Business Correspondents and Facilitators

Pathway to Financial Inclusion?
The retreat on the Business Correspondent (BC) model was jointly organised by the College of Agricultural Banking (C.A.B.), Reserve Bank of India and ACCESS. These efforts were further supported by CGAP through its research and global learning agenda. The retreat sought to share the lessons of the BC story thus far with the aim of accelerating further innovation and development of the BC model across India. Over 50 participants spent the day sharing their experiences and opinions, finally concluding that the model had the potential to be very successful; nevertheless, much still needed to be done to validate its inclusion in the sector. The central theme that emerged from the session was that the model was still in its initial stages of adoption and that future efforts would need to concentrate on instituting changes at the industry- and regulatory-level if the BC channel was to be made viable and profitable. The participants demonstrated their dedication towards making the model work and enabling greater financial inclusion.

Business Correspondents and Facilitators
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1. Introduction

In Jan 2006, the Reserve Bank of India issued a new set of guidelines (see Annex 2) allowing banks to employ two categories of intermediaries - Business Correspondents (BCs) and Business Facilitators (BFs) - to expand their outreach. According to the guidelines, while the BCs are permitted to carry out transactions on behalf of the bank as agents, the BFs can refer clients, pursue the clients’ proposal and facilitate the bank to carry out its transactions, but cannot transact on behalf of the bank.

These new guidelines have arrived at the same moment when a vast array of new technologies is available, offering new and inexpensive ways for transactions to be managed from remotely located offices. The combination of these new technologies with the new guidelines has inspired a number of efforts in India to experiment with the BC/BF model. These efforts use a variety of new technologies – for example, POS Devices and Mobile Phones – to secure and process transactions. New organizations are being formed to offer BC services. Some of the efforts also include responding to government policy to open ‘No Frills Accounts’ and to process Government payments (G2P) such as the National Rural Employment Guarantee Scheme, Pensions and other social payments.

While all this holds potential, the experiences are still mixed and there is a general consensus that the scheme has not taken off in the way it was envisioned. There is some sense that the existing regulations do not allow sufficient flexibility for the BC arrangement to be viable. However, some hope prevails, that the existing guidelines do allow just enough space where viable models could still emerge. The experiments underway offer an opportunity to examine the different experiences, different models, choices of technology and the viability. There is also a feeling that most banks have not really given the BC arrangement the kind of push it requires considering its future potential.

To take stock of progress in the field and share key learnings of the BC/BF scheme with a wider audience the College of Agricultural Banking (CAB) and ACCESS jointly organized a policy retreat on May 15, 2009 at CAB Campus, Pune. The event was sponsored and supported by CGAP. The primary objective of the event was to accelerate clear and coherent learning from the implementation experience (howsoever limited) from pilot schemes underway to ensure that scaleable and sustainable models emerged. Several banks, business correspondent/facilitators and technology vendors were present and contributed to

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1 These are referred to as Electronic Benefits Transfer by RBI
the rich discussions. While the event was open for both BC and BF discussions, the majority of the discussions focused on issues related to the BC model as a larger number of pilots were linked to making BCs operational.

### 2. The Basics of the BC Banking Channel

Banks operate a number of channels through which they deliver financial services: branches, ATMs and the internet are the traditional channels. The Business Correspondent option offers a new channel through which banks can extend services – the guidelines are written in a way which requires a bank to be involved and is the ultimate provider of services. While RBI has oversight and regulatory responsibility for the BC banking channel as part of its regulatory regime, the principal banks are responsible for the acts of their correspondents.

This new channel works through a process of collaboration by the bank with one or more partners. These partners often include:

- **Technology Vendors**, who provide a range of hardware and processing capacity and connectivity which can link clients to BCs and BCs to the bank.

- **Business Correspondents**, which are organizations or individuals that organize and offer one or more points of transaction outside of bank branches. The BCs organize and manage a network of such transaction points in partnership with a bank.

- **Customer Service Points**, are individuals, shops or other outlet points which are responsible for the direct contact with the clients. CSPs open bank accounts, conduct KYC, cash out withdrawals, receive payments and in some cases, extend credit.

For the channel to become financially viable, regulations require that all revenue from the services be collected by the bank. The Tech Vendors, BCs and CSPs are not permitted to charge fees to clients for the services. The bank’s revenue may come from the extension of services: accounts, savings, credit and payments. The Bank under contractual relationships then makes payment of service charges to the BCs and Technology Vendors.

