

Consultation Paper No. 2/2011



Telecom Regulatory Authority of India

Consultation Paper

on

**Issues arising out of Provisioning and Delivery of Basic
Financial Services using Mobile Phones in the context of
Pricing of Services by Mobile Service Providers**

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Preface

A sizeable portion of population in our country, especially those who are in rural and remote areas, have no access to basic financial services. The fast growing roll-out of mobile services into these areas is seen as a medium to promote financial inclusion. In this backdrop, an Inter Ministerial Group (IMG) was constituted by the Government of India. The IMG was required to submit a report and recommendations on framework for delivery of basic financial services using mobile phones. The report submitted by the IMG has been considered and the framework detailed in the IMG Report has been approved as the basis for delivery of basic financial services using mobile technology. This framework entrusted TRAI with the task of resolving all issues arising out of the provisioning and pricing of such services by the Mobile Service Providers.

This consultation paper seeks the comments of the stakeholders on the various aspects relating to of provisioning and pricing of services by Mobile Service Providers. Stakeholders are requested to send their comments by 14th February, 2011 and counter comments by 28th February, 2011 so as to enable TRAI to finalise a suitable pricing framework for delivery of basic financial services using mobile phones.

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Chairman, TRAI

Stakeholders are requested to send their comments preferably in electronic form by 14th February, 2011 on e-mail Id raj.pal@nic.in or eco@traigov.in. Counter comments, if any, can be sent by 28th February, 2011. For any clarification / information, Shri Raj Pal, Advisor (ER) may be contacted at Tel. No. +91-11-23230752, Fax: +91-11-23236650.

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INTRODUCTION

- I. Significant sections of regions and population are still unbanked in India. Despite the expansion of the banking network during the last four decades, a sizeable proportion of the households, does not have a bank account¹. The National Sample Survey data reveals that 51.4% of nearly 89.3 million farmer households do not have access to any credit either from institutional or non-institutional sources. Only 27% of farm households are indebted to formal sources. It is vital for long term sustainable development of India that financial services are provided at an affordable cost to those who tend to be excluded from the formal financial system.

- II. The Government and the Reserve Bank of India have made efforts to facilitate provisioning of formal financial services to the hitherto unbanked/under banked areas. The Reserve Bank used the term 'financial inclusion' for the first time in its Annual Policy Statement of 2005-06. Since then, the Bank has taken several measures for promoting financial inclusion, such as, advising banks to open 'no frills' accounts, introduction of Business Correspondent (BC)/Business Facilitator (BF) model, promotion of financial literacy, and adoption of Information and Communication Technology (ICT) solutions for achieving greater outreach. RBI's directive to open 'No Frills Accounts' and use of Business Correspondents (BCs) to reach unbanked citizens has not improved the situation significantly as the number of active accounts continues to be small and Banks find it difficult to operate large number of tiny accounts and micro transactions profitably. In terms of citizens served, the outreach of a bank branch is limited. Currently, a bank branch in India serves about 16000 people – a number very high when compared to the developed countries.

¹ Report on Trend and Progress of Banking in India 2008-09: RBI

- III. The Report of the Committee on Financial Sector Reforms (CFSR) (Chairman: Prof. Raghuram Rajan) has come out with several recommendations to accelerate the process of financial inclusion in the country. The CFSR recommended that an inclusive banking structure may be promoted by creating small finance banks on the one hand and by creating strong linkages between large banks and small local entities. These linkages will facilitate the retailing of large banks' financial products to small clients. The opening of 'no-frills' accounts may be promoted further to provide access to 90 per cent of Indians to formal financial system. These accounts can also be used for the disbursement of existing subsidies and cash transfers to the poor under different Government programmes such as NREGS.
- IV. Indian telecom sector, on the other hand, has been witnessing highest growth rates in the world. The wireless subscriber base has witnessed compound annual growth rate (CAGR) of 45.33 per cent over the last five years. The total number of wireless subscribers as on 30th September, 2010 was 687.81 million; consisting of 460.63 million (67%) urban subscribers and 227.08 million (33%) rural subscribers. While use of mobile services has permeated all socio-economic strata, a prominent feature is that the growth in mobile subscriber base in the recent years has been increasingly powered by rural India. The burgeoning growth in the last decade has made mobile phone as indispensable as the wallet. The ubiquitous nature of mobile communications has the potential to vastly improve and transform access to financial and transaction services for people at large.
- V. The fact that a large number of mobile subscribers in rural areas do not have access to banking facilities presents an opportunity for leveraging the mobile telephone to achieve the goal of financial inclusion. If it is assumed that 10% of rural subscribers have a bank account, that still leaves around 190 million subscribers who have mobile phone but do not have a bank account. In this context,

Government of India constituted an Inter-Ministerial Group (IMG) headed by the Secretary, Department of Information Technology, and consisting of representatives from Department of Financial Services, Department of Telecommunications, Department of Posts, Ministry of Rural Development, Unique Identification Authority of India (UIDAI), TRAI, RBI and Ministry of Home Affairs. The IMG was required to submit a report and recommendations on framework for delivery of basic financial services using mobile phones. The recommendations made by the IMG along with relevant extracts from its report are given at **Annexure - I**. IMG's Report is available on the website of TRAI at <http://www.traigov.in> .

- VI. The framework proposed in the IMG Report has been approved as the basis for delivery of basic financial services using mobile technology. The IMG has suggested a shared delivery infrastructure and processes among the service providers in order to minimise the costs and to make the model viable for micro transactions. The framework envisages opening of mobile linked no-frills accounts, which shall be operated by using mobile phones. These accounts shall be held by banks and that money will be stored in the bank account and not in the user's mobile phone, i.e, the loss of user's mobile phone or SIM will not result in loss of money. The customer shall be able to perform five basic transactions – cash deposit, balance enquiry, credit (by transferring money from a regular bank account or for payments under various government schemes) and transfer money – over mobile linked no-frills account. The framework also proposes equitable and adequate incentives to the key players after taking into account the actual costs incurred by them.
- VII. In the framework suggested by the IMG, TRAI is one of the key stakeholders and is expected to provide the required regulatory framework governing the quality of service, provisioning and pricing of mobile services for delivery of basic financial services. Accordingly, TRAI

is requires to devise a mechanism in combination of market forces for ensuring that the charges levied for mobile services in this regard are cost oriented as well as reasonable.

- VIII. This Consultation Paper seeks views of the stakeholders on the issues pertaining to provisioning and pricing of services by mobile service providers in the context of delivery of basic financial services using mobile phones.
- IX. Chapter I of the Consultation Paper contains a brief overview of delivery of financial services using mobile phones. Chapter II contains details regarding broad framework established by the IMG Report, in respect of provisioning and pricing of mobile services for financial transactions.
- X. The issues for consultation have been listed in Chapter III of the Consultation Paper.

CHAPTER - I

DELIVERY OF FINANCIAL SERVICES USING MOBILE PHONES

- 1.1 Technological advancements can be leveraged for achieving the goal of financial inclusion. Use of technology increases cost effectiveness and makes small value transactions viable. Besides making banking products and services affordable and accessible, it simultaneously ensures viability and profitability of providers. Technology also allows transactions to take place faster and offers considerable convenience through various delivery channels. It enhances choices, creates new markets, and improves productivity and efficiency.
- 1.2 The world's banking and financial retail infrastructure is characterised by two scenarios. On the one hand, there are some regions that have well developed banking infrastructure in terms of geographical coverage and access to banking facilities to general public, however the nature of business and society leaves no time for people to conduct transactions in a bank's premises. On the other hand, there are regions wherein people's access to financial services is constrained on account of the fact that physical bank sites are few and far between. Mobile banking (m-banking) holds potential for both the scenarios.
- 1.3 M-banking involves the use of a mobile phone or other mobile devices to carry out financial transactions related to a client's account. M-banking helps in utilization of existing mobile infrastructure and lowers the cost of transactions making it possible for low-income customers to afford such services. M-banking holds the prospect of offering a low cost, accessible transaction banking platform for currently unbanked and poorer customers. In addition, as mobile

networks expand their coverage, they offer the opportunity of bringing payment and remittance services into areas where conventional banking services are not available.

- 1.4 The convergence of mobile technologies and financial services is expected to open up huge potential market for mobile operators and financial institutions. Because m-banking uses the existing rapidly expanding mobile phone infrastructure, it has the potential to be deployed rapidly in a cost effective manner to expand access to financial services among unbanked people.
- 1.5 For a growing economy like India, mobile financial services can lead to socio-economic transformation on account of following reasons:
 - It will use the existing mobile communications infrastructure which already reaches huge unbanked populations.
 - It will be driven by new players, such as telecoms, with different target markets and network capabilities from traditional banks.
 - It can harness the power of existing distribution network of telecoms which is capable of handling cash transactions.
- 1.6 The mobile network operators can leverage their vast retail and distribution network to appoint and manage a network at retail locations for servicing customers by providing basic financial services. In the present context, India is uniquely poised to make use of mobile banking technologies for delivery of basic financial services. It would be in the interest of both the telecom service providers and the financial institutions to make this happen. For mobile network operators, while helping to keep the churn rates low and retain customer loyalty, it can provide them with new customers and added sources of revenues to check the falling trends in their average revenue per user (ARPU). Similarly, for financial institutions mobile banking can help increase banking penetration, develop customer loyalty, reduce operational cost, meet government service obligations,

etc. The rapid expansion of mobile networks, bringing within its ambit a diverse set of clients, including the bottom of the pyramid which excites people about its potential, particularly for delivery of basic financial services to unbanked population.

1.7 There are two mode in which mobile service providers and the financial institutions can collaborate to give m-banking services to the customers. First mode is termed as additive and the second as transformational. The additive mode is bank centred, wherein the banks provide additional facilities to their existing customer through use of mobile phones. The transformational mode is driven by the telecom companies to provide financial services to user of mobile phones in order to cover the unbanked/under banked segments of population. An example of the transformation model is the m-pesa project in Kenya. The framework recommended by the IMG can be termed as transformational mode.

1.8 With the rapid growth in number of mobile phone subscribers, several banks are already offering information based services like balance enquiry, stop payment instruction of cheques, record of last five transactions, location of nearest ATM/branch etc. Acceptance of transfer of funds instructions of pre-registered beneficiaries have also commenced in a few banks. As of now, mobile banking in India is bank focused and can be placed in additive category.

