awareness about savings and other products and education and advice on managing money and debt counselling; (iv) processing and submission of applications to UCBs; (v) promotion and nurturing Self Help Groups / Joint Liability Groups; (vi) post-sanction monitoring; (vii) monitoring and handholding of Self Help Groups / Joint Liability Groups / Credit Groups / others; and (viii) follow-up for recovery.

4.2 Where individuals are engaged as Business Facilitators, adequate precautions need to be taken and proper due diligence conducted. However, Directors of the UCB and their relatives (as defined in [Para 2.2.7](#) of our Master Circular No. 1 dated July 1, 2010 on Exposure Norms and Statutory/Other Restrictions) as also serving employees of the UCB are not eligible to act as Business Facilitators.

Business Correspondent Model: Eligible Entities and Scope of Activities

5.1 Under the "Business Correspondent" (BC) Model, NGOs / MFIs set up under Societies / Trust Acts, Co-operative Societies registered under Mutually Aided Co-operative Societies Acts or the Co-operative Societies Acts of States, other than primary / co-operative credit societies, Post Offices, retired bank employees, ex-servicemen, retired teachers, retired government employees, individual kirana / medical / fair price shop owners, Individual Public Call Office (PCO) operators, agents of small savings schemes of Government of India / Insurance Companies, individuals who own petrol pumps, authorised functionaries of well run Self Help Groups (SHGs) linked to UCBs or any other individual including those operating Common Service Centres may act as BCs. However, Directors of the UCB and their relatives (as defined in Para 2.2.7 of our Master Circular No.1 dated July 1, 2010 on Exposure Norms and Statutory/Other Restrictions) as also serving employees of the UCB are not eligible to act as Business Correspondents. UCBs may also engage companies registered under Section 25 of the Companies Act, 1956 provided that the companies registered under Section 25 are stand-alone entities or Section 25 companies in which NBFCs, banks, telecom companies and other corporate entities or their holding companies do not have equity holdings in excess of 10 per cent. If UCBs in North Eastern Region intend to engage as BCs any other organization / association not falling under any of the above categories of BCs, they may, after due diligence, approach the Regional Office of Reserve Bank of India at Guwahati for approval. UCBs 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.

5.2 In addition to activities listed under the BF Model, the scope of activities to be undertaken by the BCs will include (i) disbursal 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.

5.3 The activities to be undertaken by the BCs would be within the normal course of the bank's banking business, but conducted through the entities indicated above at places other than the bank premises. Accordingly, in furtherance of the objective of increasing the outreach of the banks for micro finance, in public interest, the Reserve Bank permits banks to formulate a scheme.

5.4 The arrangements with the BCs shall specify:

(a) suitable limits on cash holding as also limits on individual customer payments and receipts,

(b) the requirement that the transactions are accounted for and reflected in the bank's books by end of the day or next working day, and

(c) 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.

5.5 With a view to ensuring adequate supervision over the operations and activities of the BCs by UCBs, 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 should not exceed 30 kms in rural, semi-urban and urban areas and 5 kms in metropolitan centres. While engaging BCs, UCBs may ensure that the area covered by them is strictly within their eligible area of operation.

5.6 UCBs may conduct thorough due diligence of the entities proposed to be appointed as BCs and also institute additional safeguards as may be considered appropriate to minimize the agency risk keeping in view the indicative parameters given in Annex. In engaging intermediaries as BCs, UCBs should ensure that they are well established,

enjoying good reputation and having the confidence of the local people. UCBs may ensure that the individuals engaged as BCs are permanent residents of the area in which they propose to operate as BCs and also include additional safeguards as may be considered appropriate to minimize agency risk. UCBs may give wide publicity in the locality about the intermediary engaged by them as BC and take measures to avoid being misrepresented.

5.7 In case, the duly appointed BCs of UCBs desire to appoint sub-agents at the grass-root level to render the services of a BC, UCBs have to ensure that: (i) the sub-agents of BCs fulfill all relevant criteria stipulated for BCs in terms of the guidelines; (ii) the BCs appointed by them carry out proper due diligence in respect of the sub-agent to take care of the reputational and other risks involved; and (iii) the distance criterion of 30 kms. / 5 kms, as applicable, from the base branch should invariably be fulfilled in the case of all sub-agents. Further, where individuals have been appointed as BCs, they cannot in turn appoint sub-agents.

