Deepening Financial Access in India -

A Blue Print for Commercial Banks

Using Business Correspondents and Business Facilitators

Bindu Ananth

Asha Krishnakumar

IFMR Finance Foundation

February 2010

Contents

A Blue Print for Commercial Banks to Viably Deepen Financial Access

By

Bindu Ananth and Asha Krishnakumar[1]

Introduction

While endeavouring to deepen financial access in India, the enormity of the problem, that is, the vast number of financially excluded people to be reached, has been emphasised time and again. The Reserve Bank of India, for instance, has recently notified 292 districts in India as "underbanked"[2] with poor microfinance penetration, meagre bank branch network, and a low credit deposit ratio. The Rangarajan Committee on Financial Inclusion (January 2008) estimates that 111.5 million households have no access to formal credit; and 17 million households are in debt trap with money lenders. Data from the 59th Round of NSS (2008) shows that 73% of the 89 million farmer households have no access to formal source of credit. The Arjun Sengupta Report on Financing Enterprises in the Unorganized Sector (August 2007) estimates that 95.86% of the units (with investment of less than Rs. 25,000) have no access to credit from the formal system[3]. According to Dr. K.C. Chakrabarthy[4], Deputy Governor, RBI, only 13 per cent of people with annual income less than Rs. 50,000 are availing loans; and 53 per cent of people are still taking loans from institutional and non-institutional sources only for emergency purposes.

It is well documented that low-income households constantly engage in numerous complex financial transactions, mostly outside the formal financial system; they get into a new financial arrangement every

---

[1]Bindu Ananth is Chairperson, IFMR Finance Foundation (www.ifmr.co.in) and Asha Krishnakumar (asha.krishnakumar@ifmr.co.in) is the corresponding author and a member of the IFMR Finance Foundation. The authors wish to thank Nitin Chaudhary, of IFMR Rural Finance, for working out the viability of the BC/FC model for financial deepening (detailed in Annexure-7)

[2] For a list of all the under-banked districts in the country see RBI Notification of December 1, 2009:

[3] Excerpted from the speech by Usha Thorat, Deputy Governor, Reserve Bank of India, and reported in JAIIB Update, June 2009

[4] In "Banking: Key Driver for Inclusive Growth", 2009 (http://www.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=1051

two weeks on an average[5]. Assuming each household needs four-five financial products to cover all its risks[6], this could constitute a market for virtually limitless number of financial products[7]. Yet so many people and enterprises still remain without access to the formal system of financial services.

Background

The Central Government and the Reserve Bank of India have been pursuing financial inclusion since the 1950s - through rural cooperatives in the 1950s, social contract with banks in the 1960s, and expansion of bank branch network in the 1970s and 1980s. The Commercial Banks have played a significant role in this, particularly in reaching the financially underdeveloped rural areas[8]. These initiatives have paid off in terms of creating a large network of bank branches across the country – an eight-fold increase in the last three decades, with much of the expansion happening in the rural and semi-urban areas, which now account for 71% of the total bank branches in the country[9]. Yet, out of the 600,000 habitations in the country, only about 30,000 have a commercial bank branch; and hardly 40 per cent of the population across the country have bank accounts; this ratio is much lower in the north-eastern parts of the country[10]. Thus, there is still a large unfinished agenda of financial inclusion.

---

[5] Microfinance Analytical Issues for India, Jonathan Morduch and Stuart Rutherford, in India's Financial Sector: Issues, Challenges and Policy Options, Oxford University Press

[6] For instance, currently 16 financial products exist in Kshetriya Grameen Financial Services of the IFMR Holding Company Private Limited to cover such risks

[7] Promoting Financial Inclusion for the World's Poor, December 2007, McKinsey and Company

[8] For instance, according to Burgess Robin & Pande Rohini (2004), with the Reserve Bank of India mandating that a commercial bank could open a branch in any location only if it opens four in locations with no bank branches, the number of rural branches in financially underdeveloped areas increased substantially and this led to a significant drop in rural poverty and increase in non-agricultural output between 1977 and 1990 ("Do Rural Banks Matter? Evidence from the Indian Social Bank Experiment", C.E.P.R. Discussion Papers

[9] Role of State-Owned Financial Institutions in India: Should the Government "Do" or "Lead", Urjit R. Patel, Infrastructure Development Finance Company Limited, Paper presented in World Bank, IMF and Brookings Institution Conference on "Role of State-Owned Financial Institutions", Washington DC, April 2004

[10] Financial Inclusion : Challenges and Opportunities, Duvvuri Subbarao, Jan 11, 2010 (http://www.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=10852)

The Business Correspondent/ Business Facilitator (BC/BF) model[11] that the RBI had initiated in 2006 offers a significant opportunity to scale-up and deepen financial access by creating an extensive network of village-level touch points. (To support the financial inclusion effort and to leverage the advances in banking technology, two kinds of third party banking agents were created – Business Facilitators, who would primarily be involved in creating awareness, processing and opening accounts, and Business Correspondents, who could, in addition to the functions of the Business Facilitators, mobilise deposits and disburse credits on behalf of the banks; See **Annexures-1** for RBI's master notification on the BC/BF model and the subsequent modifications pertaining to it; and **Annexure 1 (a)** for the recommendations by the Working Group constituted by the RBI in 2009 to look into ways of "Realising the Full Potential of the BC Model").

At this stage, commercial banks can expand their outreach in two ways: Through expanding their branch network; or through establishing a network of BCs and BFs (which are intermediary entities such as non-profit MFIs, NGOs, self help groups and Civil Society Organisations; while BFs would facilitate the linking and opening of bank accounts by unbanked individuals, the BCs, apart from facilitation, would also be engaged in the banking business at a premise other than that of the bank's).

Beyond a certain threshold, the traditional commercial bank branch could prove to be too expensive and too far removed from the local community to be an effective conduit for financial services to every single household. Such constraints can be overcome by working through the BCs and BFs. This model also provides the opportunity for many existing institutions (such as the non-profit MFIs, cooperative credit societies, and self-help promoting institutions (SHPIs)) to get linked to mainstream commercial banks to offer savings and other financial services.

[11] For providing comprehensive financial services encompassing savings, credit, remittance, insurance and pension products in rural areas, an Internal Working Group constituted by the RBI in 2005 under the chairmanship of H.R. Khan, former Principal of the College of Agricultural Banking (CAB), Reserve Bank of India, Pune, recommended two models - the Business Facilitator and the Business Correspondent models (See Annexure-1 for a detailed description of the models and the distinct roles of BCs and BFs)

Also, given the vast network of bank branches across India, it is possible to establish the last mile presence using the network of BCs/BFs, which can offer financial services in a convenient and flexible manner in the villages. With the recent relaxations of the BC regulation by the Reserve Bank of India (to widen the BC net and increase their operating area; see **Annexures-1** on this), this opportunity has increased further.

Thus, scaling-up the BC/BF channel of touch points in villages is a desirable pathway to deepen financial inclusion.

Basic Blueprint for Commercial Banks to Deepen Financial Access in a Viable Manner

Deepening financial access in a viable manner is possible with commercial banks expanding and strengthening the existing BCs and BFs that are the local touch points at the front-end. The comprehensive set of Business Correspondents that are established at the village level could be considerably strengthened by building their capacity through training; enabling them with appropriate technology; infusing them with sufficient working capital; providing them a line of credit to originate loans at the local level; and equipping them to guarantee the first loss. And a substantial part of the expenses of the BCs and BFs can be suitably recovered.

Some specific thoughts on what a commercial bank can do to deepen financial access in a viable manner using the BC/BF model:

Ten key initial steps for a viable BC/BF model:

1. **Putting in place an extensive network of village-level touch points or BCs/BFs:**

   Banks would **need to appoint a local non-profit MFI / SHPI/ Cooperative Society/new institution as a BC/ BF after basic due-diligence and needs assessment –** particularly for BCs as they are required to conduct banking business as well[12]. There would need to be at least one BC for each block in which the bank has a branch; ensuring there is at least one Business Correspondent counter in each significant village or gram panchayat location.

2. **Equipping the BCs with basic infrastructure:**

   Each BC location will need to be equipped with a Point of Transaction (POT) that has a biometric reader[13], an automated cash counting machine and a small sized safe (See **Annexure-2** for successful field experiences of IT-enabled financial inclusion using the BC model**)**. This will, on an immediate basis, ensure transparent access to government payments such as NREGA, RSBY and pension schemes, as well as savings and domestic remittance capabilities. The Bank, acting through the Business Correspondent, should also levy a small charge on the customer to recover a part of the costs of offering these services[14] .

3. **Providing small amount of initial finance to cover pre-operative costs:**

   The Bank may **need to sanction a small term-loan to the BC** to meet its infrastructure expenses and to fund its pre-operative costs.

