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RESERVE BANK OF INDIA

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August 12, 2011

The Chairman/CMD/CEO of all scheduled commercial banks

Dear Sir/Madam,

Operational Guidelines on implementation of Electronic Benefit Transfer (EBT) and its convergence with Financial Inclusion Plan (FIP)

As you are aware, Electronic Benefit Transfer (EBT) for servicing low value accounts and extending banking infrastructure to underserved low income areas has been implemented in the states of Andhra Pradesh, Haryana, Karnataka, Orissa, Chhattisgarh, Himachal Pradesh, Uttarakhand, Bihar, Punjab, etc. on pilot basis in select districts under the "One District – One Bank" Model. Difficulties have been expressed by stake holders in scaling the model.

2. The experience gained so far suggests that the "One District – One Bank" Model has not been able to achieve the objective of financial inclusion. Allocation of villages amongst banks under the Financial Inclusion Plan (FIP), i.e. Roadmap for providing banking services to villages with population above 2000, has been generally on the basis of the Service Area Approach. This has led to a situation wherein the designated bank for EBT and FIP in the same village differed. This issue has been raised in various fora by the State Governments and banks. For clearer conceptual understanding and based on detailed consultative meetings and interface with stake holders, "Operational guidelines on implementation of Electronic Benefit Transfer and its convergence with Financial Inclusion Plan" has been formulated. These guidelines are expected to give a fillip to financial inclusion efforts and lead to a scalable and sustainable financial inclusion model.

3. A copy of the operational guidelines is enclosed for necessary action.

Yours faithfully,

(Deepali Pant Joshi)

Chief General Manager-in-Charge



**RESERVE BANK OF INDIA
RURAL PLANNING & CREDIT DEPARTMENT
CENTRAL OFFICE**

**Operational guidelines for
implementation of
Electronic Benefit Transfer and its
convergence with
Financial Inclusion Plan**

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Operational Guidelines - Implementation of Electronic Benefit Transfer (EBT) and its convergence with Financial Inclusion Plan (FIP)

A. Financial Inclusion

1. The key driver of our country's vision of inclusive growth is Financial Inclusion. Financial Inclusion is defined as “the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players.”
2. In accordance with the vision of inclusive growth, Reserve Bank of India has adopted a "Bank-led" model for ensuring Financial Inclusion to provide low cost, efficient, ICT based banking services utilising multiple delivery channels including intermediary low cost brick & mortar structures, branchless banking through Business Correspondents (BCs) and other modes like mobile vans, rural ATMs, etc. so as to cover all the villages of the country in due course.
3. The Central and State Governments have institutionalized several welfare schemes like social security pensions, Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS), National Old Age Pension (NOAPS) insurance scheme etc. for the benefit of the poor. Payments in such welfare schemes are being made directly either in kind/cash or through indirect subsidies like the PDS. Such payments are being routed by the governments through various agencies. The success of any welfare scheme/State Benefit Transfers must ensure timely disbursement of the benefits without any leakages.
4. The Reserve Bank, therefore, as part of its Financial Inclusion initiative encouraged governments to disburse social security payments through the banking channel leveraging Electronic Benefit Transfers for financial intermediation. EBT is one of the products offered under Financial Inclusion, which facilitates payments to reach the intended beneficiaries through bank accounts. This relieves State Government functionaries of cost and time involved



in administering the high volume small value payments. Provision of door step banking services in remote areas entails a cost on the banks. The payment of commission by the State Governments for EBT transactions makes the model economically viable and also helps banks to extend their penetration to remote villages. It also provides banks with a business opportunity of linking credit products to the payments.

5. A Committee (Chairman Dr. R.B. Burman) was set up by Reserve Bank to design an appropriate framework for EBT implementation by Central and State Governments. The Committee had recommended the "One District - One Bank model" to be used for implementation of the EBT Scheme. Based on the recommendations, a few State Governments in Haryana, Karnataka, AP, Orissa, Chhattisgarh, Himachal Pradesh, Uttarakhand, Bihar, Punjab, etc. implemented the "One District - One Bank EBT model" in select districts on a pilot basis.

B. Electronic Benefit Transfer (EBT) Scheme using the "One District – One Bank Model"

In this model, a designated bank has the mandate to disburse government payments at the door step of the beneficiary, electronically, through hand held devices using biometric smart cards at the locations of BCs of the bank. However, difficulties as explained below have been expressed by various stakeholders in scaling up one district one bank model of EBT.