Service Charges and Payment of Commission / Fees for engagement of Business Correspondents / Business Facilitators

6.1 To ensure viability of the BC model, UCBs (and not BCs) are permitted to collect reasonable service charges from the customer, in a transparent manner under a board-approved policy. Considering the profile of the clientele to whom banking services are being delivered through the BC model, UCBs should ensure that the service charges / fees collected from the customer for delivery of banking services through the BC model are 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 the concerned Regional Offices of Urban Banks Department, Reserve Bank of India. UCBs should ensure that there are no complaints from the customers about the charges being non-transparent / not reasonable. Any unfair practices adopted by UCBs in this regard would be viewed seriously by Reserve Bank of India.

6.2 UCBs may pay reasonable commission / fee to the BFs / BCs, the rate and quantum of which may be reviewed periodically. [Paragraph 18](#) of Master Circular UBD. PCB. MC.No. 11 / 13.01.000 / 2010-11 dated July 1, 2010 on interest rates on rupee deposits may be treated as modified to that extent. The agreement with the BFs / BCs

should specifically prohibit them from charging any fee to the customers directly for services rendered by them on behalf of the bank.

Redressal of Grievances in regard to Services rendered by BFs / BCs

7.1 UCBs should constitute Grievance Redressal Machinery within the bank for redressing complaints about services rendered by BFs and BCs and give wide publicity about it through electronic and print media. The name and contact number of designated Grievance Redressal Officer of the bank should be widely publicized and also placed in public domain. The details of the grievance redressal officer should be displayed at the premises of the BC and also at the base branch. The designated officer should ensure that genuine grievances of customers are redressed promptly.

7.2 The grievance redressal procedure of the bank and the time frame fixed for responding to the complaints should be placed on the bank's website.

7.3 If a complainant does not get satisfactory response from the bank within 60 days from the date of lodging the complaint, he/she will have the option to approach the Office of the Banking Ombudsman (in case the complaint is against scheduled UCBs) or concerned Regional Offices of Urban Banks Department, RBI for redressal of grievances.

Compliance with Know Your Customer (KYC) Norms

8. Compliance with KYC norms will continue to be the responsibility of UCBs. Since the objective is to extend savings and loan facilities to the underprivileged and unbanked population, UCBs may adopt a flexible approach within the parameters of guidelines issued on KYC from time to time. In addition to introduction from any person on whom KYC has been done, UCBs can also rely on certificates of identification issued by the intermediary being used as Business Correspondent, Block Development Officer (BDO), head of Village Panchayat, Post Master of the post office concerned or any other public functionary, known to the bank.

Other Terms and Conditions for Engagement of BFs and BCs

9.1 As the engagement of intermediaries as BFs / BCs involves significant reputational, legal and operational risks, due consideration should be given by UCBs to those risks.

They should also endeavour to adopt technology-based solutions for managing the risk, besides increasing the outreach in a cost effective manner.

9.2 The implementation of the BF / BC model should be monitored closely by controlling authorities of UCBs, who should specifically look into the functioning of BFs / BCs during the course of their periodical visits to the branches. UCBs should also put in place an institutionalized system for periodically reviewing the implementation of the BF / BC model at the Board level.

9.3 In order to achieve greater penetration of banking service, UCBs may scale up their efforts substantially towards educating their clientele through various means - print, electronic etc., in their respective vernacular languages regarding the benefits of banking habit, the role of the BCs and their obligation towards the customers and give wide publicity about implementation of the BC model by them.

9.4 Information regarding BCs engaged by UCBs may be placed on the respective UCBs' websites. The Annual Report of the UCBs should also include the progress in respect of extending banking services through the BC model and the initiatives taken by UCBs in this regard.

9.5 For streamlining cash management, UCBs 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.

9.6 UCBs should ensure the preservation and protection of the security and confidentiality of the customer information in the custody or possession of the BCs.

9.7 UCBs 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. UCBs may consider providing reasonable temporary overdrafts to the BCs.

9.8 UCBs may develop suitable training modules in the local language/s, in order to provide proper attitudinal orientation and skills to the BCs.

