



HDFC BANK

**FINANCIAL INCLUSION THROUGH
Bank Linkage:**

BUSINESS CORRESPONDENT MODEL

Banking at the Bottom of the Pyramid

15th May, 2009

Need for Business Correspondent

To reach the unreached

- The branches of commercial banks and the RRBs in India have increased from 8321 in 1969 to 68,282 in 2005.
- The average population per branch office has decreased from 64,000 to 16,000 during the same period.
- However there are 135 million households in India are financially excluded (*Boston Consulting Group*);

Viability of bank branches in unbanked areas of India

- Normally a rural bank branch can serve 3000 to 4000 families in 12 to 15 villages within a radius of 15Kms.
- A PSU Bank branch may require a time frame of more than 5 years to break even in unbanked areas in India, while a private sector & foreign bank with IT connectivity may require about 5 times more.

Need for Business Correspondent contd...

- **Uniqueness in the requirement of financial services by the Excluded:**
 - Financial transactions of the Excluded are large in numbers & low in value and relate to simple deposits & withdrawals;
 - Once in a week or such infrequent kind of banking facility may be adequate for the Excluded;
 - Clients well known to local NGOs, Post Offices, BDOs and similar local social bodies;
 - To start with they do not require complex banking services;
 - Potential for containing transaction costs through 'simple to use' process, method & technology;
- **A better alternative than bank branch;**
- **International experience in promoting financial inclusion through Business Correspondents has well taken off with scale & reach.**



Salient Features of the Model



Benefits:

- The model will enable banks to extend financial services to the unreached beyond their branch network.
- The model will assist banks with lesser presence in the semi urban and rural areas.
- The model will facilitate to take the micro finance models especially the SHG/JLG to vast segment of the rural population.
- Effective tool for greater financial inclusion.

Risks:

- Reputational risk to the Bank;
- Legal and operational risks;



Through BC Model We brought...



Smiles & Self Respect

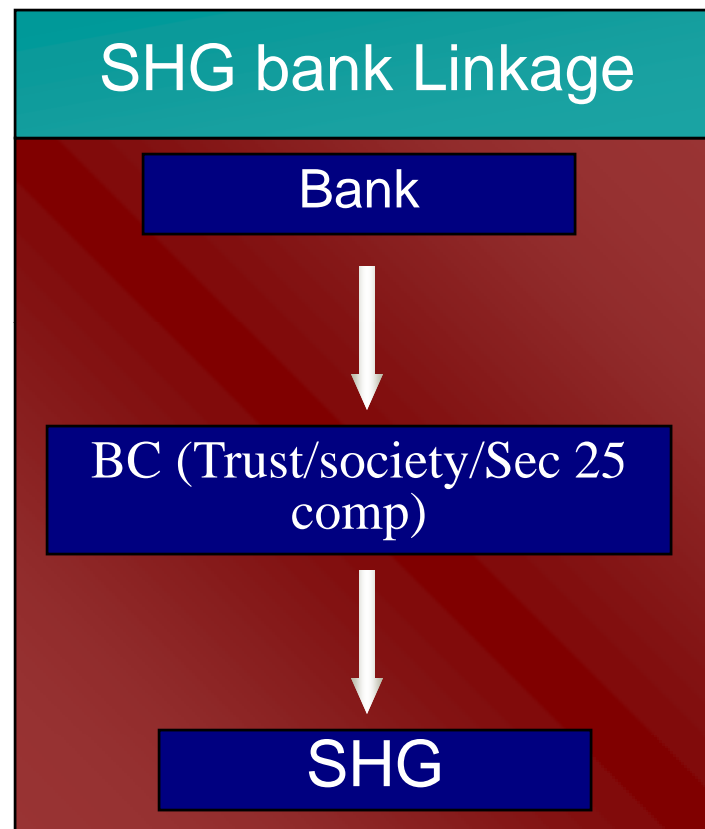
for

651,090 rural households

among the poorest of the poor in India

in 32 months

Bank's Business Correspondent Model



As per RBI's Business Correspondent (BC) model



BC Model: Performance snap shot as of March 09

- **Total loan disbursement** : **Rs.550 crores**
- **Families financially included** : **651,090**
- **No of operational states** : **13**
- **No of BCs (SHG Bank linkage)** : **203**
- **No. of 'No Frill Accounts' opened** : **43,406**

HDFC bank's success story in bringing socially neglected people into mainstream.