4. **Providing adequate training and building the capacity of BCs for high quality origination:**

   The Bank would **need to collaborate with training partners**, such as MicroSave (See www.india.microsave.org; and **Annexure-3** for a short description of MicroSave), to offer comprehensive training to the BCs in Self-Help Group / Joint Liability Group methodologies and bring them to such capacity level that they are able to:

   a. Say, in the case of MFIs, obtain at least an MFR4 Rating from CRISIL

---

[12] See Annexure 1 for a description of the specific roles of BCs and BFs respectively and criteria for selecting them
[13] Examples of successful use of technology in the BC model of financial inclusion is detailed in the "Report of the Working Group to Review the BC Model", September 10, 2009; http://www.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=10599); Annexure-2 details the experiences
[14] See for instance, paragraph 3 of the RBI notification issued on November 30, 2009 at: http://www.rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=5390; Excerpts of the notification are given in Annexure-1

b. Completely satisfy the published underwriting guidelines[15] of IFMR Capital (**Annexure-4**) and IFMR Mezzanine Finance Company (**Annexure-5**)

c. Offer Self-Help Group Loans / Joint Liability Group Loans, and Jewel Loans

d. Offer full savings and remittance facilities as a correspondent of the Bank

5. **Providing access to high quality technology for smooth, easy and efficient operations:**

   The Bank would also **need to collaborate with a technology provider** such as *A Little World* (www.alittleworld.com), EKO (www.eko.co.in), Atom Technologies (www.atomtech.in), or Financial Information Network and Operations Limited (www.fino.co.in) to offer a simple technology platform (for example, FINO's SARAL or ALW's ZERO) to the BC to manage its own lending operations. (See **Annexure-2** for successful field experiences of IT-enabled financial inclusion services provided using the BC model; and **Annexure-6** for a short description of FINO, ALW, EKO and Atom Technologies)

6. **Providing BCs long-term working capital loans for ensuring sustainability:**

   Having satisfied itself that the BC is indeed fully prepared for basic lending operations, the Bank **would need to sanction a long-term working capital limit to the BC**. The limit would have the following characteristics:

   a. It would carry a commitment charge of say, 10%, when it is not used.

   b. It would carry an interest rate (which will be higher than the commitment charge, say 20%) when it is used.

   c. It would be unsecured and would be used to provide a first loss (unfunded) guarantee to the purchaser of the loan portfolio originated by the BC.

7. **Providing additional credit line for BCs to originate loans:**

   The Bank would then **need to sanction an additional line of credit at a sustainable rate, say 10%,** for the BC to originate loans on its own books. As soon as the portfolio crosses a certain

[15]For the underwriting guidelines of IFMR Capital see: http://www.ifmrtrust.co.in/downloads/IFMR_Capital_underwriting_guidelines.pdf or Annexure-4; and for the underwriting guidelines of IFMR Mezzanine Capital Finance Company see Annexure-5

minimum size, **the first loss piece would be guaranteed by the BC using the Working Capital limit offered by the Bank**, while the rest of the portfolio could be assigned to the books of the Bank at a competitive rate of interest[16]. This structure ensures that any profits that are made by the BC on account of these lending transactions continue to be at risk until all the loans originated by it are completely paid off. This is a key lesson from the sub-prime crisis.

8. **Covering the costs of BCs/BFs:**

   The bank would levy a service charge (6% in a transparent manner) on the customer for the provision of these services, and pass it on to the BCs/BFs. The BC would lend the money out at a profitable rate of interest (10%, which would be accounted for in the books of the bank). The interest income lending by the BC, and the service charge levied and passed on by the Bank to the BC would be adequate to meet the expenses of the BC/BF[17].

   According to a basic viable model, the final cost to the borrower will be: (10% + 6%) of the total outstanding + INR 25 for a 50 week loan. (That is, 16% on loan outstanding + INR 25) (See **Annexure-7** for the detailed model developed by Nitin Chaudhary, of IFMR Rural Finance, on the viability of the BC/BF model for financial deepening).

9. **Encouraging BCs to expand operations:**

   In addition, the **BC could be encouraged to offer domestic remittance, international remittance and insurance schemes such as life and personal accident**.

10. **Expanding the service offerings of BCs:**

    The block level branches of the bank would **provide cash management services to the BC for an additional fee**.

[16] Or, if necessary, securitised with the help of IFMR Capital at a lower rate of interest
[17] See for instance, http://www.ifmrtrust.co.in/mfiresources/Deeper-Exploration-MFI-Interest-Rates.pdf for a discussion on MFI pricing by Nitin Chaudhary and Suyash Rai (2009)

Conclusions

- This approach to financial deepening would effectively use the provisions of the BC/BF model of the RBI and the existing enabling environment afforded by the developments in technology and favourable regulations.
- It would be self-sustaining and financially profitable for the Banks as well as the BCs.
- It would not only be viable, but would also help generate a portfolio of assets that could be used as priority sector assets.

Annexure-1

In 2005, to provide comprehensive financial services - including savings, credit, remittance, insurance and pension products - in rural areas, the RBI constituted an Internal Working Group under the chairmanship of H.R. Khan, the then Chief General Manager and Principal, College of Agricultural Banking (CAB), Reserve Bank of India, Pune. This Working Group recommended two models - the Business Facilitator (BF) and the Business Correspondent (BC) models.

Based on the recommendations of the Group, the Reserve Bank (through its circular DBOD.No.BL.BC.58/22.01.001/2005-06 dated January 25, 2006) permitted banks to utilise the services of non-governmental organizations (NGOs), micro-finance institutions (other than Non-Banking Financial Companies) and other civil society organisations as intermediaries in providing financial and banking services through the BF and BC models.

The Master Notification and Subsequent Modifications:

The master circular on the BC model was issued on July 1, 2005, with a Jan 25, 2006 notification laying down the eligibility criteria and roles of BC/FC. This was then followed by a number of subsequent notifications that provides scope to expand the BC/FC network and deepen its operations:

The Jan 25, 2006 Notification

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

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.

Among the important subsequent Notifications regarding BC/FC are:

March 22, 2006 - on using non-banking financial institutions under Section 25 of Companies Act (1956) as BC; Excerpts:

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

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

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.

April 24, 2008 - widening the BC net to include retired bank employees, ex-servicemen, and retired government employees; Excerpts:

Date: Apr 24, 2008

Financial Inclusion – Use of Business Facilitators/Business Correspondents

Scheduled Commercial Banks (including RRBs)

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.

August 27, 2008 – inclusion of companies registered under Section 25 of the Companies Act (1956) as BCs, provided the Section 25 companies are stand-alone entities or they are 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 %; Excerpts:

Date: Aug 27, 2008

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

Scheduled Commercial Banks (including RRBs)

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 %.

August 27, 2008 - providing the criteria for appointing sub-agents at the grass-roots level to render the services of BCs; Excerpts:

Date: Aug 27, 2008

Financial Inclusion by Extension of Banking Services – Use of Business Correspondents (BCs)
Scheduled Commercial Banks (including RRBs)

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.

April 24, 2009 (increasing the operating radius of BCs from 15 km to 30 km); Excerpts:

Date: Apr 24, 2009

Financial Inclusion by Extension of Banking Services – Use of Business Facilitators (BFs) and Business Correspondents (BCs)
Scheduled Commercial Banks (including RRBs & LABs)

In this connection, we advise that as announced in paragraph 144 of the Annual Policy Statement for 2009 – 10 (extract enclosed), it has been **decided to increase the maximum distance criteria (distance between the place of business of a BC and the base branch) for the operation of a Business Correspondent (BC) for rural, semi-urban and urban areas from the existing 15 kms. to 30 kms.** All other instructions contained in the above circular remain unchanged.

Nov 30, 2009 - widening the BC net to include kirana, medical fair price shops, PCOs, petrol stations, retired teachers and so on; and allowing banks to collect service charges from clients in a transparent manner; Excerpts:

Date: Nov 30, 2009

Financial Inclusion by Extension of Banking Services – Use of Business Correspondents (BCs)
All Commercial Banks (including RRBs and LABs)

2. Banks are **permitted to appoint the following entities as BCs, in addition to the entities presently permitted: (i) Individual kirana/medical /fair price shop owners (ii) Individual Public Call Office (PCO) operators (iii) Agents of Small Savings schemes of Government of India/Insurance Companies (iv) Individuals who own Petrol Pumps (v) Retired teachers and (vi) Authorised functionaries of well run Self Help Groups (SHGs) linked to banks**.

3. With a view to ensuring the viability of the BC model, banks (and not BCs) are **permitted to collect reasonable service charges from the customer, in a transparent manner** under a Board-approved policy. Considering the profile of the clientele to whom banking services are being delivered through the BC model, banks should ensure that the service charges/fees collected from the customer for delivery of banking services through the BC model is not only fair and reasonable but also seen to be so. A copy of the Board-approved policy in this regard may be forwarded to us (The Chief General Manager-in-charge, Reserve Bank of India, Department of Banking Operations and Development, Central Office, World Trade Centre, Centre -1, Cuffe Parade, Colaba, Mumbai – 400 005 in the case of Scheduled Commercial Banks and LABs and The Chief General Manager, Reserve Bank of India, Rural Planning and Credit Department, Central Office, Central Office Building, 10th Floor, Shahid Bhagat Singh Marg, Mumbai – 400 001 in the case of RRBs). Banks should in particular ensure that there are no complaints from the customer about the charges being non-transparent/not reasonable. Any unfair practices adopted by banks in this regard would be viewed seriously by Reserve Bank of India.