CHAPTER - II

PROVISIONING AND PRICING OF DELIVERY OF BASIC FINANCIAL SERVICES USING MOBILE PHONES

A. Broad framework established by IMG Report

- 2.1 The IMG framework mentioned earlier envisages creation of “Mobile linked No-Frills Accounts” by the Banks, which will have various transaction limits. The basic financial transactions on these accounts (cash deposit, credit customer’s mobile linked no-frills account, cash withdrawal, peer to peer transfer & balance inquiry) can be executed through a mobile based PIN system using “Mobile Banking POS” or through bio-metric based “micro ATMs” of the BCs (or the sub-agents of BCs). The framework envisages sharing of the following elements:
- i) A simplified common template for the KYC requirements for the Mobile linked No-Frills Accounts which is acceptable to all service providers.
 - ii) Cash-in / cash-out operations at the front end involving deposits and withdrawals into Mobile linked No-Frills Accounts. BCs (or the sub-agents of BCs) undertaking these operations will perform them on behalf of all Banks.
 - iii) An Account Mapper that provides linkages between UID No, mobile number and the mobile linked no-frills account details.
 - iv) An interoperable central payments switch that will facilitate real time transaction routing across BCs, Banks (or associated FIs and outsourcing partners of Banks), UIDAI, Account Mapper and mobile service providers
 - v) Interoperable repositories at the national level for hosting and managing mobile linked no-frills accounts that may be created and managed by independent third party service providers / organisations on behalf of the participating Banks.
- 2.2 The framework recommended by the IMG contains the details of an indicative process for execution of five basic transactions through the shared infrastructure using mobile banking POS / micro ATM

equipment. The IMG has identified various stakeholders in the framework and has defined the role for each of the stakeholders towards service delivery. The role envisaged for BCs (or sub agents of BCs) is collection of customer details, correspondence between customer and the bank, address customer grievances, cash handling, etc. The mobile service providers' (MSPs) role shall be to provide communication and messaging services between BCs, Account Mapper, UIDAI, Remit and Bank/INFAST. Further the MSPs shall be required to provide prioritised services with respect to the transactions involved in service delivery. Besides, the framework recommended by the IMG also consists of a structure for sharing of revenues between various players in the whole ecosystem, which is reproduced as follows:

Services/ Players	A/c Opening	Deposit	Withdrawal	Transfer/ Remittance	Balance Enquiry
BC with a network of Sub-agents	Compensation to at least cover marketing and management costs.	Compensation to at least cover deployment and management of sub-agent network, cash management costs, which will include cost of maintaining 100% coverage for all transactions, adequate liquidity to avoid running out of cash at the sub-agent retail outlet as also the costs of secure movement of cash from remote retail outlets to the bank			None
Individual BCs/Sub-agents of BCs	Compensation to at least cover KYC, customer education costs	Compensation to at least cover cash management costs, which will include costs of maintaining 100% coverage for all transactions, adequate liquidity to avoid running out of cash at the BC retail outlet as also the costs of secure movement of cash from remote retail outlets to the Bank.			Compensation to cover transaction costs
Bank	Interest Income				
Technology Provider	Build, develop and maintain the front-end applications for the Banks, train the BC, interface the application with INFAST / Bank server, resolve interface issues and application-related problems				
MSP	Collects and retains service fee for Connectivity, Secure mobile based communication, Security etc. Charges should not differentiate between "Home" BC Network and others.				
INFAST	Opex from Banks derived on the basis of number of A/Cs managed / transactions executed				
REMIT/NPCI	Opex from Banks derived on the basis of number of transactions executed				
Account Mapper	Opex from Banks derived on the basis of number of transactions executed				
UIDAI	May charge Fee from Bank, MSPs etc. for sharing KYC	May charge fee from Banks for providing authentication services.			
	Service Fee to Banks, MSPs etc. in case KYC is done by them initially for UID				

2.3 The IMG's Report contains an indicative compensation for each player involved in implementation of the model, keeping in view the costs

likely to be incurred by the player in completion of activities / transactions under this model. The indicative compensation matrix for each stakeholder recommended in IMG Report is reproduced as under:

Stakeholder	Suggested compensation (per transaction)	Paid By	Comments
REMIT	0.4 paise	Bank	
Account Mapper	0.6 paise	Bank	
INFAST	20 paise	Bank	
MSP	Prioritized Secure communication charges not exceeding Re 1 per transaction (a transaction may contain multiple messages)	BC/Mobile linked no-frills account holder (depending on the charging model)	
BCs with mobile banking POS	Minimum of Rs.2.25 or 1.4% of the transaction amount	Bank	Viability of the BC needs to be ensured on a per transaction basis. As the number of transactions increase over a period of time, a lesser compensation may be paid to the BC (suggested compensation by year 5 – around 1%)
BCs with Micro ATMs	Minimum of Rs.3 or 2.24% of the transaction amount	Bank	Viability of the BC needs to be ensured on a per transaction basis while the cost of Micro ATM will be recovered over a period of time. As the number of transactions increase over a period of time, a lesser compensation may be paid to the BC (suggested compensation by year 5 – around 1.2%)
Tech Vendor	Not exceeding Re 1	Bank	
Bank	2% transaction fees. Additionally, it would earn an interest income on the deposits. It is expected to make payments to the other players(except MSPs) from the above revenues	Transaction fees borne by the mobile-linked no frills account holder, which can be partly or wholly offset by the Bank. Contribution from other sources could also be considered in consultation with the Committee created to ensure fair play and transparency.	After providing for various operational costs relating to supervision, call centre operations, etc. the Banks would still make a profit by operating the model as suggested.

- 2.4 Pursuant to the decision of the Government on report of the IMG, RBI has decided to permit banks to engage companies registered under the Indian Company's Act, 1956, excluding Non-Banking Financial Companies, as BCs in addition to the individual entities permitted earlier. A copy of RBI circular dated 28th September 2010 is given at Annexure-II. In view of the revised guidelines issued by RBI for engagement of BCs, mobile service providers have become eligible for engagement as BCs.
- 2.5 Apart from acting as BCs, the role of the mobile network operators, in the proposed framework for delivery of basic financial services is limited to providing the SMS/USSD/ voice and data services connectivity and in hosting certain technology solution like USSD. Furthermore, mobile service providers shall be required to provide prioritised services as a carrier of messages for secure transactions related to m-banking services.

B. Role of TRAI in the framework recommended by the IMG

- 2.6 In the framework recommended by the IMG, TRAI is to provide the necessary regulation for maintaining quality of mobile service relating to the use of mobile communication as well as ensure that citizens are not overcharged for the services such as SMS, USSD, voice calls etc. used for providing the basic financial services on mobile devices. Further, TRAI shall also provide necessary regulation for security and technical standards relating to use of mobile communication for delivery of basic financial services.
- 2.7 The relevant recommendations of the IMG which require involvement of TRAI are reproduced as under:-
- “A committee comprising of member from RBI, TRAI and DoT may be constituted to lay the standards for the m-PIN based Mobile Banking POS.”*

“MSPs must provide prioritized services with respect to these transactions. The charges levied in this regard should be regulated by TRAI and through competitive market forces to ensure that they sufficiently cover costs incurred for secure communication without resulting in inordinate profits. A committee constituted by TRAI may also draw up guidelines to ensure high availability of associated communication services. TRAI should resolve all issues arising out of the provisioning and pricing of such services by the MSPs.”

- 2.8 For the purpose of carrying out the activities entrusted to it, TRAI has constituted two committees: one for looking at the quality of service issues of mobile service for banking services and the other for resolving 'Issues arising out of provisioning and pricing of services by mobile service providers'. The latter committee comprised of representatives from TRAI, RBI, Department of Telecom, and Ministry of Rural Development. A representative from Department of Information Technology was associated with the Committee as a special invitee. This committee held two meetings. The second meeting of the Committee was also attended by some of telecom equipment vendors and telecom service providers. The committee deliberated on the issues relating to types of the services required, provision parameters and tariffs. During deliberations by the committee it was observed that the cost for provisioning of services is dependent on responsibility involved and that the cost structure may change with change in scope and quality of service. It was also emphasised that the sustainability of the framework was important without significantly impacting the price factor. Further, it was appreciated that provision of prioritised services for m-banking may require additional investments by the mobile service providers which may have implications on charges / tariffs for such services.

C. Possible options to provide financial services through mobile phones

2.9 A number of options are available for carrying messages for mobile banking services viz. IVR (Interactive Voice Response), SMS (Short Messaging Service), STK (SIM Tool Kit), WAP (Wireless Access Protocol), Standalone Mobile Application Clients, USSD (unstructured Supplementary Service Data). These methods vary in implementation and use and therefore would have different provisioning and pricing norms.

2.10 These options have been discussed in detail in another Consultation Paper dated 28th October, 2010, on “Quality of Service requirements of delivery of basic financial services using mobile phones”, which is available on TRAI’s website. Through that Consultation Paper, the stakeholders have been requested to send comments/suggestions on suitability of above mentioned methods for delivery of basic financial services using mobile phones.

D. Provisioning of mobile services for financial transactions

2.11 A business correspondent (BC) or its agent is the main interface for the customer of financial services. A customer should be able to get an account opened and carry out transactions through the BC, preferably without subscribing to any special services from his mobile service provider. However in reality, there could be different provisioning requirements which will depend on the adoption of the services / options for mobile banking. While the SMS may automatically be enabled on all mobile phones, STK may require SIM to be changed or programmed and may have cost implications. In case of WAP intervention of mobile service provided may be required to enable the services for the customer. In case of Java based methods, the customer may have to download a Java client and may even have to

pay for it. Thus, depending on the method that the banks finally decide different provisioning requirements may emerge.

2.12 In addition to provisioning requirements some methods/options also may require additional resources like IP addresses, short codes or toll-free numbers.

2.13 Pursuant to the recent amendment in the RBI's guidelines regarding engagement of BCs, the mobile service providers have become eligible for engagement as BCs, accordingly the provisioning requirements and compensation for the same need to be viewed in this context.

E. Pricing of telecom services

2.14 The general framework of sharing of revenue among different stakeholders and the indicative compensation indicated under paras 2.2 and 2.3 respectively, shall be kept in perspective when the mode of communication is decided for financial services. Some of the methods / options listed in para 2.9 above may require additional equipment to be installed or gateways to be established or portals to be created by the service providers. Methods like STK may require SIM to be changed. In some cases representative of the service provider may have to be sent to the customer premises for configuring the mobile handset for using the chosen service. If SMS is the chosen option then prioritization and encryption of the messages may be a required which may have impact on pricing of services.

2.15 Tariff regulation would be crucial if adoption of mobile banking is to be encouraged especially among the unbanked segments of the population. In such a situation cost effectiveness of delivery of basic financial services through mobile phones becomes an important consideration. As the main objective of the provisioning of financial services through mobile phone is financial inclusion, accordingly the

main beneficiaries of these services are expected from rural and remote areas with low income levels. Therefore, every effort should be made to keep the provisioning of the services affordable for the target beneficiaries. Nevertheless, the transaction fees charged for banking facilities through mobile phones may be market determined and the price discovery process would become defined once the product roll out is scaled up.

