

Mobile Banking for Financial Inclusion Using BC Model

1. Introduction

This document essentially attempts to propose guidelines to use mobile banking to create a system for financial inclusion with a far outreach to the unBanked population of the country using the Business Correspondent (BC) model. The primary objective of leveraging this model is to offer or give access to basic Banking services to the unBanked & rural population of this country by means of an easy to access and an affordable delivery channel - a mobile phone.

The BC model will also go a long way in covering other future scope of activities, which include:

- Receipt and delivery of small value remittances
- Disbursal of small value credit
- Collection of interest and principal
- Collection of small value deposits
- Sale of other financial investment products like Mutual funds and insurance

In this document, we explore the possibility to ride on the mobile phone and mobile technology to hasten the process of financial inclusion through mobile and branchless Banking.

Automatically, subsequent uses of the options mentioned above as a cost effective way for cashless recovery or payment for services such as insurance, pensions, cash transfer (NREGS type welfare payments), deposits and investments, loan repayments etc.

2. Role of Banks, BC & Members in Financial Inclusion

The RBI Circular DBOD.No.BL.BC. 58/22.01.001/2005-2006 states that NGOs, MFIs & Trusts, Cooperative Societies, section 25 companies and Post Offices among few others may act as Business Correspondents. These BCs may appoint/have Employees, Contract workers, Members, agents etc. for rendering services defined herein on behalf of the BC. It is up to the BC to ensure that the said Member carries out the activities strictly as per the laid out procedure. For the sake of this document, we refer to these persons or entities as "Members".

In the spirit of the BC model, only Banks willing to assume ultimate responsibility for the service and have the ability to enforce agreed processes with the BC should use this model to create financial inclusion. Bank should take all necessary steps to ensure complete oversight to all processes and activities carried out by the BC and its Members.

For this purpose, it is imperative that the Banks are careful while selecting the BC and have very high scrutiny norms for the same. It is also imperative that Banks have full oversight of the process and selection criteria that BCs use to appoint Members. At the very least the following aspects should be very clearly outlined and strictly followed

- a. Stringent section criteria for Members

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- b. Airtight process for regular monitoring of all Members and their respective activities
- c. Regular audit of Member activities & location including those directly by the bank. The same may be done at specific periods and also as ad hoc surprise checks.
- d. Outline a policy for Instant termination of Members basis certain irregularities and non performances

2.1 Bank's role should include :

- a. To appoint a BC as its intermediary to offer Banking services to customers as per RBI circular DBOD.No.BL.BC.58/22.01.001/2005-06
- b. The control of customer ownership is with the Bank by opening a saving account. The Bank will abide by all existing RBI guidelines as issued from time to time with respect to the Account.
- c. The Bank will continue to remain at the forefront from a regulatory and operations perspective and will take complete ownership of behavior of BC and its Members.
 - i. The Bank will pay interest to the customer as per RBI circular RBI/2007-2008/41 DBOD.No. Dir. BC. 7/13.03.00/2006-07, which is currently at 3.5%.
 - ii. The Bank will own up responsibility of training the BC and its Members on KYC and AML practices as laid down by the regulators and ensure due diligence as per RBI circulars DBOD.AML.BC.No.63/14.01.001/2007-08 and DBOD.NO.AML.BC.28/14.01.001/2005-06.
 - iii. To ensure customers access their account through their mobile phones over available mobile networks to ensure a complete mobile experience.
 - iv. All customer transactions have to be electronically stored and are to be available on request to the Customer in the form of an e-passbook. This would make it convenient to the Customer by doing away with the need to getting the passbook updated physically periodically.

2.2 The role of BC will be that of

- a. An intermediary of the Bank and will bring in the advantage of its outreach through its existing distribution network to offer Banking services to the society. The BC may offer this account on the account holder's existing mobile phone
- b. BC will have its Members provide services as per BC guidelines. The BC will ensure appropriate screening of Members on a pre defined rating criterion and background checks before a potential Member is appointed as a "Member" for offering basic Banking services.
- c. Business Correspondent appointed by the Bank shall train and certify all its Members providing service to the customers.

2.3 The Member of the BC will provide services to the end customers which would include:

- a. Assisting the Bank's prospective customers in opening an account
- b. Ensure collection of KYC documents from the customer
- c. Provide Cash deposit and withdrawal facilities to the Customer on behalf of the Bank.
- d. Demonstrate and educate customers on the usage of Bank account via their mobile phone

However, it's important to note that all agreements and contracts with the customer shall clearly specify that the Bank is responsible to the customer for acts of omission and commission of the Business

Correspondent as per the RBI Circular DBOD.No.BL.BC.58/22.01.001/2005-06. The Bank is free to audit the processes and practices of the BC and/ or its Members at any point in time.