Annexure-1 (a)

Action to be taken by banks based on the recommendations of the Working Group to Review the Business Correspondent Model – Nov 30, 2009

As announced in the Annual Policy Statement of 2009-10, a Working Group was constituted by the Reserve Bank of India to examine the experience of the Business Correspondent (BC) model and suggest measures to expand the category of persons who can act as BCs, keeping in view the regulatory and supervisory framework, and consumer protection issues. Banks are advised to take necessary action for implementing the recommendations of the Working Group (Reproduced in full):

Serial No.	**Recommendation of the Working Group**	**Action required to be taken by banks**
1	**Realising the full potential of the BC model** Given the right impetus, the BC model has the potential to speed up the process of financial inclusion in the country and bring the vast majority of population within the banking fold. The Group recognises the fact that the process of financial inclusion involves the three critical aspects of (a) access to banking markets, (b) access to credit markets and (c) financial education. The BC model should, therefore, encompass each of the above three aspects in order to be able to address the issue of financial inclusion in a holistic manner. The full scope of the model can be realised not just by opening no-frills accounts but by synthesising the above three aspects as integral components of the model. Towards this end, there should be proper understanding and appreciation of the BC model by all stakeholders, in particular, by banks. Banks need to appreciate the benefits arising out of adopting the 'branchless' BC model and implement the same with missionary zeal so as to achieve the ultimate goal of financial inclusion. (Paragraph 3.20)	Banks to implement the Business Correspondent model to achieve greater penetration of banking services.
2	**Cash handling** Banks could think in terms of streamlining cash management by adopting 'Cash Routes' (linking various BCs which are in close proximity to each other to a base branch) wherever	For streamlining cash management, banks may consider adopting 'Cash Routes' linking

	warranted with suitable cash transit insurance to be borne by the banks. (Paragraph 3.22)	various BCs which are in close proximity to each other to a base branch) wherever warranted with suitable cash transit insurance.
3	**Financial Education and Consumer Protection** (i) Banks need to scale up their efforts substantially towards educating the clientele in their respective vernacular languages regarding the benefits of banking habit. For this purpose, extending necessary financial support from the Financial Inclusion Fund administered by NABARD may be considered. (Paragraph 3.23) (ii) Information regarding BCs engaged by banks may be placed on the banks' websites. The Annual Reports of 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. Banks may also use print and electronic media (including in the vernacular language) to give wide publicity about implementation of BC model by them. (Paragraph 3.24) (iii) The banks may educate their customers through various means – print, electronic, etc. - the role of the BC and their obligation towards the customers, in the vernacular language. (Paragraph 3.25) (iv) The banks need to ensure the preservation and protection of the security and confidentiality of customer information in the custody or possession of the BCs. (Paragraph 3.26) (v) Banks may put in an appropriate grievance redressal mechanism, which should be widely publicised and also placed in public domain. The details of the grievance redressal officer should be displayed at the premises of the BC as also at the base branch and made available by the bank/BC at the request of the customer.(Paragraph 3.27)	(i) Banks may scale up their efforts substantially towards educating their clientele in their respective vernacular languages regarding the benefits of banking habit. (ii) 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. 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. (iii) Banks may educate their customers through various means – print, electronic etc., - the role of the BC and their obligation towards the customers, in the vernacular language. (iv) Banks should ensure the preservation and protection of the security and confidentiality of the customer information in the custody or possession of the BCs. (v) Banks may put in place an appropriate grievance redressal mechanism, which should be widely publicised and also placed in public domain. The details of the grievance redressal officer should be displayed at the

		premises of the BC as also at the base branch and made available by the bank/BC at the request of the customer.
4	**Ensuring viability of BC Model** (i) The BC model can succeed only if the banks own up the BCs as their agents. Banks may need to have a relook at the compensation structure for BCs. (Paragraph 3.28) (ii)The range of services to be delivered through the BC should be ramped up to include suitable small savings, micro-credit, micro-insurance, small value remittances etc. (Paragraph 3.29) (iii) Banks may be permitted to collect reasonable service charges from the customer, in a transparent manner, for delivering services through the BC model. Suitable guidelines may be issued by RBI in this regard, especially keeping in view the profile of customers using these services. (Paragraph 3.30). (iv) Banks may bear the initial set up cost of the BCs and extend a handholding support to the BCs, at least during the initial stages. Banks may also need to bear the costs relating to transit insurance of the cash handled by BCs. (Paragraph 3.31) (v) In order to improve the viability of the BC model, banks may consider providing reasonable temporary overdrafts to the BCs free of interest charges. (Paragraph 3.32)	(i) Banks may have a relook at the compensation structure for BCs to effectively ramp up the use of the BC scheme for banking penetration. (ii) Banks may ramp up the range of services to be delivered through the BC model to include suitable small savings, micro-credit, micro-insurance, small value remittances etc., Please see paragraph 3 of the Circular. (iv) Banks may consider bearing the initial set up cost and other costs of the BCs and extend a handholding support to the BCs, at least during the initial stages. (v) Banks may consider providing reasonable temporary overdrafts to the BCs.
5	**Risk Mitigation Measures** To address the various risks involved in rendering banking services through the BC model, banks need to put in place suitable and adequate risk mitigation measures. Further, banks may be guided by the instructions contained in the guidelines on ‘ Outsourcing of Financial Services’ issued by RBI on November 3, 2006, as relevant, while implementing the BC model.(Paragraph 3.35)	Banks may put in place suitable and adequate risk mitigation measures to address the various risks involved in rendering banking services through the BC model. Banks may also be guided by the instructions contained in the guidelines on ‘Outsourcing of Financial Services’ issued by RBI on November 3, 2006, as relevant while implementing the BC model.

6	**Adoption of appropriate technology** Banks may adhere to the RBI guidelines on adoption of appropriate technology while implementing the BC model. (Paragraph 3.37)	Banks may adhere to the extant RBI guidelines on adoption of appropriate technology as contained in the circular DBOD.No.Leg.BC./ 94/09.07.005/2006-07 dated May 7, 2007, while implementing the BC model.
7	**Training for the BCs** Banks may also develop suitable training modules in the local language/s, in order to provide proper attitudinal orientation and skills to the BCs. Indian Institute of Banking & Finance(IIBF)has already developed training modules for BCs. These modules may be translated in vernacular languages and leveraged extensively so as to reach a wider group. (Paragraph 3.38)	Banks may develop suitable training modules in the local language/s, in order to provide proper attitudinal orientation and skills to the BCs.

Annexure-2

Successful Field Experiences of IT-enabled Financial Inclusion using the BC Model

(Excerpted from the Report of RBIs Working Group to Review the BC Model, September 10, 2009; and www.kbsbankindia.com)

Case I: Andhra Pradesh Financial Inclusion Project

In April 2007, the Rural Development Department of the Government of Andhra Pradesh embarked on a project for distribution of Government benefits directly to the beneficiaries through bank accounts in six Mandals of the Warangal district in Andhra Pradesh. The project was undertaken in coordination with SBI, SBH, Andhra Bank, Union Bank, Axis Bank and AP Grameen Bank. The project mainly aimed at covering the rural customers whose major source of income is the Social Service Pensions and the subsidy/wage portion of the National Rural Employment Guarantee Act. The project utilised both the Business Facilitator and Business Correspondent models.

Zero Mass Foundation was the Business Correspondent for all the six banks in the pilot, while later, other BCs were also included. In the first phase of the project covering 50,000 beneficiaries in six Mandals of Warangal District, the Government met the capital cost of the cards, and subsidized the purchase of the handheld devices. In addition, the Government agreed to pay 2% of the funds disbursed as commission to banks. The smart cards could be used both online and offline. Biometric identification tools are being used. The point of sale device shall provide a print-out of each transaction. It is possible to have additional details such as land records etc. in the smart card, if required.

The project is being implemented by banks through Business Correspondents using mobile technology to access the data-base server. After the pilot was successful, the project was scaled up in the last two years to cover more than 15 districts in Andhra Pradesh, including almost all the banks in the respective service area. The number of card accounts opened has already crossed five million. The AP project is seen as the model to the State Governments for Electronic Benefit Transfer (EBT) of Government benefits directly to the beneficiaries utilizing Business Correspondents of banks.

Case II: SBI-Tiny Project in Three States

The SBI-Tiny project was the first project in the country to test the validity of the IT-enabled financial inclusion utilising Business Correspondents. Under the project, smart cards were issued in Mizoram (Aizwal), Andhra Pradesh (Medak) and Uttaranchal (Pithoragarh) in 2006 with Zero Mass Foundation as the Business Correspondent. The areas were chosen in such a way that if the project is successful in such places it would easily be successfully replicated in other areas.