2.16 Section 11 (2) of TRAI Act empowers the Authority to notify Tariff Orders for various Telecommunication Services. In exercise of this power, Telecommunication Tariff Order was notified for the first time on 9th March 1999. Tariff Amendment Orders have been issued from time to time to reflect the changes in tariff framework. Currently tariffs for telecom services is under forbearance except rental, free call allowance and local call charges in the case of fixed line rural subscribers, roaming services in mobile telephony and for leased circuits.

2.17 The tariff framework prescribed by TRAI gives flexibility to the operators to offer different tariffs depending on the market conditions and other commercial considerations. The Authority has followed a light touch approach in respect of the tariffs for services where the competition is considered to be sufficient. In areas where competition is perceived to be inadequate, the Authority continues to regulate tariffs so as to ensure affordable services to the telecom subscribers. Thus, tariffs for Basic Services in Rural Areas, Roaming in Cellular Mobile Service and tariff for Leased Circuits (both Domestic and IPLC) are presently regulated.

2.18 Subject to the regulatory principles of non-discrimination, compliance of Interconnection Usage Charges (IUC) and non predation, mobile operators have been given the flexibility to determine tariff for different user classes. Only in the case of roaming service and leased circuits, ceiling tariff has been prescribed by the Authority.

- 2.19 At the time of enrolment of customers for provision of basic financial services through mobile phones it is required that customers are informed upfront in a transparent manner about charges to be levied for provision of communication services in this regard.
- 2.20 Notwithstanding the fact that the telecommunications tariffs in general are under forbearance, keeping in view that the proposed framework for delivery of basic financial services is intended to promote financial inclusion including transfer of funds under various government schemes/programmes targeted to poor people, a need has been felt to examine the desirability of regulating the tariffs for such services. Further, a ceiling for telecom tariff for such services would need to be viewed in the context of compensation matrix recommended by the IMG. Accordingly, views of the stakeholders are solicited on the issue of regulation or forbearance of tariffs of telecom services which are required for delivery of basic financial services using mobile phone. This would require deliberations on pros and cons of various alternatives to be suggested including alternative methods for tariff regulation.

CHAPTER - III
ISSUES FOR CONSULTATION

- 1. The customer would approach a Business Correspondent or its agent for opening of a non-frills account. Would there be any provisioning requirements at the service provider's end in any of the methods/options listed under para 2.9?**

- 2. Please correlate and comment on the recommended compensation for mobile service providers reproduced under para 2.3, with various options for carrying messages for financial services as described in para 2.9.**

- 3. There may be requirements of prioritization and encryption of the messages exchanged for financial transactions. In your opinion what effect would these have on the provisioning and pricing of services?**

- 4. Whether tariff for telecom services for providing basic financial services using mobile phone should be under forbearance or should be brought under regulation? If they should be regulated, whether a ceiling should be prescribed TRAI? Please explain your answer/suggestions.**

- 5. Any other comments relating to provisioning and pricing of mobile services for financial transactions.**

List of Acronyms

Sl No	Acronyms	Full Text
1	ARPU	Average Revenue Per User
2	ATM	Automatic Teller Machine
3	BC	Business Correspondent
4	BF	Business Facilitator
5	CAGR	Compound Annual Growth Rate
6	CBS	Core Banking Solutions
7	CDMA	Code Division Multiple Access
8	CFSR	Committee on Financial Sector Reforms
9	DCC	District Credit Committee
10	DIT	Department of Information Technology
11	DOP	Department of Post
12	DoT	Department of Telecommunications
13	FI	Financial Institution
14	GPRS	General Packet Radio Service
15	GSM	Global System for Mobile
16	ICT	Information & Communication Technology
17	IMG	Inter Ministerial Group
18	INFAST	Interoperable Infrastructure for Accounting Small Transactions
19	IP Address	Internet Protocol Address
20	IPLC	International Private Leased Circuits
21	IUC	Interconnection Usage Charges
22	IVR	Interactive Voice Response
23	KMC	Key Management Centre
24	KYC	Know Your Customer/Client
25	KYR	Know Your Resident
26	M-Banking	Mobile Banking
27	MoRD	Ministry of Rural Development
28	M-PIN	Marketing Partner identification Number
29	MSPs	Mobile Service Providers
30	NFC	Near Field Communications
31	NPCI	National Payments Corporation of India
32	NREGS	National Rural Employment Guarantee Scheme
33	POS	Point of Sale
34	RBI	Reserve Bank of India
35	REM	Ring Error Monitor
36	REMIT	Real-time Micro Transactions
37	SCA	Service Centre Agent
37	SLBC	State Level Bankers' Committee

Sl No	Acronyms	Full Text
38	SLC	Subscriber Loop Carrier
39	SMS	Short Message Service, Satellite Multiservice System
40	STK	SIM Tool Kit
41	TRAI	Telecom Regulatory Authority of India
42	UIDAI	Unique Identification Authority of India
43	UID	Unique ID
44	USSD	Unstructured Supplementary Service Data
45	WAP	Wireless Access Protocol

Extracts from the Report of the Inter Ministerial Group on Framework for Delivery of Basic Financial Services using Mobile Phones

A. Recommendations

The following are the recommendation of the Inter Ministerial Group (IMG):

1. Mobile linked No-Frills Accounts will be created by the Banks. The mobile linked no-frills accounts will have daily and monthly transaction limits. The basic financial transactions on these accounts (cash deposit, credit customer's mobile linked no-frills account, cash withdrawal, peer to peer transfer & balance inquiry) can be executed through a mobile based m-PIN system using Mobile Banking POS or through a biometric based system using micro ATMs of the BCs (or sub-agents of BCs).
2. The current RBI guidelines on technology and security standards for mobile banking as well as the guidelines for ensuring authenticity of the BCs are sufficient and will be applicable to these mobile linked no-frills accounts.
3. The following common infrastructure will need to be created to enable real time transaction processing, to ensure interoperability and to reduce costs
 - a. An account mapper that provides linkages between UID No, mobile number and the mobile linked no-frills account
 - b. An interoperable central payments switch that will facilitate real time transaction routing amongst BCs (or sub-agents of BCs), Banks (or associated FIs and outsourcing partners of Banks), UIDAI, account mapper and mobile service providers.
 - c. Interoperable repositories at the national level for hosting and managing mobile linked no-frills accounts that may be created and managed by independent third party service providers / organisations on behalf of the participating Banks. Present RBI guidelines on outsourcing of financial services by banks permit banks to outsource data processing and back office related activities. The sharing of IT infrastructure for account maintenance for scaling up operations as envisaged above would be in line with such permissible outsourcing

arrangements and should also facilitate inter-bank settlement. However, this would be subject to the banks adhering to extant outsourcing guidelines and the RBI guidelines on customer data confidentiality.

4. In the interim period, mobile linked no-frills accounts may be opened by banks as per the existing guidelines on “No Frills” accounts. Mobile linked No-Frills Account services will be made available on the existing “No Frills” accounts. Access to these mobile linked no-frills accounts may be provided to the citizens on mobile devices through a PIN based mechanism.
5. RBI may constitute a Committee with key stakeholders to create a simplified common template for the KYC requirements for the Mobile linked No-Frills Accounts, based on the norms and associated verification procedures evolved by UIDAI, which will be shareable across service providers. Till such guidelines are finalized, the KYC requirements of “No Frills” accounts should remain applicable on the mobile linked no-frills accounts.
6. A committee comprising of members from RBI, TRAI and DoT may be constituted to lay the standards for the m-PIN based Mobile Banking POS.
7. MSPs must provide prioritized services with respect to these transactions. The charges levied in this regard should be regulated by TRAI and through competitive market forces to ensure that they sufficiently cover costs incurred for secure communication without resulting in inordinate profits. A committee constituted by TRAI may also draw up guidelines to ensure high availability of associated communication services. TRAI should resolve all issues arising out of the provisioning and pricing of such services by the MSPs.
8. To promote adoption, Government payments under various schemes will be directly credited to these mobile linked no-frills accounts once the citizen registers the mobile linked no-frills account with the Government agency providing such benefits.
9. A Compensation based incentive system for all players needs to be evolved for effective implementation as indicated in Para 5.12.
10. RBI could revise the following guidelines with respect to BCs (and sub-agents of BCs) of mobile linked no-frills accounts
 - a. The stipulation that the BC or his sub-agent should be within 30 Km distance of a branch of the sponsoring Bank may be relaxed in cases

where there is no branch of any Bank within a 30 km distance. The IMG notes that extant RBI guidelines on BC model provide for such relaxations only after consideration 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." Given the fact that provision of banking services to every citizen is now a national priority, IMG recommends that RBI consider a general relaxation of the 30 km stipulation for all such cases where there is no branch of any bank within a 30 km distance.

- b. Organizations allowed to act as BCs may be allowed to act as BCs of one or more Banks in different locations. However, the individual subagents interfacing with the customer would be associated only with one bank, which has appointed the BC (who in turn has appointed the subagent) with regard to opening of mobile linked no-frills account. This bank will be known as the sponsoring/holding bank of the BC/sub-agent.
 - c. The sub-agents of BCs would be able to carry out basic banking transactions (except opening of the Bank account) for all banks and not be limited to the bank which has appointed the BC who in turn has appointed the sub-agent.
11. The IMG recommends that "for profit" corporate entities should be allowed to become BCs of the banks. However, it recognizes that the current RBI guidelines do not allow such a facility nor is RBI in favour of permitting the same. It nevertheless recommends that RBI may consider allowing "for profit" corporate entities to become BCs of the banks since in the model being proposed by the IMG, the BC does not have custody of the customer's funds in his account even momentarily. Hence no dilution of the role of the banks was possible in this model even if "for-profit" corporate entities were to become BCs.
12. The report provides indicative figures with respect to the compensation for each player involved in implementation of the model, keeping in view the costs likely to be incurred by the player in completion of activities / transactions under this model. This could serve as the basis for initial

assessment and apportionment of transaction fees to be levied to get the system started

13. RBI may constitute a committee with necessary representation from DIT, UIDAI, MoRD and DoT, among others, to ensure transparency and fair play in the operations under this framework as well as to ensure that these operations remain viable for all stakeholders and do not get skewed in favour of a single stakeholder or a group of stakeholders. This committee would also review the transaction fees payable to different stakeholders under this model from time to time based on experiential information.