2.4 Customer Education:

- a. **Basic financial education.** The entire technology based trust mechanism outlined above breaks down if Bank customers cannot be assumed to bear personal responsibility on two key aspects: the necessity of not sharing their mobile phone and keeping their PINs secret, and checking the electronic receipt before leaving the Member location to ensure its accuracy. The Bank needs to ensure its customers understand these two fundamental points.
- b. **Transparency and disclosure.** The customer should know about the respective responsibilities of the Member and the Bank; the financial services that can and cannot be performed by the Member; the commissions costs per transaction, and whether these are payable in cash to the Member or are directly charged by the Bank as per RBI circular DBOD.No.Leg.BC.44/09.07.005/2005-06.; and the process for initiating a complaint or claim. The customer also should be aware that cash transactions may not be available at all times (e.g., if the Member has no remaining liquidity or Bank balance, the real-time connection with the Bank is down)
- c. **A complaints capture and claims redress mechanism.** Customers who believe the process has not worked fairly for them should be able to request clarification, complain, or otherwise seek redress. Claims could be made directly to the Bank rather than through the Member, and they should be dealt with through a well-defined process that specifies roles, responsibilities, and expected timelines.

3. Account opening process

- a. Customer is required to fill out an account opening form. Information on the account opening form, as required by the Bank, will be in accordance with RBI Circular DBOD.No.BL.BC.58/22.01.001/2005-06
- b. KYC documents must be provided by the customer, as required by the Bank in accordance with RBI circular DBOD.No.Leg.BC. 44/09.07.005/2005-06 or as per Circular no. DBOD.NO.AML.BC.28 /14.01.001/2005-06
- c. Bank is responsible for verifying the customer form, KYC documentation and approving the same as per Circular no. DBOD.NO.AML.BC.28 /14.01.001/2005-06

4. Process for deposit and withdrawal of cash

Since this involves operating of Bank account through BC and its Members, it's imperative to have a strong process in place to facilitate deposit and withdrawal of cash. The mobile phone of the subscriber doubles up as a payment instrument and also the mode, through which a subscriber can access his Bank account. The following need to be kept in mind while carrying out cash in and cash out transactions

- a. **Authentication by the debiting party.** There are three parties to a transaction: the customer, the Member and the Bank. The debiting party should authenticate itself before initiating any transaction, preferably with two factors of authentication (chosen among the categories of

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personal attributes of something you own, something you know, and something you are). However, when using the service for funds transfer or to access account information, the customer should be able to access this account only after authentication of an MPIN in order to ensure security and avoidance of possible misuse.

- b. **Electronic recording of all transactions.** The mobile phone at the Member location will be similar to a POS terminal and is referred to as Member Mobile Phone. All transactions should be done through this mobile phone on the system. Hence, all transactions would be automatically recorded electronically by the Bank. Transactions should not be processed without using this mobile phone.
- c. **No denial of service:** In case one of the Members is unable to service the needs of a customer due to any reason whatsoever, the customer should be directed to the nearest alternative Member location or bank branch.
- d. **Customer cash transactions are offset against the Member's Bank account.** All customer transactions are done against an account the Member has with the Bank. This account may be funded with the Member's own money or from a preagreed (finite) credit line or overdraft facility granted by the Bank. In the case of a cash deposit by a customer, the Bank automatically withdraws the equivalent amount from the Member's Bank account to fund the deposit, and the Member keeps the cash in compensation for the amount taken out of its Bank account. In the case of a cash withdrawal, the opposite happens: the Member provides his own cash from, and is compensated by an equivalent increase in its Bank account. In this way, the customer always bears the Bank's; not the Member's-credit risk.
- e. **Real-time authorization of transactions.** Before authorizing a cash transaction, the Bank needs to check that there are enough funds in the Member's account (in the case of a deposit) or the client's account (in the case of a withdrawal). This needs to be done in real time to eliminate credit risks. Using of the mobile phone at the Member location will ensure the same.
- f. **Automatic receipt generation.** A final element of the trust infrastructure is the automatic issuing of an electronic receipt to the client. The receipt is the ultimate protection for the customer: once issued a receipt, the customer should be legally entitled to whatever Bank claim is specified in the receipt. It denotes transactional finality and the point at which the customer should be able to leave the Member with peace of mind. Trust in transactions flowing through Members is ensured primarily through the deployment of an appropriate technology, backed by a contract between the Member and its Bank that specifies how the technology is to be used and their respective roles and responsibilities.

