

STATE BANK OF INDIA

POLICY
FOR
EMPANELMENT OF BUSINESS ASSOCIATES

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“Instruction issued up to 04.08.2022 by Bank/Regulatory Authority have been
incorporated in the policy.

NBFC ALLIANCES DEPARTMENT
ABU & GSS
CORPORATE CENTRE
MUMBAI

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1. Introduction

Traditionally, Bank has been doing all credit related activities through staff / officers only. Due to shift in the lending ecosystem and to achieve economies of scale, need for partnerships arises. These partners help to fulfil the objective of ensuring greater financial inclusion, increasing the outreach of banking sector, improve credit delivery and reducing operational expenses.

Three institutional archetypes have emerged supporting the lending activities: -

- i. **Business Correspondents (BCs):** Business Correspondents (BCs) with a large network of CSPs are doing banking activities at all centres. 25 national BCs and 41 circle level BCs are operating with over 68,000 CSPs. These BCs are well acquainted with local people, their activities and credit needs. Due to daily interactions with local people, the BCs can generate good number of bankable loan proposals and/or effective recovery mechanism.
- ii. **Microfinance players (NBFC / MFI / HFC):** Microfinance plays a significant role in bridging the gap between the formal financial institutions and the rural poor. The emergence of 'for profit' microfinance players is growing. In India, they are referred to as Non-Banking Financial Companies (NBFCs), Micro Finance Institutions (MFIs) and Housing Finance Companies (HFC). These companies have well established systems and procedures for sourcing, sanction, disbursement, and recovery of loans.
- iii. **Tech start-ups / Other for-profit companies / firms:** Tech start-ups are now at the core of the design, pricing and digital delivery of financial products and services. These start-ups, which are operating mostly in specific regional geographies, provide services ranging from lead generation, sourcing of loan application, remote sensing imagery, extending farm advisory services, linking B2C and B2B marketplaces to recoveries and collection.

2. Objectives:

The objective of the policy is to lay down the principles for engaging various entities as Business Associates for undertaking advances related activities. We propose to

engage BCs, NBFCs, MFIs, HFC, Start-ups, fintechs and other for-profit entities as Business Associates (BAs) for assisting the bank in two categories, namely:

Category A: End-of-End administration of loans (sourcing, disbursement and collection except KYC decisioning, sanctioning or underwriting) on interest sharing model

Category B: Assisting bank in one or more of the lending activities (sourcing, underwriting, sanctioning, disbursement, collections, recoveries & other activities) on a commission or service fee model as detailed below:

- i. **Sourcing of New Loans:** Business Associates may source fresh loans in all loan categories, i.e., personal segment, Agri loans, SME loans etc. Their reach to the local population helps them to assess their financial needs and increase the Bank's Loan Portfolio in these areas.
- ii. **Assistance in Underwriting:** Business Associates, especially technology companies, may assist Bank in underwriting by providing alternate data / scorecards or any other improvements for one or more bank verticals (such as income estimation model, alternate bureau score, bank statement analyser, soil report, crop report, land record verification, CPV check etc.)
- iii. **Help in Sanctioning and disbursement:** Business Associates may provide services to help bank in sanctioning and disbursement of loans in all segments (such as help in documentation, translation of documents, data feeding, pre-sanction inspection, satellite imagery, virtual monitoring etc.)
- iv. **Support in Collections & Recovery:** Business Associates may also provide support in post sanction follow up, collections and recovery. It will increase the Bank's reach and business without increasing pressure on the branches, while keeping operating costs down. *For recovery of NPA accounts, operating units should be guided by the policy issued by SAMG for empanelment of resolution agents.*
- v. **Any other services:** Business Associate may be onboarded for providing any other service to assist the Bank in its asset business apart from the above-mentioned activities, as deemed fit by the CGM of respective BU / Circle.

3. Eligibility criteria of Business Associates:

3.1. Permitted entities:

- i. Business Correspondents: National or State level BCs having large network (preferably in rural & semi urban areas)
- ii. For profit companies, NBFCs, HFCs: Companies registered under Indian Companies Act, 2013 with large and widespread retail outlets including Non-Banking Financial Companies (NBFCs), Housing Finance Companies (HFCs) and other for-profit companies.
- iii. MFIs: Micro Finance Institutions holding the proper MFI licence as well as having the minimum MFI/ECR rating, prescribed by the Bank.
- iv. Start-ups, Fintechs and other entities: non-Individuals entities, other than Societies and Trusts, with at least 2 years of active existence.