B. Indicative Transaction Processes using m-Pin

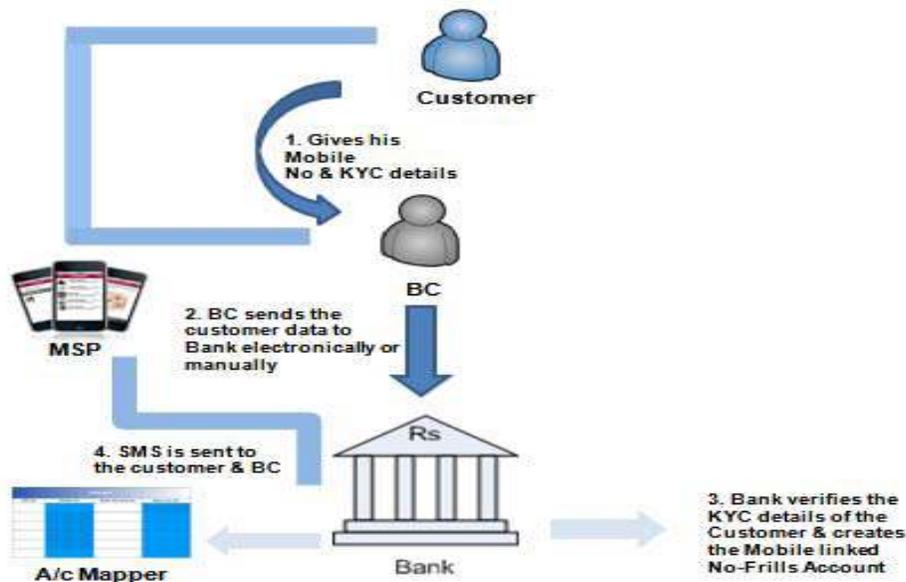
a. Account Opening

The process for opening a Mobile linked No-Frills Account is as follows:

Pre-UID Stage²

- I. Customer gives his mobile number and KYC details (as per the shared KYC norms finalized for mobile linked no-frills accounts) to the BC
- II. BC sends the customer data to the Bank
- III. Bank creates the mobile linked no-frills account after being satisfied with the KYC of the customer
- IV. Bank then sends a confirmation message to both the customer as well as the BC on their mobiles
- V. Bank further sends a m-pin to the customer on his mobile for making further transactions with his/her mobile linked no-frills account
- VI. Bank also sends the bank account details and customer's mobile number to the Account Mapper for record purposes

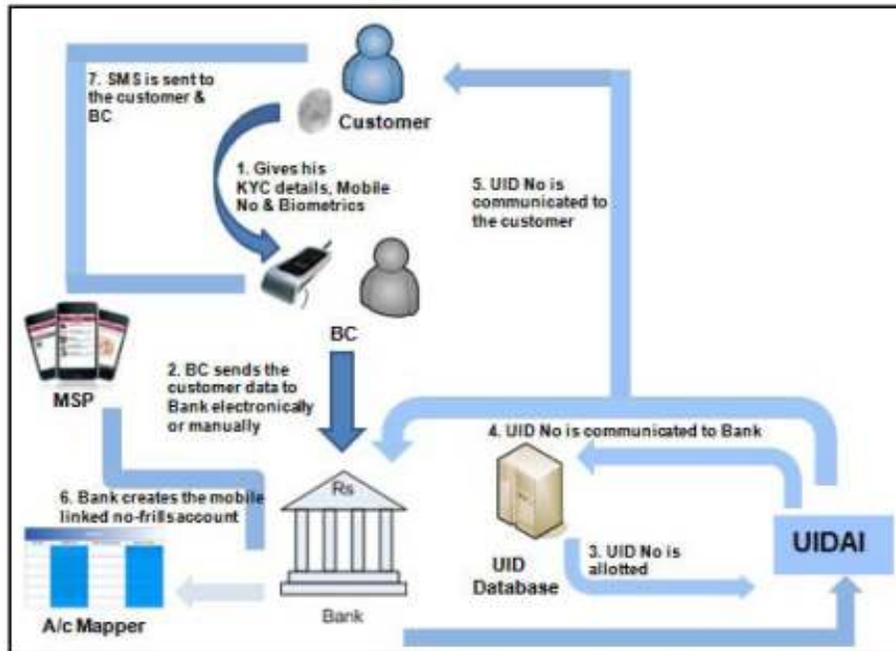
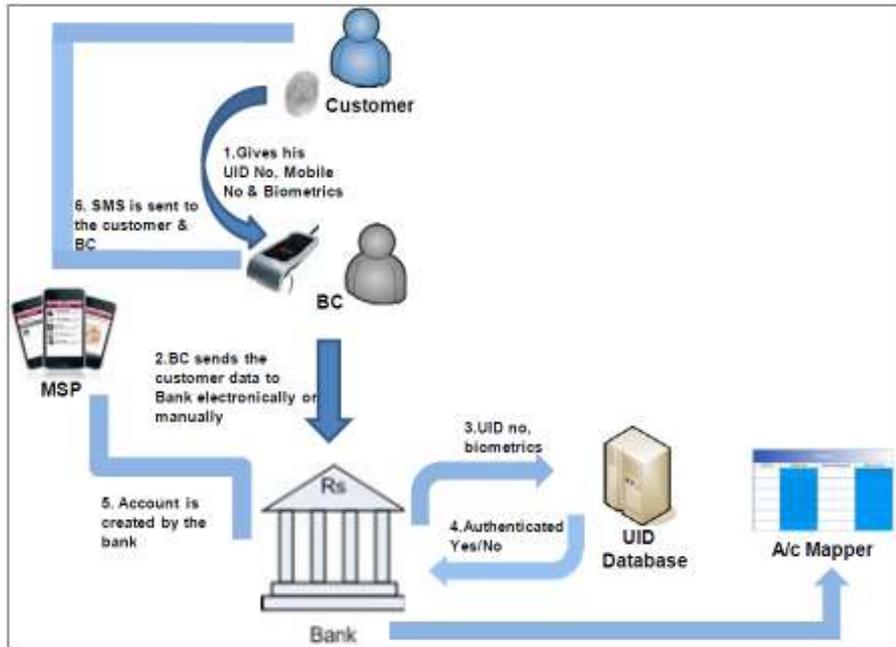
² Pre UID stage refers to period before establishment of infrastructure for issuing UIDs



Post-UID Stage³

- I. Customer gives his UID number (if already allotted), biometrics (for UID authentication in case UID is already allotted), mobile number and other KYC details (as per the shared KYC norms finalized for mobile linked no-frills accounts) to the BC
- II. BC sends the customer data to the Bank
- III. In case the customer has provided the UID then the bank verifies the UID as well as the biometrics of the customer with the UIDAI server
- IV. In case the customer has not yet obtained his/her UID number from UIDAI, the bank forwards the KYC and biometric details of the customer to the UIDAI Server which internally generates the UID number of the customer and communicates the same to the customer and the bank
- V. The mobile linked no-frills account is created in the bank and both the customer as well as the BC are intimated via a message on their mobiles
- VI. Bank sends a m-pin to the customer on his mobile for making further transactions with his/her mobile linked no-frills account
- VII. Bank also sends the bank account details and customer's mobile number and UID number to the Account Mapper for record purposes

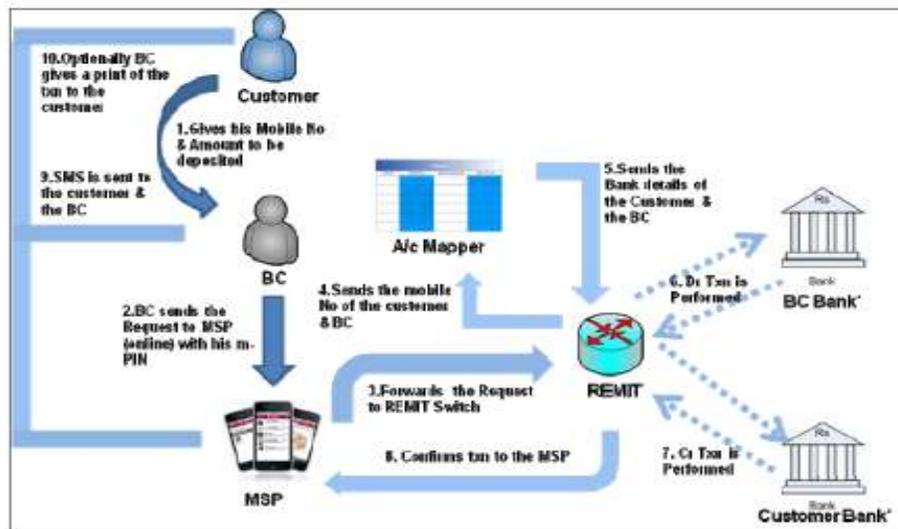
³ Post UID stage is used to refer to the period after establishment of infrastructure for issuing UIDs



b. Cash Deposit

The process for depositing cash into a mobile linked no-frills account is as follows:

- I. Customer gives his mobile number and the cash to be deposited to the BC
- II. BC sends the customer details along with his own m-pin to REMIT switch via his mobile
- III. REMIT switch sends the mobile number of the customer as well as of the BC to Account Mapper
- IV. Account Mapper sends back the bank account details of the customer and the BC to REMIT switch
- V. REMIT switch sends the debit instruction for the requested amount to the BC's bank
- VI. BC's bank verifies the BC's m-pin
- VII. Upon successful verification, BC's bank debits the BC's account with the specified amount and confirms the transaction to REMIT switch
- VIII. Upon receipt of confirmation from BC's bank, REMIT switch sends the credit instruction to the customer's bank
- IX. Customer's bank credits the customer's mobile linked no-frills account with the specified amount and confirms the transaction back to REMIT switch
- X. REMIT switch sends back a confirmation message to the BC as well as the customer via mobile service provider

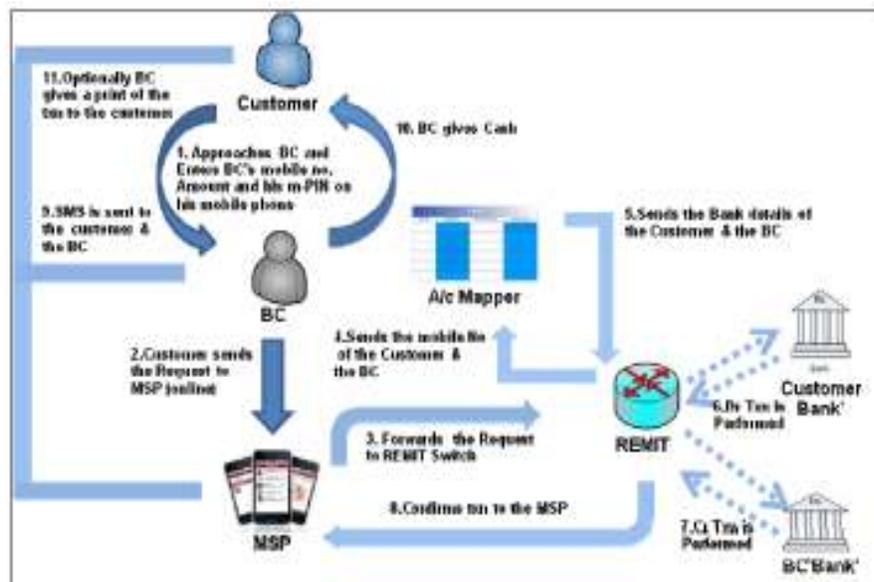


c. Cash Withdrawal

The process for cash withdrawal is as follows:

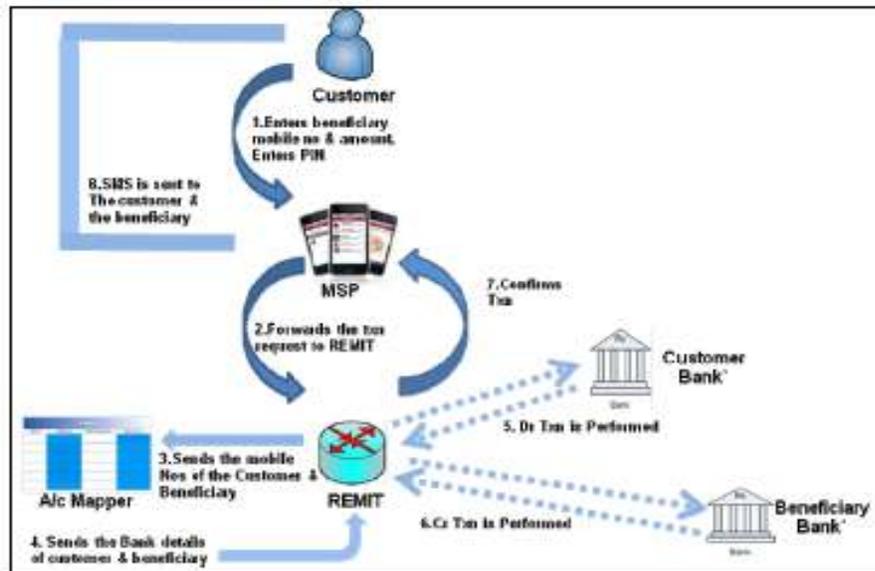
- I. Customer approaches a BC and asks for his mobile number

- II. Customer sends the withdrawal request by specifying the amount, his own m-pin and the BC's mobile number to the REMIT switch using his mobile
- III. REMIT switch sends the mobile number of the customer as well as mobile number of the BC to Account Mapper
- IV. Account Mapper sends back the bank account details of the customer and the BC to REMIT switch
- V. REMIT switch sends the debit instruction for the requested amount to the customer's bank
- VI. Customer's bank verifies the customer's m-pin
- VII. Upon successful verification, customer's bank debits the customer's account with the specified amount and confirms the transaction to REMIT switch
- VIII. Upon receipt of confirmation from customer's bank, REMIT switch sends the credit instruction to the BC's bank
- IX. BC's bank credits the BC's account with the specified amount and confirms the transaction back to REMIT switch
- X. REMIT switch sends back a confirmation message to the BC as well as the customer via mobile service provider
- XI. BC hands over the equivalent cash to the customer



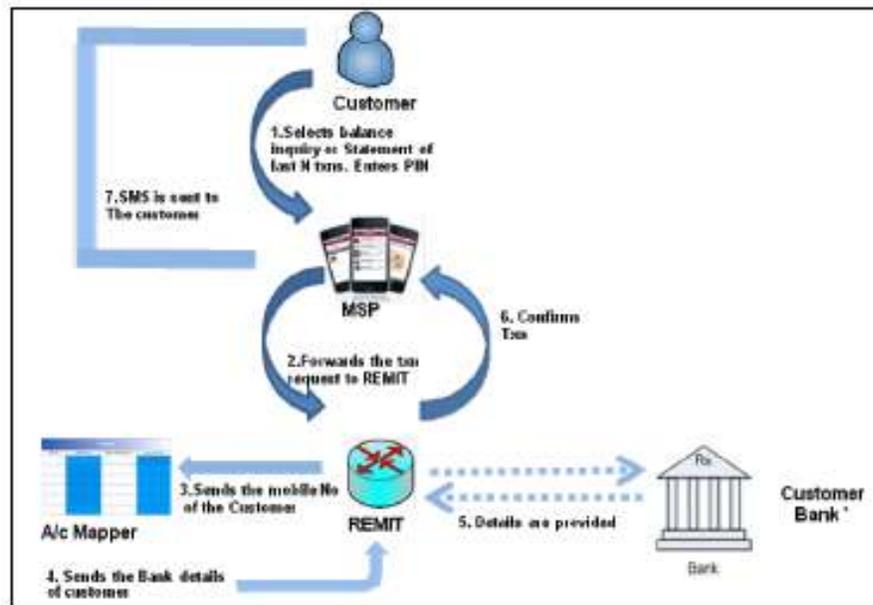
d. Transfer Money to another mobile linked no-frills account

- I. Customer sends the beneficiary's mobile number, the amount to be credited and his own m-pin to REMIT switch via his mobile
- II. REMIT switch sends the customer's as well as beneficiary's mobile number to the Account Mapper
- III. Account Mapper sends back the accounts details of both the customer as well as beneficiary to the REMIT switch
- IV. REMIT switch sends the debit instruction for the requested amount to the customer's bank
- V. Customer's bank verifies the customer's m-pin
- VI. Upon successful verification, customer's bank debits the customer's account with the specified amount and confirms the transaction to REMIT switch
- VII. Upon receipt of confirmation from customer's bank, REMIT switch sends the credit instruction to the beneficiary's bank
- VIII. Beneficiary's bank credits the beneficiary's account with the specified amount and confirms the transaction back to REMIT switch
- IX. REMIT switch sends back a confirmation message to the customer as well as the beneficiary via mobile service provider



e. Balance Enquiry

- I. Customer sends the request for balance enquiry along with his/her m-pin to REMIT switch using his mobile
- II. REMIT sends the customer's mobile number to the Account Mapper
- III. Account Mapper sends back the customer's bank account details to the REMIT switch
- IV. REMIT switch sends the balance enquiry request to the customer's bank
- V. Customer's bank verifies the customer's m-pin
- VI. Upon successful verification, customer's bank sends back the balance details to the REMIT switch
- VII. REMIT switch sends the balance details to the customer via mobile service provider



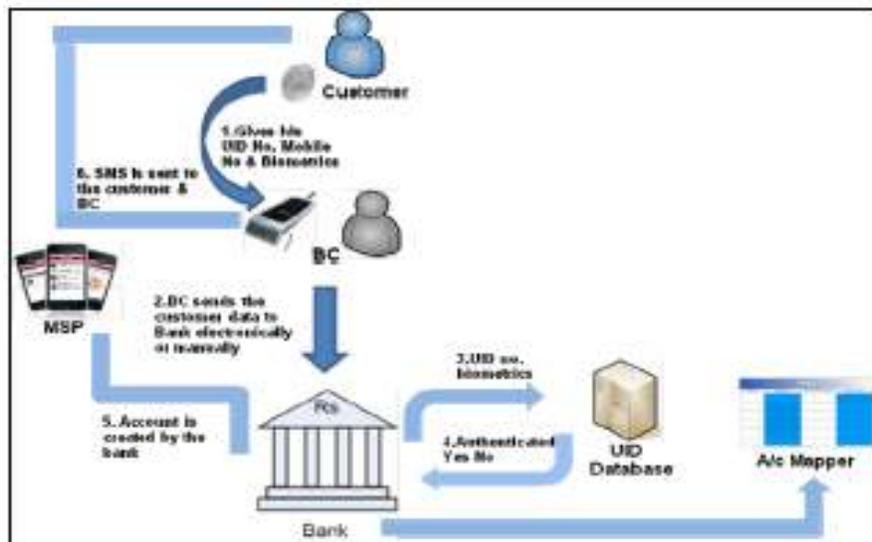
C. Indicative Transaction Processes using Biometrics (fingerprint)

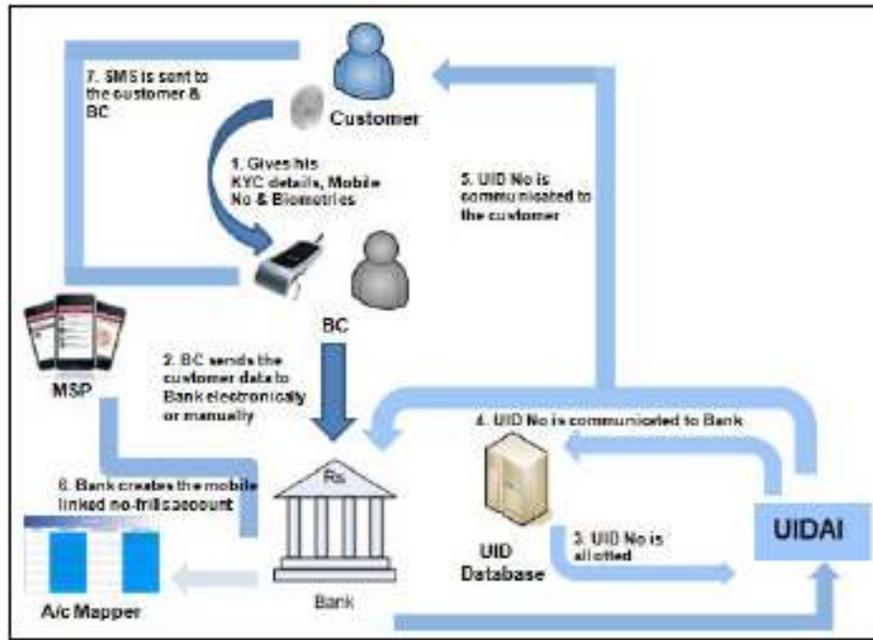
a. Account Opening

The process for opening a Mobile linked No-Frills Account is as follows:

- I. Customer gives his UID number (if already allotted), biometrics and other KYC details to the BC

- II. BC sends the customer data to the Bank either manually or through Micro ATM
- III. In case the customer has provided his UID number, the bank verifies the UID as well as the biometrics of the customer with the UIDAI server
- IV. In case the customer has not yet obtained his/her UID number from UIDAI, the bank forwards the KYC and biometric details of the customer to the UIDAI Server which internally generates the UID number of the customer and communicates the same to the Bank and the customer
- V. The mobile linked no-frills account is created in the bank and the BC is intimated via a message on the micro ATM
- VI. Bank also sends the bank account details and customer's UID number to the Account Mapper for record purposes