9.9 UCBs may adhere to the extant RBI guidelines on adoption of appropriate technology as contained in the [Circular UBD.No. BPD \(PCB\) No. 2/09.18.300/2007-08 dated July 4, 2007](#), while implementing the BC model.

Yours faithfully,

(A. Udgata)
Chief General Manager-in-Charge

Encl: Annex



Indicative Parameters for Due Diligence of BF/BCs

The due diligence on entities to be engaged as the Business Facilitator / Correspondent shall factor the key risks and other risks identified of different capacities of entities. Some of the indicative parameters for due diligence of MFIs/ other entities while considering agency / funding relationship with them are given below.

(A) Due diligence in case of NGO/ MFI

(a) Charter and Registration – The foremost would be to examine whether the charter and objectives of the MFI / NGO permit it to undertake the kind of activities proposed, especially if it is some form of financial intermediation.

(b) Presence in the area – MFI / NGOs with adequate presence in the area for a reasonable time period would be preferable, as they would have developed better networking and understanding of local conditions.

(c) Management and Governance Structure - Many NGO/ MFIs are almost solely driven by the founders. It is essential to examine the composition of the governing body of the entity to assess if it can function independent of the promoter and if there is a second tier of management.

(d) Manpower Quality and Retention Rates – The quality of manpower from the perspective of undertaking the new task needs to be assessed. If not available in sufficient number, plans of the MFI / NGO to strengthen their manpower through recruitment and training are to be considered.

(e) Social vs. Profit Orientation – Often MFI / NGOs are social service oriented, which may hamper undertaking a task like financial intermediation. This needs to be carefully assessed as the two are vastly different competencies.

(f) Accounting Systems – The accounting systems and methods need careful study, especially in case the MFI / NGO is being considered for acting as a financial intermediary.

(g) Secular and Social Orientation – The MFI / NGOs should preferably be nondiscriminatory on caste, gender, political affiliation and religious lines. While its work could focus of specific groups or communities; it should not have any negative discrimination. The commitment of the entity for catering to the unserved, poor, and disadvantaged sections including women, etc. may be seen.

(h) Assessment of Donors Partners and Peers – Assessment of the MFI / NGO by the donors, partners and peers would be a crucial input in assessing the capabilities of the MFI / NGO. This can be obtained from independent discussions with the donors, partners and peers and the government agencies connected with such programmes.

(i) Financial Reporting – The financial reporting of the MFI / NGO will indicate both the transparency and compliance to the laws of the land. It is to be seen whether there is consistency in financial reporting to the reporting authority, government, and donors etc.

(B) Due diligence in case of a SHG Federation like Societies under MACS

In the case of the federated structure, the strength of the federation would depend on the health of the constituent SHGs, as the financial assets would be with the members of SHGs. Hence, the due diligence parameters would be a little different from a typical MFI. Some parameters for rating a Federation could be as follows:

(a) Governance Related

- (i) The federation should have a system of rating its constituent SHGs at periodic intervals, preferably six monthly. At least 75% of the SHGs should be rated on all the defined parameters.
- (ii) The federation should be a registered body and have capacity to enter into legal obligations.
- (iii) The federation should have a defined area of operation and have only primary SHGs as members.
- (iv) The federation should have an elected board which should meet at regular intervals.
- (v) The accounts of the federation should have been audited and placed before the General Body within 6 months of the closing of the accounting period.
- (vi) The federation should have filed all the statutory returns before the appropriate authority.

(b) Finance Related

- (i) The federation should be in operating profit from the thrift and credit operations.
- (ii) The thrift collections at the SHG level should be at least 90% of the determined amount.
- (iii) The share capital mobilization should not be in arrears.
- (iv) The federation should demonstrate a repayment performance of 90% or more on a continuous basis.
- (v) At least 95% of the Loan Assets should be in performing category.
- (vi) The federation should have made adequate loan loss provisions.
- (vii) The federation should have defined exposure norms for individuals and groups.

(c) Due Diligence in case of other entities

In case of entities other than MFIs and NGOs, a due diligence may have to be more rigorous. The important aspects which need to be seen are:

- (i) details of incorporation and promoters, (ii) details of management staff including qualifications, experience, other business activities, financial status, etc. (iii) particulars of employee level expertise. (iv) type of infrastructure available, (v) financials position, (vi) present business relationships and their status and (vii) adherence to the various local rules and regulations.
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