For sake of clarity, it is re-iterated that Societies, Trusts and Non-Governmental Agencies (NGOs) shall not be onboarded as Business Associates.

3.2. Eligibility Parameters

3.2.1. Category-A Business Associates

i. Business Correspondents

Sr. No.	Parameters	Minimum Threshold (National level)	Minimum Threshold (Circle level)
1.	Net Worth	Positive	Positive
2.	BC Score*	50 & above	50 & above
3.	Minimum engagement period	2 years	2 years
4.	Profitability earned	Profitable for last two years	Profitable for last two years
5.	First Loss Default Guarantee (FLDG)	2% minimum - Vertical head to determine FLDG requirement on case-to-case basis	2% minimum – CGM to determine FLDG requirement on case-to-case basis
6.	Number of states / circles where company has presence	2 or more circles	1 circle

** BC scorecard for evaluation of BC Scoring as approved in the BC policy of FI Department to be used.*

BCs must have separate team to process the loan proposals before submitting to bank.

ii. MFIs/NBFCs/HFCs

Sl. No.	Parameters	Minimum Threshold (National level)	Minimum Threshold (Circle level)
1.	External Credit Rating or MFI Grading	BBB and above or Grading within the top four gradings of Micro Credit Rating Agencies*	BBB and above or Grading within the top four gradings of Micro Credit Rating Agencies*
2.	Net Worth	Rs.10 Crore or more	Rs.5 Crore or more
3.	Profitability	Profitable for last 2 yrs.	Profitable for last 1 year
4.	First Loss Default Guarantee (FLDG)	2% minimum – Vertical head to determine FLDG requirement on case-to-case basis	2% minimum – CGM to determine FLDG requirement on case-to-case basis
5.	Net NPA %	Less than 4% - Vertical head may be permitted to approve over 4% on case-to-case basis.	Less than 4% - CGM may be permitted to approve over 4% on case-to-case basis.
6.	Experience as MFI/NBFC handling Asset Portfolio of Self or other FIs	2 years or more	2 years or more
7.	Number of states / circles where company has presence	2 or more Circles	1 Circle

* Comparative Grading scale for MFIs/NBFCs/HFCs					
Rating Agency	CRISIL	CARE	ICRA	MCRIL	Others
Minimum Acceptable Score	mfR4	MFI3+	M3+	β+	Equivalent score of any other reputed Micro-finance Rating agency

iii. Start-ups, fintechs and other entities

Sr. No.	Parameters	Minimum Threshold (National level)	Minimum Threshold (Circle level)
1.	Turnover	Rs. 2 Crores or more	Rs. 1 Crore or more
2.	Minimum engagement Guarantee period	2 years	2 years
3.	First Loss Default (FLDG)	2% minimum - Vertical head to determine FLDG requirement on case-to-case basis	2% minimum - CGM to determine FLDG requirement on case-to-case basis
4.	Experience of handling Asset Portfolio of Self or other Financial Institutions (in years)	2 years or more	2 years or more
5.	Number of states / circles where company has presence	2 or more circles	1 circle

In case of deviation to the above eligibility parameters, CGM, BU (in case of national BA) or CGM Circle (in case of circle level BA) led committee will be the Competent Authority to accord the approval.

The Maximum asset portfolio that can be handled by the Business Associates shall be fixed by the Selection Committee at the time of Sanctioning the on-boarding proposal. While fixing the limit for BA for handling the asset portfolio, the committee shall assess the ability of Business Associates to meet obligations under FLDG and should also consider the rating of BA, net worth, asset portfolio being handled at present, experience and net profit.