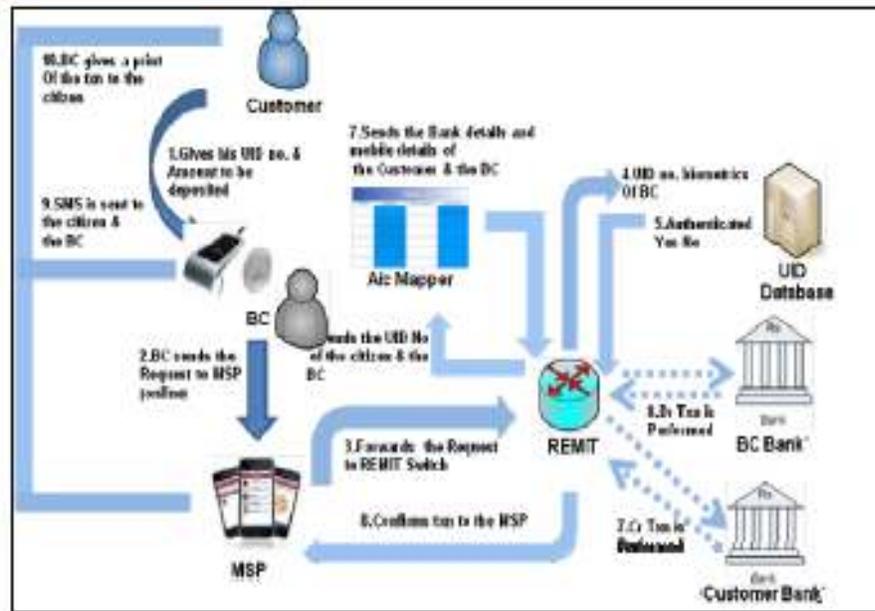


b. Cash Deposit

The process for depositing cash into a mobile linked no-frills account is as follows:

- I. Customer gives his UID number and the cash to be deposited to the BC
- II. BC sends the customer details, amount to be deposited, his own UID number and biometric information to REMIT switch via micro ATM
- III. REMIT switch sends the UID number and the biometric information of the BC to the UIDAI server for authentication
- IV. UIDAI server sends the authentication yes/no back to REMIT switch
- V. Upon successful verification, REMIT switch sends the UID number of the customer and the UID number of the BC to Account Mapper
- VI. Account Mapper sends back the bank account details of the customer and the BC to REMIT switch
- VII. REMIT switch sends the debit instruction for the requested amount to the BC's bank
- VIII. BC's bank debits the BC's account with the specified amount and confirm the transaction to REMIT switch
- IX. Upon receipt of confirmation from BC's bank, REMIT switch sends the credit instruction to the customer's bank

- X. Customer's bank credits the customer's mobile linked no-frills account with the specified amount and confirms the transaction back to REMIT switch
- XI. REMIT switch sends back a confirmation message to the BC on the micro ATM
- XII. BC further gives a print of the transaction to the customer

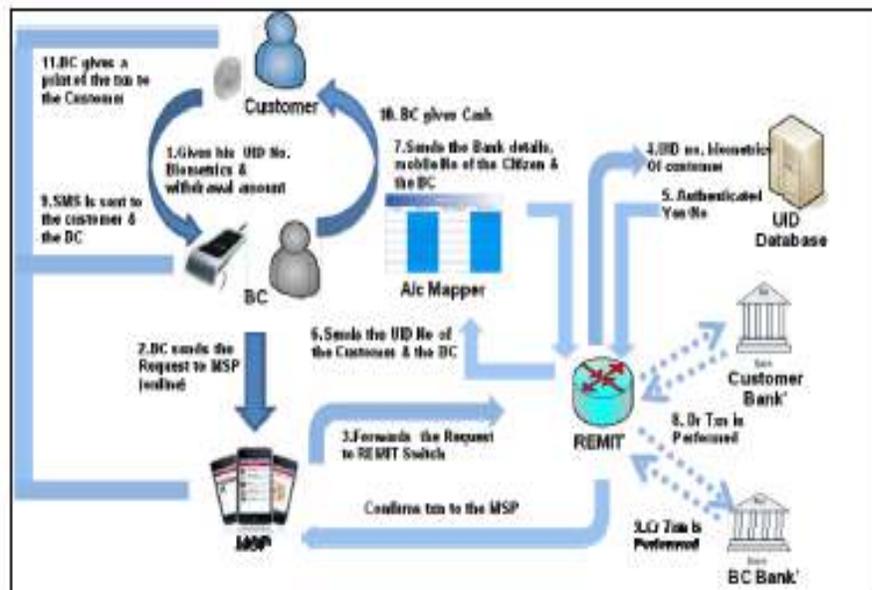


c. Cash Withdrawal

The process for cash withdrawal is as follows:

- I. Customer approaches a BC and gives his UID number, biometric information and the cash to be deposited to the BC
- II. BC sends the customer information, amount to be withdrawn and his own UID number to REMIT switch
- III. REMIT switch sends the UID number and the biometric information of the customer to UIDAI server for authentication
- IV. UIDAI server sends back the authentication yes/no to Account Mapper
- V. Upon successful verification, REMIT switch sends the UID number of the customer as well as UID Number of the BC to Account Mapper
- VI. Account Mapper sends back the bank account details of the customer and the BC to REMIT switch

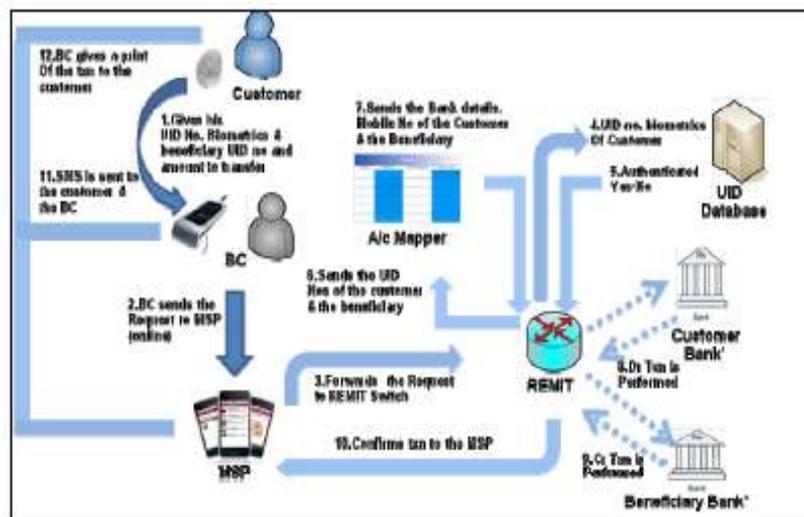
- VII. REMIT switch sends the debit instruction for the requested amount to the customer's bank
- VIII. Customer's bank debits the customer's account with the specified amount and confirms the transaction to REMIT switch
- IX. Upon receipt of confirmation from customer's bank, REMIT switch sends the credit instruction to the BC's bank
- X. BC's bank credits the BC's account with the specified amount and confirms the transaction back to REMIT switch
- XI. REMIT switch sends back a confirmation message to the BC on micro ATM
- XII. BC hands over the equivalent cash to the customer
- XIII. BC further gives a print of the transaction to the customer if requested



d. Transfer Money to another mobile linked no-frills account

- I. Customer visits a BC and provides his UID, biometric information, cash to be transferred and the beneficiary's UID number to the BC
- II. BC sends the customer details along with beneficiary information to REMIT switch through micro ATM
- III. REMIT switch sends the customer's UID number and biometric information to UIDAI server for authentication
- IV. UIDAI server sends the authentication yes/no back to REMIT switch

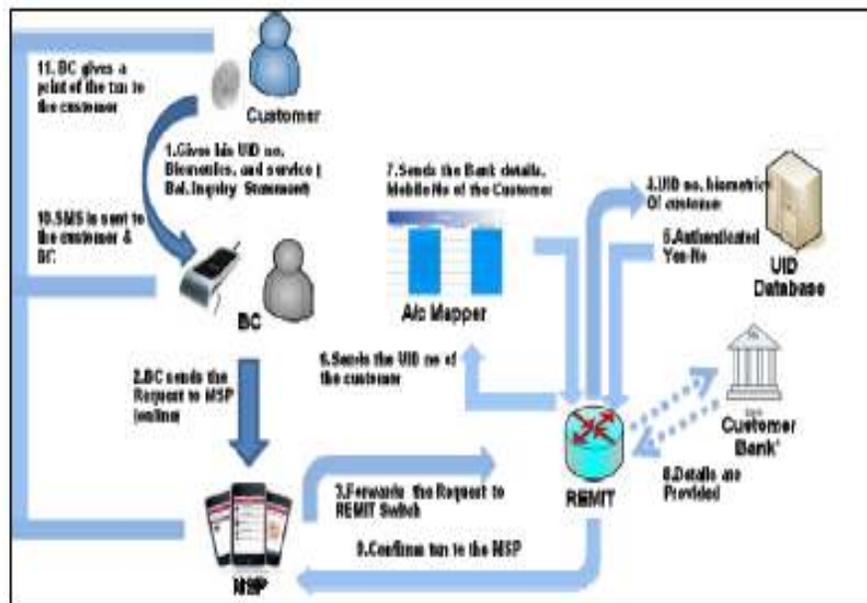
- V. Upon successful verification, REMIT switch sends the UID number of the customer and the UID number of the beneficiary to Account Mapper
- VI. Account Mapper sends back the accounts details of both the customer as well as beneficiary to the REMIT switch
- VII. REMIT switch sends the debit instruction for the requested amount to the customer's bank
- VIII. Customer's bank debits the customer's account with the specified amount and confirms the transaction to REMIT switch
- IX. Upon receipt of confirmation from customer's bank, REMIT switch sends the credit instruction to the beneficiary's bank
- X. Beneficiary's bank credits the beneficiary's account with the specified amount and confirms the transaction back to REMIT switch
- XI. REMIT switch sends back a confirmation message to the BC on his micro ATM
- XII. BC gives a print out of the transaction to the customer if requested



e. Balance Enquiry

- I. I. Customer visits a BC and provides his UID number, biometric information and requests for balance enquiry
- II. BC sends the customer information to REMIT switch through his micro ATM
- III. REMIT switch sends the customer's UID number and biometric information to UIDAI server for authentication

- IV. UIDAI server sends the authentication yes/no back to REMIT switch
- V. Upon successful verification, REMIT switch sends the customer's UID number to the Account Mapper
- VI. Account Mapper sends back the customer's bank account details to the REMIT switch
- VII. REMIT switch sends the balance enquiry request to the customer's bank
- VIII. Customer's bank sends back the balance details to the REMIT switch
- IX. REMIT switch sends the balance details to the customer to the BC's micro ATM
- X. BC gives a print out of the balance statement to the customer