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2 CSPs are usually set up by the BCs.
In order for the BC Channel to work the bank must work in collaboration with some or all of the different component partners who make up the BC Banking channel. It is well understood that all the constituent pieces of the channel will have to work in tandem, be motivated to participate and receive appropriate revenues in order for the channel to grow and prosper. While there are many arrangements which are currently being tested, there is no single successful approach.

3. Bank’s response to BC Option

Approximately 15-20 banks have piloted the BC model for expanding their operations. SBI among the public sector banks has been trying to recruit as many BCs as possible (and some BFIs too). Among private banks, ICICI Bank and HDFC have taken the lead in making use of the scheme. Several other banks such as Indian Bank, Canara Bank, Union Bank of India, Corporation Bank, Punjab National Bank, Oriental Bank of Commerce, Andhra Bank, Axis Bank have also tested the model.

Banks have taken on NGOs and MFIs as BCs. In some cases, even individuals such as village grocers, dealers in agricultural inputs and retired bank officials have been engaged as BCs.

3.1 Various models employed by banks

Banks have sought out a range of different partners and offered a range of different banking services through the scheme. In some cases the banks have used the BC option to open large numbers of ‘No Frills Accounts’ in response to a policy push from the Government of India. In some cases this has also been combined with channeling government payments (G2P) such as NREGS, Pensions and other social payments. In a few cases, the focus has been on extending credit either in partnership with an MFI or through a relationship with a SHG Federation or network. The big difference in performance and partnerships appears to be between those BC efforts that are account and savings focused, versus those that focus on delivering credit services. The partners chosen, products offered, costs incurred and revenues earned under these different models can be quite different.

Table 3.1 Examples of Bank BC Experiments

<table>
<thead>
<tr>
<th>Bank</th>
<th>Products offered</th>
<th>Number of BCs enrolled</th>
<th>Number of operational states</th>
<th>Clients reached</th>
<th>Loan disbursed (Rs. in cr.)</th>
<th>Deposits (Rs. in cr.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDFC</td>
<td>Primarily loans through SHG Bank Linkage</td>
<td>203</td>
<td>13</td>
<td>6,50,000+</td>
<td>550</td>
<td></td>
</tr>
<tr>
<td>ICICI</td>
<td>Offering loans, savings products, recurring deposits and fixed deposits</td>
<td>48</td>
<td>13</td>
<td>5,00,000 +</td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Bank of India</td>
<td>Primarily Smart card based no-frill savings accounts</td>
<td>33³</td>
<td>All India</td>
<td>27,00,000 +</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KBS LAB</td>
<td>Savings/ term deposits, loans</td>
<td>1</td>
<td>AP- 3 districts</td>
<td>13,400+</td>
<td>11</td>
<td>2</td>
</tr>
</tbody>
</table>

³ 6 BCs operate at national level and 27 operate in respective states
3.2 Advantages of using BCs

Some of the advantages in using BCs as listed out by various banks are:

- **A better alternative than bank branches** - Normally a rural bank branch can serve 3,000 to 4,000 families in 12 to 15 villages within a radius of 15kms. A Public Sector Bank branch may require 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. Further, obtaining permission to open a branch is a long and protracted process. The BC option potentially enables banks to reach out much faster and at a much lower cost.

- **Reaching the unreached** - The model enables banks to extend financial services to the unreached clients beyond their branch network as beneficiaries of the BCs are mostly located at unbanked and underbanked areas.

- **Doorstep banking** - Disbursement and loan recovery at the doorsteps of the beneficiary.

- **Better quality of assets** - Target clients are well known to local NGOs, Post Offices, BDOs and similar local social bodies, thus loan facilitation by the NGOs/BCs (who are the promoter/builder of the groups) enhances quality of assets.

- Scaling up of this model is possible within a short span of time.

3.3 Early data on viability of BC model for banks

Data was collected from 4 Bank-BC relationships. These were SBI/FINO Fintech, SBI/Zero Mass Foundation, KBS/IGS, SBI/Eko. When aggregated, this data covered 2.4 million clients reached over a combined 39 month period. The revenue and cost data reflects the combined results and overall the Rs. 16.33 revenue per client is only one-fourth of the total costs incurred of Rs. 62.71 to date.

