

Guidance Note for Approval and Operation of Agent Banking Activities of Banks

1. Introduction:

Guidelines on Agent Banking for the Banks were issued vide PSD Circular No. 05 dated December 09, 2013. The guidelines were issued for promoting agent banking as a complimentary channel for financial inclusion and supervising agent banking of banks. According to Section 7(1) and 7(2) of Guidelines on Agent Banking, scheduled banks in Bangladesh are required to obtain prior approval from Bangladesh Bank for undertaking agent banking business.

2. Scope:

This guidance note will provide a clear framework which will cover the following aspects of agent banking business:

- 2.1. Approval requirements of launching agent banking activities of scheduled banks
- 2.2. Agent selection criteria
- 2.3. Approval procedure and criteria

3. Service Area

Target groups those really need to be served financial services under agent banking are the non-privileged, underserved population and the poor segment of the society, especially from geographically dispersed location. Banks will give much emphasis on the rural area to cover lion share of the target group but at the same time will not ignore the rest of the target group by concentrating on the urban area in a limited scope. Thus, the service area for outlet opening of agent banking has to be designed by following criteria:

- 3.1. The ratio of the number of sub-agents/outlets of a bank will be 2:1 for rural and urban area. That means, a bank must have at least 2 rural agent banking outlet to have 1 urban agent banking outlet.
- 3.2. Banks will provide priority to rural area for their operation of agent banking.

4. Approval requirements:

Any scheduled bank in Bangladesh to commence agent banking must fulfill the following requirements:

- 4.1. The bank must have their own Policy for agent banking operation approved by its Board of Directors (BoD). The policy must cover agent selection criteria, management procedure, operational structure and service standard of agent banking, monitoring system of agents, customer protection strategies, legal and regulatory compliance, marketing and branding strategy, selected products, schedule of charges, business continuity plan and business contingency plan those must be contained in the separate chapter and articulated in the policy in detailed manner.

- 4.2. The bank must have a separate department which will be run by a dedicated team. The department will be headed by at least Senior Executive Vice President/General Manager or equivalent for operating agent banking. This department must have a separate dispute resolution cell/wing for complying with the instructions of the section 16.0 of Guidelines on Agent Banking for the Banks.
- 4.3. The bank must have its own internal audit and monitoring manual for its agent banking operation approved by its BoD.
- 4.4. The bank must have its own AML/CFT policies and procedures for agent banking as well as Agent/sub agent due diligence policy and procedure approved by its BoD.
- 4.5. The bank must conduct a feasibility study along with risk assessment prior to apply for agent banking approval.
- 4.6. The bank shall be held responsible for any unlawful/fraudulent activities performed by Agent or Sub-agent.
- 4.7. The bank will take the necessary measures for the protection and security of the money transacted at client level and the protection of customers. Apart from that, banks will take insurance coverage for the money kept in the locker/vault of sub-agent/outlet.
- 4.8. Only shariah based banks can pursue shariah based banking in agent banking activities.
- 4.9. Bangladesh Bank will accord its approval to banks considering different aspects (capital adequacy, liquidity situation, asset quality, profitability, internal control system and others) of the overall performance of banks.

5. System Requirement

With a view to establishing sound systems and vigorous infrastructure to support agent banking, banks have to ensure the compliance with the following minimum requirements:

- 5.1. IT infrastructure must be-
- a) able to support real-time processing;
 - b) able to provide a secured network including end-to-end encryption; and
 - c) robust in managing structural capacity to support agent banking services.
- 5.2. Payment Acceptance Devices (PAD) must -
- a) be able to support minimum Two Factor Authentication(TFA)/Two-step verification for agent and customer registration;
 - b) be able to support the requirement of end-to-end encryption based on industry standards algorithm (from end-point devices i.e. PAD to host system); and
 - c) not store any sensitive customer information like PIN/Password at the end-point devices like PAD.
- 5.3. Agent Banking Application/Software must-
- a) be able to support host validation for PIN/Password authentication;
 - b) be able to provide device authentication during session activation and transaction processing at host level;
 - c) be capable to have limit management feature for agents, customer, transaction and other limit requirements;
 - d) include transaction and system audit trail.

6. Agent selection criteria:

- i. **Agent-** Agent refers to the entity which will be appointed by a bank to run the agent banking activities (mentioned in the section 4 of Guidelines on the Agent Banking for the Banks) of bank(s).
- ii. **Sub agent-** Sub agent is the entity which will work under the agent and run the agent banking activities (mentioned in the section 4 of Guidelines on the Agent Banking for the Banks) in a specific outlet of bank at the customer end point.