4.1 One of the process flows for cash deposit and withdrawal can be as follows:

Cash Deposit at a Member outlet

- a. Member will confirm to the customer that he has sufficient account balance for the Deposit to happen.
- b. On confirmation, the Member will take cash from the customer and ask for account details of

- the customer.
- c. On getting the relevant details from the customer, the Member (the debiting party) carries out a deposit transaction into the customer's account on his mobile phone using an MPIN.
 - d. Accordingly, money will be transferred from the Member's account to the customer's Bank account.
 - e. Once the money is successfully deposited into the customer's account by the Member, the customer and the Member receive a confirmation of the same, ideally on their respective mobile phones.

Cash Withdrawal at a Member outlet

- a. Member will confirm to the customer about having sufficient cash balance to carry out the transactions.
- b. On confirmation, the customer (the debiting party) will carry out a transaction on the mobile phone by using an MPIN.
- c. Accordingly, the Member hands over the cash to the Customer
- d. On completion of the transaction, the Customer and the Member receive a confirmation of the same, ideally on their respective mobile phones.

5. Anti Money Laundering

In recent times, money laundering is a big issue as it is the single largest source of terrorist and drug funding.

In light of the potential threats posed by money laundering, it's imperative to have an anti money laundering process in place to keep criminal elements at bay and to avoid any possible misuse of the financial inclusion system. Its imperative that Bank, BC and its Members adhere to the guidelines published in RBI Circulars DBOD.AML.BC. No.63/ 14.01.001 / 2007- 08 and DBOD.NO.AML.BC.28 /14.01.001/2005-06

6. Know Your Customer(KYC)

In order to achieve a successful financial inclusion, it's imperative to make the offering accessible to the masses. It is proposed that an account be offered with suitable KYC as mentioned in RBI Circular DBOD.No.Leg.BC. 44/09.07.005/2005-06, in order to facilitate easy adoption and usage or as per RBI circular DBOD.No.Leg.BC. 28/14.01.001/2005-06

Since, the environment is operated by a BC, fresh and authentic account opening documentation should be taken from every applicant. At no time should the BC and its Members rely on any form of existing KYC documents that the applicant would have submitted to the telecom company. Only the technology & distribution network of the telecom company should be leveraged. The KYC documentation should be thorough and only a Bank official should be the ultimate authorizing person to allow opening of the account.

7. Cash Management System (CMS)

A robust and a scaleable cash management system and process are required to ensure availability of adequate account balance and cash at location if this initiative needs large scale adoption and acceptance.

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This is very critical since the money in the Bank account will be used for withdrawal for various purposes. The Bank should create processes along with the BC to ensure that there is sufficient liquidity at Member locations. [The agreement between the bank and the BC should specify that the prime responsibility to ensure liquidity at Member location is that of the BC.](#)

- a. Ensuring BC monitors account balance position of all Members based on their experience and expertise in cash management
- b. Ensuring the Members are serviced adequately to ensure cash availability at location as well as adequate account balance based on preset norms to reduce holding costs. Cash availability to Member locations should be managed within the least Turn Around Time (TAT).
- c. System generated alarms, when account balance for Members reaches a threshold limit.

8. Reconciliation Process

A stringent reconciliation process ought to be in place to keep track of movement of money within the system. The Bank and the BC should ensure that such a system is in place and is executed periodically.

9. Customer Enquiry & Service

The Bank in conjunction with the BC and its Members should ensure a process of resolving customer enquiries and servicing their requirements through an easy accessible manner. The same should be made clearly and publically available to all for easy access.

10. Customer Grievance Process

A complaints capture and claims redress mechanism. Customers who believe the process has not worked fairly for them should be able to request clarification, complain, or otherwise seek redress. Claims could be made directly to the Bank rather than through the Member, and they should be dealt with through a well-defined process that specifies roles, responsibilities, and expected timelines.

The Bank, its BC and the Members should put in place process and practices to address customer grievance effectively as mentioned in RBI Circular: DBOD.No.BL.BC.58/22.01.001/2005-06. The same should be made clearly and publically available to all for easy access.

11. Customer charges and fees

The Bank is allowed to charge the customer for any services rendered. However, the BC is not allowed to charge the customer any fee directly as per RBI Circular DBOD.No.BL.BC.58/22.01.001/2005-06. It is imperative for the Bank, if required through the BC and its Members, to give wide publicity to the facility of such an account including their websites indicating the facilities and charges in a transparent manner. This is in accordance with RBI circular DBOD.No.Leg.BC.44/09.07.005/2005-06.

