



***Self-Help Group Members as Banking Agents for  
Deepening Financial Inclusion***

## Context

Due to the limited penetration of bank branches across rural India, access to formal financial services has been a pipe dream for millions of rural poor for decades. However, with the advent of branch-less banking channels and advancements in technology, this situation has improved considerably over the past decade. In 2014, the Government of India (GoI) launched the Pradhan Mantri Jan Dhan Yojana (PMJDY) - a financial inclusion program, which intended for every household to have a bank account. This led to the opening of over 356 million bank accounts between 2014-19, of which 59% (211 mn) belonged to rural customers and 53% (190 mn) to women. Despite this significant improvement, access to suitable formal financial services still remained elusive for many among the rural poor for various reasons. Women and other marginalized rural communities especially face hurdles while performing the most basic banking transactions such as depositing and withdrawing savings, accessing remittances, pensions and other government direct benefit transfers. The remote nature of some villages and lack of well-trained banking agents deployed there, further compound the problem. Finally, social and cultural

barriers, such as interacting with male staff to avail banking services, constrain rural women even further.

Facilitating access to adequate, affordable and timely institutional credit and other financial services for the rural poor is central to the DAY-NRLM strategy.

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*Under the World Bank supported Digital Financial Inclusion (DFI) initiative focused on Lower Income States (LIS), several State Rural Livelihood Missions<sup>1</sup> (SRLMs) have developed strategies to enhance access to formal (digital) financial services for program beneficiaries.*

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The ultimate objective is to establish the rural poor as preferred clients of the formal banking system and enable ease of access to bank credit.

Needs assessment exercises and field interactions conducted by SRLMs revealed that almost all SHG members had bank accounts but their usage was typically limited

to withdrawal transactions. Awareness of financial products, services and government schemes was quite low. Low literacy levels, low mobility and cultural barriers further inhibited women's participation in the formal financial system. In 2013-14, NABARD and GIZ jointly implemented a proof of concept entitled SHG Members as BC Agents<sup>2</sup> under the Rural Financial Institutions Programme (RFIP)<sup>3</sup> and successfully demonstrated that SHG members as banking agents or Customer Service Points (CSPs) could deliver last mile banking services to the rural community in a cost-effective and sustainable manner.

It was in this context, that the Bank Sakhi (female banker friend) Model - a gender-focused variant of the traditional BC model, was adapted by NRLM and piloted in 7 states<sup>4</sup> - via special funds made available under the dedicated funding line created under the NRLP<sup>5</sup> in 2015-16.

This pilot initiative was scaled up by several SRLMs, which charted different pathways to improve formal financial access for rural women-led households, and promoted linkages with public & private and non-bank financial institutions.

## Intervention: The Bank Sakhi/Business Correspondent (BC) Model under NRLM

The Business Correspondent model or the agent-led banking model has been a key driver of financial inclusion in India. The RBI propounded the BC model in 2006<sup>6</sup>,

when banks were permitted to appoint third party agents to offer banking and financial services on their behalf. Several formats of this model have been adopted across

the country, using new technologies such as Micro-ATM devices (integrated with a printer and biometric readers) and mobile phones to conduct secure transactions.

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1. SRLMs are autonomous bodies under the State governments, setup to oversee the implementation of all NRLM-related activities in the state

2. [https://www.giz.de/en/downloads\\_els/repguide.pdf](https://www.giz.de/en/downloads_els/repguide.pdf)

3. [https://www.nabard.org/demo/auth/writereaddata/File/Rural%20Financial%20Institutions%20Programme%20\(RFIP\).pdf](https://www.nabard.org/demo/auth/writereaddata/File/Rural%20Financial%20Institutions%20Programme%20(RFIP).pdf)






4. Bihar, Jharkhand, Odisha, Chhattisgarh, Madhya Pradesh, Rajasthan and Maharashtra

5. NRLP – The National Rural Livelihoods Project provides investment support and technical assistance in partnership with the Ministry of Rural Development (MoRD) for the implementation of the NRLM, <http://projects.worldbank.org/P104164/national-rural-livelihoods-project?lang=en>

6. Based on recommendations of the Khan Committee report and Committee on Financial Inclusion Chaired by C. Rangarajan which recommended the expansion of the BC model.

