Report of the

Internal Working Group

on

Rationalisation of Branch Authorisation Policy

RESERVE BANK OF INDIA

September 2016

Letter of Transmittal

September 28, 2016

Shri N.S. Vishwanathan
Dy. Governor
Reserve Bank of India
Central Office
Mumbai.

Dear Sir

Report of the Internal Working Group on 'Rationalisation of Branch Authorisation Policy'

We are pleased to submit the report of the Internal Working Group on 'Rationalisation of Branch Authorisation Policy'.

With kind regards

Yours sincerely

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Acknowledgements

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The Working Group also acknowledges the suggestions and contributions of the IBA, various banks and experts with whom discussions were held. The Working Group thanks Mr. D. J. Babu, Ms. J. Sujatha and Mr. B. S. Sonawane, Department of Banking Regulation, for the administrative and logistical support provided.

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Executive Summary

1. The opening of new branches and shifting of existing branches of banks is governed by the provisions of Section 23 of the Banking Regulation Act, 1949. In the light of the rapid developments in technology and the advent of differentiated banks viz. Small Finance Banks and Payment Banks, it was considered necessary to redefine branches and permissible methods of outreach keeping in mind the various attributes of the banks and the types of services that are sought to be provided. An announcement to this effect was made in the First Bi-Monthly Monetary Policy Statement 2016-17 on April 5, 2016 and an Internal Working group (Chair : Ms. Lily Vadera, CGM, DBR) was constituted for the purpose.

Current Framework

2. Presently, well-run domestic scheduled commercial banks enjoy complete freedom in opening a branch at any place (any centre from Tier 1 to Tier 6) in the country subject to two conditions. One, at least 25 percent of the total number of branches must be opened in unbanked rural Centres and secondly, the total number of branches opened in Tier 1 Centre (except the incentive provided for opening branches in Tier 2 to Tier 6 Centres of underbanked districts of underbanked states) should not exceed branches opened in Tier 2 to 6 Centres and all Centres in the North Eastern States and Sikkim. Apart from opening a full-fledged branch, the other modes of banking outreach permissible under the current framework are Satellite Office, Extension Counter, Mobile Branch, Ultra-Small Branch and ATMs. A bank can also engage a Business Correspondent (BC) which is an intermediary for providing financial and banking services.

Emerging Environment

3. The rapid developments in technology and associated digital and telecom revolution has shaped and re-shaped our world in the recent past. Government of India has launched a 'Digital India' Program with the vision to transform India into a digitally empowered society and knowledge economy. Introduction of Aadhaar (UID) has opened new modes of customer acquisition and facilitating transactions through biometric identification. A global consumer banking survey (EY-Banking in Asia Pacific 2014) carried out in 8 countries, including India, on use of different banking service channels indicated that as digital adoption increases, traditional branch usage will eventually decline. Given the demographic profile of the country, a large

segment of population would be increasingly more comfortable with all the 'remote access' channels (computer/mobile) for availing banking services rather than visiting a branch/outlet. Entry of differentiated banks and the expectations of their using new models for outreach and service delivery need to be taken into account as well.

Issues and Concerns

4. Two fundamental issues which need to be addressed from regulatory perspective - firstly, the issue of reaching out to the hitherto unbanked centres of the country and secondly, to take into account the alternate modes of presence of banks and their new technology-aided business models to provide and facilitate banking services in all areas including unbanked areas.

5. The total number of banked and unbanked centres (where no physical brick and mortar branch of a bank is present) as on December 31, 2015 stood at 49,686 and 555,782 respectively. This data does not include the banking services rendered through other modes such as Satellite Offices, Extension Counters or Mobile Branches or the presence of business correspondents which have significant outreach. If the GoI's PMJDY data on Bank Mitras (BC outlets) at 1.25 lakh is taken into account for defining a 'banked' centre, the number of unbanked centres comes down to about 4.25 lakh – which is still a very large number.

6. In terms of extant instructions, banks are required to open 25 per cent of branches in unbanked rural centres. However, as the business prospects in an unbanked rural centre are not commensurate with the cost of having a full-fledged 'brick and mortar' branch, banks find it unviable to open these branches. Besides, they also face infrastructural issues (lack of roads, connectivity, etc.).