- a) No designated bank by itself may have the adequate branch/BC network to reach the entire district.
- b) Even if the designated bank is somehow able to undertake EBT in the district, it may not be able to provide all other financial services like deposits, OD, remittance and GCCs/KCCs to the customers. It may also not be able to provide banking services to non government beneficiaries.
- c) The designated bank may deploy BCs in the villages only on 2-3 pre-notified days in a month for disbursing the amount of social security payments in cash to the EBT beneficiaries.



- d) The designated banks may also not be able to provide banking services to non government beneficiaries. This inhibition could be due to the fact that under roadmap to reach about 72,800 villages of above 2000 population by March 2012, the SLBCs have generally adopted Service Area Approach (SAA) for allotment of unbanked villages to banks. This has caused overlap of villages between the EBT mandated bank and FIP mandated bank. While there is no bar at this stage of Financial Inclusion, going forward this may lead to viability issues, which requires to be addressed.
- e) EBT beneficiaries will be required to open accounts with other banks for their regular banking transactions. Beneficiaries will end up managing more than one account/smart card while accessing services from different banks.
- f) The one bank - one district model will thus take away freedom from public to bank with the Bank of their choice keeping in view better service, etc.
- g) In the absence of whole range of banking services mentioned above the BC/branch at these locations would not be viable.

C. Need for convergence of EBT and FIP

1. Under the "One District – One Bank Model" the leader bank is expected to extend all types of banking services to the residents of the area. However, it will be difficult for a single bank to extend all types of banking services to all the residents of a district. Further, the BC model is intended to provide greater penetration to the banks at a reasonable cost. Services of BCs will remain underutilised if restricted only to EBT payment and disbursement.
2. In addition to the above under the roadmap to reach about 72,800 villages of above 2000 population by March 2012, the SLBCs have generally adopted the Service Area Approach (SAA) for allotment of unbanked villages to banks. This has led to the issue of overlap of villages between the EBT mandated bank and FIP mandated bank. While there is no bar on this, at this stage of Financial Inclusion, it may lead to inefficiencies and become unaffordable and wasteful.



3. Banks will not earn required amount of income unless they also offer credit products. It is necessary that EBT accounts should be optimally utilized for all other banking transactions. Since banks have invested in creating BC infrastructure for making EBT payments at the door step of the beneficiaries, they can provide banking facilities to non beneficiaries in those villages without any additional cost.
4. At this stage of Financial Inclusion, the intention of allocation of the unbanked villages, with population of more than 2000, amongst various banks is to ensure that these villages are provided with at least one banking outlet for extending banking facilities comprising of minimum four products i.e. Savings, Credit, Remittance and Insurance. **This does not deny the opportunity for any other bank to operate in these areas and extend banking services based on the available business potential. For the Financial Inclusion Model to be a success it is necessary that there is a convergence between the EBT and FIP Models.**

D. Way forward for EBT implementation

1. Keeping in view the need to spread the banking habits to all villages, it is advised that **one district – many banks – one leader bank model** may be adopted henceforth for EBT implementation. In this model, all the banks present in the district participate in EBT, though for administrative convenience the State Government deals only with one leader bank. State Government shall designate the leader bank, in consultation with the Regional Office of RBI and the SLBC, who will obtain the funds from the State Government and in turn will arrange to transfer funds through interbank transfer to other banks for credit to the accounts of ultimate beneficiaries' account on a commission basis. The commission paid by the State Government may be from the amount which will accrue to them due to non-incurring of expenses involved in manually administering high volumes of small value payments. The revenue sharing model is to be decided mutually amongst participating banks. Today, with the availability of various modes of EFT like RTGS, NEFT and NECS, the leader



bank is in a position to transfer funds to other participating banks speedily and cost effectively.

2. However, there is no prohibition on adoption of one district – one bank model approach where the model exists and is already working provided one bank is in a position to provide whole range of minimum banking services under this dispensation. However, all the operational glitches will have to be resolved mutually by the State Government and the concerned bank. EBT implementing bank, will in such case have to follow regulatory stipulation that brick and mortar branches are built within 30 km radius of each of the BC outlets in these villages. Needless to say, the FIP implementing bank's responsibility will be secondary in the allotted villages of such districts till they also obtain the EBT mandate. However, banks will continue opening banking outlets in the villages allotted to them under FIP and speed up enrolment of customers.
3. As EBT Scheme is a part of the overall FIP, the EBT accounts is required to provide whole range of permissible banking services viz. deposit scheme, preferably a variable recurring deposit with in-built Overdraft (OD), remittance and entrepreneurial credit products in the form of GCC/KCC. The State Governments should not stipulate any condition that prevents EBT accounts from being used for other banking transactions. Whenever the State Government plans to implement EBT scheme through banks in future, the details of the scheme should be first discussed in the SLBC. Further, as EBT accounts are regular no frills Savings Bank accounts, they will be subject to applicable regulatory guidelines. For example, these accounts cannot be opened as joint accounts of the beneficiary with a State Government agency. The concerns of the State Government which led to this demand may be addressed by devising permissible checks and balances. Similarly, in some states, EBT accounts are made dormant when there are no transactions in the account for 2-3 months. This is not permissible as per regulatory guidelines. Thus in such cases, neither the account can be made inactive nor can the amount be returned to State Government. The concerns of State Government



