



Policy retreat on Business Correspondent Model

College of Agricultural Banking, Pune

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Background

Research in the last decade or so has shown that there exists a robust link between a well-functioning financial system and inclusive growth. Financial inclusion or broad access to formal financial services has, thus, become an important mandate for policymakers around the world. In India, in spite of the commitment to social banking and the vast banking network, over 50% of the farmer households remain without access to credit. Additionally, only 59% of adult Indian's have access to a bank account. In light of these disappointing figures, financial inclusion has received a special attention from the Indian government and the Reserve Bank of India (RBI) in recent years.

To further the agenda of Financial Inclusion in India, Reserve Bank of India in Jan 2006 had come out with a new set of guidelines allowing banks to employ two categories of intermediaries viz **Business Correspondents and Business Facilitators** to expand their outreach in rural areas. The correspondents 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 finally the responsibility of putting through transactions rest with the bank staff.

A number of efforts are underway in India to use the BC/BF guidelines. Many banks have utilised the scheme for expanding their operations. The SBI among the public sector banks have been trying to recruit as many BC/BFs as possible. They have enrolled Post Office as BF to offer several financial services to post office's existing clients. Among private banks, ICICI Bank and HDFC have taken the lead in making full 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 made use of the scheme and appointed BC/BFs. Mostly NGOs and MFIs of the eligible categories have been enrolled as BC/BFs by banks. In some cases, even individuals such as village grocers, dealers in agricultural inputs and retired bank officials have been used as facilitators. Corporate entities such as ITC have also been enrolled as facilitators in some locations. Post office has tied up with SBI as BF, offering several services.

The issuance of these guidelines combined with the new uses being found for remote transactions through the use of technologies offers enormous potential to broaden and deepen the reach of formal financial services. These efforts use a variety of new technologies – POS Devices and Mobile Phones – to secure and process transactions. New organizations are forming to offer BC services. Some of the efforts are being



combined with government policy to open No Frills Accounts and to process National Rural Employment Guarantee Scheme payments for the rural poor.

While all this holds potential, the experiences are still varied 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 system to be viable.

The first is a physical constraint of spacing and location. The RBI has made it clear in the recent instructions that BCs should not be located more than 5 km away from the linked bank branch in metros and not more than 15 km away in rural area. At each location, BCs would have to look for a nearby branch of the same bank with which they have agreed to become a correspondent. Some banks report that they find it difficult to pay adequate compensation to the BCs, on account of the restriction on interest rates on small loans. Banks are permitted to charge only up to the level of their prime lending rate (PLR), in case of small loans of up to Rs 2, 00,000 even in case where BCs or facilitators are used.

Though some hope 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.

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In an attempt to take stock of progress in the field and share key learning on successes and difficulties in BC/BF scheme to wider audience, CAB, ACCESS and CGAP are jointly organizing a policy retreat on 15th May, 2009 at CAB Campus, Pune. The primary objective of the event is to accelerate clear and coherent learning from the experiments underway to ensure that scalable and sustainable models emerge.

The retreat aims to achieve this through three specific goals:

- (a) Ensure that the key actors are increasingly aware of the variety of efforts underway and the differences in how these different models work,
- (b) To establish a common framework through which to analyze the results of early experiments, particularly around the viability of business models, and
- (c) To share some of the key learning with a wider audience and particularly with Indian regulators.



Event agenda

Session	Participants	Session agenda
Introduction: Objectives and ground rules	Vipin Sharma, Sandip Ghose	Clarify agenda, objectives and set ground rules
Overview of BC history and regulations	N. Srinivasan	Framing the BC work in the broader context of financial sector in India, providing historical background and context
The Bankers' responses	Chair: Sandip Ghose Banks: SBI, ICICI, HDFC, KBS	Moderated panel discussion. 5 banks to present 1 PPT slide each. Moderator to guide the discussion
Overview of BC Model in India	Greg Chen	A PPT which explains BC experiments with varied structures highlighting cost/revenue structures and varied service offerings.
BC Panel Discussion	Moderator : Greg Chen BC models: Basix- Delhi, Eko, ALW, FINO, Swadhaar Finaccess, Drishtee	Moderated discussion seeking to dig into BC experiments underway, focusing on business model and viability. 1 PPT slide per BC to highlight differences of approaches.
International Experiences	Prof Eduardo Henrique Diniz Kabir Kumar	Another presentation honing in on key features of BC or Agent Network models which work in other countries: Brazil, South Africa and Kenya.
Moderated open discussion	Moderator (Vijay Mahajan)	Moderated discussion to bring out potential learning for involved stakeholders : Banks- Search for what models would be more appealing to banks? What needs to be done to get the banks more engaged? BC's- What models are more appealing for the BC providers? What can BC's do more to advance their models Regulators- What is the priority list of issues which the regulator needs to be aware of? What are the top 3 adjustments which the regulator can make to enable viable models to emerge