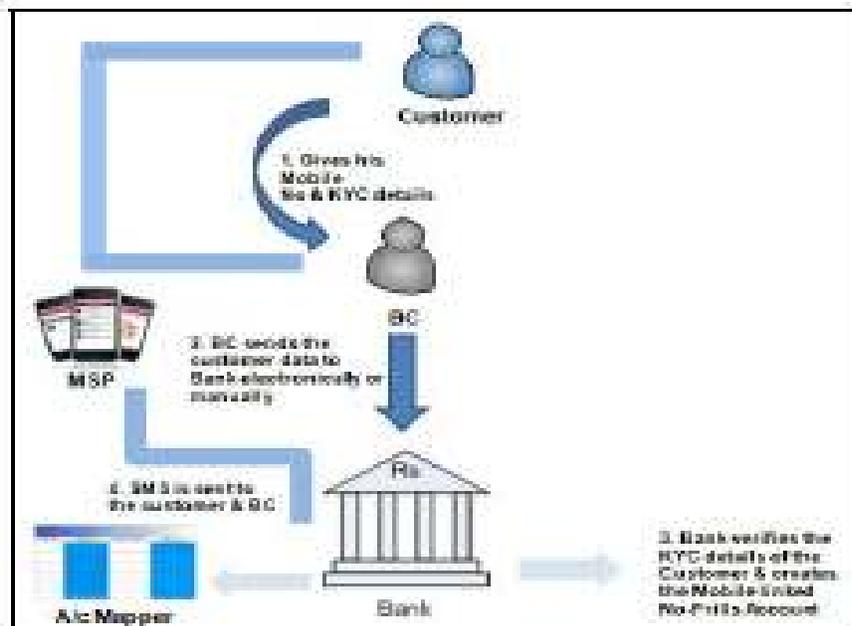
D – Indicative Transaction Processes during the Interim Period

The transaction request in the interim period will be sent either to the Banks own CBS or the FI's server to whom mobile linked no-frills account transactions are outsourced. All such transaction request will be facilitated by the customer's MSP to the customer Bank. In case of mobile linked no-frills accounts being hosted in the outsourced server of the FI, bank approved process with respect to end of the day settlements and communication of transaction details will be carried as is being done currently. Reference to SMS may also mean USSD or any other "Secure mobile based communication"

a. Account Opening

The process for opening a Mobile linked No-Frills Account is as follows:

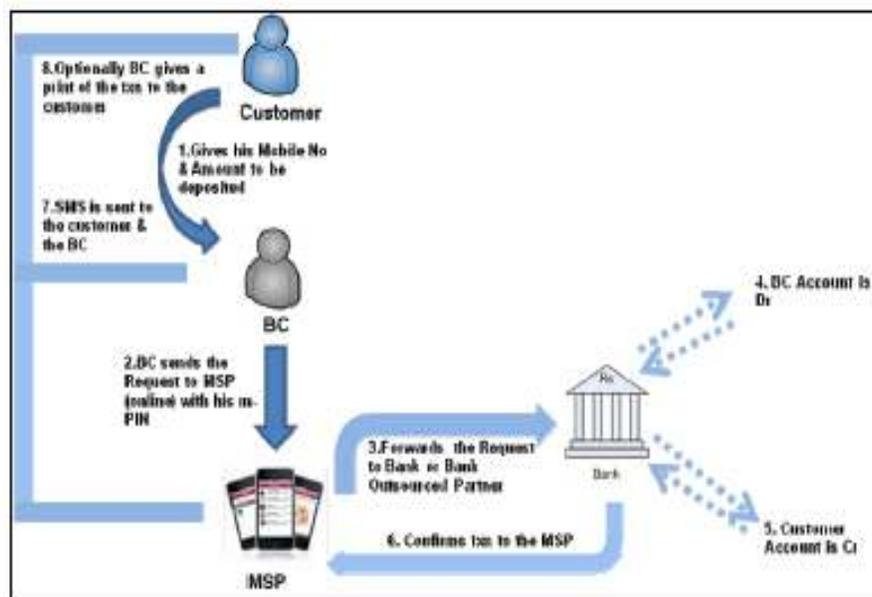
- I. Customer provides his KYC details (as per existing norms for the “No-Frills” Accounts or those decided by the Banks for opening mobile linked no-frills accounts), Mobile no to the BC of the bank in which the customer wants to open his Mobile linked No-Frills Account. (The BC will also have an account in that Bank to which he is attached)
- II. BC sends the customer data to the Bank (or bank outsourced partners) either manually or electronically as per the current process for opening of the “No Frills” accounts.
- III. Bank (or Bank outsourced partners) opens the Mobile linked No-Frills Account for the customer.
- IV. The customer and the BC are informed of the opening of the Mobile linked No-Frills Account on his mobile phone number.
- V. An m-PIN to perform the basic transactions through a mobile device will be provided to the customer by the Bank



b. Cash Deposit

The process for depositing cash into a mobile linked no-frills account is as follows:

- I. Customer gives his mobile number and the cash to be deposited to the BC of the bank in which the customer holds the Mobile linked No-Frills Account
- II. BC sends the transaction request using his mobile to the Bank to which he and customer both are attached.
- III. Once the Bank receives the transaction request, the Bank will complete the transaction (i.e. debit BC's account & credit customer's account).
- IV. Once the transaction is completed, the Bank or the Bank Outsourced Partner will send a SMS to both the customer and the BC to confirm the transaction

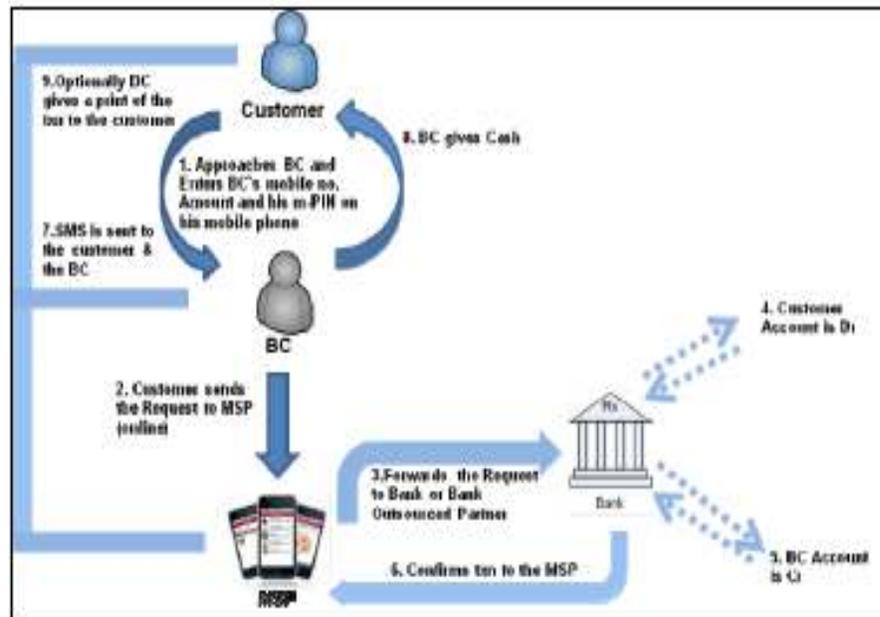


c. Cash Withdrawal

The process for cash withdrawal is as follows:

- I. Customer approaches a BC of the bank in which he has a Mobile linked No-Frills Account and asks for his mobile number
- II. Customer initiates the withdrawal request by sending a message to the Bank and specifying the amount, his m-pin and the BC's mobile number

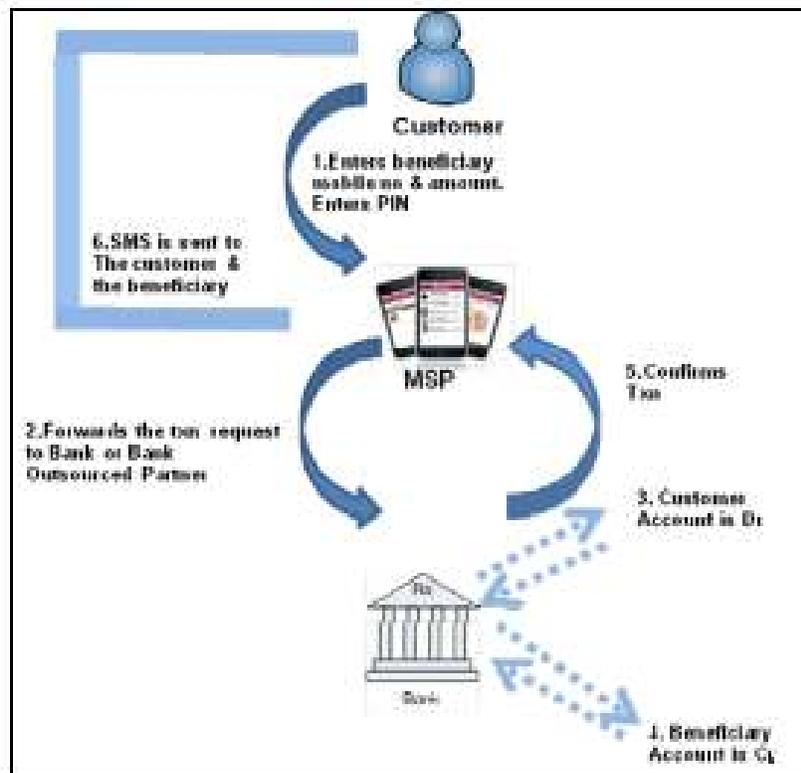
- III. Once the Bank receives the transaction request, the Bank will complete the transaction (i.e. debit customer's Account & credit BC's Account) if both the BC & the customer's data is with the bank or will forward the request to its outsourced partner for the completion of the transaction.
- IV. Once the transaction is completed, the Bank or the Bank Outsourced Partner will send a SMS to both the customer and the BC to confirm the transaction
- V. On receiving the confirmation request, the BC will hand over the equivalent cash to the customer



d. Transfer Money to another mobile linked no-frills account

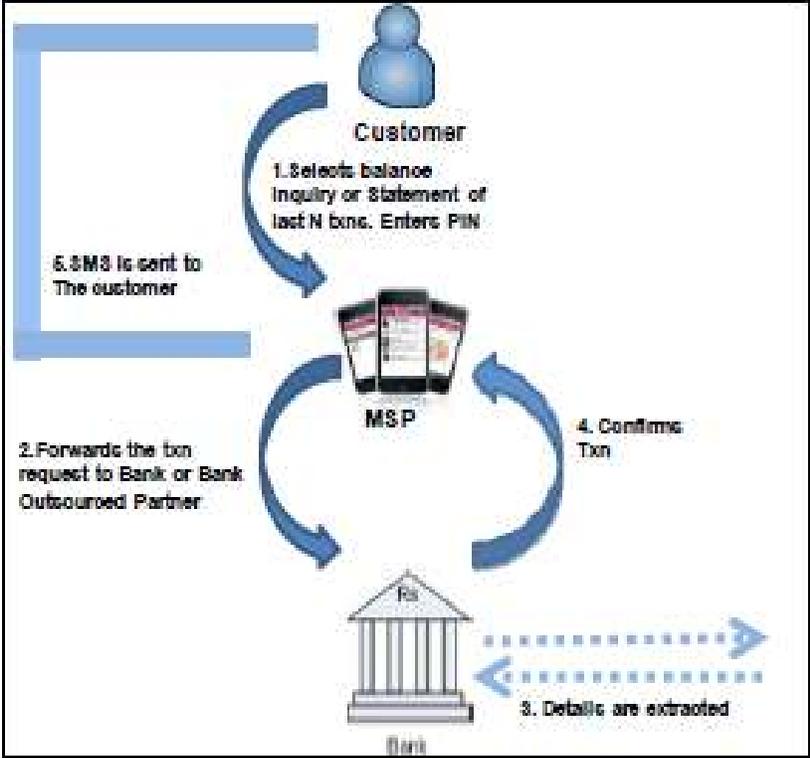
- I. Customer initiates the transfer request on his mobile device by providing the beneficiary's mobile number, the amount to be transferred and his m-pin.
- II. The customer's MSP will transmit the request to the customer's Bank.
- III. Once the Bank receives the transaction request, the Bank will complete the transaction (i.e. debit customer's account & credit beneficiary's account) if both the customer's & the beneficiary's accounts are with the bank or will forward the request to its outsourced partner for the completion of the transaction.