7. The guidelines on Business Correspondents have been in place since 2006 and over a period, significant relaxations have been given and a large number of individuals and entities have been allowed to be engaged as Business Correspondents. However, the BC model has, as yet, not been successful to the extent desirable. The Committee on Medium-term Path on Financial Inclusion has noted several challenges to the BC model – mainly lack of awareness and demand for services, deficient support from branches, and lack of resources to scale up the float/operations, etc. and has also made some recommendations to address some of these issues.

8. During the consultative process with various stakeholders, the NBFCs/MFIs converting to Small Finance banks (SFBs) flagged concerns on the requirement of meeting the 25 per cent norm of opening branches in unbanked rural centres within a year of their commencement of operations. These entities have vast number of existing branches which currently undertake activities primarily pertaining to asset business such as, processing of loan applications, documentation, disbursement of loans, monitoring recovery, acting as an administrative office for the staff etc. Given their large number of branches across the country such entities would need time for ensuring orderly transformation and minimizing transition risk. As such the Group felt that, though not directly provided in the Terms of Reference, it would be necessary to examine this issue as it is contextual to the mandate of the Group and the recommendations of the Group would have impact on the opening/converting of their existing/new branch network.

9. To fully capture the footprints of all the banks, it will be necessary to compile the data on all the places of business of a bank (including BC outlets, Access Points, Kiosks, etc.). Besides, wherever 'hub and spoke' model is used, the data on the areas served by mobile teams (staff or agents) and transactions carried out in these areas will need to be captured to have a realistic assessment of banking outreach and level of financial inclusion and banking penetration.

Recommendations

10. The thrust of the recommendations is to ensure availability of banking services in all centres, including remotest corners through low cost delivery channels rather than on the physical presence of branches. A **two-phased** approach has been recommended. In the **first phase**, the focus of the recommendations is on broadening of the current framework to include all 'places of business' – to be defined as 'Banking Outlets' - which are at fixed point locations and bring them on par with branches and capture their presence in our database. In the **second phase**, the recommendation is to look at devising a new data system which is capable of capturing the locations and transactions carried out by all 'Banking Outlets' including mobile BCs and non-fixed locations and services rendered through the 'hub and spoke' models.

I. Concept of 'banking outlet'

11. Considering the various modes of delivery and newer models available to provide access to banking services, the Group recommends the concept of 'banking outlet' to include all places of

business/’Banking Outlets’ which are at fixed point locations. In keeping with the definition of branch and ‘place of business’ as defined in the BR Act 1949, a ‘Banking Outlet’ may be defined as under:

> “A ‘**Banking Outlet’** is a fixed point service delivery unit, manned by either bank’s staff or its Business Correspondent where services of acceptance of deposits, encashment of cheques/cash withdrawal or lending of money are provided for a minimum of 4 hours per day for at least five days a week. It carries uniform signage with name of the bank and authorisation from it, contact details of the controlling authorities and complaint escalation mechanism. The bank should have a regular off-site and on-site Monitoring of the ‘banking outlet’ to ensure proper supervision, ‘uninterrupted service’ and timely addressing of customer grievances. The working hours/days need to be displayed prominently.”
>
> **Part-time banking outlet**
>
> “Any other fixed point service delivery unit of the bank which does not comply with the above prescription regarding minimum working hours/days will be considered as **‘part-time banking outlet’.”**

12. The guidelines on Extension Counters, Satellite Offices, Ultra Small Branches and Part shifting of branches may be withdrawn as they will be subsumed as separate and independent ‘Banking Outlets’ or ‘Part-time Banking Outlets’, as the case may be.

II. Unbanked Rural Centre redefined

13. In accordance with the above definition of ‘banking outlet’, it is recommended that ‘unbanked rural centre’ be re-defined as under:

> “An unbanked rural centre (URC) is defined as a rural (tier 5 and 6) centre that does not have a CBS-enabled ‘banking outlet’ of a Scheduled Commercial Bank or a CBS-enabled Regional Rural Bank, Local Area Bank, licensed Co-operative Bank or any other CBS-enabled bank licensed by the Reserve Bank for carrying out customer based banking transactions. Till such time as the guidelines for RRBs, LABs, Co-

operative Banks and other banks are aligned with the proposed recommendations, their physical brick and mortar branches be taken into account for the purpose.”

