

Update

Nachiket Committee Recommends NBFCs to act as Business Correspondents



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Update

Nachiket Mor Committee on Comprehensive Financial Services For Small Businesses and Low Income Households has recommended a design that refers to banks that seek to extend the reach of their branches through the use agents. It is one of the ways employed by them for reducing costs and improving outreach. Under current regulation an agent used by the bank for these purposes is referred to as the Business Correspondent (BC). The Committee identifies two types of BC networks emerging in the country– one established directly by the bank through their branches and others created by various government and private sector entities.

In this regard, it is important to point out that currently there are regulatory barriers that are preventing the effective utilisation of this channel. NBFCs are not permitted to own and operate BC networks while they are permitted the same for ATMs and Point of Sale (POS) terminals. The concern that has been expressed here is that there may be potential for conflict of interest because the NBFC is a lending channel and may co-mingle deposits raised through its BC activity.

The Committee has recommended that the regulators need to do away with such restrictions and permission of ND-NBFCs to act as BCs of a bank. However, there would still be concerns about commingling. The Committee feels that this can be effectively handled through technology-based solutions such that all settlements happen on an intra-day basis. NBFCs may welcome this recommendation however the regulators may have to shed their apprehensions to implement this recommendation.

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