Under this model, SRLMs identify, train and deploy SHG members as BC agents – locally known as Bank Sakhis. Capacity-building, training and back-end support is provided by the SRLMs in partnership with local banks and their corporate BC agent network managers (BCNM) partners as well as other financial institutions.

The state missions also provide financial support through partial grants/incentives and low cost credit through community institutions to meet the initial investment requirements of these Bank Sakhis, including procurement of hardware devices and working capital to conduct initial transactions. As a standard practice, Bank Sakhis are paid on a per-transaction basis by banks for rendering services to customers on their behalf (at no extra cost to the customer). However, most of these SRLMs also provide honorariums to the Bank Sakhis for the initial few months

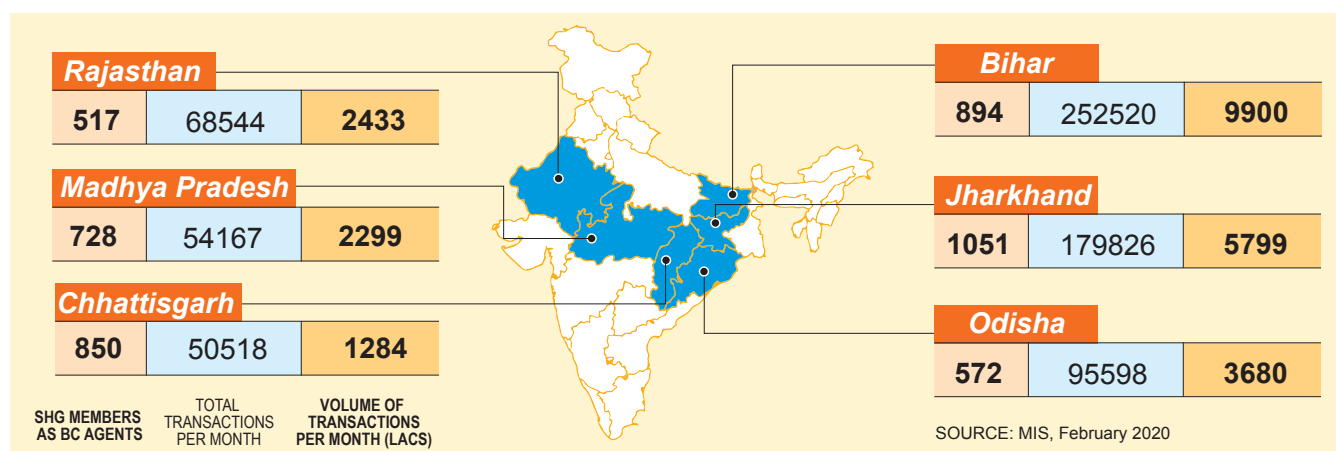
Capacity Building	Financial Support
 Initial training to Bank Sakhis	 Establishment support to Bank Sakhis in the form of grants and loans
Continuous hand-holding and monitoring of Bank Sakhis 	 Income deficit support to Bank Sakhis for the first six months
 Building capacity of community based organizations to handle Bank Sakhis	

until operations and revenue streams stabilize.

Since 2016-17, SRLMs in several low-income states including Bihar, Jharkhand, Madhya Pradesh, Odisha, Rajasthan and Chhattisgarh have made steady progress in identifying, training and deploying

eligible SHG members as BC agents in association with partner banks as depicted in figure below. In February 2020, 6,094 Bank Sakhis across 12 states collectively completed 748,454 transactions<sup>7</sup> worth over INR 26,635 lac (approximately USD 40 Million).

## STATUS OF SHG MEMBERS AS BC AGENTS



## Implementation of the Bank Sakhi Model: Experiences of State Missions

### a. Jharkhand and Madhya Pradesh: Innovative pathways for digitizing fund flows and Dual Authentication

Since the rollout of the Bank Sakhi model in 2015-16, Jharkhand and Madhya Pradesh

SRLMs have trained and deployed 1051 and 728 Bank Sakhis, respectively. In both states, the initial roll out was in partnership with Regional Rural Banks (RRBs). Since then, multiple partnerships were developed with public and private sector financial

institutions with their BC network managers (Corporate BCs) deploying (prepaid payment instruments based) digital wallets and micro-ATMs such as at Oxigen (Jharkhand), Spice Digital and Subk with RBL Bank and Yes Bank (Bihar), tablets at

7. Includes both DAY-NRLM and NRETP progress.



IDFC Bank (private sector) as well as the generic kiosk model (involving laptops and desktops).