3.2.2. Category-B Business Associates

i. Business Correspondents

Sr. No.	Parameters	Minimum Threshold (National level)	Minimum Threshold (Circle level)
1.	Net Worth	Positive	Positive
2.	BC Score *	50 & above	50 & above
3.	Minimum engagement period	2 years	2 years
4.	Profitability earned	Profitable for last two years	Profitable for last one year
5.	First Loss Default Guarantee (FLDG)	N.A.	N.A.
6.	Number of states / circles where company has presence	2 or more circles	1 circle

** BC scorecard for evaluation of BC Scoring as approved in the BC policy of FI Department shall be used.*

BCs must have separate team to process the loan proposals before submitting to bank.

ii. MFIs/NBFCs/HFCs

Sl. No.	Parameters	Minimum Threshold (National level)	Minimum Threshold (Circle level)
1.	External Credit Rating or MFI Grading	BBB and above or Grading within the top four gradings of Micro Credit Rating Agencies*	BBB and above or Grading within the top four gradings of Micro Credit Rating Agencies*
2.	Net Worth	Rs.5 Crore or more	Rs.1 Crore or more
3.	Profitability	Profitable for last 2 years	Profitable for last 1 year
4.	First Loss Default Guarantee (FLDG)	N.A.	N.A.
5.	Net NPA %	N.A.	N.A.
6.	Experience as MFI/NBFC handling Asset Portfolio of Self or other FIs	N.A.	N.A.
7.	Number of states / circles where company has presence	2 or more circles	1 circle

*** Comparative Grading scale for MFIs/NBFCs/HFCs**

Rating Agency	CRISIL	CARE	ICRA	MCRIL	Others
Minimum Acceptable Score	mFR4	MFI3+	M3+	β+	Equivalent score of any other reputed Microfinance Rating agency

iii. Start-ups, fintechs and other entities:

Sr. No.	Parameters	Minimum Threshold (National level)	Minimum Threshold (Circle level)
1.	Turnover	Rs. 2 Crores or more	Rs. 1 Crore or more
2.	Minimum engagement Guarantee period	2 years	2 years
3.	First Loss Default (FLDG)	N.A.	N.A.
4.	Experience of handling Asset Portfolio of Self or other Financial Institutions (in years)	2 years or more	1 year or more
5.	Number of states / circles where company has presence	2 or more circles	1 circle

In case of deviation to the above eligibility parameters, CGM, BU,CC (in case of national BA) or CGM Circle (in case of circle level BA) led committee will be the Competent Authority to accord the approval.

4. Selection Criteria and Procedure for Engagement of Business Associate

4.1. Qualitative Parameters: In addition to the parameters described in eligibility criteria above, BAs shall satisfy the following qualitative parameters also.

- i. Having substantial presence and knowledge of the area, predominantly in rural/semi-urban areas
- ii. Not affiliated to any political party.
- iii. Satisfactory track record of at least 2 years
- iv. Not a defaulter to any Bank/ Financial Institution.
- v. The organization /office bearers/ members should not have any criminal record (an undertaking should be obtained from the BA in this regard).
- vi. Past dealings, if any, with the Bank should have been satisfactory.
- vii. Should not be a Director or officer/employee of the Bank or a relative having the same meaning under Section 2(77) of the Companies Act, 2013 and be owned or controlled by such person(s)

- viii. BA to arrange for the Police verification of its employees & maintain a record of the same at their end and same shall be checked on sample basis by our staff. A certificate in this regard to be obtained from BA at time of onboarding.
- ix. Employees of BA shall satisfy the following parameters
 - a) Minimum qualification- Matriculate.
 - b) Persons holding Certificates like, Examination for Debt Recovery Agents /DRA Tele-callers course conducted by IIBF, to be given priority.
 - c) The employee should not have defaulted to any Bank/FI. The same shall be checked on sample basis by our staff. A certificate in this regard to be obtained from BA at time of onboarding.

In case of deviation to the above Entry Barriers, CGM, BU, CC (in case of national BA) or CGM Circle (in case of circle level BA) led committee will be the Competent Authority to accord the approval.

4.2 Selection Procedure: Engagement with BAs may be initiated by any BU (ABU/ PBBU / REHBU / SME BU), CAG, CCG, SAMG or a Circle.