Under the project, the photo of the applicant is personalized with address on the face of the card and two finger prints captured on the chip of the card for biometric verification at the time of cash disbursal transactions. This is a simple, convenient and secured mode of extending financial services to the cardholders. The card is capable of containing 16 wallets (account details). Transactions in the accounts, including cash deposits and withdrawals, can be carried out by customers without having to go to the bank branch. The project started on a modest scale with 5000 accounts.

Case III: Oriental Bank of Commerce Experience in Punjab

Oriental Bank of Commerce (OBC) rolled out its BC model in technical collaboration with FINO in Amritsar district of Punjab in January 2009. The project started with enrolment of NREGA beneficiaries as well as other persons. A Section 25 Company (FINI Finotech Foundation) has been appointed as the BC. The BC ensures that announcements for enrolment were made in the Gurudwara/Panchayat well ahead of the enrollment days so that adequate number of persons gathers on the day of enrollment. The sub-agents employed by the BC are ex-servicemen and former bank staff. Each sub-agent gives a fixed deposit in his name for Rs. 5,000 as a security deposit to the BC. The cash in transit is insured.

The enrolment involves gathering all ten fingerprints, photo, signature and other details so that smart cards and bank accounts can be opened in the name of each beneficiary. These are carried out by the sub-agents who capture the details using a laptop with fingerprint reader, digital camera and signature reader with full power back-up facility.

The customer card is a biometric card which stores the customer ID, signature for verification and has 10 pockets for various products. A customer can put through a transaction and get a receipt. He can get the history of transactions up to the last 10 transactions done. From the base branch of the bank, he can get a passbook also.

As creating biometric data base, taking photographs, and then keying in the beneficiary details resulted in slow enrollment process, a simple application form has been devised to fill in the details and only biometric data is captured and photos taken during enrollment. Other personal details like name and address are digitised/keyed-in by the backup office in the evening or the next day at some other location, which is fully equipped to complete the enrollment process.

In case the machine malfunctions, the back-up policy ensures that the machines are replaced within two hours of reported breakdown/ malfunctioning. Also the sub-agent carries enough of backup battery power for enrollment so that the process is not halted due to erratic power supply.

In a short period of five months, the BC has opened 13,600 accounts under NREGA scheme in two blocks of Majitha and Anjala. In another two blocks - Verka and Jandiala – 1,500 beneficiaries have been enrolled.

Case IV: Punjab National Bank Experience in Himachal Pradesh

In October 2008, Punjab National Bank selected a few villages in Mandi district of Himachal Pradesh for financial inclusion with the help of a technological support provider, FINO and a Business Correspondent M/s. FINO Fintech Foundation.

The project received encouraging response from the rural clientele, and, having achieved the initial target of 5000 smart cards, the bank decided to extend the coverage of the pilot to the entire district in December 2008. The mandate was to cover all the households in the district. So far, approximately 30,000 smart cards have been issued in the district and a deposit of Rs. 21 lakh has been mobilized.

Case V: Krishna Bhima Samruddhi Local Area Bank

The KBS LAB operates in three of the least developed districts of Mahabubnagar, Gulbarga and Raichur in Andhra Pradesh and Karnataka states.

To promote financial inclusion, KBS LAB appointed Indian Grameen Services (IGS) as a BC for extending the Banking services to under-served population of all three operational districts through a network of 58 locations.

Its products range small value cash receipts and payments; disbursal of small value credit; collection of loan repayment; and sale of micro insurance/mutual fund products /pension products/other third party products.

Within a year, KBS LAB has acquired more than 10,000 micro savings customers through the BC outlets, by leveraging the available banking technology.

Annexure-3

Short Description of MicroSave

MicroSave is a leader among market-led financial service providers. It contributes significantly to the global debate on financial inclusion and is the founding member of the Product Development Taskforce, established by the Washington-based Consultative Group to Assist the Poor (CGAP), to promote a coherent and high-quality approach to the development of toolkits and training for the microfinance sector. MicroSave is also the operational wing of the CGAP Savings Mobilisation Working Group.

MicroSave follows a unique four-pronged approach that includes research activities related to microfinance; action research programmes, which it does with nearly 25 high-quality partners all over the world; toolkit and curriculum development for the action research partners and consulting clients - to provide training and technical assistance on a wide range of strategic, operational and organisational issues; and training and extensive information dissemination on the ground.

MicroSave's primary strength is its focus on integrating its study, action, toolkit development and training, which create remarkable synergies and provide unique opportunities to various players in the microfinance sector to identify practice-based issues, conduct market and ARP-based studies on these issues, develop draft toolkits, test and refine these toolkits with the ARPs, and disseminate credible, experience-based, practical toolkits and information.

Annexure-4

Underwriting Guidelines of IFMR Capital

Eligibility Criteria	*Standards*
Quality of Management and Organisation Structure	• The promoters **must** have a credible reputation and have a past track record proving their ability to raise financial resources in the form of equity, debt or grants from the markets • The originator **must** have an incentive plan for its field staff, motivating them to achieve their business objectives and encourage employee retention. This should be aligned with training programmes for new recruits. Field staff **must not** have differential incentives based on the category of loans they make, for example Agricultural loans versus Non Agricultural loans. • The originator **must** have up-to-date audited financial statements within 3 months of closing. The accounts should be audited by a firm of repute.

Loan Data Collection	• Client information and supporting proofs **must** be filed and recorded in the systems
	  o Details on each loan **must** be recorded in the systems of the originator
	  o Name, address of borrower
	  o Unique client identification number
	  o Group and centre number, where applicable
	  o Initial loan amount
	  o Loan Purpose
	  o Current outstanding balance
	  o Effective interest rate
	  o Any other fees and charges collected
	  o Due and actual instalment payments and dates
	  o Amortization type/term
	  o Maturity Date
	  o Late payments : amount and dates
	  o Defaults: amount and dates

	○ Additional cash deposit amounts ○ Collateral amount & type ○ Name, address of 3rd party guarantor, if applicable ○ Name of originating loan officer
Financial and Operating Performance	Historical defaults as measured by the *Weighted Average Annual Default Rate* of the combined loan portfolio **must** not exceed **5%** for any fiscal year during the past 3 years. A loan is considered in *default* if the borrower has not made any payments for that loan for a period greater than 30 days for weekly instalment loans and 90 days for fortnightly and monthly instalment loans. *Weighted Average Annual Default Rate* is the combined outstanding balance at time of default for all loans than had fallen into default at any time during the fiscal year (excluding loans that were already in default at the start of the fiscal year) divided by the sum of all scheduled principal payments due during the fiscal year • *Portfolio at Risk* as measured by the ratio of amount of loans overdue to the total loan amount outstanding **must** be less than **10%** • *Operating Efficiency*: Each field officer must be responsible for a reasonable number of clients. This **must** be in keeping with the business model of the originator, the lending model (group lending, individual lending), collection methodology, disbursement methodology, time required for the field officer to travel and conduct business. • *Capital Adequacy Ratio* as measured by the ratio of Total Equity (including Share Capital, General Reserve, Capital Reserve, Statutory Reserve, Loan Loss Reserve, Subordinated Loans) less retained first loss default guarantees) to • Total Assets must be at least **10%**
Origination Process	• Each new client **must** be adequately educated and trained to know the company, the loan product, and their risks and responsibilities under the loan via processes like the compulsory group test and the group recognition test, where applicable. Clients must be made aware of the stipulations

	under any power of attorney that they sign.
	• Each loan **must** be recorded in a loan agreement that sets out the borrower's and, if applicable, the group's obligations and the ability to transfer the loan to a third party
	• Loan agreements **must** clearly state the following: Loan amount
	  ○ Loan term
	  ○ Declining interest rate, upfront fees and other charges
	  ○ Required deposit, collateral, guaranty
	  ○ Complete Repayment schedule with repayment dates and corresponding amounts
	  ○ Rights to cross-sell other financial products
	  ○ Bundled products and charges, if any
	
	• The field staff **must** physically verify each client's details by visiting their home, supported by interviews with group members, family and neighbours.
	• They **must** collect the following information on these visits:
	• Name and address Occupation and income of the household
	• The field staff **must** collect proof of name and address from each client and this proof **must** be admissible under the RBI "Know Your Client" guidelines. The
	• relevant RBI guidelines are available at
	http://rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?id=4354.

