

STATE BANK OF INDIA

POLICY

ON

EMPANELMENT OF BUSINESS ASSOCIATE TO HANDLE
ASSET PRODUCTS IN ALL SEGMENTS

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“Instruction issued up to 18.09.2023 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. **SBI Business Correspondents (SBI BCs):** Business Correspondents (BCs) with a large network of CSPs are doing banking activities at all centres. 25 national BCs and 40 circle level BCs are operating with over 78,000 CSPs for our Bank. 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 (Proprietorship/Partnership/Ltd. Companies):** Tech start-ups & other companies are now at the core of the design, pricing and digital delivery of financial products and services. These start-ups & Other companies, 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 SBI BCs, NBFCs, MFIs, HFC, Start-ups, fintechs, partnership, Proprietorship, Ltd. companies and other for-profit entities as Business Associates (BAs) for assisting the 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.

“Evaluation of risks and materiality of the activity proposed to be outsourced will be examined by a committee, namely, Outsourcing Vetting Committee (OVC).”

3. Eligibility criteria of Business Associates:

3.1. Permitted entities:

- i. SBI 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 i.e. Proprietorship, Partnership, Ltd. Companies etc.: 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 Business Associates

i. SBI Business Correspondents

Sr. No.	Parameters	Minimum Threshold (National level)	Minimum Threshold (Circle level)
1.	Net Worth	Positive	Positive
2.	SBI BC Score	50 & above	50 & above
3.	Minimum engagement period as SBI BC	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

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

SBI 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	2 Yrs	2 Yrs
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 Proprietorship, Partnership, Ltd. Companies 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 Years in Existence	2 years	2 years
3.	First Loss Default (FLDG)	N.A.	N.A.
4.	Experience of sourcing of Asset Portfolio of Self or other Financial Institutions through APP or in Physical Forms (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 BAs are located at different places, it would be categorized as National BA. The application from BA 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. Selection of BAs for sourcing will be done for SME, PER and Agri Segment product. Since the sourcing will be for specific product for specific BU, the product and maximum amount of individual proposal to be sourced to be stipulated and approved by Selection committee while selecting a BA.
- vi. Selection of BAs will not be for products handled under “SBOSS”.
- vii. Service fee/commission may be negotiated on a case-to-case basis and approved by the committee empowered for selection of BA.

5. Activities for Business Associates:

The Business Associates which are onboarded must comply with the activities detailed by the Selection Committee at the time of onboarding. Since the range of activities permitted 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.

Each BU will put in place a threshold service fee structure for various activities proposed to be outsourced. Such service fee structure to be approved by Vertical Head of BU.

6. BA Agreement

6.1 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.
- viii. BAs will be required under code of integrity to Suo-moto proactively declare any conflicts of interest, if any.
- ix. BAs shall ensure that new customers sourced by BA are of impeccable financial integrity and that customers with delinquent financial history are not sourced to the Bank.
- x. BAs will ensure to source new customers to Bank only and will desist from poaching activities involving Bank's/walk-in customers.

6.2 Commission or Service fee

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.

Each BU will put in place a threshold service fee structure for various activities proposed to be outsourced. Such service fee structure to be approved by Vertical Head of BU.

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.

6.3 Disbursement & Recovery of Loans:

i. Disbursement Schedule:

Disbursement schedule will be as per the product features, asset creation and directly to the supplier.

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.

7. 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.

8. 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.
- 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. 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.

9. 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.

10. Processing Fee:

i. Processing fee may be charged to the borrower as per terms and conditions of the scheme.

ii. BA is prohibited from charging any fee to the customers directly for services rendered by them on behalf of the Bank.

11. 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.

12. On-boarded BAs and Custody of Agreements entered with BAs:

BUs/Circle will ensure to share the list of on-boarded BAs for inclusion in Vendor Management Portal and SLAs will be monitored closely. SLAs, vetted by Law Deptt., should clearly demarcate the works/roles and responsibilities of BAs.

Custody of Agreements:

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

13. 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.

14. Complaint Redressal/Grievance Redressal Mechanism

All financial and non-financial disputes of customers sourced by BAs 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.

15. 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.

16. Monitoring: Separate and Distinct Identifier/code will be allocated to individual on-boarded BAs for performance monitoring purpose. Such codes will be mapped in CBS/LLMS/LOS/RLMS. This 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.

17. Review of the Policy:

Policy for engaging Business Associates will be reviewed once in two years. 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.