- i. In the case of engagement of **National Level BAs**, the Selection Committee shall consist of the CGM from the respective BU / Group, GM from a BU/Group other than the BU/Group represented by the CGM and one DGM from respective BU/Group. CGM shall be the Chairman of the Selection Committee. The agreement with the BA will be signed by GM of respective BU or Group on behalf of the Bank and a copy is to be submitted to NBFC Alliances Department at the Corporate Centre for record.
- ii. **In case of engagement of Circle level BAs**, the Selection Committee shall consist of Chief General Manager of the Circle, one of the Network General Managers, DGM (FI), DGM of Business Unit concerned at CC and any other DGM (Business Unit – ABU/SME/PER). CGM shall be the Chairman of the Selection Committee. The agreement with the BA shall be signed by GM or DGM of respective BU on behalf of the Bank. The Circle (through DGM (FI)) shall share details of BAs onboarded by them with NBFC Alliances Department at Corporate Centre confirming that the eligibility parameters have been fulfilled along with details of deviations permitted, if any.

Quorum for Selection committee would be as- Headed by Circle CGM, GM of Any network, DGM (FI), DGM(BU,CC) and DGM of any BU, other than the product originator BU.

Alternate arrangement for DGM (FI) will be DGM of any BU, other than the product originator BU.

- iii. Due diligence and monitoring of BAs, post on-boarding will be carried out by the AGM of respective BU at LHO where the corporate office of NBFC/MFI is located.

If area of operation and head office of NBFC are located at different places, it would be categorized as National BA. The application from NBFC/MFI should be initiated preferably to the Circle, within which administrative control area of operation falls. Due diligence on the BA may be handled accordingly.

- iv. The Selection Committee for the BAs shall also take into consideration all the Entry Barriers mentioned above.
- v. Commercials, FLDG and service fee/commission may be negotiated on a case-to-case basis and approved by the committee empowered for selection of BA.

5. Method of Handling Asset Products:

For loans with Automated Rule engine in place: All such loans up to Rs. 10 lakhs will be sanctioned through an end-to-end automated rule engine. All loans above Rs. 10 lakhs will be sanctioned through Designated Branch/RACC/RACPC/SMECC.

For loans with no automated rule engine: All such loans will be sanctioned through Designated Branch/RACC/RACPC/SMECC.

6. Activities for Business Associates:

6.1. BAs onboarded under Category-A:

- i. Sourcing fresh loans based on criteria specified by the Bank for applicable loan.
- ii. Obtaining KYC documents, completion of KYC before submission of loan applications to the Branches.
- iii. Pre-sanction inspection and assistance in documentation and related formalities as and when required by the Bank.
- iv. CIBIL/CRIF/Equifax/Experian check & provision of copy of report along with loan application. (Designated Branch/RACC/RACPC/SMECC also will do separate credit history check of the borrower).

- v. Assist designated Branch/RACC/RACPC/SMECC in disbursement of these loans to the borrowers.
- vi. Assist in providing loan utilisation certificate / determining proper end-use of funds.
- vii. Assist in Post sanction inspection to be conducted by Designated Branch/RACC/RACPC/SMECC.
- viii. Recovery of loan / instalments on due dates and depositing the same in the loan account of the customers, providing MIS along with the disbursement/recovery made.
- ix. In case of default, arranging for the amount in from its own sources to keep the accounts regular as far as possible (up to the extent of FLDG agreed to) and inform the Bank of the same.
- x. Attend SHG/JLG meetings and help the borrowers to maintain their books of accounts.

Access to SBI's Loan Origination System (LOS) / Lead generation Module may be provided to BA through APIs. Until the tech integration is complete, the BA would be required to source loans with submission of physical documents and loan applications to the designated SBI branch.

6.2. BAs onboarded under Category-B:

The Business Associates which are onboarded under Category B Agreement must comply with the activities detailed by the Selection Committee at the time of onboarding. Since the range of activities permitted under Category B is large, no fixed list of activities is enlisted within this policy. The Selection Committee shall specify the activities for the Business Associate to be onboarded, decide on the commission and fee structure, determine under what circumstances the commission and fee will be paid and share the same with NBFC Alliances Department at Corporate Centre.