Systems	• All customer level and loan level information must be stored in an electronic format • In particular, the system must be able to track and isolate portfolios that have been sold/hypothecated/charged to 3rd parties in order to eliminate commingling risk

Risk Management	• The originator must have systems in place to monitor and manage:
	  ○ Operational Risk:
	  ○ All documents **must** be transported in a secure

<table>
<tr><td></td><td>
manner.
<li style="list-style-type:circle">Cash at the branch must be held in a secure manner and deposited in a bank account as soon as is reasonably practicable.
<li style="list-style-type:circle">The originator must have a credit and collection policy that includes
<li style="list-style-type:circle">internal audit mechanisms and verification of loan utilisation
<li style="list-style-type:circle">The originator must have a well-defined process to handle defaults; this should be reflected in a low volatility of default rates, measured quarterly, for the life of the originator. Volatility of default rates will also be measured across branches and geographical areas.
Regulatory Risk: The originator must operate in compliance with the laws of the land. The originator must also comply with regulations mandated by the RBI such as those pertaining to deposit taking and insurance.
<li style="list-style-type:circle">Reputation Risk: The originator must not use external personnel to recover outstanding loans and must not in any case use strong arm tactics for these purposes.
</td></tr>
</table>

<table>
<tr><td>Legal Form</td><td>
The legal structure of the originator should preferably be an NBFC or Bank, as the structures provides for :
Regulation
<li style="list-style-type:circle">Incentive structures due to the presence of shareholders
<li style="list-style-type:circle">Capital adequacy
<li style="list-style-type:circle">Ability to raise additional capital
While the NBFC or Bank is the preferred structure, IFMR Capital will look at buying loan portfolios from originators organized in other legal forms such as a society, trust or a section 25 company.
</td></tr>
</table>

Quality of Management and Organisation Structure	• The organization should have an experienced board with at least one independent director. The board should have an active role in guiding management • The organization should have a business plan including financial projections • The organization should have created a strong second level of management, below the promoters, ensuring that the business is sustainable • The organization should have appropriate training for loan officers • The organization should have support functions such as finance, accounting, HR, IT, internal audit and credit • The organization must have clear delegations of authority, and oversight mechanisms to insure these are properly adhered to
Origination Process	The field staff should collect the following information: • Education, Occupation of household members, including age & school status of each child • Household income and expenditure including nature of income (daily wages, salary, agricultural income), income volatility measured by data on the range of incomes (average, low and high) during the year • Infrastructure including availability of electricity and access to healthcare and sanitation • Assets including type of dwelling, ownership of land and house, ownership of agricultural land, milch animals, poultry, TV, radio, agricultural implements, tractor, bicycle, jewellery, bed, utensils we should review this list • Liabilities including prior loans, repayment history and loans with other sources
Capital Structure	Originator should preferably maintain multiple and diverse sources of funding
Systems	• All customer level and loan level information should be stored in an electronic format with periodic back ups, and

	should be regularly updated to a centralized location (i.e. up-to-date regional data should be available at HQ) • The system should be able to retrieve accurate information in a timely manner and have restricted access as per the company hierarchy, i.e. employees at each level must have access to only the information that they need • The system should be able to track historical loan information for each individual client • All data such as client asset information, late payments, defaults, additional deposit amounts should be recorded in the centralized electronic system • Adequate process controls should be in place to ensure data integrity during transfer of data from manual to electronic format • The system should be able to generate reports such as collections, disbursements by branch/hub, client history, product summaries, hypothecated portfolios, portfolios by loan purpose /tenor/client profile/loan officer, portfolio at risk, defaults. Timely access to such reports should facilitate business and operational decisions • The system should be able to monitor and track portfolios to manage risk
Financial and Operating Performance	• Loan loss provisions should be no less than: ○ 20% for 1-30 days in *default* ○ 40% for 31-90 days in *default* ○ 60% for 91-180 days in *default* ○ 100% for over 180 days in *default*
Risk Management	• The originator should have adequate insurance cover to protect it against the risk of fraud, natural disasters and other unanticipated damage • Interest Rate Risk: The originator should use appropriate interest rate risk management techniques, including interest rate hedges as needed. The originator should maintain a low *Equity Duration* which is a measure of interest rate

	risk/sensitivity and is calculated as the ratio of the weighted average duration of assets and the weighted average duration of liabilities
	• Liquidity Risk: The originator should maintain a robust liquidity position, as measured by the *Quick Ratio* which is defined as the ratio of current assets to current liabilities
	• Currency Risk: originator should use appropriate currency/exchange rate risk, if applicable.
	• Reputation Risk: The organization should have a process in place to address customer grievances.
	• De-risking portfolio: The originator should aim for a diversified loan portfolio by geography, type of location (rural/urban), purpose of loan to mitigate concentration risk
	• Originator should demonstrate ability to continue operations in the following stress scenarios:
	    o Inability to access additional funding for a period of 6 months
	    o Increase/decline in benchmark interest rates of 2%
	    o Increase in default rates of 3% for a period of 12 months
	    o Decline/increase in currency value of 20%

Annexure-5

The Underwriting guidelines of IFMR Mezzanine Capital Finance Company

Broad Areas of Information to be Collected:

A. MFI's history and evolution to provide the context for the current operations

B. Management

1. Information about the promoters

Number of years the promoters have spent together in the organisation? Number of years the promoters have known each other
Leadership Roles played by the promoters in their work life (not just in the organisation, also in other organisations)
Growth of organisation while leading
Has the promoter/s been the driving force for the growth in the organisation? What are the instances that indicate this?
Ability to direct and lead-proof of this parameter should be provided
How have the promoters contributed to the MFI- financially, image, ability to attract capital, etc?
How long were the promoters associated with the organisation?
What was the leadership role played by the promoters in the organisation? What about other organisations?
What was the growth witnessed in other organisations during their time of association with it (this is important in case the vintage of the current organisation or the association of the promoter with the current organisation is low)
Were there any changes initiated by the organisation (to assess if the person/s have been the driving force)
What is your contribution to the MFI (ask non-promoter employees questions that ratify above information)

2. Information about the senior management

Number of Years of work experience of each member in the senior management along with details of this work experience? How many years has the senior management spent together in the current organisation?
In case of prior MFI experience, size and reputation of the MFI s/he has led
Does the senior management have any prior experience in the financial sector, specifically in banking or lending space? Note down details of experience
Are there trainings/workshops/conferences attended by the senior management team to gain specific microfinance experience? Get details of these as well
How many years has each member of the senior management worked in the current MFI?
What is the size and reputation of the MFIs where they had prior experience, if any? How did the organisation benefit from their contribution there?
Does the senior management possess any previous financial experience?
If not, has the senior management attended any kind of training/seminar/ conference especially pertaining to microfinance/lending?

3. Vintage of the senior team

Have at least 2/ 3 people spent time together for at least 3 years (Rating 5) (Also forecast their existence over next 5-6 years)
Plans for each individual senior mgmt team member to grow in the organisation?
Have the members in the senior team worked together before?
If yes, how many years and where?
When did the senior management team member join the MFI? (to be asked individually). Note if they grew within the organisation or joined from outside at a senior level
What is the share holding pattern/ capital structure of the MFI? What is the share of the promoter?
What is each member's long term career plan? (find out individually) Does it match with the succession plan that the organisation has in mind? Are there areas of potential conflict?

4. Ability to attract capital

Information on this section can be obtained from secondary literature
Are there prior records that reflect the ability to attract capital?
Are there instances where there is past history of accepting/rejecting offers of capital infusion--> debt or equity
What is the span of the social network that the organisation possesses--> with funders, other MFIs, clients? What is the general reputation of the promoters in the microfinance community?
What are the committed sources of funding?
What is their status of commitment-still in the pipeline, sanctioned but not drawn or sanctioned and drawn?
Do you have any prior relationships with financial institutions/banks?

5. Corporate governance: Independent directors

How many directors are there? No Independent director of stature = 0, >40% = 10
Also look at profiles of the directors--> are they varied or similar? Diversity is a plus point
Plans to increase the number of independent directors

6. Regular meetings and records

Does the board meet at least 4 times a year (every quarter as per company law) (0 or 1)
Quality of record (0 to 10) (# Meetings X Quality of record)
How active/ involved is the board? Do all directors contribute equally?
How often does the board meet (in addition to the mandatory four times a year)?
who maintains the board meeting minutes?
Check minutes for resolutions, ask for details of resolutions, no.of votes required to pass resolutions
Is there an MBT that has been created during the transformation into an NBFC? (This is a no-go criteria for sanction)
Ask for memorandum of association, article of association
If the board has changed, does the article of association show change? How long has it taken to show this change?

7. Concentration of decision making authority in a few people

This section will largely be based on descriptive information to be interpreted by MFI Expert
Does something indicate whether the power to take decisions is located in a limited number of people?
Board minutes--> members present, absent, issues discussed at the board level, involvement of all in the DD process--> were there board members who did not interact with the DD team?
Examine article of association to figure who has voting rights
What is the reporting structure within senior management.

8. Independence of audit

Internal/External Audit reports directly to the Board + Rotation of Internal Auditor
What does the team comprise of? What is the profile of the audit head? Is there any prior audit experience? Is the prior audit experience in the financial lending space?
Who are the other people in the audit team? What is the reporting hierarchy in the audit team? How large is the audit team?
What is the audit process? Is there a surprise audit and scheduled audit that is conducted? Is the process same or different in each?
How does the rotation of responsibilities within the audit team take place?
What is the frequency at which internal audit is conducted?
Who has access to internal audit reports? What steps are taken post audit? How is this followed up on? Who is responsible for post-audit feedback follow up?

