

North East Small Finance Bank

Policy on Business Correspondents

2024

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1. Introduction

North East Small Finance Bank (hereinafter referred to as “the Bank”) intends to use the services of Business Correspondents (BCs) in providing financial and banking services to increase its market share and penetration in such locations where establishing a brick and mortar branch is unviable, by leveraging the strengths of intermediaries and digital BC model. Accordingly, this policy on BCs is formulated by the Bank.

2. Objectives

The Bank, through its policy on BCs, intends to put in place systems and procedures for providing financial and banking services through BCs and establish a monitoring mechanism for activities of BCs. Additionally, the other key objectives of this policy are as under:

- Identification of banking services and products where services of BCs may be engaged,
- Prescribe eligibility criteria for selection and lay down procedures for engaging /appointment of BCs and define their scope of operations.
- Frame operating guidelines to oversee and supervise the activities of BCs for safeguarding and controlling their operations.
- Define the roles and responsibilities of BCs.
- Put in place governance and monitoring mechanism of BCs.
- Frame necessary requirements of internal controls and audit mechanism of the BCs
- Put in place a suitable remuneration structure for BCs to encourage business expansion.
- To ensure adherence with the regulatory requirements as applicable for engaging the services of BCs.
- Increase the outreach of financial services by providing comprehensive financial services such as savings, domestic remittances, loans, and insurance at an affordable cost to the financially underprivileged masses across under-banked and un-banked areas throughout India.
- Propagate financial literacy among the masses.

3. Applicability

The policy will apply to all BCs appointed by the Bank and the sub-agents appointed by the BCs, and covers all the products and services offered/ distributed by the Bank through BCs and their sub-agents.

4. Governance Structure

Considering the reliance of the Bank on BCs for providing financial and banking services, and the fact that the Bank shall be responsible for all acts and conduct of BCs and their Sub-agents, it is imperative that there is a robust governance structure for selecting BCs and continuous monitoring of the performance of BCs.

(a) Review of operations of BCs by Board:

The Board will review the operations of each BC at least once in every six months. While undertaking such review, the Board will:

- (i) Review the inputs received from the respective person managing the relationship on the performance of the BC which shall include factors such as new customer acquisition, volume of business catered, customer service aspects, value of loss/ security incidents and any non-compliances to policies or regulatory requirements by the BC.
- (ii) Review of the complaints received from the customers against the BC with respect to the behaviour of the BC, instances of frauds or mis-selling of products by the BC and operational risk or security incidents at BC.
- (iii) Review to ensure that the requirement of prefunding of Corporate BCs and BC Agents should progressively taper down with the passage of time. Ideally in all normal cases, the prefunding should progressively come down in such a manner so as to reach around 15% of the limits fixed for each BC / CSP in case of deposits and 30% in case of Bank Guarantees, in two years from the time a BC starts operations.

(b) Review of Policy on BCs by Board:

The Board shall review the Policy on BCs at least once in a year. It may also consider constituting a new committee or leverage on an existing committee for undertaking review of the Policy, which *interalia* includes the following aspects:

- (i) Review and identify viable, sustainable, accessible and affordable financial services and products for financial inclusion, through BCs.
- (ii) To review and oversee the design and implementation of the financial inclusion strategy of the Bank through BCs, which will also include the region-wise performance of BCs.
- (iii) Undertake a performance review including suggestions, if any, for improving functioning of BCs.
- (iv) Evaluate the criteria for appointment of new BC, identify the underlying risks and accordingly provide the mitigations for acceptance of the BC applications.
- (iv) The Board should also review the position of payment for remuneration of BCs and should also review system of monitoring operations of BCs by the top management of the Bank.
- (v) The issue of allowing BCs to handle deposit and payment transactions of various credits, remittance, overdraft and other products of the Bank must also be examined by the Board during the review.
- (vi) Complaints redress system, relating to operations through BCs should also be reviewed by the Board.

5. Eligibility for appointment of Business Correspondents

Business Correspondents are representatives of the Bank, responsible for building awareness, sourcing prospective customers and carrying out certain permitted banking transactions for existing and new customers. These Business Correspondents may be individuals or entities. The list of individuals and entities eligible to be appointed as BCs and their selection criteria is furnished in **Annexure 1**. Any deviation from below mentioned criterias can be approved by the Board/committee as provided under section 4 of this Policy.