7. BA Agreement

7.1 Code of Conduct

The Agreement / MOU entered with the company shall also include the Code of Conduct (contractual obligations / quality of service). It may include among other things, the following covenants based on the range of services offered by the BA:

- i. Discharging responsibilities with care, diligence, and sensitivity.
- ii. Adhering to extant instructions on Bank's fair practice code for lending during recovery procedures. The BA will refrain from any action that could damage reputation of the Bank and observe strict customer confidentiality.
- iii. Not resorting to intimidation or harassment of any kind, verbal or physical, against any person in recovery efforts.
- iv. BA is prohibited from charging any fee to the customers directly/ indirectly for services rendered by them on behalf of the Bank.
- v. BA requires prior approval of the Bank for hiring subcontractors to perform any function under the tie-up.
- vi. The BA will be solely responsible for the acts of their agents who conduct financial/ non-financial transactions.
- vii. BA shall ensure the preservation and protection of the security and confidentiality of all customer information in their custody or possession.

7.2 First Loss Default Guarantee (only in case of Category-A)

(i) For all loans other than Housing Loans:

First Loss Default Guarantee as mentioned in the eligibility criteria above, will be provided by the BA against the loans financed through them under the tie-up. This will serve as a financial cushion in case of default by the borrowers.

Example: FLDG bracket is 5%

- a) If the expected disbursement is Rs.1 Crore under the tie-up, FLDG of Rs.5 Lakh is applicable.
- b) The Company will arrange FLDG of 5.00%, in advance for each Rs.1 Crore business anticipated under the tie up.

- c) Of the Rs. 5 lakh FLDG provided, a base amount will be kept in Current Account at the identified Branch. The remaining amount will be allowed to be kept as Fixed Deposit (with lien), so that the BA can earn interest on that, as a measure of incentive. The Selection Committee may alter the base amount percentage as per the FLDG negotiated with the Business Associate.
- d) Current account maintenance charges, if any, will be waived.

In case of default in repayment of loans, Designated Branch/RACC/RACPC/SMECC will recover the default amount from the BA's FLDG Account, and credit to loan account of the respective borrowers so that due instalments are recovered as per repayment schedule fixed for these accounts.

(ii) For Housing Loans:

NIL FLDG, if eligible loans are covered (up to 20%) under Mortgage Guarantee scheme with India Mortgage Guarantee Corporation (IMGC).

2.00% or more FLDG to be kept (as negotiated during onboarding) if eligible loans are not covered (up to 20%) under Mortgage Guarantee Scheme with India Mortgage Guarantee Corporation.

7.3 Rate of Interest & Interest-sharing (in case of Category-A BAs)

Maximum effective rate of interest that may be charged to the borrower and sharing of Interest Income realised with BA will be as per product specifications approved in each case. Interest-sharing commercials will be negotiated on a case-to-case basis and approved by Vertical head / CGM headed committee responsible for selection.

Individual Business Units may offer ROI (fixed / floating) which is linked to EBLR / MCLR in line with Bank's Loan Policy guidelines.

7.4 Commission or Service fee (in case of Category-B BAs)

The Vertical head / CGM headed committee responsible for selection of the BA will decide the commission or service fee based on the range of services provided to the bank on a case-to-case basis. The committee will also decide under what circumstances the commission and fee is to be paid (upon sanctioning of the loan,

utilisation of service etc.) and share the same with NBFC Alliances Department at Corporate Centre for record.

In line with the BCSBI code of Bank's commitment to customers, fees and service charges approved under individual arrangement should be reasonable and non-discriminatory for similar class of customers.

BU needs to obtain the approval from Banks Outsourcing vetting committee for individual financial services proposed to be outsourced under the arrangement.

7.5 Disbursement & Recovery of Loans:

i. Disbursement Schedule:

For all loans, other than Housing loans: - Disbursement schedule will be decided after discussion with the Business Associates.

For Housing Loans: - Disbursement schedule will be as per sanction and will be as per the extant guidelines applicable to Home Loans.

ii. Due date for Recovery

For all loans, other than Housing loans: - Due date for recovery of all monthly instalments will be as decided by the sanctioning Designated Branch / RACC / RACPC / SMECC as per extant instructions of respective BUs. Recovery of instalments should be deposited in the borrower loan account accordingly.

For Housing Loans: - Due date of EMI will be as per the agreement between Bank and the borrower.

iii. Default

In case of default BA will arrange for the default amount from its own sources to keep the accounts regular as far as possible (up to the extent of FLDG agreed to) and will inform the Bank of the same. If on account of continued default, the account becomes NPA, the liability of the BA will be up to the FLDG agreed to.