HDFC Bank has facilitated socially ostracised and economically disadvantaged section of the society into the mainstream of living under the Financial Inclusion.

The Financial assistance from the bank has supported them in undertaking livelihood activity and improve their standard of living and financial empowerment..

Details of the special clients Financially included.

Category	Households	Location
Tribals	2686	Hilly regions of Maharashtra, Madya Pradesh, Orissa, U.P, Tamilnadu, (Kalvarayan Hills & Kadmabur)
Handicapped	53	Neyveli and Chengam (Tamilnadu)
Narikuruva	27	Chidambarm (TamilNadu)
Tsunami affected	300	Villupuram District (Tamilnadu)
Sex workers	36	Orissa & Tamilnadu
Leprosy Affected	26	Mehaboob Nagar (AP)
Widow	10	Maharashtra
Street sweepers	12	Chengam (Tamilnadu)
Beggars	19	Rameswaram (Tamilnadu)
Total	3169	



BC Model: Bank's initiatives in Financial Inclusion

- ❖ **40,204 households/families belonging to SC/ST financially included.**
- ❖ **17,868 households/families belonging to Minority Community financially included**

BC model: Holistic inputs to the Excluded

❖ Financial Literacy:

5.56 lakhs families in the Bank Linkage programme have been made financially literate through training on the need for thrift, need for opening bank accounts, savings habit, proper enduse of credit facility, timely repayment etc.,;

❖ Technology intervention: Anywhere Banking Terminal (ABT):

Through simple POS located at BCs' premises & clients manage deposit and withdrawal of money in their accounts at their reach which provide convenient and hassle free account operation. Reduces operational risks;

❖ Insurance:

The bank in collaboration with various Insurance companies has enrolled more than 1.50 lakhs members under life insurance;

❖ Market Linkage:

Created a platform form for showcasing the art work and other transportable products of the clients for realising better value;

USP of Bank's BC Model

- ❑ **Doorstep banking - Disbursement and loan recovery at the doorsteps of the beneficiary**
- ❑ **Beneficiaries mostly located at unbanked and underbanked areas**
- ❑ **With technology, BCs and Hub & spoke model, we cover large number of clientele with less number of branches**
- ❑ **Scaling up within a short span of time**
- ❑ **Loan monitoring facilitation by the NGOs/BCs (who are the promoter/builder of the groups), which enhances quality of assets**
- ❑ **Timely & hassle free credit disbursement**
- ❑ **Transparency**

What made SHG Bank linkage through BC model succeed?

- ✓ Selection of quality BCs after Rating;
- ✓ Quarterly review and annual rating of the BCs;
- ✓ Effective counselling of BCs and clients;
- ✓ Effective communication of the terms and conditions of the Banking related transactions;
- ✓ Transparency & accountability;
- ✓ Cost effective & secured technological intervention: *Accounting of Bank transactions through ABT, validation through ID cards*
- ✓ Periodic training on financial literacy for clients
- ✓ Periodic direct calls by Field officers of the Bank on the clients & reconciliation of bank transactions;
- ✓ Counter check on client dealings through cross functional visits by RIC
- ✓ Direct delivery of welcome kit, repayment schedule of loan, quarterly statement of accounts;

BC Model: Issues and Challenges

Cash handling

- Allowing BCs to handle cash is the biggest issue & challenge. Most of the risks stem from this. It facilitates larger room for making the clients perceive that the BCs are the owners of the transactions and not agents;

Definition of Fraud: Compliance Vs business relationship

- Substitution of BC is time consuming, costly and ineffective;
- Problems are highly sensitive;

Reputational risk

- Fraud & Misappropriation by the BC;
- Lack of integrity with the BC;
- Improper communication to the customers by the BCs;
- Misuse of the 'say' on the clients by the BCs;

Operational risks

- Irregular accounting of the withdrawals and deposits by the clients with regard to the banking operations by the BC.
- Delay in accounting the banking transactions with the Bank by the BC;
- Cash transit risk at BC level;

BC Model: Issues and Challenges....contd..