9. Process if transformation to NBFC has taken place

If MFI has been converted to NBFC, then ask in detail for transformation process. If an MBT has been created, then it can be rejected outright
Question line items like 'goodwill' to check if it is some form of embedded equity?

C. Organisational structure

10. Quality of management-profiles of key people:

Analysis of CVs of the Key people in top management (below board of directors)
Are there instances of how these people handled various stress situations?

11. Information on the second line of management

No. of years of experience (overall) & in microfinance
Leadership Roles in the organisation, and in the past
Are there instances of growth of the organisation under their leadership?
Ask individually and assess: Has the person been the driving force for any initiative?
Do the members of the second line of management possess the ability to direct and lead? Ask individually for various instances? Also get information from top management and other people in the organisation
Do the various functional heads have clarity on the function that they head; do they design the strategy for that function?
What is the growth prospect for people within the organisation?
Ask function heads for their experience within that functional area? Has it all been gained within that organisation? What kind of external exposure do they have?
Ask for policy to recruit functional heads, if not clear i.e. do the functional heads get promoted from within the organisation or are they recruited from outside? If there is internal promotion, then what kind of training/mentoring do they receive?
Assess growth for people within each functional area, how is this planned? Is there cross functional exposure or training that is provided?
How long has each member of the second line of management been in the current position?
Are there specific qualities in the members of the second line of management that should be highlighted--> positives/negatives/observations?
Are there changes that they have introduced in their own functional areas to improve efficiency? (Note down these and the impact that it has had)
What are the attrition rates at the mid/senior level?
What is the reporting structure in each team?

12. Succession plan for the second line of management

Profiles may be a better indicator for this. Many organisations may not have a second line.
How does the intake of people at the second line of management occur?
If there are people who have been recruited at the second line of management from outside, what is the reaction of the people within the organisation to this fact?
Attrition rates amongst senior people and mid level employees (speak to mid level management)
Descriptive information to be interpreted by MFI Expert

13. Dealing with hierarchy and authority in the organization

What is the appointment process to the organisation?
Is there clarity on role--> offer letter, decision, who do they report to, briefing on role on joining
Does recruitment occur through internal employee reference, background check
What has been the pattern of lateral recruitment vs. rising in the organisation so far? Is there a changing trend? What is causing this change, if any?
What is the compensation structure--> is there a PF, gratuity, ESOPs, incentive plan (is it purely sales driven vs. quality of portfolio)
Does the pay come via cheque or cash?
Is there a huge disparity between cash handled at each level and the compensation?
What kind of training is provided?
What is the training programmes schedule; specific training for credit officer; duration of training?
Who are the persons in charge of training; involvement of top management in training?
Are the field level persons given indicators when they can judge possible loan default?
Are they clearly told what to do in case something happens?
Are there contingency plans in place that various field staff are aware of?
Is there a performance manual to define performance appraisal?
Check for how the organisation features in the long term plans of the employee at field level, authority to waive/make exemptions
Do they have training to provide a feel of doctored data?
Who is responsible for HR?
Do they have clear HR Policies?
Are there clearly delineated functions?
How does communication with employees occur? Is there a regular channel of communication that is established? Do all employees feel included in the communication or is there a feeling of people being left out?
Look at administrative expenses; is the internal admin streamlined, how is the travel expense of the loan officers, etc monitored
What is the salary drawn by one field officer?
What are the cost elements? (Assess at branch)
Who are the personnel within the system who are not questioned? Are they blind spots/ favourites who can get away with everything?

14. Expansion of the organization

What is the process of recruiting, point in time when recruitment happens, limit on number of people that can be hired for a geography, group?
Is recruitment through recommendation, skewed towards local groups; rationale for various recruitment strategies?
How much is recruitment/ people policy a part of long term plans?

D, Processes

15. Assessment of competition:

>2 competitors (go-no-go) (0 / 10)
Does the organisation use any method used to collect information about competition? (from field staff, about their products, interest rates, presence)
What is the organisation's strategy to deal with competitors? How do they propose to deal with competitors' treatment of their products?
(Client satisfaction judged through primary data during field visits--> do the clients know about the MFI, do they seem happy to establish a relationship with the MFI, what is their perception of the MFI vis-à-vis competition?
Which institutions are perceived as competitors to the MFI? Are only other MFIs considered as competition or other entities also considered as competition?
How aware is the MFI about competition?
How do you decide to expand to a new area?
Is there a well defined method to expansion or is it based in gut?

16. Assessment of concentration risk

Assess if there is diversification in terms of either geography or demography keeping bandwidth in mind
Assess if there is diversification in terms of business activity, religion of client
Assess by asking where the MFI is present and who the competitors in the area are
Does the organisation consider the client's livelihood before lending?
What is the client's business? (Ask at field visit to check awareness amongst field officers)
How many clients does one field officer cater to?
What is the distance of the branch from the centre?

17. Assessment of operations in a geography

Assess if there is established process control in a geography
Assess the cost, efficiency in a geography

18. Origination processes

What is the process of enrolment of a client? What is the process for CGT and GRT?
To what extent does the client know about the company? About the product features?
Does the client understand the concept of joint liability and how and when it will be enforced?
If the clients have to sign any agreement, have they been told what it means and the risks involved in the same?
Does the agreement with the Client clearly state the terms of the loan?
Does the MFI ask about other liabilities of the clients including prior loans, repayment history and loans with other sources
Ask at branch level:
Are there detailed records on the client?
Does each client have an i.d. number?
What is the initial loan amount?
How does the loan amount increase?
Is there clarity regarding purpose of the loan?
What is the effective interest rate?
Who checks veracity of information at the branch or when entered in MIS?
What is the date between applying for loan and disbursal?
If there are multiple loan products, what is the eligibility of clients for availing of each
What are the various types of loans available to clients?

19. KYC norms and other guidelines in the operations manual

In addition to the RBI guidelines, the following should also be observed/ asked:
What seems to be the relationship between the Loan Officer and the clients
What can be said about the discipline of the Client Group?What factors contirbute to this feeling?
What is the training given to the Client Group/CGT/GRT
What is the time taken between the formation of a group and disbursement of the loans (a week to 15 days)
Check enrollment register at the branch
What are the steps for CGT and GRT?
Do the clients in a group know each other?
How does the enrolment of a new member in an existing group happen? What is the quantum of loan she receives? If a majority of the members are new, is the CGT/GRT repeated?
How do groups form?
What is the time taken between the formation of a group and disbursement of loans?
How is client background checked?
What aspects of the client's background does the MFI collect information on-check records at random, is there sufficient information on detailed address of the client, photograph, cash flows of the household, assets and liabilities, religion, caste, etc. What else is collected?
Understand a client's history in the MFI
How is the attendance register maintained?
Is there a process for group meetings that are followed? (check at branch level)
Does the centre leader know the rest of the group?
Who does the GRT?
Who is responsible for group formation--> are groups being formed by themselves, or is the loan officer pushing clients to form groups?
What is the incentive system for the branch managers?
Do the meetings happen on time?
What is the attendance at the meetings?
Do people understand group guarantee?
Do clients know the name of their loan officer?
How does the loan officer treat the clients?
Where does the loan officer sit (with the clients or on a chair)?
Is the documented process for the group meetings followed?
What is the record that the individual has for her loans ?
Do people know product characteristics including effective rates?
Is the effective rate given to the client in writing?
How is the centre leader chosen?
What is the role of the centre leader? (assess during field visit)
What are the dynamics between the centre leader and the rest of the group (assess during field visit)
What is the feedback mechanism adopted by MFIs to check for power dynamics at centre level, groups, field?
What is the distance between clients home and centre meeting point?

20. Details of loan agreement

Loan agreements must clearly state the following:
Loan amount
Loan term
Declining interest rate, upfront fees and other charges
Required deposit, collateral, guaranty
Complete Repayment schedule with repayment dates and corresponding amounts
Rights to cross-sell other financial products
Bundled products and charges, if any

21. Client related information that is collected

Does the MFI collect any other fees/charges which are not mentioned to the client, misrepresented to the client or not explicitly mentioned
Does the MFI have an understanding of the occupation of the client and their household members?
What is the age of the client? Is this recorded in the system? If products other than credit are extended, are the clients given products according to their age related needs or are the products pushed?
If clients have children, is there information on the school status of each child i.e. whether the child has been enrolled in school, has dropped out, etc?
Household income and expenditure including nature of income (daily wages, salary, agricultural income)
income volatility measured by data on the range of incomes (average, low and high) during the year
Infrastructure including availability of electricity and access to healthcare and sanitation
Assets including type of dwelling, ownership of land and house, ownership of agricultural land, milch animals, poultry, TV, radio, agricultural implements, tractor, bicycle, jewellery, bed, utensils
Late payments : amount and dates
Defaults: amount and dates
Additional cash deposit amounts
Collateral amount & type
Name, address of 3rd party guarantor, if applicable
Name of originating loan officer
Religion
Biometric identification (preferably)

22. Disbursement and collection practices

What is the disbursement practice (place and recipient)
What is the Collection practice (place of collection, place of storage (Bank a/c), periodicity and way of transfer of funds)
What is the follow up process in case of default
Where does the disbursement happen?
What is the cash retention policy at the branch?
Is there cash in transit insurance?
What is the radius a branch caters to?
What happens if the date of disbursement/ collection is after a bank holiday? What is the policy then?
In case the branch is far from the bank, what is the policy for transferring the cash/ safety of the field officers?