8. Insurance

For Housing Loans, insurance will be as per the Home Loan norms. For all other segment loans, insurance of assets to be obtained as per extant guidelines. Also, wherever possible, the loans shall also be covered under CGTMSE/CGFMU/ Other Credit Guarantee Scheme applicable.

9. Document Handling / Inspection & Audit

- i. Loan documents in all the cases and physical copies of KYC documents (wherever obtained) must be maintained by the Bank. This may not be applicable in respect of end-to-end digital loan journeys.
- ii. Loan sanctioned /disbursed through Business Associate shall be covered under bank's usual guidelines of RFIA.
- iii. The documents of Loans sourced by BA will be in the custody of the Bank, therefore, the responsibility of safe keeping and security of documents shall be as per Bank's extant guidelines.
- iv. Inspection charges may be waived in all regular loan accounts under this arrangement as Business Associates will be assisting the Bank for monitoring and follow up. However normal inspection charges will be recovered on slippages to NPAs.
- v. Report of inspection carried out by the BAs will be obtained and kept on record. Independent inspection done by Bank officials to be recorded in CBS/system.

10. Review/Renewal of Agreement:

- i. The services of BA shall be reviewed after every 12 months from date of execution, unless otherwise decided by the committee empowered for selection.
- ii. The Bank shall have the right to renew the BA Agreement, for one term post expiry of initial contract based on the existing terms & conditions or modified terms & conditions as may be mutually agreed between the parties, unless specifically terminated by either of the parties as provided in the agreement.
- iii. In case of BAs onboarded at Circles, annual review shall be done by **DGM of respective BU in close co-ordination with DGM (FI)** and put up to CGM of the Circle.
- iv. For National BAs, the review will be carried out by respective DGM (BU) at Corporate Centre and put up to CGM (BU/Group) who headed the selection

committee. Information of the review to be submitted to NBFC Alliances department at Corporate Centre.

11. Processing Fee:

- i. Processing fee may be charged to the borrower as per terms and conditions of the scheme and the same shall be shared between the Bank and BA on 50:50 basis.
- ii. BA is prohibited from charging any fee to the customers directly for services rendered by them on behalf of the Bank.

12. Termination of Arrangement:

The arrangement with BA may be terminated by the Selection Committee concerned if any of the terms & conditions of the Agreement/ Code of Conduct are found to have been violated by BA.

13. Custody of Agreements entered with BAs:

- i. BAs (National): With DGM (respective BU).
- ii. BAs (Circle): With DGM (FI) at LHO

14. Customer Education

- i. Financial literacy and customer education should form an important part of the business strategy and should form part of the commitment by empanelled BAs.
- ii. BA may scale up their efforts substantially towards educating their clientele in their respective vernacular languages regarding the benefits of banking habit.

15. Complaint Redressal (in case of Category-A BAs)

All financial and non-financial disputes of customers will be handled by the BAs to the entire satisfaction of the customers/borrowers. BAs would compensate the Bank for any loss arising out of Financial/Non-Financial transactions/incidents with the customers, being handled by the BAs.

16. Business Continuity & Operational Resilience (BC & OR) Plan

- i. BAs must ensure that the channel is manned by reliable and knowledgeable persons and alternate persons have been identified so that business continuity is maintained within the network. BAs have also to mitigate the Operational

Risks in BA channel arising out of system failure, natural calamities, etc. and submit a viable BCP to the Bank as a part of Agreement.

- ii. In the eventuality of termination of agreement with any BA, all loan accounts related to those defaulting BAs will be allotted to other BAs/Recovery agents/ our branches, as the case may be, operating in that area, with the approval of Circle CGM to ensure uninterrupted services are provided to the borrowers till the repayment of loans.

17. Monitoring: Each BA under “**Category A**” will be allocated a separate product/ Sub-product code to get the desired MIS, which may be used to monitor business done under tie up, to arrive at the amount of interest/commission to be shared with BA and to know the health of the portfolio.

18. Review of the Policy:

Policy for engaging Business Associates will be reviewed once in a year. Consequent to any change in the regulatory guidelines / other instructions, such instructions / guidelines may be advised to the operating units, with the approval of MD (RB&O). Such changes shall be deemed to be part of the Policy, till the Policy is comprehensively reviewed. The policy may also be reviewed ahead of due date, if required.