**Revenues earned by reporting banks using BC model (Rs./client)**

<table>
<thead>
<tr>
<th>Total Revenue</th>
<th>From Credit</th>
<th>From Savings</th>
<th>From Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>16.33</td>
<td>11.94</td>
<td>1.03</td>
<td>3.25</td>
</tr>
</tbody>
</table>

**Costs incurred by reporting banks (Rs./client)**

<table>
<thead>
<tr>
<th>Total Costs</th>
<th>Paid to Tech vendor</th>
<th>Paid in Taxes</th>
<th>Paid for Capex</th>
<th>Paid to BC</th>
<th>Cost of Capital</th>
<th>Expenses for Staff</th>
<th>Expenses for Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>62.71</td>
<td>33.79</td>
<td>8.59</td>
<td>6.14</td>
<td>5.15</td>
<td>4.37</td>
<td>3.61</td>
<td>0.64</td>
</tr>
</tbody>
</table>

The costs and revenues indicated above are not directly comparable. Some of the costs are not current in nature and need to be amortised over a longer period as they are in the nature of investments in client development and systems development for business expansion.

3.4 Challenges to the BC Model from the Bank’s Perspective

All the banks reported many operational issues/risks, viability issues and regulatory concerns in employing BCs for banking services. These were:
Operational issues

• **Cash handling** - Allowing BCs to handle cash is the biggest challenge. Ninety-nine percent of the financial transactions are in cash, warranting high-cost cash-handling operations and added operational risks. Moreover, clients tend to perceive that the BCs are the owners of the transactions and not facilitating them on the banks’ behalf.

• **Irregular accounting** - Irregularities have been observed in accounting of clients’ withdrawals and deposits by BCs and as a result there are delays in accounting the banking transactions with the Bank by the BC.

• **Gullible client profile** - Recipients of BC services are mostly illiterate and unfamiliar with technology rendering them susceptible to misguidance by the BCs.

• **Fraud & Misappropriation** - Since the BCs’ staff operate individually without any line supervision, the risk of fraud and misappropriation is higher. There have been instances noted of miscommunication by BCs. Failure to account for cash and falsification of records have been noticed and dealt with by banks.

Viability issues

• **Inactive ‘No Frills Accounts’** – The majority of No Frill Accounts opened by BCs are not operational. In some locations that have achieved 100% financial inclusion, the accounts in use have been less than 25%. The average balances in savings accounts have been very low at unviable levels for banks.

• **Model Viability** - There’s a shortage of funding to BCs for meeting the group promotion costs in the case of SHG-Bank linkage models. In addition, there are financial constraints on the part of the BCs for capacity-building initiatives, such as investing in training for their staff.

• **BCs losing money** - Initial losses are forcing many BCs to shut their operations. Business continuity risk in such cases is impacting banks adversely. It is time-consuming, costly and ineffective for banks to substitute these BCs with new entrants.

Regulatory concerns

• **Interest capping** - Reaching unbanked areas warrants higher delivery costs and the rate cap doesn’t allow much room for banks to recover the costs necessary to extend credit to hard-to-reach areas and in small amounts.

• **Distance criteria** – Banks do not always find it easy to get service area waivers from District-level Committees which are necessary to operate in certain areas. A number of requests are pending for approval and many requests have been rejected without any explanation.

• **Cash settlement** - Current regulations mandate BCs to complete accounting and settle cash with bank branches within 24 hours of transaction. Given the area of operation of BCs - rural areas with accessibility issues - making settlements within a prescribed timeframe have become a challenge.
4. Experience of BCs

To date, a range of organizations and even individuals have played the role of Business Correspondent. This includes newly formed not-for-profits (often Section 25s), NGOs, MFIs and even village grocers, dealers in agricultural inputs and retired bank officials have been used as facilitators. The Post office has tied up with SBI.

In some of the better known examples, BCs are closely associated with a Technology Vendor (through related party ownership and sponsorship). For instance, there is a close relationship between the following organizations:

<table>
<thead>
<tr>
<th>Business Correspondent Company</th>
<th>Related Technology Vendor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eko Aspire Foundation</td>
<td>Eko Financial Services Ltd.</td>
</tr>
<tr>
<td>FinTech Foundation</td>
<td>FINO</td>
</tr>
<tr>
<td>Zero Mass</td>
<td>A Little World</td>
</tr>
</tbody>
</table>

4.1 Different BC Approaches

BC approaches being tried in India can generally be categorized into three separate buckets:

a. Acquisition & Transactions Platform

Banks contract the services of a BC company (and related Technology Vendor) to open smart card based No Frills saving accounts on a large scale. In some cases, NREGS and other government payments are transferred through these accounts. The largest experiments include Zero Mass (with A Little World), Fintech Foundation (with FINO), and Indian Grameen Services (a member of the Basix group). This approach entails large-scale opening of new accounts for banks. When combined, these efforts have facilitated the opening of several million accounts in the last two years; however, the subsequent transactions on these accounts have been minimal to date.

