

# **BANK OF GHANA**

## **NOTICE TO BANKS AND SAVINGS AND LOANS COMPANIES**

### **NOTICE NO. BG/GOV/SEC/2008/21**

#### **GUIDELINES FOR BRANCHLESS BANKING**

Branchless Banking (BB) represents a significantly cheaper alternative to conventional branch-based banking that allows financial institutions and other commercial actors to offer financial services outside traditional bank premises by using delivery channels like retail agents, mobile phones etc. BB can be used to substantially increase the financial services outreach to the un-banked communities.

These guidelines are being issued as part of the broader strategy to create an enabling regulatory environment to promote branchless banking. The primary audience of these guidelines is deposit-taking financial institutions (bank and non-bank) desirous to undertake branchless banking. However, as financial institutions cannot take on BB without the help of other market players like telecom companies, technology service providers, agents etc., these guidelines are also helpful for other parties to understand their roles and responsibilities.

#### **Objectives**

The guidelines for branchless banking set out by the Bank of Ghana are aimed at achieving a number of objectives:

- Promoting financial inclusion without risking the safety and soundness of the banking system.
- Extending core banking services to the domain of everyday transactions.
- Ensuring that the common platform for the payments and settlement system (e-zwich) established for deposit taking financial institutions (FIs) extends to branchless banking.
- Ensure that banking services provided under branchless banking are provided by regulated deposit-taking financial institutions or their agents.
- Ensure compliance with Ghana's Anti-Money Laundering Act as well as the Anti-Money Laundering and Financing of Terrorism (AML/CFT) standards as set by the Financial Action Task Force (FATF).

- Ensure a wide participation of deposit-taking financial institutions (i.e. banks and non-banks) including commercial banks, rural banks, savings and loans and microfinance institutions in the provision of branchless banking services.
- Ensure that all branchless banking transactions are cleared through the settlement system.
- Ensure that all customers using branchless banking services can be uniquely identified.

## **Scope**

- These guidelines are applicable to deposit-taking financial institutions (herein after collectively referred to as financial institutions or FIs).
- Activities outlined in these guidelines as branchless banking cannot be offered by any person or institution other than deposit-taking financial institutions (FIs).
- All FIs desirous to offer branchless banking services may do so in line with these guidelines.
- These guidelines do not, in general supersede or revoke any of the existing Laws, rules & regulations unless specifically stated. Further the scope of any such relaxation of rules and regulations will be limited to Branchless banking only and shall not extend to cover any other banking activity

## **Branchless Banking Models and Activities**

Branchless banking is only allowed to be undertaken by licensed deposit-taking financial institutions (bank and non-bank) or their agents. Furthermore, all customers of FIs undertaking BB activities must be uniquely identified.

Branchless banking can be done using agents like Telcos, Fuel distribution companies, Merchants, Post Office, etc. and using technologies not limited to mobile phone (like GPRS, POS terminals etc.).

In each case customer account relationship must reside with some FI and each transaction must hit the actual customer account.

## **Model For Ghana**

As stated above, only the FI-led model of branchless banking is allowed and may be implemented in different ways. Firstly, it can be implemented either by using agency arrangements or by creating a partnership between a FI and Agent company (e.g. Telco)

Further, while mobile phone banking which makes up for large part of branchless banking can be implemented by using a number of models<sup>1</sup>, to ensure maximum connectivity and outreach as well as interoperability, the **Many-to-Many Model** is the only permissible model in Ghana. Exclusive partnerships are not allowed. This model offers the maximum connectivity and hence maximum outreach and is closer to the desired situation where all FIs and all telcos should be able to entertain each other's customers (Just like the existing ATM network being developed in the country where customer of any bank will be able to use ATM of any other bank).

Under this model, FIs and Telecom operators are expected to join hands to offer mobile banking services to the public with central processing of transactions through the Ghana Interbank Payment and Settlement System (GhIPSS) which will:

- i) settle all transactions on real time basis or through a regulated clearing arrangement,
- ii) store all proofs of transactions and
- iii) provide a day end reconciliation to all member FIs.

In this regard, all new switches, ATMS, Points of Sale (POS), card or mobile phone payments products issued or deployed by banks and deposit taking financial institutions must be e-zwich compliant or interfaced with the e-zwich platform.