14. In terms of extant instructions, a DSCB is required to open 25 per cent of its branches in unbanked rural centres (URCs). The Group did not consider revisiting the 25 per cent norm given the large number of rural unbanked centres in the country. Currently taking into account the branches of Co-operative Banks, RRBs and LABs, there are more than 5.50 lakh unbanked rural centres and the number of locations served by fixed point bank mitras are around 1.25 lakh as per the data available on the PMJDY website of the Government. Even after accounting for these BCs, there will be more than 4.00 lakh unbanked rural centres. It is, therefore, recommended that freezing the current position as on the date of implementing these recommendations, all DSCBs be advised to open at least 25 per cent of their total ‘Banking Outlets’ opened during a year in ‘unbanked rural Centres’. A ‘part-time banking outlet’, opened in any Centre, will be counted and added to the denominator as well as numerator on pro rata basis for computing the requirement as well as the compliance with the norm of opening 25% banking outlets in unbanked rural centres.

15. Currently, banks are required to ensure that Tier 1 branches do not exceed the branches opened in Tier 2 to 6 Centres and the branches opened in any Centre in North-Eastern States and Sikkim, thus providing some incentive to them for opening of branches in North-Eastern States and Sikkim. The Group recommends to provide some incentive for opening a branch in any tier in North-Eastern States and Sikkim as well as in the 106 Left-wing Extremism (LWE) affected districts in 10 States as notified by the Government as on February 24, 2016 and as updated from time to time. It is, therefore, recommended that opening of a ‘banking outlet’/’part-time banking outlet’ in any Centre of North-Eastern States and Sikkim as well as in any LWE affected districts, notified by the Government of India, may be considered as equivalent to opening a ‘banking outlet’/’part-time banking outlet’ in an URC. Thus, a bank may fulfill its target by opening 25 per cent of ‘Banking Outlets’ in unbanked rural (Tier 5 and 6) Centres and/or in any Centre in North-Eastern States and Sikkim or in any notified LWE affected district.

16. The incentive for frontloading of branches in URCs as given hitherto in a three-year period co-terminus with financial inclusion plan (FIP) should continue – albeit without linking it to FIP. Banks may be allowed the benefit of the ‘Banking Outlets’, if any, opened in the URCs/N-E States, Sikkim and LWE affected districts, **in**

excess of 25 per cent of the total 'Banking Outlets' during a year which may be allowed to be carried forward for a maximum period of 2 years.

17. SLBCs to have, at all times, an updated list of unbanked rural centres in the State, and display it on their web-site. The time given to a bank for opening an outlet in an URC to be reduced to one year (as against the current period of 2 years i.e. 1+1 year extension allowed) to open an outlet failing which the SLBC convenor bank may indicate the centre as 'available' for any other bank to open an outlet. Non-member banks of the SLBC forum could also refer to the SLBC website for the identifying URCs.

18. With the continuance of the 25 per cent norm of opening branches in URCs, and the fact that banks are required to open physical brick and mortar branches in all villages with population above 5000, no further conditions need be put on opening of 'Banking Outlets'. It is recommended that current prescription of branches in Tier I Centres not to exceed branches in Tier 2 to 6 Centres may be removed. As a corollary, it is also recommended that the incentive of allowing Tier I branches for opening the branches in underbanked districts of underbanked States be withdrawn.

III. Improving the BC Model

19. To ensure deep penetration of banking services into 'hitherto unbanked and underbanked centres', BC model needs to be effectively strengthened and utilized. The Committee on Medium Term Path on Financial Inclusion (Chair: Shri Deepak Mohanty) had made various recommendations which included emphasis on fixed point BC outlets, linking them with a branch for monitoring purposes, registry and certification of BCs, enhancing the awareness about the availability of their services and introducing a cash management system which will enable them to scale up. Currently, the work is in progress on many of the recommendations (FIDD being the nodal department) and these need to be taken to their logical conclusion.

20. Moreover, it is expected that proposed framework of Banking Outlets, which can be manned either by the bank staff or its agents, would provide the enabling regulatory environment for the BC model to be scaled up and leveraged by banks. The fact that fixed location BC outlets were not reckoned for treating the centre/location as banked was a possible constraint as the thrust was on a branch-led model. The flexibility to have a 'banking outlet' through any mode (and not

only through a brick and mortar branch) would help to reduce the costs of the bank and encourage banks to proactively invest their resources to strengthen the BC network and make it sustainable and viable. The BCs should also be utilized for more services like disbursement of small value loans, loan recovery and follow-up etc., which will enable them to provide full-fledged services leading to more remuneration and becoming viable over a period of time. In addition, the Direct Benefit Transfers of the Central Government for routing all the benefits under various Government Schemes is likely to help in increasing the transaction through BCs.