b. NGOs/MFIs

A number of NGO-MFIs have enrolled as BCs to offer credit, savings, insurance and remittance services. Under this approach the MFI seeks to offer additional services on top of what it already offers (often extending new savings services in addition to the already provided credit). Given the relatively small scale of operations of not-for-profit MFIs in India, this category of BC experiment has been on the relatively smaller scale in terms of numbers of clients reached. It is important to note that the largest MFIs are for-profit NBFCs and are therefore not permitted by regulation at this time to be used as BCs by banks.

c. Dedicated bank channel

In a unique case, close cooperation exists between Indian Grameen Services and KBS Local Area Bank whereby the BC (IGS) serves as a service extension point doing underwriting, sales and transactions – a quasi-branch. This unique experiment offers an example of what can be done when a bank sees the BC as a central part of its strategy. Based on the information on financial transactions provided by banks, this is the only known BC experiment where the BC channel is seen to be profitable.
<table>
<thead>
<tr>
<th>BC</th>
<th>Products offered</th>
<th>Partner Banks</th>
<th>Customer Service Points</th>
<th>Technology Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eko Aspire</td>
<td>Savings, Remittances</td>
<td>SBI</td>
<td></td>
<td>Provided by related Eko Financial Services Ltd. and they use Mobile phone based SMS to transact payments. Relies on MIFOS for backend</td>
</tr>
<tr>
<td>Foundation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basix</td>
<td>Savings, Remittances, micro-credit, micro-insurance</td>
<td>Axis Bank</td>
<td></td>
<td>A Little World</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8000</td>
</tr>
<tr>
<td>Zero Microfinance</td>
<td>Savings, Remittances</td>
<td>Various banks</td>
<td>8301</td>
<td>A Little World</td>
</tr>
<tr>
<td>and Savings Support</td>
<td>and Savings Support Foundation</td>
<td></td>
<td></td>
<td>3.6 million</td>
</tr>
<tr>
<td>Foundation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drishtee</td>
<td>Savings, Loans</td>
<td>SBI, HDFC</td>
<td>450</td>
<td>For SBI- A Little World is the technology partner. It uses thumb impression reader, cards, thermal printer and mobile phones. For HDFC: It uses magnetic strip card and POS with mobile connectivity</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Swadhaar Finaccess</td>
<td>Savings</td>
<td>ICICI Bank, Citibank</td>
<td>9</td>
<td>FINO</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6009</td>
</tr>
</tbody>
</table>

### 4.2 Challenges faced/Issues

Some of the issues/challenges in this model as listed out by various BCs are-

- **Dormant accounts** - BCs report that more than 80% of saving accounts opened by clients are inactive, thus transactions after account opening have been minimal. End beneficiaries need to be financially literate to make apt use of banking services and services need to be more specifically designed to meet demand.

- **Viability problems** – The commission paid by banks for BC services is not adequate to produce viable business models. There are costs involved in staff salaries and training and the current compensation structure does not cover costs. A majority of BCs reported significant losses and some have already suspended their operations.

- **Community mobilization** - Mobilizing communities for banking services especially savings is a big challenge for the BCs. Due to previous bad experiences, potential clients were unwilling to accept BCs as deposit-taking organizations.

- **Training requirements** - In some relationships, banks are providing training to BC staff but still
capacity for internalizing new technologies, new products and systems remains a big challenge.

- **Technology integration** - Integrating their existing technology with the bank’s technology is also a challenge in many cases.

- **Role of CSPs** - Questions were raised on the role of Customer Service Points; are CSPs simply transaction points or can they also provide sales and product services on the part of the bank?

