



# Private sector banks go easy on correspondents network

BY PRATIK BHAKTA, ET BUREAU | JUL 19, 2019, 08.03 AM IST

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BENGALURU: [Private sector banks](#) are shying away from expanding their business correspondents' (BC) network, due to high compliance costs and rising operational expenses.

To be sure, these banks have not shut their BC operations — key to driving the [financial inclusion](#) agenda — but many are going slow on new partnerships, reducing the number of partners and re-evaluating business strategies for the sector.

ICICI Bank, [Axis Bank](#) and IDFC First Bank have gone slow on their BC operations, said three top bankers in the know of developments.

Others, like [Yes Bank](#) and [Kotak Mahindra Bank](#), are re-evaluating how they can make the BC business viable. IDFC First Bank has floated a tender to invite corporates to take over its BC business.

ET has seen a copy of the tender.

ICICI Bank, Axis Bank, IDFC First Bank, Yes Bank and Kotak Mahindra Bank did not respond to ET's emailed queries till the time of going to press. Multiple bankers spoke off the record, citing regulatory restrictions.

"Banks had to suffer big losses last year with an effective 27% tax rate being slapped on them under the revised GST regime," said a senior banker in the know of the matter. "Many banks have taken a hit of `30-40 crore last year, as per industry estimates." While revised taxes have been a dampener, compliance costs too have gone up.

The cost of managing a corporate BC network and ensuring complete audit of its activities and systems far outweighs the money banks make out of the business, the banker said. "BCs nowadays are mostly engaged in simple transactional services like money remittance, Aadhaar-enabled payments and others; they are not able to open accounts, or even do a full KYC of customers because of regulatory norms. Still, compliance norms continue to be stringent," a second banker said.

[Physical verification](#) of a customer is mandatory before opening an account, according to regulations. This has to be done by a bank employee, not a BC, who is a bank agent.

Banks like IDFC First are also keen to outsource due to issues around mandatory training of agents and [compliance cost](#) of managing agents in-house, said bankers.

"If compliance is so strong, it is always preferable to have a few large partners, rather than integrating with multiple small entities," said one of the bankers quoted above. "While this might affect chances of new businesses emerging in this space, it will help us keep costs under check."

The government has waived GST for remittances and other services to Jan Dhan accounts, said Anand Bajaj, founder of Nearby Technologies, which works with banks such as Yes Bank.

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