21. Further, the new Payment Banks, such as the Department of Posts and the telecom companies, are permitted to act as BCs for banks. By virtue of already having a large network of their offices/stores across the country and with available technology, it is expected that the Payment Banks would be able to render banking services, as BCs, in an effective, viable and sustainable manner and banks will be looking to tie up with these entities to scale up their outreach. Similarly, given the large presence of Primary Agriculture Cooperative Societies (PACSs), banks may also explore engaging them as BCs for expanding their network.

22. It is expected that with the implementation of recommendations made by the Committee on Medium-term Path for Financial Inclusion, more G2P Transfers under Government Schemes and competitive pressure created by the entry of new players which can act as BCs, the BC model in the coming days will get a fillip and will prove to be a significant mechanism to achieve the ultimate objective of full financial inclusion.

IV. Grandfathering of MFI structure of the SFBs

23. Considering the constraints expressed by SFBs during the interaction relating to closing/ conversion of their existing large network of branches focused on asset servicing or complying with 25 per cent norm of opening branches in unbanked rural centres within a year, the IWG felt that the regulatory framework needs to provide an enabling environment to preserve the advantages of the MFI/NBFC structure of these entities with a view to further financial inclusion. It is, therefore, felt that an interim relaxation in norms may be provided to ensure orderly and smooth transition of these entities.

24. It is, therefore, recommended that while prospectively they may be required to open 25 per cent of the total ‘Banking Outlets’ proposed to be opened/converted from their existing branches in a year in URCs or in any centre in North-Eastern States, Sikkim or in any LWE affected districts, they may be given a reasonable time period of 3 years to close or convert all their existing branches into ‘Banking Outlets’. For this purpose, banking outlets converted from existing branches means, such of the existing branches where it intends to conduct banking business of accepting deposits, allowing encashment of cheques/withdrawals besides the current lending activities. Till such time the existing structures may continue and would be treated as ‘Banking Outlets’ though not immediately reckoning for the 25 per cent norm. Thus, at the end of three years, all SFBs should have opened 25 per cent of their total Banking Outlets in URCs failing which appropriate restrictive measures on further branch expansion by such banks will be considered and imposed, as deemed appropriate. This dispensation will be made applicable to all the existing banks that were NBFCs/MFI earlier as well as NBFC/MFI entities that may apply for bank license in future, as they would face similar challenges. This would place all such entities on a level playing field.

V. Manned ATMs

25. In terms of extant instructions, off site ATMs are required to remain unmanned (i.e. only Security Guards are allowed to be posted). It is recommended that any electronic kiosks and ATMs/CDMs/BNAs, etc., if manned by bank’s staff or BC, for providing limited customer based banking services (apart from services made available through ATMs/such kiosks) to their walk-in customers, should also be treated as a ‘banking outlet’ for the purpose of these regulations.

VI. Mobile Branches

26. Mobile branches (currently allowed for Tier 3 to 6 Centres) may be allowed to be opened in Tier 1 and 2 Centres as well. However, as they will not be at a fixed location, they will not be treated as ‘Banking Outlets’.

VII. Mapping the footprints

27. While branchless modes of banking are here to stay, it will be necessary, going forward, to not only compile data on physical ‘brick and mortar’ branches/ Extension Counters/ Satellite Offices/ ATMs, etc., as is being currently done, but also the data on all ‘Banking Outlets’

(including BC outlets, Access Points, Kiosks, etc.). Reserve Bank as a Regulator should have a very robust online and real time system to capture all the bank-wise/centre-wise details of all 'Banking Outlets'. DSIM is presently maintaining details of bank branches/ offices of all commercial banks. It does not include outlets run by Business Correspondents. The current system may be modified to capture details of all 'Banking Outlets' including the information on villages covered by a branch under 'hub-and-spoke' model. This needs to be GIS-mapped to enable Reserve Bank to have the picture of 'banked and unbanked' centres on the country's map at all times.

28. With significant flexibility being provided to banks**,** the Boards of the banks should monitor, on regular basis, the transactions in these outlets to see that banking services are being transacted and more specifically the target customers for financial inclusion are getting the banking facilities in unbanked rural centres.