Furthermore, prior approval must be obtained from the Bank of Ghana for the deployment of new switches, ATMS, Points of Sale (POS), card or mobile phone payments products.

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<sup>1</sup>These models include: **One-to-one (1-1) Model:** In this model one FI offers mobile phone banking services in collaboration with a specific Telco. As a consequence, the services may only be offered to customers using mobile connection of that specific telco. This model can be JV-based or implemented through specific agency agreements between the telco and the bank. It offers greater customization, good service standards, possibility of co-branding and co-marketing. On the other hand, it lacks in outreach as it is limited to the customers of one telco and one FI only. This model is not permitted.

**One-to-many (-∞) Model:** In this model a FI offers mobile phone banking services to customers using mobile connection of any Telcos. This model offers the possibility to reach to any bankable customer who has a mobile phone connection. But this model has several limitations in that all telcos may not be ready to offer the bank a priority SMS pipe to enable it to provide quick services which are of essence in mobile phone banking. Further, the FI needs to bear all advertising/marketing expenses. Another serious drawback of this model is that it may require the FI to rely upon its own branch network for product distribution and cash-in-cash-out services etc. This model is not permitted.

## Permissible Activities

Under these guidelines, the following products/services may be offered.

- **Opening and maintaining a BB Account.** A BB account is an account opened and operated by a customer with a bank. Banks may associate such account a particular branch or to a centralized branchless banking unit. Account capabilities/limits are commensurate with the level of customer due diligence (CDD) and KYC procedures the customer has undergone. Risk basked KYC and CDD structure is explained in the relevant section of these guidelines.
- **Account-to-account Fund transfer:** Customers may transfer funds to/from their BB account from/to their other pre-registered accounts (current/saving bank accounts, loan limit accounts, credit card accounts etc.)
- **Person-to-person Fund Transfers;** Customer can transfer funds from their account to BB or regular accounts of other customers of same or some other bank (depending on the model capabilities).
- **Cash-in and Cash-out:** Customers may deposit and withdraw funds to/from their BB account using a variety of options including bank-branch counters, ATM machines and authorized agent locations.
- **Bill Payments:** A BB account can also be used to pay utility bills (e.g. Gas, Electricity, Phone etc.)
- **Merchant Payments:** Customers can use a BB account to make payments for purchases of goods and/or services.
- **Loan Disbursement/Repayment:** FIs, particularly Microfinance institutions may use BB accounts as a means to disburse small loan amounts to their borrowers having BB accounts. The same accounts may be used by customers to repay their loan installments.

## Anti Money-Laundering

All FIs and their agents must comply with the Anti-Money Laundering Act (2008) as well as the international standards set by the FATF. These require:

- Adequate customer due diligence (KYC) be undertaken on all new accounts and on one-off cash transactions over designated thresholds. This requires identifying the customer and verifying the customer's identity.
- Financial service providers to keep detailed transaction records for at least five years.
- Financial institutions to report suspicious transactions promptly to the AML/CFT authority.
- Special attention to threats that may arise from new technologies that may favor anonymity.
- Policies and procedures be in place to address specific risks associated with non-face to face business relationships and transactions.
- Customers using BB applications should be uniquely identified. This means that FIs should be able to trace BB transactions to particular customers. In this regard mobile phone SIM cards will have to be registered by the FI.

## **Agents-assisted Banking**

The true power of branchless banking cannot be unleashed until some trusted third parties are involved in performing some of the activities that are traditionally performed in bank branches by bank staff. Use of the word agent in this context does not include third party service providers who provide certain technical services to banks, such as provision of transaction processing system. For the purpose of these guidelines we distinguish between agents and service providers. Though the term 'agent' in this context does not include third party technology service providers, there is no restriction on a third party technology service provider to become a basic banking agent provided it meets the criteria for becoming an agent.

## **Role of Agents**

Agents may perform any or all of the following functions depending on the agency agreement and agent type as detailed in the following sections.

- Opening of BB Accounts .
- Cash in/Cash out.
- Bills Payments. (Both from registered BB customers as well as from walk-in customers of any utility company).
- Loan disbursement/Repayment Collection. (Without involving into loan marketing/approval functions).
- Funds transfers

BB Agents cannot be involved in marketing, sales of any other products of the bank (including but not limited to consumer banking products, liability products etc).