In Jharkhand and Madhya Pradesh a dual-authentication technology was adopted to further the digitization of Community Based Organization (CBO) transactions. This small tweak in technology at the Bank-BC level successfully encouraged SHG members and their federations (cluster level federations, village organizations and producer groups) to transact via their bank accounts for loan disbursement and repayment transactions between members and their collectives.

One of the gaps in the BC agent model that persisted even after the launch of the DAY-NRLM Bank Sakhi model was that only individual accounts could be serviced at the agent level. For group accounts - as in the case of SHGs, where a minimum of two office bearers/signatories were needed to authenticate transactions (cash withdrawals or fund transfers) - physical visits to the bank branches were still necessary. This inconvenienced a large section of the Bank Sakhis customer base – SHGs and their members - who expected to get both their individual and group accounts served at a single Customer Service Point (CSP). It also limited the business activity

and transaction volumes that BC agents could achieve by servicing larger group transactions at the CSP and continued to crowd bank branches with group level small value transactions.

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*To overcome this constraint Madhya Pradesh and Jharkhand SRLMs launched the “dual authentication application” facility in partnership with the Narmada Jhabua Gramin Bank in MP and Jharkhand Gramin Bank in Jharkhand.*

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Via the application, debit transactions (cash withdrawal and fund transfers) from SHGs accounts, which are jointly operated by a minimum of two signatories took place in real-time during the SHG meetings. Routed through the biometric reader devices with Bank Sakhi, these transactions were also captured in real time in the core banking system (CBS) of the partner Bank. The banks also benefitted as cash based transactions that were performed outside the formal banking system (in group meetings), were now routed through bank

accounts, thereby ensuring that funds remain within the bank for a longer period, post disbursement. Further, SHG members were able to build a credit/transaction history within the formal financial system, providing them an opportunity to approach formal financial institutions directly to graduate to individual loans.

This application is now also being extended to other (male) BC agents at these banks and enthused by this experience, the MoRD - in coordination with the Department of Financial Services, Ministry of Finance - has requested all banks to enable the facility. As of March 2019, 10 public sector banks (and their RRBs) had enabled dual authentication in the ON-US (intra-bank only) mode.

It is encouraging to note that sensing a business opportunity, a new generation of private sector banks, such as IDFC First Bank, have come forward to pilot the facility at several SRLMs, as well as extend it to Producer Groups (PGs). Bank accounts for PGs are opened at the CSP (so group members are not required to visit a bank branch) and thereafter debits from the PG account are processed within the village via tablet based BC application with Bank Sakhis.



## DUAL AUTHENTICATION AND MICRO ATMS

As per the standard practice, all SHGs were mandated to open group accounts and a minimum of two group leaders (who were account signatories) were required to authorize operations such as withdrawals and fund transfers.

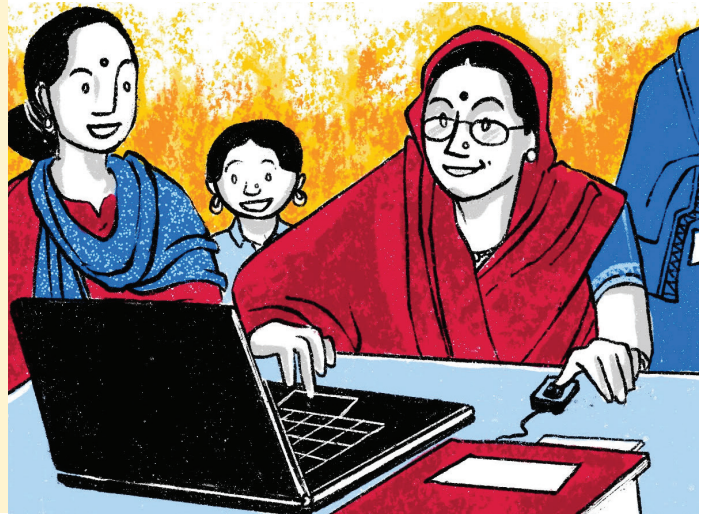
While early iterations of the micro-ATM system did not

support multi-signatory authorizations, the dual-authentication application evolved in consultation with partner banks, helped address this anomaly.