### 4.3 Early data on BC models viability

Cost and revenue data on BCs was collected from 5 Bank-BC relationships. These were Eko Aspire Foundation/SBI, IGS/Axis Bank, IGS/KBS LAB, KAS Foundation/ICICI and Swadhaar Finaccess/ICICI. In total, the data covers 58,000 clients acquired by BCs over a period of 73 months. The combined cost and revenues per client showed the following:

#### Revenues Earned by BCs per client (Rs.)

<table>
<thead>
<tr>
<th>Total Revenue</th>
<th>From Credit</th>
<th>From Savings</th>
<th>From Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>154.65</td>
<td>128.61</td>
<td>22.45</td>
<td>3.02</td>
</tr>
</tbody>
</table>

#### Costs Incurred by BCs per client (Rs.)

<table>
<thead>
<tr>
<th>Total Costs</th>
<th>Paid to Staff</th>
<th>For Operations</th>
<th>For Capex</th>
<th>For Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>364.09</td>
<td>191.49</td>
<td>147.96</td>
<td>13.69</td>
<td>10.96</td>
</tr>
</tbody>
</table>

### 5. Way forward

The day’s discussions brought participants up-to-date on the current efforts and preliminary data arising out of BC transactions. The event highlighted the fact that the BC banking channel is still not financially viable and that both the industry and regulators need to consider ways in which the channel can improve its service offerings and financial performance. Without an operationally and financially viable channel, the promise of reaching many millions of poor Indians will not likely be possible with the BC option.

#### 5.1 Ideas Discussed for Industry: Banks, BCs and Technology Vendors

- **Building industry-level data** or better information on business viability of BCs could be beneficial for the stakeholders, to better analyse the model. The industry could lead an effort to share information and generate industry-wide data. This could be facilitated by RBI endorsement of the idea, especially with participating banks. Industry data-tracking could include:
  
  - account usage,
  - coverage/outreach,
  - costs of delivery,
  - revenue generation

- **Develop viable BC channels**. Banks and BCs need to give more focus and attention to the financial viability of the channel. Currently a lot of the focus is on the number of accounts opened
and the financial inclusion results achieved. However, many years of lessons from unprofitable and unviable service delivery models shows that such efforts are eventually discontinued or rarely go to scale. Banks and BCs should focus their time and effort and report out to regulators and others on the financial viability of the BC channels they are innovating and building.

- **Establishing better standards and capacities of BC.** BCs and their staff to be encouraged to gain minimum banking knowledge and skills; common programmes should be instituted by the regulator or banks (like Insurance products); support should probably be provided though government-sponsored social programmes

- **Cross-subsidy as in case of SHG -** Bank Linkage Programme is required to absorb initial investment costs

- **Improve client adoption and better meet client needs.** Several thoughts and ideas emerged on the subject of adequate client education and the tailoring of services to their needs. It was determined that more demand-side research was needed to assess what clients really wanted, how much they are willing to pay and why they chose not to use many of the current services being offered.

- **BCs and Banks should try to build client confidence** by offering services such as remittances and then graduate to savings products

- **No Frills Accounts should be treated as first steps** and supply-side payments like NREGA payments, old age pensions, etc should be routed through these accounts to enhance their usability.

- **Improve coordination and interoperability between banks and BCs.** More could be done to think about a future scenario where banks and BCs engage in a range of channel management relationships.

- **Invest in new low-cost technological platforms for transaction & MIS**

### 5.2 Ideas Discussed for Regulators

- **BC selection criteria:** Already existing contact points such as STD phone booths (more than 100,000+ operate in India), Common Service Centres (opened by Ministry of Information Technology), Kirana stores, Fair price shops etc could be allowed to operate as BCs. The BC outlets may be viable if they act as multi-service outlets. MFI-NBFCs (who have at least 50% of their assets in Micro credit <Rs.50,000/-) should be allowed as BCs as they have the required organizational strength and are well-versed in this business

- **Flexibility with pricing:** Interest rates on priority sector loans in the rural sector should be delinked from the current stipulation of charging 2% below the PLR norm or BCs should be allowed to charge a reasonably regulated service fee from the clients. Fees for services availed could also result in seriousness among clients to make use of services provided.

- **Distance criteria:** The importance of distance of the BC from the bank branch should not be so overstated, the criterion should rather be whether the bank is actually able to supervise the BCs activities. Instead of distance, the focus should be on the effectiveness of the bank's control on BC transactions with minimum communication and contact criteria. Use of offsite
telemetric methods allows every transaction to be monitored and assessed back if required. Today, it’s possible to measure and capture micro-transactions on real-time basis. Distance deviation approval, if required, could lie with the common regulator instead of the DCC, or if the DCC does not reject with reasons within 90 days, it should be treated as deemed approved;

- **Relaxed settlement timelines**: BCs, given their areas of operation could be allowed a maximum of 96 hours for settling transactions with the Bank instead of the current 24 hours. However the decision on this should be taken by the bank after considering the area of operation and BC’s capabilities.

