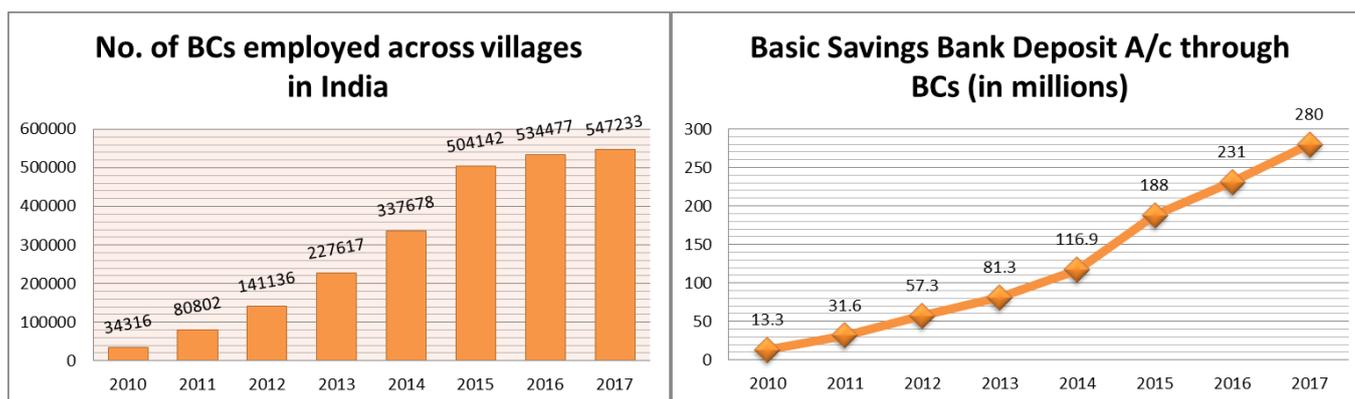


## Code of Conduct in Agent Banking: Evolving from Access to Responsibility and Quality

### Overview

Strengthening the Business Correspondent (BC) model has been one of the important development agendas within inclusive finance due to the role played by BCs in delivering last mile financial services in the under-banked and unbanked regions of the country. The model has received new impetus under the Pradhan Mantri Jan Dhan Yojna (PMJDY) over the past three years.

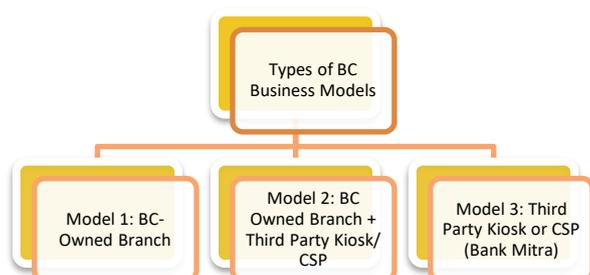
- As of March 2017, there are an estimated 547,233 business correspondents (BCs) operating in villages across the country with a further 102,865 in urban locations.
- Out of the 533 million Basic Savings Bank Deposit Accounts (BSBDA) opened by end March 2017, nearly 280 million (~52.5%, as compared to 49% in March 2016) were opened directly through the network of BCs operating throughout the country.
- In terms of the quantum of deposits made at the end of March 2017, BCs account for over 29% of all deposits made under the BSBDA accounts.<sup>1</sup>
- The total number of transactions through the BC channel has increased by 332 million (~40% increase) while the amount transacted increased by a quantum of ₹965 billion (~58%) in FY 2016-17.



Source: RBI Annual Reports 2010-17

### Standardization of BC Code of Conduct: Need and Relevance

There have been significant deliberations on issues related to business models and financial viability of BCs but the discourse has been limited in the sphere of ethics, client protection and a general code of conduct for agent banking. Over the past five years, the emphasis in strengthening the above concerns has been in the form of creating a BC registry, formalising certification training programmes for BCs and designing a framework for accreditation of credit counsellors. As part of the various programmes undertaken by the Business Correspondent Federation of India (BCFI), the development and implementation of a standardised and harmonised Code of Conduct (CoC)<sup>2</sup> for the BC sector encompassing the full range of financial inclusion services such as banking, insurance, pension and securities has been at the forefront.



While all BCs have some form of signed agreements with banks that directs them to follow the 'Fair Practices Code' issued by the RBI and Indian Bankers Association, there is a lack of a standardized code of conduct and an overarching requirement of compliance in the present scenario.<sup>3</sup> The benefits of a standardized CoC would result in improving client confidence in the model in addition to providing a template for BCs as a guide for carrying out their functions more effectively.

<sup>1</sup> Reserve Bank of India Annual Report 2016-17

<sup>2</sup> The contract for this was awarded to **Accion**, as part of the Smart Campaign towards building a framework for responsible agent networks.

<sup>3</sup> Study on State of Practice in Credit through BCs from Responsible Finance Lens; Access Assist, January 2017.

Within the overarching CoC, one of the major concerns to be discussed is the client protection framework under the current dispensation and a proposed change within a standardized Code of Conduct for agent banking. Some suggestions on guidelines for the CoC are highlighted below:

### CLIENT EDUCATION

1. Standardized forms for communication preferably in vernacular languages available with the staff/ CSPs in addition to being given periodic trainings on communication with clients.
2. New clients must be made aware of their rights as customers and the policies pertaining to the BCs and their principal banks and the relationship between the two

### TRANSPARENCY AND FAIR PRACTICES

1. Disclosure of terms and conditions by BCs must be made prior to the disbursement of the services to the client.
2. The terms of service offered by BCs must be transparently conveyed to clients and emphasis must be placed on obtaining due consent in all cases *in a manner which is understandable by clients.*
3. Only relevant documentation must be obtained under existing KYC norms proposed by the RBI guidelines.

### GRIEVANCE REDRESSAL MECHANISMS

1. Setting up a standardized grievance redressal mechanism at the level of the BC rather than the bank. This mechanism must be linked with the principal bank for quicker resolution.
2. BCs must inform clients about the existence and the purpose of these mechanisms and how to access them.
3. The need to set up a grievance escalation matrix with monitored adherence to time bound resolution.

### PRIVACY OF CLIENT DATA

1. BCs must be trained on the sensitivity of personally identifiable information within a clearly documented policy.
2. Client information should be disclosed to a third party under the conditions of full disclosure to the client and after requisite consent has been obtained.

### CLIENT INTERACTION AND TREATMENT

1. To incorporate guidelines for client interactions that is respectful of various cultural sensitivities without suggesting any form of threat or violence.
2. Accountability for BC agents that unduly demand, collect/recover any commission or favours from clients for services facilitated on behalf of the Principal

### Challenges in Implementing the BC Code of Conduct

- **NEED FOR A REGULATORY MANDATE:** A voluntary adoption of the COC by banks and associated BCs is an unlikely proposition and would require a formal mandate from the Reserve Bank of India. This would require strong policy advocacy on the part of the RBI with support from self-regulatory bodies such as BCFI and MFIN.
- **COMPLIANCE TIME FRAME MAY VARY:** Given the diversity of operators in the BC framework, smaller BCs would require a longer timeframe to comply with the proposed COC particularly in terms of setting up the requisite governance structures and grievance redressal mechanisms.
- **COST IMPLICATIONS:** Implementation of a standardized COC would require investments from the banks, BCs as well as the concerned regulatory bodies. The cost implications of these changes must be an important consideration while framing the Code of Conduct guidelines.