The Bank will not permit Offline BCs. Only BCs who would be doing online transactions/using PoS terminals for transactions will be permitted. Inter-operability of the BCs will be allowed except for opening of deposit accounts.

6. Process for appointment of Business Correspondents

Considering the key role played by BCs in the overall business model of a Bank and the reputational risk associated with the BC model, it is imperative that proper identification, acceptance & selection process is put in place and observed with due diligence. The Bank shall engage BCs adhering to the system and processes as given below:

6.1 Due Diligence and Selection of BCs

- (a) The Bank shall engage a BC after carrying out proper due diligence on the individuals/ entities to be engaged as BCs, provided such individuals/ entities meet the eligibility and minimum selection criteria as mentioned in Section 5 and Annexure 1 of this policy. As a process for both Corporate BCs and Individual BCs, the following steps will be followed:
 - (i) The BC application shall be submitted to the Business Department of the Bank for processing.
 - (ii) Post basic processing, the Risk Department shall complete the envisaged due diligence process and provide clearance on the application.
 - (iii) The aspect of remuneration will be examined and approved as envisaged in Section 10 of this note.
 - (iv) Post clearance by the Risk Department, the BC will be on-boarded by the Business Department.

- (b) The due diligence exercise on the BC shall cover aspects such as:
 - (i) reputation/ market standing, socio economic status & acceptance in the society
 - (ii) financial soundness
 - (iii) management and corporate governance
 - (iv) cash handling ability
 - (v) ability to implement technology solutions in rendering financial services, documentation, maintenance of records and accounts
 - (vi) due diligence of key office bearers of the entity
 - (vii) any prior experience of acting as BC for any other bank/ financial institution, may be considered.

- (c) Risk Department shall carry out the following activities as a part of the due diligence to be conducted for the proposed BC:
 - (i) Receipt and verification of KYC documents as per KYC/AML Policy including Proof of Address (POA) and Proof of Identity (POI), in accordance with KYC guidelines issued by RBI.
 - (ii) Obtain and confirm the PAN details.
 - (iii) Verify that the identity of the BC does not match with any person with banned entities such as individual terrorists or terrorist organizations etc as per regulatory sanction list.
 - (iv) Verify the financial stability of the proposed BC by assessing documents such as income tax returns, books of accounts, financial statements, etc.
 - (v) In case of Individual BC's, conduct/ obtain police verification report of the BCs to ensure clean track record on overall conduct of the individual before appointment.
 - (vi) In case of individual BC's, validate previous employment history provided on the BC application.

- (vii) In case of corporate BCs, verify the details and competencies of top management officials, the overall governance framework in the entity and the overall market reputation of the firm through use of annual reports, industry research reports, etc.
- (viii) Check that there is no criminal records of the directors/ office bearers/ authorised signatories of corporate BCs.

6.2 Agreements with BCs

The terms and conditions shall be clearly defined in the agreement between the Bank and the BC. The agreement should allow the Bank to retain an appropriate level of control over the activities undertaken by BC and the right to intervene with appropriate measures to meet legal and regulatory obligations. The agreement should also bring out the nature of legal relationship between the parties, i.e., whether agent, principal or otherwise and such agreement shall have clauses in line with the applicable guidelines, including outsourcing guidelines. All necessary clauses such as data security, maintaining customer confidentiality and privacy, responsibility/accountability for any breach have to be part of the agreement. The agreement will be vetted by the Legal Team of the Bank, and if required, external legal opinion may be obtained.

7. Scope of activities that can be performed by Business Correspondents

The activities to be undertaken by the BCs will be within the normal course of banking business. The scope of activities of a BC may include:

Asset Related Activities:

(i) identification of borrowers; (ii) collection, preliminary processing and submission of small loan applications including verification of primary information/data; (iii) post-sanction monitoring; (iv) follow-up for recovery, (v) disbursement of small value credit, (vi) recovery of principal / collection of interest

Liability Related Activities:

(i) open saving bank accounts of the SHGs/individuals, (ii) collection of small value deposits, (iii) receipt and delivery of small value remittances/ other payment instruments and (iv) preliminary work relating to account opening formalities or such other activities as may be allowed under applicable regulation

Other Activities:

(i) creating awareness about savings and other products and education and advice on managing money and debt counselling; (ii) promoting, nurturing and monitoring of Self Help Groups/ Joint Liability Groups/Credit Groups/others, (iii) sale of micro insurance/ mutual fund products/ pension products/ other third party products (subject to compliance with IRDAI/SEBI/PFRDA guidelines), (iv) A co-branding partner (CBP) acting as a BC for the card-issuer shall abide by the rules as prescribed in the instructions issued by RBI for such activities

The appropriate limits on the amounts for loans and deposits sourced by a Business Correspondent will be set out as part of an approved process

8. Area of operations of BCs

The Bank shall endeavour to acquire and service customers across geographies, including through digital modes. The focus shall be on low cost and efficient distribution by leveraging technology as a key enabler to improve penetration. The Bank shall prefer such BCs (and sub-agent of BCs) who have all India presence and operation capabilities.

9. Role and responsibilities of Business Correspondents

The key role and responsibilities of BCs shall be as under:

- (a) Act as an intermediary between the Bank and the customers
- (b) Gather information from the customers, counsel the customers on their financial needs and accordingly provide customized customer education on the products and services available from the Bank or products distributed for third parties
- (c) Provide customers and other stakeholders with complete, factual and truthful information on the Bank's various products and other aspects
- (d) Disclose all vital and material information to the customer
- (e) Protect and respect the privacy of customer information
- (f) Treat all customers alike, with no disparity and with respect and dignity
- (g) Not to differentiate customers and should not harbour any caste or communal feelings
- (h) Utilize equipment and technology of high standards so as to ensure customer data is not compromised
- (i) Represent the Bank at customer touchpoints, retail outlets or sub-agents of BCs
- (j) Comply with KYC guidelines issued by RBI

10. Compensation Mechanism

The Bank shall pay reasonable commission/ fee to the BC, the rate and quantum of which will be reviewed at half yearly interval.

Or

The Bank shall devise the commission structure or incentive mechanism in a manner that a mere increase in the number of clients served or the transaction volume does not drive the commission. The remuneration shall combine fixed and variable parts dependent, inter-alia, on some indication or measure of customer satisfaction or deferring the variable remuneration based on deficiency of service. The remuneration to be provided shall form part of the agreement with the BC.

The remuneration structure for a BC has to be analysed and approved by MD&CEO/ COO / relevant Board Committee as applicable keeping in mind the work involved, standing of the BC, market practice/benchmark, commercial viability, and other relevant factors.

11. Monitoring the activities of Business Correspondents

Considering that the engagement of BCs is susceptible to many risks such as reputational, legal or operational risks, the Management of the Bank shall put in place an oversight mechanism, both onsite and offsite, and shall ensure that the activities of the BCs are adequately supervised. The Bank shall carry out

a detailed review of the performance of and complaints received against various BCs engaged by them at least once in six months, as mentioned in Section 4(a) above in this note.

12. Cash Management services by BCs

The BCs may be allowed to provide the cash management services, subject to the below mentioned conditions:

- a. The Board of the bank will review the operations of BCs at least once every six months as mentioned in Section 4(a) above.
- b. The Board will also review the position of payment to remuneration of BCs. The Board shall also review the issue of allowing BC's to handle deposit and payment transactions of various credits, remittance, overdraft and other products of banks, and the complaints redressal system in this regard.
- c. The banks shall have an umbrella insurance for cash handled by BCs.

13. Customer service, customer education and grievance redressal aspects

13.1 Customer service and education

- (a) Financial literacy and customer education form an important part of the business strategy of the Bank. The Bank will focus on educating the clientele in their respective vernacular languages regarding the benefits of banking practices.
- (b) Information regarding BCs engaged by the Bank shall be placed on the website of the Bank. The Annual Report of the Bank will also include the progress in respect of extending banking services through the BC model and the initiatives taken by Bank in this regard. The Bank will also use print and electronic media (including in the vernacular language) to give wide publicity about the BC model. The Bank will take all steps to protect the interests of customers and to ensure fair, transparent and prompt delivery of services through the BC Channel.
- (c) The Bank will take measures to protect the interests of the customers such as the following:
 - (i) The retail outlet/ sub-agent of the BC shall be personally introduced to the members of public by the Bank's officials in the presence of village elders and government functionaries in a public meeting so that there is no misrepresentation/impersonation.
 - (ii) The products and processes will be approved by the Bank and the BC should not introduce any product/process without the approval of the Bank
 - (iii) Each retail outlet/ sub-agent will be required to post a sign in local language (vernacular) indicating their status as service providers for the Bank as also disclose the name of the BC, the telephone number of the base branch/controlling office of the bank and the Banking Ombudsman and the fees for all services available at the outlet.
 - (iv) Financial services offered by the retail outlets/ sub-agents of the BC should not be tied/ bundled to the sale of any product of such company.
 - (v) The charges for offering various services should be indicated in a brochure and made available at the retail outlets/with the sub-agents.

