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Government of India
Ministry of Finance
Department of Financial Services

Jeevan Deep Building, Sansad Marg,
New Delhi, dated the 4th April, 2012

To

The Chairman/ Managing Director of All Public Sector Banks
Chairman of All Regional Rural Banks (through Sponsored Banks)

Subject: Master Circular on Strategy and Guidelines on Financial Inclusion

Dear Sir,

The Government of India has, from time to time, issued guidelines/instructions to banks on financial inclusion. In order to enable the banks to have these guidelines /instructions at one place, a Master Circular incorporating the existing guidelines/instructions issued by the Government on the subject has been consolidated and enclosed.

All banks are requested to ensure compliance of the above guidelines.

This issues with the approval of Secretary (FS).

Yours faithfully,

(Sandeep Kumar)
Director (FI/RRB)

Encl: As above

Copy to:

1. Deputy Governor, RBI
2. Chairman, IRDA
3. Chairman, PFRDA
4. Chairman, NABARD
5. Chairman, LIC
6. Chairman& Managing Director, National Insurance Co. Ltd./ New India Assurance Co. Ltd./ Oriental Insurance Co. Ltd./ United India Insurance Co. Ltd
7. PS to FM/MOS
8. PPS to S(FS), PS to AS(FS), PS to all JSs in DFS
9. All Government Nominees Directors on the Board of PSBs
10. IBA- for sharing it with all other SCBs.
11. NIC for uploading on website.

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Master Circular on Strategy and Guidelines on Financial Inclusion

A. Purpose

To provide a framework of guidelines to be followed by banks for providing financial services in the country.

B. Classification

Strategy and Guidelines on Financial Inclusion issued by the Government.

C. Previous Guidelines consolidated

The Master Circular updates the instructions contained in the circulars/ letters listed in the Appendix.

D. Scope of Application

To all Public Sector Banks and all RRBs.

Structure

1. Introduction
2. Banking Responsibility in terms of Gram Panchayat
3. Coverage Plan and Preparation of State / District Financial Service Plan
4. Opening of Branches and Ultra Small Branches
5. Business Correspondents
6. Geographical Information System (GIS)
7. BCAs - Appointment and Role
8. Electronic Benefit transfer
9. Kisan Credit Card (KCC)

Annexure- I - Service Area Plan of District

Annexure- II - Security Guidelines for Ultra Small Bank Branches

Annexure- III- Schemes of various Deptts. of GOI under which subsidies/govt. contributions/payments disbursed directly to the beneficiaries/groups

Appendix - List of Circulars/ Letters consolidated in the Master Circular

1. Introduction: The objective of Financial Inclusion is to extend financial services to the large hitherto unserved population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular.

2. As only about 5% of the nearly 6 lakh villages in the country were having bank branches and there were 296 under banked districts in the under banked states in the country, the Government of India had undertaken a major initiative aimed at financial inclusion by extending the reach of the banking and other financial services to the hitherto unserved areas. As per the announcement made in the Budget 2010-11, the Government initiated the process of extending banking services through new bank branches and banking correspondents in the habitations with population of 2000 and more as per 2001 census. Under the Financial Inclusion Plan under implementation, around 73,000 villages having population of 2000 and above have been provided with banking services by March, 2012. The Business Correspondents and the new bank branches opened in these villages would also provide services in the adjoining areas.

3. The Government had also set up a Task Force to suggest modalities for direct transfer of subsidies on LPG, Fertilisers and Kerosene. Based on these recommendations, a mobile-based Fertilizer Management System (m FMS) has been designed to provide end-to- end information on the movement of fertilisers and subsidies, from the manufacturer to the retail level. Pilot projects for selling LPG at market price and reimbursement of subsidy directly into the beneficiary's bank account are also being conducted. Besides, there are at least 32 schemes where the benefits are to be transferred to the beneficiaries and adoption of electronic benefit transfer would greatly enhance the efficiency of such transfers, besides reducing the scope of malpractices. Disbursement of MNREGA wages to the beneficiaries is required to be made in a fixed time period. Extension of banking and other financial services to the rural areas will also facilitate and, in fact, accelerate the economic development of such areas.

4. In view of the above, there is an urgent need of a strategy and approach for the extension of financial services to the entire country, so as to extend the benefits of electronic benefit transfer. These guidelines would be applicable for the time bound coverage of the entire country with banking services under financial inclusion.