- **Regulator for BCs**: There could be a common platform/agency to regulate BCs (perhaps NABARD). All the BCs should be registered with minimum financial net worth requirement. This can also help in blacklisting irregular BCs and promoters at the recommendation of the Bank. Every government or other developmental agency should be requested to advise the NGO to obtain a satisfactory rating from the regulator/bank every year before awarding a project or renewal.

### 6. Conclusion

The message that comes out of the event is loud and clear - the focus of the model has to shift significantly to ensure that it finds space in the business strategies of the banks and not in the footnotes of their annual reports. The BC model is in its infancy. The different experiments being tried out enhance the understanding and the skill sets of the sector to make the model a viable and feasible instrument of increasing financial services outreach. In the initial stages, the focus seems to be on inclusion. The experiments are by and large not treating the BC-led inclusion as a commercial prospect and seek to contain costs, not only of the current kind but also of investments which are critical from a long-term point of view. The regulatory stance is to learn from ongoing implementation and incrementally remove hindrances as is seen in the recent relaxation of distance norms for BCs’ operations. This stance while not entirely proactive, is sufficiently supportive. While the technology service providers have taken a keener interest to prove the practicability of the model, they necessarily focus on technology aspects rather than the customer aspects. The key to success of BCs lies in banks making client acquisition and business expansion a business proposition; and not treating it as a CSR activity. When BC becomes an instrument of business expansion and profitability, banks will ask different questions and find practical answers to the many problems that exist today.
Origins

- Began in the 1990s as a way of controlling the 20 years of high inflation and to improve Brazil’s social programmes. All bills were previously paid in bank branches which posed a problem in the North and Northeast region, as banks were inaccessible. Also, the government gave benefits to families to keep their children in school; but it was nearly impossible to distribute the benefits with the lack of accessibility to banks.

- The model started with the extensive lottery network being able to perform transactions. Regulation was then changed to allow any non-financial institutions to act as agents.

Progress

- In Brazil, the BC model has become the most important channel to receive bill payments and services from the government. It has become the main payment channel for the low-income population

- In 2000, 1,600 (out of 5,560) cities had no banking services. Since 2003, no Brazilian city is without banking services and more than 15 million new bank accounts have been opened through the correspondents model

- It is normally very difficult to enter the retail market as a bank since the network is so strong. The BC model, however, has allowed mid-size banks to successfully enter the market.

Fig 1: Growth of correspondents as compared to bank branches

![Graph showing growth of correspondents, branches, and electronic points over years 1992 to 2007.]

Why the BC model works in Brazil

- Regulatory environment and the pro-activeness of the Central Bank

- Brazilian banking technology and their network integration services

- Bill presentation standards- “Boleto bancário”
Evolution of regulation

- Financial firms as correspondents
  - 1973: mainly for payment transactions
  - 1979: collection of information for loans
- Non-financial firms allowed as correspondents
  - 1999: only to cities unserved by financial services
  - 2000: to all cities
  - 2002: accept documents to open bank accounts
  - MFIs and credit unions can hire and be hired as correspondents
  - List of services expanded
  - Delegation to third parties of power established by contracts

Conclusion of the Brazilian experience

- There is no single model that can be used to serve all different situations. Diversity is part of the business
- Bank workers caused problems for the BC model as they felt that BCs were taking work away from them.
- The BC model is a very profitable business in Brazil
- The government controls/regulated the prices – not specifically for BCs but for the banking system in general
- For banks, BCs represent the cheapest channel, especially to service the poor.
- Standardization of processes at each stage of the value chain is critical
- The BC model is low credit-driven since the interest rates are so high
Annex 2 : Circulars issued by the Reserve Bank of India
The Chairmen & CEOs
(All Scheduled Commercial Banks including RRBs)

Dear Sir,

Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents

With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, it has been decided in public interest to enable banks to use the services of Non-Governmental Organisations/ Self Help Groups (NGOs/ SHGs), Micro Finance Institutions (MFIs) and other Civil Society Organisations (CSOs) as intermediaries in providing financial and banking services through the use of Business Facilitator and Correspondent models as indicated below.

2. Business Facilitator Model: Eligible Entities and Scope of Activities

2.1 Under the “Business Facilitator” model, banks may use intermediaries, such as, NGOs/ Farmers’ Clubs, cooperatives, 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/ KVI B units, depending on the comfort level of the bank, for providing facilitation services. Such 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 banks; (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.