- (vi) The Bank will develop suitable training modules in the local language(s) in order to provide proper attitudinal orientation and skills to the BCs/sub-agents.
- (vii) As a measure of social audit, when there is a periodic block level meeting where members of public are invited along with the BCs operating in the area, the linked branch managers will attend the meeting to express their difficulties and to obtain feedback. Lead District Manager (LDM) of the lead bank may also attend such meetings in the district to get a direct feedback and provide such feedback to the controlling offices.
- (viii) The Bank will have necessary Business Continuity Plan (BCP) in place to ensure uninterrupted service in case the agency arrangement with the BCs/ sub-agents is terminated.

13.2 Grievance Redressal

The customer complaints against the BCs shall be governed by the Customer Grievance Redressal Policy of the Bank. The Grievance Redressal mechanism of the Bank shall be used for redressing complaints about services rendered by the BCs and wide publicity about this will be given through electronic and print media. The grievance redressal procedure of the Bank and the time frame fixed for responding to the complaints shall be placed on the Bank's website. If a complainant does not get satisfactory response from the Bank within a month or such other timeline as prescribed under applicable law from the date of his lodging the complaint, he will have the option of escalating his complaint to the Banking Ombudsman, which is also as per the levels defined in the Customer Grievance Redressal Policy of the Bank.

14. Compliance with KYC guidelines:

The ultimate responsibility for knowing the customer, customer due diligence and undertaking enhanced due diligence measures, as applicable, will be with the Bank. The BCs shall also ensure compliance with KYC guidelines issued and updated time to time by RBI. Assisted V-CIP shall be permissible when the Banks take help of Business Correspondents (BCs) facilitating the process only at the customer end. The Bank shall maintain the details of the BC assisting the customer, where services of BCs are utilized. The ultimate responsibility for customer due diligence through V-CIP will be with the Bank. Biometric based e-KYC authentication can be done by the Bank's officials / business correspondents / business facilitators, following the KYC guidelines issued by RBI. The Bank may use the services of Business Correspondent (BC) for Digital KYC process, subject to conditions as prescribed in Annexure I to Master Direction - Know Your Customer (KYC) Direction, 2016, as amended from time to time.

15. Reporting Requirements

The cash and suspicious transactions reporting requirements for the accounts opened or transactions undertaken by the BCs for the customers shall be in line with the KYC/ AML policy of the Bank. Additionally, the BCs will, in their day-to-day operations, inform the Bank about the following:

- Details of any Counterfeit Currency Notes (CCR) deposited by the customer
- Any suspicious transactions undertaken by customers
- Any instances of intentional structuring of transactions below the threshold of Rs. 50,000/- by walk-in customers or account holders to avoid monitoring of transactions
- Reluctance of any customer to undertake transaction on asking for further details with respect to the underlying documents
- Change of existing account holder into a politically exposed person

The BCs will also report, the complaints received from the customers with respect to the products and service offered by the Bank, to the Bank.

16. Record Keeping

The records pertaining to customer transactions (like nature, amount, date and parties of the transaction) shall be maintained for a minimum period as per the record retention policy of the Bank.

17. IT infrastructure

The Bank shall provide the required IT infrastructure to the BC for the purpose of enabling business, subject to adherence with all regulations and laws relating to banking/IT. Further, the IT infrastructure of the BC may be used by the Bank if the same is not available with the Bank, with mutual consent.

18. Policy Review & Updates

This Board approved policy will be reviewed as and when a change in the regulations mandate a change of policy or at least on an annual basis, whichever is earlier.