Thus, criteria for being agent and sub agent are stated below:

a) Agent:

- 1) The entity must have sound financial capacity while appointing sub agents for operating agent banking activities of bank(s),
- 2) The entity must have strong IT and electronic communication infrastructure for recording of transactions at bank level on real time basis and uninterrupted manner. The structure must be compatible for integrating Point of Sale (POS) with biometric features capturing and reading facilities, card reader, mobile phone, barcode scanner, Personal Identification Number (PIN) pads and similar technologies.
- 3) An entity can act as agent for more than one bank,
- 4) An agent must maintain a current account with the contracting bank since the date of agreement. The contracting bank will provide an overdraft/credit facility to each agent. The credit limit to an agent will depend upon the number of sub-agents under his authority. The limit will be not more than Tk. 100,000/- (One Lakh) per sub-agent. That means, if any agent has 10 (ten) sub-agents under his jurisdiction, the credit limit to that agent will be Tk. 10,00,000/- (Ten Lakh),
- 5) An agent or owner(s)/director(s) of the entity acting as agent cannot be a loan defaulter or ensure that it has not been convicted under any criminal proceedings before,
- 6) According to the Section 26(ga) of the Banking Companies Act, 1991, 'bank related person' cannot be appointed as agent.

b) Sub agents/outlet:

- 1) Sub agent must have a physical infrastructure (outlet) to operate agent banking. The infrastructure must be sufficient to have at least one laptop/desktop computer, internet network, electricity back up and a locker/vault. Additional POS/card reader/ barcode scanner/ PIN pads to be added if the system requires.
- 2) The sub agent must have at least 2 full time persons (a manager and a teller) for this purpose and 1 counter for cash transaction.
- 3) An entity/individual can act as sub agent and open a outlet for only one bank.
- 4) According to the Section 26(ga) of the Banking Companies Act, 1991, 'bank related person' cannot be appointed as sub-agent.
- 5) Sub-agents will be allowed to pursue maximum two (02) transactions (deposit and withdrawal) per client per day. Withdrawal limit per transaction of each client will be restricted to Tk. 50,000.00 (Fifty Thousand) and there will be no limit on number or volume of transaction(s) for inward remittance(s).

7. Approval procedure and criteria

Any scheduled bank in Bangladesh aiming to initiate agent banking activities must apply and obtain prior approval from Bangladesh Bank. The process of the application for approval is stated below:

7.1. The bank shall apply as prescribed in Form A to **General Manager, Banking Regulation and Policy Department, Bangladesh Bank, Head Office, Dhaka** in its letter head pad along with duly filled up Form-A-1, Form-A-2, Form-B and the documents as listed in Form-B.

7.2. The bank has to submit following documents along with the application:

- a. Policy for agent banking operation approved by BoD of the applicant bank,
- b. Internal audit and monitoring manual for agent banking operation as approved by BoD,
- c. Business plan for agent banking operation as approved by BoD,
- d. Detailed information (organizational history, financial strength, IT infrastructure, management structure, division wise number of sub agents and their address) of startup agent(s),
- e. Report on feasibility study including risk assessment,
- f. Agent/sub agent due diligence policy and procedure,
- g. Draft of agreement(s) between bank and agent. The draft must incorporate at least the issues stated in the section 13.0 of Guidelines on Agent Banking for the Banks and must be vetted by the legal retainer of the bank.

7.3. The bank must commence its agent banking operation within 3 (three) months of getting approval from Bangladesh Bank. The bank will notify Green Banking and CSR Department, Bangladesh Bank within 7 (seven) days of commencement by submitting the copy of agreement(s)/MOU(s) to be signed between bank and agent, details of agent and list of sub agents as well as photograph of commencement day transaction at any outlet/sub-agent point.

7.4. All the forms and papers those are required to be submitted to Bangladesh Bank for approval must be duly signed and sealed by the competent/authorized official.

Application for the approval of Agent Banking Business

Date: DD/MM/YYYY

General Manager
Banking Regulation and Policy Department
Bangladesh Bank
Head Office
Motijheel, Dhaka-1000.

Dear Sir,

Approval of Agent Banking Business Operation of ----- Bank Limited

We hereby apply for approval of agent banking Business of ----- Bank Limited. It is to mention that:

1. We have prepared Policy for Agent Banking Operation as well as internal audit and monitoring manual for agent banking approved by our Board of Directors.
2. We have selected (name of startup agent) as the agent for our agent banking operation.
3. The required documents are enclosed herewith.
4. We confirm that all the information outlined in this letter and the enclosed annexure are true and correct.

Yours Faithfully,

Signature of the Managing Director/Chief Executive Officer/ Head of Country Operation

(Name)

(Direct Phone No)

(E-mail)

Fax:

General Information Sheet on (*Name of the Bank*)

1. Title and the address of the department for agent banking

2. Details of Head of the department

Name	:
Designation	:
Cell Phone	:
Direct Land phone	:
E mail	:
Fax No	:

Information Sheet on (*Name of proposed agent*)

1. Full Name :
2. Full postal address :
3. Service Area :

District	Police Station/Upazila	Area/Union	No of Sub Agent

4. Tentative date of commencing operations:

Sign:
Name:
(Chief Executive Officer)
Date: DD/MM/YYYY

Form – B**List of Documents**

Sl. No.	Document Title	Submission Status
1.	Policy for agent banking operation approved by BoD	
2.	Internal audit and monitoring manual for agent banking operation	
3.	Business plan for agent banking operation (including Delivery Channel Strategy and business continuity plan)	
4.	Draft of agreement(s) to be signed between bank and agent	
5.	AML/CFT policies and procedures	
6.	Agent/sub agent due diligence policy and procedure	
7.	Report on feasibility study including risk assessment	