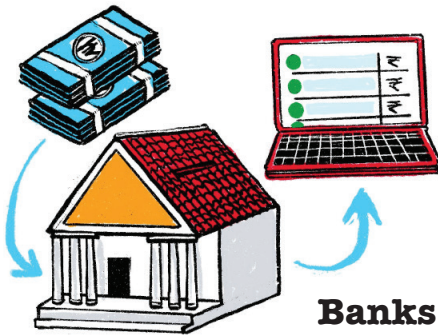
The BC/CSP in the village could now access the details of group accounts opened within the core-banking system (CBS) as well as

the biometric identities of signatories, online and in real-time through the Micro-ATM.

Individual savings accounts of members were linked with the group's bank account in the CBS and transactions conducted by SHGs – such as withdrawals from or transfers to the member's individual account – could be processed via the Micro-ATM and biometrically authenticated by any two signatories present.



## Multiple Benefits of Dual-Authentication Technology



Cash transactions performed outside the banking system are now routed through bank accounts ensuring that funds remain with the bank for longer, post disbursement.

A credit/transaction history of all SHG members can gradually be built up.

There is an increase in the number and value of transactions.

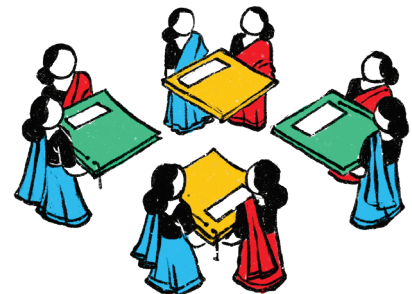
The model supports the migration of low value transactions from bank branches to Bank Sakhi/CSP.

This process saves time and money spent on travelling to bank branches for SHG transactions.

SHG members receive prompt services and accurate digitized records of all financial transactions within the group.

Building individual credit histories with banks allows members to potentially graduate to direct individual loans in the future.

There is more transparency and increased trust as the operations take place in the presence of all SHG members and transaction receipt from the bank are instantly printed via the Micro-ATM.



**SHG Members**



Since the group savings are deposited directly into the SHG group account without the hassles and delays in visiting bank branches, these savings attract an increased interest.

**The funds can thereby also be churned faster between group members.** Besides simple transactional services, SHG members can now potentially avail

multiple financial products and services. There is an increase in the number of active individual accounts of SHG members.

Transactions can be conducted on holidays, festival days and emergencies, when Bank Sakhis are available, while most Banks are closed.

## Bank Sakhis

Bank Sakhis can perform all transactions to and from SHG accounts, incrementally increasing the number of transactions and therefore the transactional revenue earnings.



## SHG Transactions that can be Performed Through a Micro-ATM



SHGs can collect individual member savings through the Micro-ATM into its own savings account via a digitized fund transfer or directly by way of cash deposit into the group's savings account.

SHGs can transfer funds from its savings account to individual members' savings account using the dual authentication facility.

SHGs can transfer funds from its savings account to CCL (cash credit loan) account using the dual authentication facility.

SHGs can transfer funds from its own CCL account to the group or its individual member's account directly using the dual authentication facility.

### ***b. Rajasthan, Rajeevika: Mobile wallet for SHG loan repayments***

Rajeevika, the Rajasthan SRLM, has initiated a pilot to use a mobile-based electronic wallet to provide "anytime-anywhere banking". Their collaboration with Vodafone's M-Pesa (mobile wallet) allows instant payments to individuals, money transfers to any bank account, and utility payments including mobile and DTH recharges. This facility can be accessed through a basic feature phone without an Internet connection, using USSD<sup>7</sup>. SHG members in rural Rajasthan are therefore able to instantly pay loan installments to banks via their M-Pesa service, using a mobile phone.

Besides the time and costs saved by avoiding long and expensive trips to

bank branches, an easy cash-in facility is available at M-Pesa wallet dealers within the village. Presently, 800 SHG groups and 9000 SHG members use their M-Pesa wallet to deposit their loan repayments into the SHG account.