19. Regulatory References

- RBI circular on Rationalisation of Branch Authorisation Policy – Revision of Guidelines, DBR.No.BAPD.BC.69/22.01.001/2016-17, dated May 18, 2017
- RBI Master Circular on Branch Authorisation DBOD. No. BAPD.BC. 7/22.01.001/2014-15, dated July 01, 2014
- RBI Circular on ‘Small Finance Banks - Compendium of Guidelines on Financial Inclusion and Development’ , FIDD.CO.SFB.No.9/04.09.001/2017-18 dated July 6, 2017
- RBI circular on Financial Inclusion by Extension of Banking Services – Use of Business Correspondents (BCs) dated September 28, 2010
- RBI circular on Financial Inclusion by Extension of Banking Services – Use of Business Correspondents dated June 24, 2014
- Operating Guidelines for Small Finance Banks-issued by RBI vide DBR.NBD.No.26/16.13.218/ 2016-17, dated October 6, 2016
- Master Direction -Reserve Bank of India (Interest Rate on Deposits) Directions, 2016, DBR. Dir.No.84/13.03.00/2015-16, dated March 3, 2016
- Master Direction - Credit Card and Debit Card - Issuance and Conduct Directions, 2022, DoR.AUT.REC.No.27/24.01.041/2022-23 dated April 21, 2022.

Annexure 1:

List of Individuals and Entities eligible to be Business Correspondents of NESFB

Category	List of Individual / Entities eligible to be BCs	Eligibility criteria
Individuals	<ul style="list-style-type: none"> • Retired Bank employees • Ex-servicemen • Retired Government employees. • Retired Teachers • Individual Kirana/medical/fair price shop owners • Individual Public Call Operators (PCOs) • Agents of small savings scheme of Government of India / Insurance companies • Individuals who own petrol pumps. • Authorized functionaries of well-run Self-Help Groups which are linked to Banks • Any other individual including those operating Common Service Centres 	<ul style="list-style-type: none"> • Education qualification should be minimum SSC or 12TH standard passed. • Person with basic computer literacy & banking knowledge to be preferred • Person with IRDA certification required necessarily for distribution of insurance products • Candidate should be resident of the village/area where he is supposed to operate • Knowledge of local area, language and culture is a pre-requisite • He/she should not be affiliated with any political party/ religious organisation • Absence of any criminal record is mandatory. • Reference by at least two persons acceptable to the Bank • Due diligence shall be conducted involving candidate's reputation, financial literacy, cash handling capability and ability to implement basic technology, use handheld devices/laptop, etc. Satisfactory outcome of due-diligence is necessary. • Bank reserves the right to reject any person on its discretion.
Entities	<ul style="list-style-type: none"> • Permitted entities including the companies owned by business partners of the Bank and 	<ul style="list-style-type: none"> • Significant rural or urban presence • Satisfactory track record

Category	List of Individual / Entities eligible to be BCs	Eligibility criteria
	<p>Bank's own group companies on an arm's length basis¹.</p> <ul style="list-style-type: none"> • Non-Governmental Organizations / Micro Finance Institutions set up under Societies/ Trust Act • Cooperative Societies registered under Mutually Aided Cooperative Societies Acts / Cooperative Societies Acts of States/Multi State Cooperative Societies Act • Section 25 companies • Post Offices • Co-operative societies • Companies registered under the Indian Companies Act, 1956 with large and widespread retail outlets, other than Non-Banking Financial Companies (NBFCs) • Non-deposit taking NBFCs (NBFC-ND) subject to the following conditions: <ul style="list-style-type: none"> a. The Bank will ensure that there is no comingling of the Bank's funds and those of the NBFC-ND appointed as BC. b. There will be a specific contractual arrangement between the Bank and the NBFC-ND to ensure that all possible conflicts of interest are adequately taken care of. c. The Bank will ensure that the NBFC-ND does not adopt any restrictive practice such as offering savings or remittance functions only to its own customers and forced bundling of services offered by the NBFC-ND and the Bank does not take place. 	<ul style="list-style-type: none"> • Satisfactory association with the Bank • Preference for well-regulated and functioning entities • No financial irregularities reported in the past • Due diligence involving candidate's reputation, financial literacy, cash handling capability, ability to implement technology required to function as BC. • Capability to increase digital foot-print for the Bank.

¹ These companies can have their own branches managed by their employees operating as "access points" or may engage other entities / persons to manage the "access points" which could be managed by the latter's staff.