One Agent can provide services to multiple banks provided he (the agent) has a separate service level agreement with each bank. Alternately, banks may organize their agent network using open architecture so that they may entertain other banks' customers using infrastructure provided by one bank.

Agents may not alter/change charges/fees structure provided by the bank in any way. All charges have to be pre-agreed between the bank and the agent and should be clearly communicated to the customers.

Banks/agents may choose to brand their agent network under any brand name. However use of words like Bank, financial intermediary, microfinance bank or any other word suggesting that the agent is itself an FI, is not allowed.

## **Agent Structure**

Agents may be one of three basic types.

**Super Agents:** These may be organizations having well-established owned or franchised retail outlets, or a distribution setup. These will be responsible for managing and controlling subagents. These may include fuel distribution companies, Post Office, courier companies, chain stores etc.

**Direct Agents:** These may include large to medium sized stores etc., which have a separate agency/service level agreement with the FI.

**Sub Agents:** These are the branches/outlets or agents not directly controlled by the FI on a day-to-day basis. These will be managed by a super agent. However, these must have a similar service level agreement with the super agent as the super agent will have with the FI.

## **Agent Due Diligence**

Use of agents in BB exposes FI to significant operational and reputational risks. Efficient and foolproof Agent Due Diligence (ADD) procedures must exist to mitigate these risks.

FIs are responsible for having clear, well documented ADD policy and procedures. These procedures, at minimum, should contain new agent take on procedures (NATP), initial due diligence and regular due diligence checks to be performed at specified intervals and a list of early warning signals and corrective actions to ensure proactive agent management. ADD should clearly specify roles and

responsibilities of various functions in the bank with respect to agent management.

NATP should clearly define various agent types and minimum agent selection criteria for each type.

Banks should ensure that proper AML/CFT monitoring process exists for branchless banking, necessary actions to be taken by agents in this regard are well communicated to the agents and the agents' compliance of the same is monitored.

### **Agency Agreement**

The FI shall submit a Service Level Agreement (SLA)/Agency Agreement (AA) (duly signed by concerned parties), and any amendments thereto, detailing the functions/activities to be performed, the respective responsibilities of the bank and its agent and a confidentiality clause.

The senior management of the FI remain responsible for maintaining an effective system of internal control and for providing active oversight of the agent's activities/functions.

There shall be a contingency plan to mitigate any significant disruption, discontinuity or gap in agent's function, particularly for high-risk areas.

The written engagement contract or service level agreement with the agent shall, at a minimum:

- i. Define the rights, expectations and responsibilities of both parties;
- ii. Set the scope of, and the fees/revenue sharing structure, the work to be performed by the agent;
- iii. State that the outsourced services are subject to regulatory review and that Bank of Ghana inspecting officers shall be granted full and timely access to internal systems, documents, reports, records and staff of the agent;
- iv. State that the agent will not perform management functions, make management decisions, or act or appear to act in a capacity equivalent to that of a member of management or an employee of the FI;
- v. Specify that the agents must ensure safe-keeping of all relevant record, data and documents/files for at least five years; or alternately, such record is shifted to the FI at regular pre-specified intervals which will then ensure safe-keeping of this record for at least 5 years.

- vi. State that all information/data that the agent collects in relation to branchless banking services, whether from the customers or the FI or from other sources, is the property of the FI, and the institution will be provided with copies of related working papers/files it deems necessary, and any information pertaining to the institution must be kept confidential; and
- vii. Establish a protocol for changing the terms of the service contract and stipulations for default and termination of the contract.

### **Agent Development**

The essential spirit of Branchless Banking is financial inclusion. BB aims at putting the national resources to the productive activities and directing financial resources to areas where the same are most needed. In line with this spirit the FIs are required to plan and act for long term development and prosperity of their agents. This requires close coordination/collaboration with agents; providing them opportunities to learn more, to become more efficient and; a fair pricing mechanism for the services provided by the agents.

### **Use of Third Party Service Providers**

As opposed to the BB agents, third-party service providers can provide services related to technological infrastructure etc. They have no direct contact with BB customers and do not perform activities that are attributed to BB agents.

A proper service level agreement must be put in place for all third-party service arrangements.