2.2 As these services are not intended to involve the conduct of banking business by Business Facilitators, no approval is required from RBI for using the above intermediaries for facilitation of the services indicated above.
3. Business Correspondent Model: Eligible Entities and Scope of Activities

3.1 Under the "Business Correspondent" Model, 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, registered NBFCs not accepting public deposits and Post Offices may act as Business Correspondents. Banks may conduct thorough due diligence on such entities keeping in view the indicative parameters given in Annex 3.2 of the Report of the Internal Group appointed by Reserve Bank of India (available on RBI website: www.rbi.org.in) to examine issues relating to Rural Credit and Micro-Finance (July 2005). In engaging such intermediaries as Business Correspondents, banks should ensure that they are well established, enjoying good reputation and having the confidence of the local people. Banks may give wide publicity in the locality about the intermediary engaged by them as Business Correspondent and take measures to avoid being misrepresented.

3.2 In addition to activities listed under the Business Facilitator Model, the scope of activities to be undertaken by the Business Correspondents will include (i) disbursement 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.

3.3 The activities to be undertaken by the Business Correspondents 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 hereby permits banks to formulate a scheme for using the entities indicated in paragraph 3.1 above as Business Correspondents. Banks should ensure that the scheme formulated and implemented is in strict compliance with the objectives and parameters laid down in this circular.

4. Payment of commission/ fees for engagement of Business Facilitators/ Correspondents

Banks may pay reasonable commission/ fee to the Business Facilitators/ Correspondents, the rate and quantum of which may be reviewed periodically. RBI Master Circular DBOD.Dir.5/13.07.00/2005-06 dated July 1, 2005 may be treated as modified to that extent. The
agreement with the Business Facilitators/ Correspondents should specifically prohibit them from charging any fee to the customers directly for services rendered by them on behalf of the bank.

5. Other Terms and Conditions for Engagement of Business Facilitators and Correspondents

5.1 As the engagement of intermediaries as Business Facilitators/ Correspondents involves significant reputational, legal and operational risks, due consideration should be given by banks 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. In formulating their schemes, banks may be guided by the recommendations made in the Khan Group Report as also the draft outsourcing guidelines released by Reserve Bank of India on December 6, 2005 (available on RBI website: www.rbi.org.in).

5.2 The arrangements with the Business Correspondents shall specify:

(a) suitable limits on cash holding by intermediaries 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 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 Business Facilitator/ Correspondent.

6. Redressal of Grievances in regard to services rendered by Business Facilitators/ Correspondents

(a) Banks should constitute Grievance Redressal Machinery within the bank for redressing complaints about services rendered by Business Correspondents and Facilitators 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 made known and widely publicised. The designated officer should ensure that genuine grievances of customers are redressed promptly.
(b) 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.

(c) If a complainant does not get satisfactory response from the bank within 60 days from the date of his lodging the complaint, he will have the option to approach the Office of the Banking Ombudsman concerned for redressal of his grievance/s.

7. Compliance with Know Your Customer (KYC) Norms

Compliance with KYC norms will continue to be the responsibility of banks. Since the objective is to extend savings and loan facilities to the underprivileged and unbanked population, banks may adopt a flexible approach within the parameters of guidelines issued on KYC from time to time. The KYC guidelines issued vide our circulars dated November 29, 2004 and August 23, 2005 provide sufficient flexibility to banks. In addition to introduction from any person on whom KYC has been done, banks can also rely on certificates of identification issued by the intermediary being used as Banking 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.

Yours faithfully,

(P. Vijaya Bhaskar)
Chief General Manager
RBI/2005-06/331
DBOD.No.BL.BC. 72/22.01.009/2005-2006

March 22, 2006
Chaitra 01, 1928 (S)

The Chairmen & CEOs
(All Scheduled Commercial Banks including Regional Rural Banks and Local Area Banks)

Dear Sir,

**Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents**

Please refer to our Circular DBOD.No.BL.BC. 58/22.01.001/2005-2006 dated January 25, 2006 on the above subject.

2. In terms of the above circular, under the "Business Correspondent" Model, registered NBFCs not accepting public deposits are among the eligible entities that can be engaged as intermediaries by banks. RBI is in the process of examining the eligibility criteria, etc. of NBFCs who can be assigned the role of Business Correspondent/s by banks. Pending the exercise, banks are advised to defer selection/use of NBFCs as Business Correspondent/s. However, banks can use NBFCs licensed under Section 25 of the Companies Act, 1956 as Business Correspondents.

Yours faithfully,

(P. Vijaya Bhaskar)
Chief General Manager
Dear Sir,

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


2. Based on queries received from certain banks, we had clarified that there is no objection to banks engaging individuals as Business Facilitators (BFs) depending on the comfort level of banks, subject to their taking adequate precautions and conducting proper due diligence before engaging individuals as BFs.