- IV. Once the transaction is completed, the Bank or the Bank Outsourced Partner will send a message to both the customer and the BC to confirm the transaction



e. Balance Enquiry

- I. Customer initiates the request for balance enquiry on his mobile device by providing his m-pin
- II. The customer's MSP will transmit the request to the customer's Bank.
- III. Once the Bank receives the transaction request, the Bank will complete the transaction if the customer's account is with the bank or will forward the request to its outsourced partner for the completion of the transaction.
- IV. Once the transaction is completed, the Bank or the Bank Outsourced Partner will send a SMS to the customer to confirm the transaction





RESERVE BANK OF INDIA

www.rbi.org.in

RBI/2010-11/217

DBOD.No.BL.BC.43 /22.01.009/2010-11

September 28, 2010

All Commercial Banks (including RRBs and LABs)

Dear Sir,

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

As announced in the Annual Policy Statement for the year 2010-11, a [discussion paper](#) on engagement of 'for profit' companies as BCs was placed on RBI website on August 2, 2010. Taking into consideration the pros and cons and based on the feedback received from various quarters, it has been decided to permit banks to engage companies registered under the Indian Companies Act, 1956, excluding **Non Banking Financial Companies (NBFCs)**, as BCs in addition to the individuals/entities permitted earlier, subject to compliance with the guidelines.

2. The existing guidelines for engaging BCs have been reviewed and the revised guidelines are annexed.

Yours faithfully

(A.K. Khound)
Chief General Manager
Encl: As above



Guidelines for engaging of Business Correspondents (BCs)

The scheduled commercial banks including Regional Rural Banks (RRBs) and Local Area Banks (LABs) may engage Business Correspondents (BCs) subject to compliance with the following guidelines:

1. Introductory

The banks may formulate a policy for engaging Business Correspondents (BCs) with the approval of their Board of Directors. Due diligence may be carried out on the individuals/entities to be engaged as BCs prior to their engagement. The due diligence exercise may, inter alia, cover aspects such as (i) reputation/market standing, (ii) financial soundness, (iii) management and corporate governance, (iv) cash handling ability and (v) ability to implement technology solutions in rendering financial services.

2. Eligible individuals/entities

The banks may engage the following individuals/entities as BC.

- i) Individuals like retired bank employees, retired teachers, retired government employees and ex-servicemen, individual owners of kirana / medical /Fair Price shops, individual Public Call Office (PCO) operators, agents of Small Savings schemes of Government of India/Insurance Companies, individuals who own Petrol Pumps, authorized functionaries of well run Self Help Groups (SHGs) which are linked to banks, any other individual including those operating Common Service Centres (CSCs);
- ii) NGOs/ MFIs set up under Societies/ Trust Acts and Section 25 Companies ;
- iii) Cooperative Societies registered under Mutually Aided Cooperative Societies Acts/ Cooperative Societies Acts of States/Multi State Cooperative Societies Act;
- iv) Post Offices; and



- v) Companies registered under the Indian Companies Act, 1956 with large and widespread retail outlets, **excluding Non Banking Financial Companies (NBFCs).**

3. BC Model

While a BC can be a BC for more than one bank, at the point of customer interface, a retail outlet or a sub-agent of a BC shall represent and provide banking services of only one bank. The terms and conditions governing the contract between the bank and the BC should be carefully defined in written agreements and subjected to a thorough legal vetting. While drawing up agreements, banks should strictly adhere to instructions contained in the guidelines on managing risks and code of conduct in outsourcing of financial services by banks, issued by Reserve Bank of India on November 3, 2006. The banks will be fully responsible for the actions of the BCs and their retail outlets / sub agents.

4. Scope of activities

The scope of activities may include (i) identification of borrowers; (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) promoting, nurturing and monitoring of Self Help Groups/ Joint Liability Groups/Credit Groups/others; (vi) post-sanction monitoring; (vii) follow-up for recovery, (viii) disbursal of small value credit, (ix) recovery of principal / collection of interest (x) collection of small value deposits (xi) sale of micro insurance/ mutual fund products/ pension products/ other third party products and (xii) receipt and delivery of small value remittances/ other payment instruments.

The activities to be undertaken by the BCs would be within the **normal** course of the bank's banking business, but conducted through the BCs at places other than the bank premises/ATMs.



5. KYC Norms

KYC and AML procedures, as laid down in the Master Circular DBOD.AML.BC. No.2/14.01.001/2010-11 dated July 1, 2010 and subsequent circulars on the subject should be followed in all cases. The banks may, if necessary, use the services of the BC for preliminary work relating to account opening formalities. However, ensuring compliance with KYC and AML norms under the BC model continues to be the responsibility of banks.

6. Customer confidentiality

The banks should ensure the preservation and protection of the security and confidentiality of customer information in the custody or possession of BC.

7. Information Technology Standards

The banks should ensure that equipment and technology used by the BC are of high standards.

8. Distance Criterion

With a view to ensuring adequate supervision over the operations and activities of the retail outlet/sub-agent of BCs by banks, every retail outlet/sub-agent of BC is required to be attached to and be under the oversight of a specific bank branch designated as the base branch. The distance between the place of business of a retail outlet/sub-agent of BC and the base branch should ordinarily not exceed 30 kms in rural, semi-urban and urban areas and 5 kms in metropolitan centers. In case there is a need to relax the distance criterion, the District Consultative Committee (DCC)/State level Bankers Committee (SLBC) could consider and approve relaxation on merits in respect of under-banked areas etc.

9. Payment of commission/fee

The banks may pay reasonable commission/ fee to the BC, the rate and quantum of which may be reviewed periodically. The agreement with the BC should specifically prohibit them from charging any fee to the customers directly for services rendered by them on behalf of the bank. Commission structure or incentive mechanism should be devised in a manner that



mere increase in the number of clients served or the transaction volume does not drive the commission. The remuneration should combine fixed and variable parts dependent, inter-alia, on some indication or measure of customer satisfaction. Some part of the variable remuneration could be deferred or clawed back in case of deficiency of service.

The banks (and not BCs) are permitted to collect reasonable service charges from the customers in a transparent manner.

10. Transactions put through BC

As engagement of intermediaries such as Business Facilitators/ Correspondents involves significant reputational, legal and operational risks, due consideration should be given by banks to those risks. The banks should adopt technology-based solutions for managing the risk, besides increasing the outreach in a cost effective manner. The transactions should normally be put through ICT devices (handheld device/mobile phone) that are seamlessly integrated to the Core Banking Solution (CBS) of the bank. The transactions should be accounted for on a real time basis and the customers should receive immediate verification of their transactions through visuals (screen based) or other means (debit or credit slip).

In formulating their schemes, banks may, inter alia, be guided by the recommendations made at Chapter III of the Khan Group Report as also the _outsourcing guidelines released by Reserve Bank of India on November 3, 2006 (available on RBI website: www.rbi.org.in). The arrangements with the BC shall specify:

- i) suitable limits on cash holding by intermediaries as also limits on individual customer payments and receipts;
- ii) cash collected from the customer should be acknowledged by issuing a receipt on behalf of the bank;
- iii) that all off-line transactions are accounted for and reflected in the books of the bank by the end of the day; and
- iv) 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 BC.



11. Internal Control & Monitoring

The banks should carry out a detailed review of the performance of various BCs engaged by them at least once in a year and they should monitor the activities of BCs through their Controlling Offices and also through various fora under Lead Bank Scheme i.e. (SLBC, DLCC, BLBC). The internal control mechanism in the bank should include visit to BCs and interface with customers at periodical intervals.

12. Consumer Protection Measures

The banks should take all measures to protect the interests of the customers. Some such safeguards are outlined below:

- i. The retail outlet/sub-agent of the BC should be personally introduced to the members of public by the bank officials in the presence of village elders and government functionaries in a public meeting so that there is no misrepresentation/impersonation.
- ii. The products and processes should be approved by the banks and the company should not introduce any product/process without the approval of the bank concerned.
- iii. Each retail outlet/sub-agent may be required to post a signage indicating their status as service providers for the bank as also disclose the name of the BC, the telephone number of the base branch/controlling office of the bank and the Banking Ombudsman and the fees for all services available at the outlet.
- iv. Financial services offered by the retail outlets/sub-agents of the BC should not be tied to the sale of any product of such company.
- v. The charges for offering various services should be indicated in a brochure and made available at the retail outlets/with the sub-agents.
- vi. The banks should develop suitable training modules in the local language(s) in order to provide proper attitudinal orientation and skills to the BCs/sub-agents.
- vii. As a measure of social audit, there could be periodic block level meetings where members of public are invited along with the BCs operating in the area as also the linked branch managers to express their difficulties and to obtain feedback. Lead District Manager (LDM) of the lead bank could attend such meetings in the district to get a direct feedback and provide such feedback to the controlling offices.



- viii. The bank should have necessary Business Continuity Plan (BCP) in place to ensure uninterrupted service in case the agency arrangement with the companies/ sub-agents are terminated.
- ix. In case a company is engaged as BC by more than one bank, it should be ensured that the customer database and account details are kept separate and there is no commingling of data.

13. Redressal of Grievances

The banks should constitute Grievance Redressal Machinery within the bank for redressing complaints about services rendered by the 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 made known and widely publicized. The designated officer should ensure that genuine grievances of customers are redressed promptly. 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. 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.

14. Customer Education

Financial literacy and customer education should form an important part of the business strategy and should form part of the commitment by banks adopting the BC model. Banks may scale up their efforts substantially towards educating their clientele in their respective vernacular languages regarding the benefits of banking habit. Information regarding BCs engaged by banks may be placed on the respective banks' websites. The Annual Report of the banks should also include the progress in respect of extending banking services through the BC model and the initiatives taken by banks in this regard. The banks may also use print and electronic media (including in the vernacular language) to give wide publicity about implementation of the BC model by them.