Client profile:

- Mostly illiterate and are gullible, capable of being easily mis-guided by the BCs;

BCs' viability

- Shortage of grant support to BCs for meeting the group promotion costs;
- Financial constraint on the part of the BCs for capacity building initiatives;
- Inadequate capital adequacy and lack of & inadequate quality human resources development;

Viability of Bank's products

- PLR capping on the Bank lending constraints reaching unbanked areas warranting higher delivery cost;

Cash dealings

- 99% of the financial transactions are in cash, warranting high cost cash handling operation and added operational risks;
- Ensuring cash settlement by the BCs within 24 hours;

Distance criteria

- DCC approval system for distance deviation: No response or negative response

Way out to make BC model successful

- **Regulatory guidelines for BCs dealings**
 - *There should be a common platform/agency to regulate BCs, may be NABARD;*
 - *Registration for all prospective BCs with NABARD with minimum requirement on NOF, Annual financial returns to be followed by annual review system;*
 - *Need to ensure secrecy of client dealings: one BC with one bank only;*
 - *Deviation approval with NABARD instead of DCC or if DCC does not reject with reasons within 90 days, it should be treated as deemed approval;*
 - *NBFC MFIs (who have atleast 50% of their assets in Micro credit <Rs.50,000/-) should be allowed as BCs as they have the required strength (with continued restriction on them on deposit taking);*
 - *96 hours for settling transactions with the Bank instead of 24 hours;*
 - *Banks to be free to impose minimum security collateral on BC*
- **Eligibility criteria**
 - *Instead of distance, it should be effectiveness of Bank's control on clients with minimum communication and contact criteria*
- **Effective communication to prospective clients;**
 - *All documentation, advices and communications in local language and read to them;*
 - *Broadcasting a film to prospective clients on care to be followed by them;*

Way out to make BC model successful..contd...

- **The BCs need to be arranged for adequate support & assistance for capacity building & training;**
 - *BCs and their staff to be encouraged or directed to attain minimum banking training – common programme by NABARD or Banks (like Insurance products);*
 - *Support through govt sponsored social programs*
- **Terms of relationship with BC**
 - *Compensation based on a transparent, but differential structure based on rating;*
 - *Bank to direct BC to insitutionalise their management through a committee of Board members of the NGO with Bank's representation thereon;*
- **Eventually cash need to be sucked out through bank settlement by**
 - *Bringing the counterparties into banking fold;*
 - *Inter-operability among banks: NEFT/RTGS type of inter-bank settlement;*
- **Blacklisting of BCs**
 - *Irregular BCs and promoters need to be blacklisted by NABARD at the recommendation of the Bank. Every govt or other developmental agency should be requested to advise the NGO to obtain satisfactory rating from NABARD/Bank every year before awarding project or renewal;*

Way out to make BC model successful..contd...

- **Operational regulations on BCs**
 - *Transactions by clients to be restricted at BCs' offices and each BC to be monitored through a concurrent audit system by the Bank's field officer;*
- **Bank's viability on rural products**
 - *Free interest cap on PSL loans in rural sector or allow the BCs to charge a reasonably regulated service charge from the loan clients;*
- **Common platform for MIS**
 - *Credit information bureau and unique national ID for all BCs and rural/Micro clients*
- **Use of cost effective & secured technology support by banks**
 - *Setting up a low cost technological platform for transaction & MIS*



THANK YOU

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