5.1 Banking Responsibility in terms of Gram Panchayat :

- (i) Service area approach would be adopted for the coverage of the entire country for financial inclusion. So far the SLBCs have allocated specific villages among the banks. As Gram Panchayats are at the centre of the various developmental and welfare schemes and would play an important role in the electronic benefit transfer, service area of the banks needs to be defined in terms of the Gram Panchayats.
- (ii) SLBCs had been requested to prepare the Service Area Plan in a format as given at **Annexure -I**. SLBCs have reported that Service Area Plan for most of the districts have been prepared and uploaded at the state/ district website. Changes in existing allocation, wherever required, could be finalised at the level of the SLBCs and service Area Plan updated regularly. Banks to whom the areas under Gram Panchayats are allocated would be responsible for all the financial inclusion activities in such areas. However residents would be free to approach any bank within or outside the service area for any banking service.
- (iii) Area to be served by the existing and to be opened branches should also be specified in term of the Gram Panchayats and the other areas may be covered through the BC model, as stated above.

5.2 Coverage Plan & Preparation of State/ District Financial Service Plan :

- (i) Under the financial inclusion plan, all villages having a population of 2000 or more, as per 2001 census, were identified and allocated among banks by the SLBCs to be covered under the Financial Inclusion by March, 2012. In addition, considering the population distribution, in Arunachal Pradesh, Himachal Pradesh, Meghalaya, Mizoram, Uttarakhand, Chhattisgarh,

Andaman & Nicobar, Daman & Diu, Pudducherry, Lakshadweep, all villages of 1000 and above must be covered by September 2012.

- (ii) The Finance Minister in his budget speech 2012-13 has further announced the next phase of financial inclusion to cover habitation with population of more than 1000 in North Eastern and hilly states and to other habitations which have crossed population of 2000 as per Census 2011.
- (iii) Banks must, with their service areas, assign the existing BCs the area of the entire Gram Panchayat or, if required, also the adjoining Gram Panchayat in accordance with para 5.4 below. Banks must also assign the BCs, to be appointed as per sub para (i) and (ii) above, the area of entire Gram Panchayat in which village having population of 1000 or 2000, as the case may be, falls.
- (iv) (a) At present the District and State Level Plans are being prepared for the banks, NABARD etc. Similarly, the Public Sector Insurance Companies are also preparing their field level plans.

(b) In order to develop a comprehensive frame work for delivery of financial services and, hence, promote Financial Inclusion, it is necessary that comprehensive Financial Services Plan for the entire District and State is also prepared.

(c) It has therefore been decided that:
 - ❖ The District Lead Bank Officer, Officer In charge of NABARD and Nodal Officers of Public Sector Insurance Companies, both life and non life, would prepare a comprehensive Annual District Financial Services Plan covering banking, rural development, insurance, etc. These officers would also meet once every month to review the progress and resolve inter agency issues.
 - ❖ At the State Level, SLBC Convener, NABARD in-charge for the State and State In-charge of Public Sector Insurance Companies, both life and non life, would prepare similar Annual State Financial Services Plan. At the State level also, these officers would meet once every month to review the progress and resolve inter-agency issues.

(d) The objective of the exercise is to ensure Financial Inclusion by ensuring bank account for every household, Kisan Credit Card to every farmer's family, General Credit Card to other households and extensive coverage under micro-insurance and micro-pension scheme besides looking at the critical gap in infrastructure in terms of rural warehousing etc.

(e) District Lead Officer and the State SLBC Convener would be responsible for the aforementioned committees at the District and the State Level respectively.

5.3 Opening of Branches and Ultra Small Branches :

(i) In the under banked districts as listed by the RBI, the Banks shall within their service area, open a regular brick and mortar branch in larger habitations with population of 5000 and above by September 2012. Under the extant Policy of RBI on branch authorisation, prior approval of the RBI is NOT required to open branches in tier 2 to tier 6 areas. In fact, opening bank branches in the under banked districts of the under banked states would entitle the banks to seek branches in tier 1 towns under their Annual Branch Authorisation Plan. Such a branch would be assigned a service area by the DCC/SLBC covering one or more Gram Panchayats .

(ii) In other districts, the banks must try to open as many brick and mortar branches, in their service areas, in habitations having population of 10,000 and above by September 2012.

(iii) At places where opening a brick and mortar branch is considered viable, following guidelines may be adhered to :

(a) While opening a new branch in rural areas, as suggested above, after selecting the location of the branch, the branch manager must be posted at least six months in advance so that he can do business development in the area.

(b) The business plan of the rural branch must envisage the branch to become profitable within a maximum period of two years.

- (c) Initially, the bank should have minimum staff, say of 2 persons with ATM facility, and additional staff should be provided as the business grows and when the branch becomes profitable and can bear the cost of additional staff.
 - (d) The branch should be on total e- governance platform.
- (iv) For furthering the Financial Inclusion efforts of banks, to minimize the cost of the financial inclusion initiative , to see that the cost has a relationship to the growth in business and, hence, the profitability of the bank, considering the need of close supervision and mentoring of the business correspondent agents (BCAs) by the respective bank branch and to ensure that a range of banking services are available to the residents of such villages, it has been decided that Ultra Small Branch be set up
- at all places where opening of a brick and mortar branch is presently not viable and
 - in all FI villages covered or to be covered through BC agents.

