RBI/2005-06/288
DBOD.No.BL.BC. 58/22.01.001/2005-2006

January 25, 2006
Magha 5, 1927 (S)

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/ KVIB 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) 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.

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 compliant, 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