can be addressed by providing an exception report of those accounts where there is no transaction for 2-3 months.

4. State Government shall designate a nodal department for administration of each of the social benefit schemes. The provisions of MOU signed between Government agency and the banks should be consistent with the extant guidelines and notifications of RBI. The Nodal Department shall provide the list of beneficiaries for the district to be enrolled along with demographic details to the bank. Banks shall arrange for enrolment and creation of bank account of the beneficiary. The Nodal Department shall maintain a savings account in its name with the leader bank. The department's account in the bank will be credited with a consolidated amount by the Treasury Bank of the State Government. The department will send instructions to the leader bank each month containing with the updated list of beneficiaries in electronic form. The bank will then debit the savings bank account of the Nodal Department and arrange for crediting the accounts of beneficiaries. The Management Information System as required by the State Governments will be strengthened automatically as payment information will flow electronically and seamlessly from end to end so that a data base is created for generating various types of reports.
5. Achieving full financial inclusion is crucial for implementation of EBT and direct transfer of subsidies. As some of the beneficiaries could be residing in a village with population less than 2000 requisite infrastructure should be planned and put in place to cover all the EBT beneficiaries. SLBC should immediately prepare a plan of action to cover all unbanked villages including having population of less than 1000, the allocation of these villages may be done on the basis of geographical proximity. In respect of States/Districts where the EBT scheme is yet to be implemented, this presents an opportunity for the banks to put in place the requisite infrastructure to cover all the unbanked villages irrespective of the population criteria. This will strengthen the position of the banks to provide services to all the EBT beneficiaries whenever State Government decides to implement EBT.



6. Once banking services are extended to all villages under the FIP, convergence between the EBT Scheme and FIP would be automatically realized. Once FIP is fully implemented covering all the unbanked villages and a UID number is issued to all the villagers, a 'model' will emerge where the customer will have the option to transact with the bank of their choice in any village by using UID enabled Micro ATMs. This will make customers, less vulnerable to local power structures, and lower the risk of being exploited by BCs. Customers will be able to transact electronically with each other as well as with individuals and firms outside the village. This will reduce their dependence on cash, and lower costs for transactions. As banking is a public good, this is essential in the interest of public policy.



E. “One District-Many Banks-One Leader Bank” model- Workflow

1.	State Government to select a Leader bank for EBT implementation in respect of a particular district and designate a Nodal Department for coordination at district level.
2.	State Government to sign MOU with the Leader bank in respect of a particular district.
3.	Leader bank to make arrangements with other participating banks in the district, on revenue sharing contract.
4.	Nodal Department to give list of all beneficiaries to the Leader bank
5.	Leader bank to distribute the list of beneficiaries among all participating banks
6.	Participating banks to appoint to select the technology provider and deploy BC/CSPs in all villages
7.	BC/CSPs to enroll all beneficiaries, participating banks to open accounts and issue Smart cards
8.	Nodal Department to open a savings bank account with the Leader Bank
9.	Nodal Department to provide files electronically containing details of beneficiaries each month and arrange for crediting the required amount into the Saving bank A/c with leader bank.
10.	Leader bank to arrange for crediting the amount electronically to other participating banks
11.	Participating banks to credit the beneficiary accounts on the same day and send confirmation to the Leader bank
12.	Leader bank will confirm credit to the Nodal Department
13.	The funds are now at the disposal of beneficiaries for use as per their requirements.
14.	MIS reports to be provided by participating banks to Leader bank and leader bank in turn to submit reports to the Nodal Department.
15.	Reconciliation with the Nodal Department to be done by the leader bank preferably on daily basis, but at least on weekly basis.
16.	Developments in the implementation of EBT to be mailed to DCC/BLBC level every month by the leader bank. Any policy or structural issues in the implementation to be discussed at SLBC level.