Characteristics of an Ultra Small Branch:

- (a) The Ultra Small Branch will have an area of 100-200 square feet.
- (b) The bank shall identify a place in the village for the Ultra Small Branch. Since such a branch shall function only on fixed day and time, local bodies may be requested to provide such place free of cost till such time the business grows to a viable level justifying setting up of a regular branch. Since all such villages would also have a BCA, the BCA shall also operate from such premises.
- (c) A BC Agent should be appointed for the service area to deal with all cash transaction and other routine work. The BCA shall operate from the Ultra Small branch.
- (d) The bank branch responsible for financial inclusion of the village in its Service Area would designate a specific officer to visit such villages on pre-notified fixed day and time every week. The periodicity and duration of visits can be progressively enhanced depending upon business potential and reviewed periodically.

- (e) The officer would not be dealing with cash transactions, which would be handled by the BCA.
- (f) The designated officer of the bank will visit the ultra small branch on a predetermined day, at least once a week, along with a laptop which should have VPN connectivity to the CBS. He would clear applications for new account opening, loans, recovery follow-up and business development. He can give information to the account holders about the account balance or a print out of the bank statement, etc. The officer shall also undertake various verification, field inspections, etc., for allowing undertaking of banking functions by the person concerned.
- (g) The frequency and periodicity of visit by the bank officer can be progressively enhanced depending upon the business growth in the service area of the bank.
- (h) When the branch reaches the desired level of business, the Ultra Small branch can be upgraded into a regular brick & mortar branch.
- (i) Banks have already been advised to strengthen their rural branches so that adequate manpower is available to take care of the need of bank officers as per (d) above.
- (j) These guidelines are in tune with the Master Circular of the RBI on Branch Authorisation dated 01/7/2011 (para 3 of the same) .
- (k) The network security guidelines are given at **Annexure -II**.
- (v) While planning for branch expansion, it may be seen that in the unbanked areas the branches are available within a radial distance of 5 km.
- (vi) It is clarified that in underbanked districts, all villages with population of 5000 or more need to have a bank branch. However, banks can start with an Ultra Small Branch (USB) in these villages where opening of a regular brick & mortar branch is not considered viable at present and then convert it into a full-fledged branch when the branch reaches the desired level of business. Banks may keep higher frequency of visit of staff in these USBs.

5.4 Business Correspondents (BC):

- (i) In habitations without a bank branch, the Business Correspondent would be the main instrument of delivery of financial services. It is necessary to ensure that the business model of BCs is commercially sound and that they become financially viable in a reasonable time, say 2 years. This would require that each BC handles a reasonable number of household accounts, keeping the geographical coverage in consideration.
- (ii) Based on the feedback from the various Institutions, it is felt that the BC/Agent should be dealing with 1000-1500 households, or cater to a population of about 5000-8000. In the hilly, tribal and desert areas or where distance is large, the banks could have lesser number of accounts keeping the geographical and other conditions under consideration. DLCC will take a decision in such cases and get it ratified from SLBC. However, it must be ensured that the each BC Agent is assigned a sub-service area within the service area of the branch. Gram Panchayat shall be retained as a unit and BCA could be assigned more than one Gram Panchayats.
- (iii) Requirement of BC/BCA may be worked out in such a manner that the BCA is available within a radial distance of 2 km.

5.5. Geographical Information System: Geographical Information System

(GIS) can be effectively used to assist the decision makers in planning for expansion of infrastructure of the Banks and Insurance Companies by highlighting the pockets of the hinterland which are yet to have access to these facilities. A web based application to develop a GIS for the bank branch and insurance network in the country has been launched by the Department of Financial Services. The project envisages capturing existing information about bank branches, ATMs, Business Correspondents, Clearing houses and Currency chests of Scheduled Commercial Banks and branches of Insurance Companies at village level. This would enable the Banks to easily identify the areas where expansion of branch/ ATM/BCA network needs to be carried out as envisaged under para 5.3(v) and 5.4(iii) above. SLBC/DLCC convener banks must ensure data entry in the package by 15th April 2012 and thereafter

regular updation. The package should be used for finalising the location of new bank branches/ BCs and other banking facilities.