E. Systems related queries

23. IT systems

Does the IT system have the ability to deliver on the following:

Client information and supporting proofs must be filed and recorded in the systems (refer previous section)
Scanned copies of photo-id (preferable)
Audit trails of changes made to the data and system
Quality of disaster and recovery system
Extent of consolidation of data at every level (real time or delay)
Ability to export data (preferably encrypted) to various systems
Granularity of reports
Extent of historical records
Ability to spot trends and defaults real time
Ability to maintain subsystems
Ability to work offline and on-line
Tracking requirement. Is the requirement validated? Can it be tracked
Has the entity created new frontends.
Check favourites and run command
Who authorises amount that has to be collected by field officer
Who enters the data
How is it matched with the bank account? Who does this checking?
Frequency of reconciliation; check inflows and outflows
Is collection money being used for disbursement, if yes, then use inflow-outflow check
Get list of people who have access to database; especially in case of decentralised MIS, what is the differential access system

24. Operational and regulatory risks

Operational Risk: All documents must be transported and stored in a secure manner. Minimum delay in retrieval of information.
Operational Risk: Cash at the branch must be held in a secure manner and deposited in a bank account as soon as is reasonably practicable.
Operational Risk: The originator must have a credit and collection policy that includes internal audit mechanisms and verification of loan utilization
Operational Risk: The originator must have a well-defined process to handle defaults; this should be reflected in a low volatility of default rates, measured quarterly, for the life of the originator. Volatility of default rates will also be measured across branches and geographical areas.
Regulatory Risk: The originator must operate in compliance with the laws of the land. The originator must also comply with regulations mandated by the RBI such as those pertaining to deposit taking and insurance.
Reputation Risk: The originator must not use external personnel to recover outstanding loans and must not in any case use strong arm tactics for these purposes.

25. Product features:

Duration of the product
Quantum of product
Intended recipients
Model
Loan cycles and increment in disbursement amount
What is the policy of the organisation on multiple borrowing
Group size and guarantee
Does the product have the flexibility to factor in for contingencies? Robustness of the product.
To what extent does the product allow innovation within the overall ambit of the vision?

26. Performance related indicators

(Borrowers/loan officer, loan amount/ loan officer, cost per borrower
Weighted Average Annual Default Rate
Loan loss rate should not be greater than 1%
PAR > 30 should not be greater than twice the loan loss rate; absolute cut off @ 3%
PAR > 90
Loan Loss Reserve (and excess provisioning) should not be lesser than the top tier MFI (CGAP)
Operating efficiency (look at operating cost ratio and OSS)

F. Financials

27. Financial ratios to be examined

Return on Equity: (PAT/Average total net worth)
Net Margin: (Portfolio yield-Cost of Funds-LLR-OER)
Operational expense ratio (OER): (operational costs incl depreciation/av. net loan portfolio o/s)
Operational Self-Sustainability: (Total mf income/Total mf expenses, incl provisioning, excl tax)
Portfolio at risk (> 30 days): (o/s amount on loans overdue > 30 days/gross loan portfolio o/s)
Volatility of PAR: (trend of PAR based on historical PAR ratios)
Loan Loss Reserve (LLR) ratio: (year-end loan loss reserve/gross loan portfolio o/s)
Current repayment rate: (amt collected in current period/total demand for current period)
Capital adequacy ratio: (tier 1 capital + tier 2 capital/risk-weighted assets)
Quick ratio: (current assets net of stock & loan portfolio/current liabilities)
Duration of assets / liabilities: (residual maturity of all assets/residual maturity of all liabilities)

G. **Business plan**

28. Growth and diversification plans

Plan for growth in Portfolio, client base, reach (look at historical forecast and proposed forecast)
Plan to reduce concentration risk (concentration in a geography, asset class, income class)
Efficient cash management (get checklist from capital)
Internal control and management systems (to reduce op costs)

29. Financial planning and forecasts

Fund raising strategy (equity/debt)
Clear indication of need for capital at specific periods
Investment strategy
Portfolio management (off-balance sheet, etc.)

30. External factors

Regulation	At least one structured source of legal counseling
Competition	Awareness of their own core competencies (competitive advantage)
	Incumbents and entrants
Political environment	Plan to tackle political issues
Social environment	Plan to tackle social issues
Economic Plan	Awareness about interest rate fluctuations and impact (on business)
	HR costs
	Aggressive provisioning norms to counter unforeseen risks

Annexure-6

Short Description of Financial Information Network and Operations Limited (FINO)

Financial Information Network & Operations Ltd. (FINO) was founded with the sole objective of building technologies to enable financial institutions (FIs) to serve the under-served and the unbanked sectors and also to service the technology requirements of entities engaged in servicing the bottom of pyramid customers.

One of the biggest challenges in the micro banking industry is the huge amount of paperwork and human effort involved in supporting micro-transactions and credit-scoring of potential customers. Other hurdles include information gap, accessibility and reach, infrastructure, illiterate populace and fool proof identity. High costs coupled with low returns did not make microfinance viable beyond a certain threshold, thus hampering growth. The concept of FINO was germinated to overcome all the above mentioned hurdles and make financial services available to the unbanked in a viable manner.

FINO is committed to providing a standardized and shared pan-India infrastructure to Banks, Microfinance Institutions, Insurance companies and Government entities that link clients and financial service providers across the financial spectrum.

A multi-bank promoted, professional company, which is financially strong with a Board comprising customer banks and MFIs, FINO works on national priority projects (such as NREGA, RSBY, and SSP), to help reach a critical mass of people to provide economy of scale to all customers.

FINO focuses on product innovation derived from its deep insights gained into the requirements of the clients from its pioneering work with MFIs, banks and research organizations.

FINO has an in-house technology and R&D team to develop and enhance offerings; a centralized processing centre with robust contingency management procedures; and a network of agents on the ground. It also works with several partners to reach the remotest parts of the country.

Short Description of *A Little World*

A Little World (ALW) delivers multiple financial services for the poor at the lowest possible costs. It has developed ZERO, India's first domestic payment system, with specific focus on reaching out to a large number of people in remote areas with minimum communication infrastructure.

It is a popular end-to-end technology driven platform for branchless banking, with plug and play access for banks to rollout their services and, hence increase their outreach. It creates the last mile deployment of financial services in villages.

Short Description of EKO

The EKO model works on the fundamental premise of giving everyone a bank account.

Powered by innovation and technology, EKO is building a low cost financial services infrastructure to increase the reach of financial institutions to the un-banked.

EKO is leveraging existing distribution networks to build a rapidly scalable model by using mobile technology to help bring down significantly the network cost.

The EKO system aims to address the needs of the target segment by providing secure, simple and convenient financial services in a cost-effective manner.

Short Description of Atom Technologies

Atom technologies limited, a Financial Technologies group company, is committed to reach remote areas financial services, in a secure manner, through the use of smart technology for payment processing. It offers a bouquet of products and services enabling business houses and individuals to transact with convenience, speed and security. It has created various technologies – such as mobile-based, biometric-based, and point of sale terminal-based - to allow banks as well as Business Correspondents to reach out to the masses for providing financial services.

Annexure-7

A Basic viability model using BCs/FCs to Deepen Financial Access

This is a simple model in which profitability to the BC accrues in two years of operation.

This is a simple model in which profitability to the BC accrues in two years of operation. Following is the break-up of the final pricing to the customer and the transfer pricing between Bank and the BC.

