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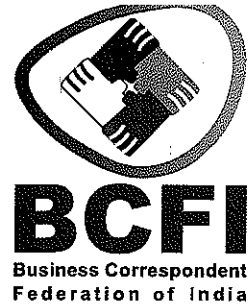
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To : PMO, FMO, Cabinet Secretary, RBI, Niti Aayog,
DFS, MIETY, NPCI, IBA

March 8, 2017

**SUBJECT: Urgent - Prevent Collapse of Bank Mitras/BC Agents and AEPS
Transactions**

Following demonetization and pushing for digital transactions, branchless banking through Bank Mitra/BC network was part of Hon'ble PM's program to implement Micro-ATM network for accelerating digital transactions. An interoperable Micro-ATM network extends banks' reach to distant location without setting up expensive capex intensive ATM points or branch network.

While NPCI prescribing a Micro-ATM interchange of 1% with minimum Rs 5 and maximum of Rs 15/ transaction, the maximum pay out limit to acquiring bank was kept the same as a normal ATM payout of Rs 15/transaction. It was kept in mind that for the system to be viable, just like normal ATM network, interoperability of Micro-ATM is a must for Aadhaar Enabled Payments System (AEPS) by BCs.

This should not be confused with Aadhaar-Pay Merchant Payment System (AMPS) where merchant pays MDR which is currently "zero" under special promotion till March 31, 2017. Just like a debit card on POS machines, merchant is charged MDR (merchant discount rate) and the same debit card on ATM network card issuing bank pays ATM interchange of Rs 15/transaction to ATM's acquiring bank. Similarly, Aadhaar-Pay is a merchant transactions where the merchant pays MDR and for AEPS cash out transactions, the Bank Mitra/BC Agent earns Interchange as paid by the customer's bank to BC's acquiring bank.

IBA in its recent meeting has prescribed an interchange of 0.1% for AEPS transactions. This step will disastrously impact the already stressed viability of the Bank Mitras/BC Agents for the following reasons:

1. The Micro-ATM will not be viable for the issuing bank.
2. The argument that banks can continue to pay Bank Mitras/BC Agents the same commission does not hold water for other banks transactions. Banks will never encourage use of Micro-ATM for "other bank i.e. Off-us transactions" as they will only earn 0.1% from AEPS interchange and will have a payout of 0.5% to 1% to Bank Mitras/BC Agents.
3. Banks will encourage Bank Mitras/BC Agents to do their own bank's transactions (On-us) and not do other banks (Off-us), which defeats the purpose of Micro-ATM interoperability. This in turn will discourage Rupay card transactions and slow the momentum of digital transactions.

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4. To make Bank Mitras/BC Agents viable in villages with this kind of pricing, one would need to do transactions worth crores which is impossible and all rural Bank Mitras/BC Agents would stop working, which is completely against the Financial Inclusion Vision of the country.
5. Capex spent by Bank Mitras/BC Agents and the servicing would become unviable with the above commercials/interchange. It may be noted that ATM interchange is fixed at Rs 15 regardless of low value of transactions.

Further, the fact is that Bank Mitras/BC Agents also handle cash which is both cost and risk, therefore, has to be adequately compensated. Plus, the activity is generating self-employment as well. It is, therefore, imperative to correct the specific distortion with measure and not kill interoperability of Micro-ATMs at the Bank Mitras/BC Agents. Urgent intervention is needed to keep status quo.

In all above cases, like in ATM, customer does not pay anything for cash-in/cash-out transactions as per RBI prescribed free ATM transactions limit. The proposed structure will lead to collapse of Bank Mitra/BC Agent network and AEPS transactions.

A simple solution is to make AEPS transactions, which are like ATM transactions using biometric, counted as part of free ATM transaction enjoyed by any customer. If above proposed solution of AEPS transactions counted as part of free ATM transaction is implemented by IBA, no one will do AEPS cash withdrawal of Rs 100 five times to withdraw Rs 500 and bank would incur a cost of $Rs\ 5 \times 5 = Rs\ 25$, as banks after first 3 free transactions will start charging Rs 20 for each transaction from customer, who will become more aware. Currently this is free and not counted and leading to this misuse.

Considering the above, the federation recommends:

1. Regardless of the interchange fee on AEPS, banks should continue to pay the existing fees to Bank Mitras/BC Agents.
2. There should be a lock-in period of 2 years for revised pricing structure.

An urgent intervention and preventing the above move by IBA/banks shall be appreciated. We would be happy to meet and explain the situation and the hugely adverse impact IBA's decision would bring on financial inclusion in general and PMJDY in particular.

Warm regards,

Dr Anand Shrivastav
Chairman