3. In the light of the announcement made in paragraph 92 of the Budget Speech 2008-2009 by the Hon'ble Finance Minister, Govt. of India, it has been decided to permit banks to engage retired bank employees, ex-servicemen and retired government employees as Business Correspondents (BCs) with immediate effect, in addition to the entities already permitted, subject to appropriate due diligence. While appointing such individuals as BCs, banks may ensure that these individuals are permanent residents of the area in which they propose to operate as BCs and also institute additional safeguards as may be considered appropriate to minimise agency risk.

4. Further, with a view to ensuring adequate supervision over the operations and activities of the BCs by banks, it has been decided that 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, ordinarily, should not exceed 15 Kms in rural, semi-urban and urban areas. In metropolitan centres, the distance could be upto 5 kms. However, in case a need is felt to relax the distance criterion, the matter can be referred to the District Consultative Committee (DCC) of the district concerned for approval. Where such relaxations cover adjoining districts, the matter may be cleared by the State Level Bankers' Committee (SLBC), which shall also be the concerned forum for metropolitan areas. Such requests may be considered by the DCC/SLBC on merits in respect of under-banked areas or where the population is scattered over large area and where the need to provide banking services is imperative but having a branch may not be viable, keeping in view the ability of the base branch of the bank making the request to exercise sufficient oversight on the BC.

5. Where currently BCs are operating beyond the distance limits specified above, DCC/SLBC may be kept informed and steps may be taken to conform to the stipulated limits within six months time, unless specific approval is accorded by the DCC/SLBC on the grounds indicated in paragraph 4 above.
6. Needless to add, in the context of scaling up of BF/BC model which is a huge challenge given the size of the country, banks should bring to the notice of RBI any important issues to facilitate taking prompt corrective steps. The implementation of the BF/BC model should be monitored closely by controlling authorities of banks, who should specifically look into the functioning of BF/BCs during the course of their periodical visits to the branches. Further, banks should also put in place an institutionalized system for periodically reviewing the implementation of the BF/BC model at the Board level.

Yours faithfully

(P.Vijaya Bhaskar)
Chief General Manager
All Scheduled Commercial banks (including RRBs) and Local Area Banks

Dear Sir,

Financial Inclusion by Extension of Banking Services – Use of Business Correspondents (BCs) – Section 25 companies


2. On a review of the matter, it has since been decided that banks can engage companies registered under Section 25 of the Companies Act, 1956, as Business Correspondents (BCs) provided that the Section 25 companies 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%.

3. Further, while engaging Section 25 companies as BCs, banks will have to strictly adhere to the distance criterion of 15 kms. / 5 kms, as applicable, between the place of business of the BC and the branch. In this connection, a reference is invited to paragraph 4 of our circular DBOD.No.BL.BC.74/22.01.009/2007-08 dated April 24, 2008.

Yours faithfully,

(P. Vijaya Bhaskar)
Chief General Manager
All Scheduled Commercial banks (including RRBs) and Local Area Banks

Dear Sir,

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


2. On a review of the matter and based on references received from banks, it has been decided that in case duly appointed BCs of banks desire to appoint sub-agents at the grass-root level to render the services of a BC, banks have to ensure that (i) the sub-agents of BCs fulfill all relevant criteria stipulated for BCs in terms of our extant guidelines referred to in paragraph 1 above (ii) the BC appointed by them carries out proper due diligence in respect of the sub-agent to take care of the reputational and other risks involved (iii) the distance criterion of 15 kms. / 5 kms, as applicable, from the base branch should invariably be fulfilled in the case of all sub-agents.

3. Further, where individuals under the permitted categories have been appointed as BCs, they cannot in turn appoint sub-agents.

Yours faithfully,

(P. Vijaya Bhaskar)
Chief General Manager
CAB is a Centre of Excellence for capacity-building in Development Banking and Finance. Instituted by the Reserve Bank of India (RBI) in 1969, it aims to create an intellectually stimulating and professionally satisfying environment. It provides high quality training to build and enhance capabilities in the financial, rural and cooperative sectors. CAB also serves as a leading resource centre for dissemination of best practices and innovative strategies. Further, it acts as a platform for cross-institutional interactions to evolve inputs for policy intervention by the RBI, Government and other policy-makers.

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To read the program’s mobile banking blog, visit http://technology.cgap.org.