The Model: At a Glance

Final Pricing to Customer

Cost of Borrowing:

- Interest Rate to Bank: 10%
- Service fee for Repayment Collection: 6%
- Transaction charge: INR 0.50 per transaction. i.e., INR 25 for a 50 week loan
- Account maintenance Charge: INR 45 per annum

The Final cost to the borrower: (10% + 6%) of the outstanding + INR 25 for a 50 week loan, that is, 16% on loan outstanding + INR 25

Transfer pricing (Bank to BC)

- Business Facilitation fees:

  Customer acquisition: INR 30

- Servicing Fees:
  - Service fee for repayment collection: 6%
  - Transaction charge: INR 0.25 per transaction
  - INR 10 per savings customer

The Model: In Detail

a. Assumptions

This model is worked out for one BC outlet manned by -

Three Relationship Officers and one Supervisor

Market Profile	
Outlets per Gram Panchayat	1
Population per Gram Panchayat	10,000
Members per Household	5
Households per Gram Panchayat	2,000
Banking Customers per Houshold	2
Market Penetration for BC	50%

Year	Year 1	Year 2
Capacity Utilization	60%	100%

Bank's Business Through BC		
Products	**Number of Customers**	**Average Outstanding Balances (INR)**
Savings Bank Customers through BC	2,000	3,000
Loan Customers through BC	1,000	7,500

Increase in Bank's Business p.a.	**10%**

BC's owned Business				
Products	**% of Savings**	**Number of Customers**	**Ticket Size (INR)**	
Remittance	20%	400	2,000	
Life Insurance	50%	1,000	50,000	Sum Assured first year
PA Insurance	50%	1,000	50,000	Sum Assured first year

Increase in BC's Business p.a.	**10%**

Product	Transactions per Customer per month
Savings	5
Loans	4
Remittance	2

Other Assumptions	
Time per transaction (Minutes)	3

b. Inputs

Infrastructure for BC	
Assets (CAPEX)	**Amount (INR)**
Cash Counting Machine	6,000
Small Safe	40,000
POT with Biometric Card Reader	25,000
Computers	40,000
Printer	7,000
Outlet Interiors	32,000
Total	**150,000**
Depreciation on Fixes Assets p.a.	**20%**

Human Resources	Number
Relationship Officers	3
Supervisor	1

c. Cost Structure of BC Outlet

Outlet Operating Costs	
Particulars	**Amount p.m. (INR)**
Salaries	
Relationship Officers	6,000
Supervisor	11,500
Rent	2,000
Electricity	750
Connectivity(Telephone/Mobile)	750
Stationery	400
RO Travel Expenses	900

Miscellaneous (% of total others)	5%
Inflation (p.a.)	7%

Sources of Funds for BC	Quantum	
Working Capital loan from Bank	10%	of Loan Outstanding to Customers
Term Loan for 5 Years (INR)	150,000	

Cost of Funds	Cost p.a.
Working Capital Line (Unutilised)	10%
Working Capital Line (Utilised)	20%
Term Loan	10%

d. Cost Structure for Banks

Bank rate - Cost of funds	6.0%

Bank One-Time Costs per Outlet	
Particulars	**Amount (INR)**
Training Expenses	20,000
Card Cost per Customer	120

Amortization Tenure (Years)	**3**

Bank Operating Costs	
Account hosting expenses	**Amount p.a.**
Per Savings Account	25
Per Loan Account	25
Card Switch expenses	20
Loan loss (% of average loan outstanding)	0.50%

Bank Spread	4%

e. Pricing

Bank to Customer	
Account maintenance fee p.a. (INR)	45
Per transaction fees (INR)	0.5
Interest rate to customer	10%

BC to Bank	
Reimbursement - Service fee for loans	6%
Reimbursement - Transaction fees (INR)	0.25
Business facilitation fees (INR) for every customer acquired	30
Trail fees per active savings customer (INR)	10

BC to Customer		
Insurance Product	**Average Premium Collected (INR)**	**Commission on Premium**
Life Insurance	175	15%
PA Insurance	20	10%

Product	Per transaction charge
Remittance	1.00

f. Workings

Number of Accounts/Customers	Year 1	Year 2	Year 3	Year 4	Year 5
Bank through BC Outlet					
Savings	1,200	2,000	2,000	2,000	2,000
Loans	600	1,000	1,000	1,000	1,000
Total	**1,800**	**3,000**	**3,000**	**3,000**	**3,000**
BC Outlet					
Remittance	240	400	400	400	400
Life Insurance	600	1,000	1,000	1,000	1,000
PA Insurance	600	1,000	1,000	1,000	1,000
Total	**1,440**	**2,400**	**2,400**	**2,400**	**2,400**

Business (INR)	Year 1	Year 2	Year 3	Year 4	Year 5
In the books of Bank					
Savings (Average Balance)	3,600,000	6,600,000	7,260,000	7,986,000	8,784,600
Loans (Average Outstanding)	4,500,000	8,250,000	9,075,000	9,982,500	10,980,750
Total	**8,100,000**	**14,850,000**	**16,335,000**	**17,968,500**	**19,765,350**
In the books of BC					
Remittance (Amount remitted p.a.)	11,520,000	21,120,000	23,232,000	25,555,200	28,110,720
Life Insurance (Sum assured p.a.)	30,000,000	55,000,000	60,500,000	66,550,000	73,205,000
PA Insurance (Sum assured p.a.)	30,000,000	55,000,000	60,500,000	66,550,000	73,205,000
Total	**71,520,000**	**131,120,000**	**144,232,000**	**158,655,200**	**174,520,720**

g. Business Model for BC

Income (INR)	Year 1	Year 2	Year 3	Year 4	Year 5
Payment from Bank					
Business facilitation fees	36,000	24,000	-	-	-
Transaction fees	25,200	42,000	42,000	42,000	42,000
Servicing fees	270,000	495,000	544,500	598,950	658,845
Trail fees	12000	20000	20000	20000	20000
Remittance - Transaction Charge	5,760	9,600	9,600	9,600	9,600
Commission					
Life insurance	15,750	28,875	31,763	34,939	38,433
Personal Accident insurance	1,200	2,200	2,420	2,662	2,928
Total Income	365,910	621,675	650,283	708,151	771,806

Expenses (INR)	Year 1	Year 2	Year 3	Year 4	Year 5
Salaries					
Relationship Officers	216,000	231,120	247,298	264,609	283,132
Supervisors	138,000	147,660	157,996	169,056	180,890
Rent	24,000	25,680	27,478	29,401	31,459
Electricity	9,000	9,630	10,304	11,025	11,797
Connectivity (Telephone/Mobile)	9,000	9,630	10,304	11,025	11,797
Stationery	4,800	5,136	5,496	5,880	6,292
RO Travel Expenses	10,800	11,556	12,365	13,230	14,157
Miscellaneous	20,580	22,021	23,562	25,211	26,976
Depreciation	30,000	30,420	31,302	32,710	34,744
Total Expenses	**432,180**	**462,433**	**494,803**	**529,439**	**566,500**

PBIT (INR)	**(66,270)**	**159,242**	**155,480**	**178,712**	**205,306**
Interest on medium term loan	15,000	12,000	9,000	6,000	3,000
Commitment fee on Working Capital Line	22,500	63,750	86,625	95,288	104,816
Interest on Working Capital Line	11,934	13,127	6,090	714	-
PAT	**(115,704)**	**70,365**	**53,764**	**76,710**	**97,490**

Working Capital Loan (INR)	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Opening Balance	-	131,269	60,904	7,139	-
Amount utilized	119,336	-	-	-	-
Interest	11,934	13,127	6,090	714	-
Payment	-	83,492	59,855	7,853	-
Closing balance	131,269	60,904	7,139	-	-

Medium Term Loan (INR)	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Opening Balance	-	120,000	90,000	60,000	30,000
Borrowed	150,000	-	-	-	-
Interest	15,000	12,000	9,000	6,000	3,000
Payment	45,000	42,000	39,000	36,000	33,000
Closing Balance	120,000	90,000	60,000	30,000	-

h. Business Model for Banks

Income (INR)	Year 1	Year 2	Year 3	Year 4	Year 5
Interest on Loans	450,000	825,000	907,500	998,250	1,098,075
Account maintenance fee	54,000	90,000	90,000	90,000	90,000
Transaction fees	50,400	84,000	84,000	84,000	84,000
Charge on collection services	270,000	495,000	544,500	598,950	658,845
Total Income	824,400	1,494,000	1,626,000	1,771,200	1,930,920

Expenses (INR)	Year 1	Year 2	Year 3	Year 4	Year 5
Customer acquisition (Card & Training)	54,667	68,444	68,444	68,444	-
Account Hosting					
Savings	30,000	50,000	50,000	50,000	50,000
Loans	15,000	25,000	25,000	25,000	25,000
Card Switch	24,000	40,000	40,000	40,000	40,000
Payment to BC (INR)					
Business facilitation fees	36,000	24,000	-	-	-
Transaction fees	25,200	42,000	42,000	42,000	42,000
Servicing fees	270,000	495,000	544,500	598,950	658,845
Trail fees	12,000	20,000	20,000	20,000	20,000
Operating Expenses	466,867	764,444	789,944	844,394	835,845

Operating Profit	357,533	729,556	836,056	926,806	1,095,075
Interest	270,000	495,000	544,500	598,950	658,845
Loan Loss	22,500	41,250	45,375	49,913	54,904
PBT	65,033	193,306	246,181	277,943	381,326

IFMR Finance Foundation

No. 1, Kanagam Village

10th Floor, IITM Research Park,

Taramani, Chennai-600113

Phone: 091-44-66687000

www.ifmr.co.in