### ***c. Bihar, JEEViKA: SHG members as banking agents***

The Bihar Rural Livelihoods Project - JEEViKA - has adopted a holistic approach to the BC model where the aim is not just to increase access to financial services but also to establish strong systems and processes, which ensure that Bank Sakhis become profitable and self-sustaining. The program tracks several operational parameters - such as numbers of agents, transactions per agent, commissions earned etc. - and adapts lessons from key success

metrics at the bank level (such as number and volume of transactions) to ensure sustainable and consistent income accrual at the agent level.

As on February 2020, Bank Sakhis in Bihar achieved a cumulative of 4.74 million transactions worth INR 17.14 billion, covering a range of services such as savings, deposits, withdrawals and remittances. The average earning The average earning in February 2020 of all Bank Sakhis in Bihar was INR 3971 and approximately 26% Bank Sakhis earned more than INR 5000 per month.

JEEViKA Bank Sakhis are breaking the myth that women agents are less enterprising or less capable than male agents. In fact, recent data from one of the partner banks shows that JEEViKA Bank

7. Unstructured Supplementary Service Data (USSD) is a communications protocol used by GSM cellular telephones to communicate with the mobile network operator's computers.

Sakhis are out-performing male banking agents as well as non-JEEViKA female banking agents.

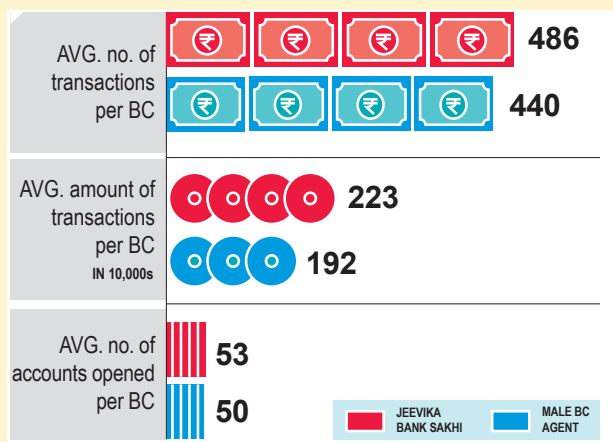
Through the continuous support from BRLPS, they have experienced an incremental growth in both number and volume of commissions earned. The

JEEViKA team regularly monitors their performance and provides support to non-performing Bank Sakhis.

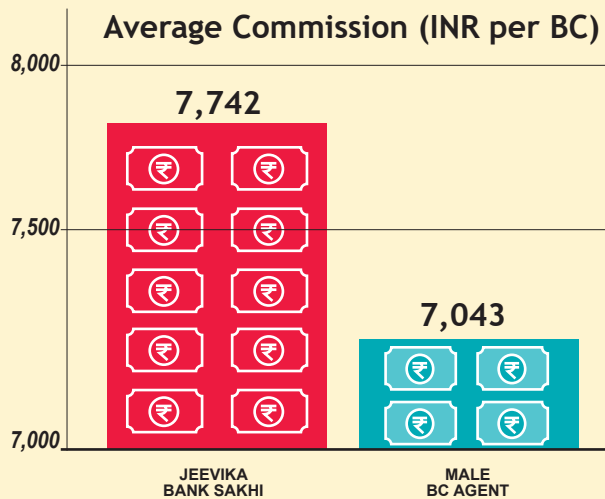
This has helped in maintaining the number of dormant/inactivate Bank Sakhis at less than 5%, which is much lower than the general attrition in the sector.

A majority of Bank Sakhis are able to achieve monthly commissions amounting to at least INR 5000 within 6 to 9 months of their operations, making this a viable and sustainable career and livelihood option.

## JEEVIKA BANK SAKHI: BREAKING STEREOTYPES



SOURCE: MIS OF A JEEVIKA PARTNER BANK  
BASED ON DATA COLLECTED UPTO FEBRUARY 2020



## Key Lessons and the Way Forward

NRLM has successfully developed the capacity of community members by graduating SHG members into individual banking agents to further financial inclusion. The conducive policy environment initiated by the PM-JDY coupled with continuous support from SRLMs, have allowed BC agents to improve awareness in the community about financial services, provide alternate banking channels as well as last mile connectivity.