12. Mitigants to risks

Preventive measures that may be kept in mind

- a. **Member selection & training**

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- i. Stringent Member selection criteria in conjunction with partner Bank.
 - ii. Intensive training on processes.
 - iii. Relevant AML training.
 - iv. Member signs formal contract with clear responsibilities, dos and don'ts
- b. **BC Member management system** – In addition, all BCs should ensure that they have a laid down process agreed with the Bank to manage its Members on following issues:
- i. Regular Audits of the norms and processes followed by the Member
 - ii. Stringent penal and dismissal clauses in case of integrity issues.
 - iii. Adequate balance in the Account
 - iv. Cash availability at the location

It is important that banks, BCs and their Members create, implement and evolve their systems at every level in a way that facilitates early detection and hence prevention of fraudulent activities. Such fraudulent activities may be carried out by both BC Members and customers alike. Banks and their BC should be cognizant of these and try to minimize the same at as early stage as possible.

12.3 Listed below is a probable risk and mitigation table. This may serve a a good guide for banks and BCs, but is in no way exhaustive.

Type of risk	Possible risk mitigation options	Residual risk on
Theft of cash		
The client is robbed in or around the Member premises	<ul style="list-style-type: none"> • Bank chooses Member based on security of location • Bank monitors incidents to establish patterns and possible connivance by Member's staff. 	Client (as with an outdoor ATM)
The Member's cashbox is robbed, or the Member is robbed on the way to/ from the bank branch	<ul style="list-style-type: none"> • Member can keep smaller amounts of cash and travel more often to the branch. • Bank can offer pooled insurance to BC & all its Members. 	Member
Identity theft		
Clients share or do not sufficiently protect their credentials	<ul style="list-style-type: none"> • Require two-factor authentication (e.g., phone plus MPIN) • Financial education by the bank 	Customer (as with an ATM)
In a moment when the Member Mobile Phone is unsupervised, someone uses it fraudulently	<ul style="list-style-type: none"> • Members need to authenticate themselves with phone plus MPIN. • Set defined session periods, after which operator needs to re-authenticate. 	Member
Errors or fraud relating to receipts		
Customer's transaction does not match what is stated on the receipt	<ul style="list-style-type: none"> • E-Receipt is produced automatically by the transaction system with no manual intervention. • Minimum content of receipt is specified by regulation (bank name, Member name, Member Phone ID, time and date, transaction No., amount of transaction, etc.) • Financial education: check the receipt and immediately call the call centre in case of any discrepancy 	Customer (As at Bank Branch)

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Transaction that appears to have failed (hence, no exchange of cash) did in fact go through.	<ul style="list-style-type: none"> • Receipt is produced in all cases, even if transaction failed, to notify client of transaction status. • Financial education: always get a receipt and check it before leaving. 	Customer
Errors or fraud		
The receipt states successful transaction, but does not correspond to what happened in the client's account	<ul style="list-style-type: none"> • Direct communication between Member Mobile Phone and bank's core systems. • Proper controls on bank systems. 	Bank
Fraud by third parties		
Member's Mobile Phone is stolen and used fraudulently	<ul style="list-style-type: none"> • Member Mobile Phone must be used with an MPIN of authorized operator. Improper use would also need a client phone and MPIN. • Member Mobile Phone tied to communication point of Member (phone number, IP address). • Member Mobile Phone switched off outside of Member's business hours. 	Bank
Client goes to a fraudulent Member, with a "fake" Member Mobile Phone	<ul style="list-style-type: none"> • System should authenticate Member's phone and the Customer's phone before processing any transaction. • Customers should be able to easily check the list of authorized Members from the bank or a public registry. 	Bank
The Member Mobile Phone is manipulated (e.g., spyware is introduced)	<ul style="list-style-type: none"> • Software can be updated directly with proper bank authorization. 	Bank
The communication between the Member Mobile Phone and the bank is intercepted and manipulated	<ul style="list-style-type: none"> • All communications are encrypted end-to-end. • Appropriate level of security for communication & messaging should be maintained as required by the Bank. 	Bank

Annexure 1. :

1. Internationally successful models

The point about mobile phones successfully contributing to financial inclusion to the disadvantaged and weak section of the society is aptly exemplified by international successes such as G-Cash (Globe Telecom) & Smart Money (Smart Telecom) in Philippines and Mpesa (Safaricom) in Kenya. All these are successful financial inclusion initiatives riding on the mobile penetration to offer financial services to the rural and weak sections of the society.

These services have clear cut objectives in terms of what they want to offer to the masses. Their service offering basically hinged around the following points:

- Ease of access - Deposits & withdrawals through existing channels
- Speed and convenience - Person to person money transfer
- Security
- Buying prepaid air time
- Payment of bills
- Merchant payments

In India, this can be further leveraged for the following:

- Disbursal of small value credits such as social security pensions.
- Collection of interest and principal
- Collection of small value deposits
- Sale of other financial investment products like mutual funds and insurance

The process flows for other services as mentioned above that could be offered by the Banks via their BC and its Members may be finalized by the Banks in consultation with their respective BCs while keeping other relevant guidelines and laws in mind.