6. BCAs – appointment and role:

While appointing BCAs, Banks will keep following features in mind:

- (i) It is better to appoint an existing entrepreneur as BCA so that it is an additional income to him/her. This will improve the viability of BCA. While approving location of BCA, the place should be such that easily accessible and be preferable by the place of weekly local 'Haats'.
- (ii) Nearly 1 lakh Common Service Centres (CSCs) are being established by the Department of Information Technology. In order to ensure convergence and to assist viability of BC, it would be necessary that in the villages to be covered, functional CSC is made BCA. Banks can engage additional BCAs, if required in such cases.
- (iii) The selection of BCA must be done by the BC with the consent of the concerned Branch Manager in whose service area the BC is located. Preference should be given to such persons who are already doing some activity in the village.
- (iv) RBI has already allowed interoperability at the level of BCA vide its letter DBOD.No.BL.BC.82/22.01.009/2011-12 dated 2nd March, 2012. It must be ensured that the device to be given to BCA is interoperable through the gateway of NPCIL so that the customer can access to any bank by using the device. The device must have biometric facility plus card or password plus card. The BCA must have on-line connectivity.
- (v) The BCA must be responsible to receive and pay money, to transfer money from one to another. Each BCA must necessarily be appointed as Business Facilitator (BF) for all activities permitted by the RBI. BCAs must also be used as deposit mobilisation and recovery agents as permitted by RBI.
- (vi) The BCA will also be acting as an extension staff for micro insurance, animal insurance, crop insurance and micro pension. The banks will ensure

coordination with the agencies, viz., LIC and other agencies dealing with these products.

- (vii) Each habitation covered under the BCA would also be having a Ultra Small branch where an officer of the concerned branch of the bank would visit at least once in a week on a fixed time and day and will use this visit to collect application for opening account, loans of all types, recovery follow-up and any other banking issues. This will install greater confidence among the customers and facilitate increased banking transactions through BCAs.
- (viii) The BCA must be responsible for routing all transactions of all villages in the assigned villages so that effective marketing and follow up, can take place.
- (ix) BCA could be remunerated using different models or a combination based on transactions, number of accounts opened, value of transactions, etc., with safeguards against recycling of funds, the guiding principle being the BCA has motivation to facilitate transactions of the customers and to provide good quality services.
- (x) For cash management, a proper arrangement needs to be worked out keeping in view the guidelines of RBI by the banks and with the BCA.
- (xi) Transfer of the funds by the account holders of the bank represented by the BC to the account holders of other banks should be possible.
- (xii) It is necessary for banks to ensure that there is a continuous improvement in the quality of services through the BCAs. Banks must have regular training programmes of the BCAs along with BCs. This must lead to reduction in footfall of the villages from the villages attached to the BCA in the service area of the branch of the bank.

7. Electronic Benefit Transfer:

- (i) Presently 32 schemes are in operation, **(Annex-III)**, funded by the Government of India, under which benefits are to be given directly to the beneficiaries. Transfer of such subsidies into the accounts of the beneficiary under Electronic Benefit Transfer would enhance the efficiency of delivery of such services. Benefits in the areas covered under Financial Inclusion must

be transferred electronically into the accounts of the beneficiaries. The Convenor Banks of SLBC must take up this matter in the next SLBC and the roadmap for Electronic Benefit Transfer in respect of each scheme must be finalized.

- (ii) RBI issued the operational guidelines on implementation of Electronic Benefit Transfer and its convergence with the Financial Inclusion Plan on 12.8.2011. Under this, one district - many bank- one leader bank model is to be adopted. While all Departments of the Government of India (GoI) and State Governments may, for administrative convenience, deal with only one leader bank, such leader bank will obtain the funds from the GoI/State Government and, in turn, arrange to transfer funds through inter-bank transfer to other banks for credit to the accounts of ultimate beneficiaries. Under the service area approach, while the banks would be responsible for the Electronic Benefit Transfer to the residents in their service area, the residents would be free to choose the bank through whom they would like such transfer of benefits.
- (iii) In some states, parallel structures for Electronic Benefit Transfer for some schemes have been created which are inconsistent with the aforesaid guidelines issued by the RBI. Such system should be discontinued henceforth or converted into one district- many banks-one leader bank model as per para-(ii) above.
- (iv) It has also been observed that KCC beneficiaries as well as others who are already having bank accounts are asked to open separate account for availing Electronic Benefit Transfer. Any beneficiary having any bank account must not be required to open new accounts and the benefits should be credited to the existing account.

8. Kisan Credit Card as Smart Card:

In pursuance of the announcement made by Finance Minister in his Budget Speech 2012–13, NABARD has issued guidelines for modifying KCC Scheme *inter-alia* to make KCC a smart card which could be used at ATMs/ PoS/ Mobile Handsets. Banks have been advised to ensure KCC to

every eligible farming household by June 2012. While doing so, the financial inclusion account and the KCC account scheme should be merged into a single saving-cum- overdraft account.