The BC model initiatives by various SRLMs have not only improved usage of bank accounts by women and the rural community at large, but are also likely to help improve loan repayment rates due to improved access to banks. The emerging lessons from the various cash-lite

models piloted by SRLMs have important implications for rural financial inclusion globally.

Employing SHG members as banking agents has benefitted the rural community and provided gainful employment to many women. The initiatives have helped women become more respected members of their families and the community at large, earning the epithet 'Banker Didi'. Given the continuous support provided by the SRLMs, it is expected that these SHG members are likely to continue as BC agents once revenue streams stabilize.

In the first phase of this project, SRLMs have successfully provided SHGs and their members with a Cash In Cash Out (CICO)

channel, where group/members can deposit or withdraw cash as required, through Bank Sakhis, at their doorstep. For success in the next phase, financial service providers and SRLMs collectively need to work on addressing some of the supply and demand side constraints while scaling up to cover 100,000 Gram Panchayats. Some proposed recommendations are below.

### i. Supply-side initiatives

Given the success of the BC model in improving financial inclusion, a wider spectrum of services such as loans, insurance, pensions, savings products such as RD, FD and mutual funds should be provided on the BC technology platform by all banks to deepen financial inclusion.



There is a need to engage with banks to develop a differentiated strategy to migrate “micro-transactions” (such as recurring deposits) and micro-loan accounts of SHGs to low cost channels such as the BC platform or Internet/Mobile banking platforms, as well as to explore targeted, customized product offerings and incentives to encourage such channels. Such changes at the bank level will help operationalize the millions of inactive/zero-balance bank accounts of rural women as well as improve bank business operations.

The current “dual-authentication application” of the BC platform works on the ON-US mode, which supports only intra-bank transactions. Very often the SHG group account is maintained at a different bank from the individual members, thereby restricting the quantum of digital SHG transactions that can be conducted. There is a need for NPCI to develop standard protocols for an OFF-US dual-authentication solution across its payment products spectrum.

Just as “dual authentication” based joint account operations have been successfully operationalized at the BC channel using Aadhar Enabled Payment System (AEPS) based biometric authentication, similar solutions are required in mobile banking, wherein signatories of a joint account can avail mobile banking services.

*Bankers also encourage the Bank Sakhi model, as this has helped migrate low value transactions to a low-cost ICT-enabled channel, reducing attrition amongst BC agents.*

Given that the flow of funds between SHGs and members can be in lacs of rupees, requiring higher transaction limits than currently allowed, both in value and volume, banks must re-evaluate currently permissible limits and enhance them to allow disbursement of funds from SHGs to members’ accounts through the BC channel.

### *ii. Demand-side initiatives*

While there is a growing acceptance of the BC agent within the community, there is still skepticism while transacting on a digital platform. This calls for investment in (digital) financial literacy training to capacitate SHG members and their federations to transact on self-service platforms or through BC agents.

There is a need for structured monitoring and evaluation to inform the project and policymakers of the progress and impact of the BC agent intervention. The need for evidence on the efficacy of this intervention is particularly critical given the call to scale up the BC platform across the country.

Lastly, clear guidelines for customer protection as well as a strong local grievance redressal architecture needs to be established to protect both rural customers as well as BC agents.

### *iii. Sustainability and global relevance*

Deploying SHG members as banking agents has demonstrated that the Bank Sakhi model is both an innovative strategy to achieve financial inclusion as well as a cost-effective, sustainable means of delivering financial services in hard-to-reach rural areas. Minimal project support is needed as partner banks pay commissions for transactions provided to their customers. This market-driven approach to model not only provides a regular stream of income for the Bank Sakhi, but also allows banks to expand their customer base within these communities.

The intervention also helps address the financial inclusion gender gap and is particularly relevant for geographies where women are often excluded from the mainstream banking system and financial inclusion programs. However, the success of the intervention is also linked to a strong base of community-led institutions of the poor, most notably women.

## **ABOUT THE DISCUSSION NOTE SERIES**

This note is part of the South Asia Agriculture and Rural Growth Discussion Note Series, that seeks to disseminate operational learnings and implementation experiences from World Bank financed rural, agriculture and food systems programs in South Asia.

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