VIII. Other Recommendations

29. The extant instructions need to be reviewed and aligned with the proposed changes:

a) With a view to ensure that the current branch network (especially in rural centres), does not reduce owing to the new guidelines, the instructions on merger/closure/shifting of any rural and sole semi-urban 'banking outlet' should continue to be allowed only with the approval of DCC/DLRC.

b) The instructions on conversion from specialized to generalized branches and upgradation of Satellite Offices and Extension Counters to full-fledged branches be withdrawn as all these will now be treated as separate and independent 'Banking Outlets'.

c) The banks which do not have general permission to open branches will continue to approach the Reserve Bank with their Annual Branch Expansion Plans. While consolidated approvals, as hitherto, may be given to them, it is recommended that the requirement for such banks to approach Reserve Bank with individual proposals be dispensed with. However, since Form VI is prescribed in terms of Banking Regulation (Companies Rules), 1949 (Rule 12, Section 23), it is recommended that the matter may be taken up with the GoI, in consultation with Legal department, at appropriate level.

d) Considering the specific purpose of Central Processing Centres, the extant instructions to not allow any customer interface at Central Processing Centres (CPC) may be reinforced and the banks currently having permission to allow limited customer interface at CPCs, may be given one year's time to comply.

e) Currently, the frequency of reporting by banks regarding to opening, closure, merger, shifting and conversion of branches to DSIM is prescribed at quarterly intervals. Banks may be advised to report details of opening/closure/merger/shifting of a 'banking outlet' immediately and in any case not later than two weeks after such event.

PHASE 2

IX. Capturing the level of Financial Inclusion

30. Going forward, in the 2^{nd} phase, possibility may be explored to devise a data system for capturing transactions carried out through any 'banking outlet' on online/ real-time basis. This should also have a provision to capture the mobile BCs' details as well as the details of the transactions/services provided in 'unbanked villages' through 'hub and spoke' model i.e. having a 'Banking Outlet' at one location and serving nearby villages (which may continue to remain unbanked as per the definition). All the relevant data which will help in assessing the extent of banking penetration through any mode and level of financial inclusion in a particular centre (such as number and type of accounts opened, deposits received, advances made, remittances processed, outstanding balances, etc.) be captured which will enable us to monitor the level of activity in a particular centre and ascertain whether regular service is being provided by the banks in a particular village or centre as reported by them or whether a particular BC/Access Point is active or dormant. This data will also be very useful for future policy reviews on branch expansion and financial inclusion.

Section 1 : Introduction

1.1 The opening of new branches and shifting of existing branches of banks is governed by the provisions of Section 23 of the Banking Regulation Act, 1949. In terms of these statutory provisions, a bank cannot, without the prior approval of the Reserve Bank of India (RBI), open a new place of business in India or abroad or change, otherwise than within the same city, town or village, the location of the existing place of business.

1.2 Section 23 (2) of the Banking Regulation Act lays down that before granting any permission under this section, the Reserve Bank may require to be satisfied, by an inspection under Section 35 or otherwise, as to the financial condition and history of the banking company, the general character of its management, the adequacy of its capital structure and earning prospects and that the public interest will be served by the opening or, as the case may be, change of location of the existing place of business.

1.3 In terms of the above statutory provisions, the Branch Authorisation Policy has evolved over past several years in keeping with the changing needs of the economy. From the days of authorizing and licensing each and every branch of a bank, Reserve Bank has come a long way. The gradual liberalization starting from granting the general permission to banks to open branches in Tier 3 - 6 Centres(December 2009) and then in Tier 2 Centres (November 2011) and finally in Tier 1 Centres (September 2013) has been consciously calibrated over the last 7 years and has provided, as on date, complete freedom to the domestic scheduled commercial banks in decision making, albeit with certain conditions, to ensure that the objectives of enhanced outreach and financial inclusion continue to remain in focus.

1.4 Banks can provide services through a variety of business outlets viz. branches, Extension Counters, Satellite Offices, Mobile Branches, Ultra Small Branches etc. The current approach to regulation is in terms of 'branches'. However, the advent of technology has changed the face of banking. Varied technological solutions have made it possible for banks to provide banking and financial services at the doorstep of their customers at reduced cost. Further, the licensing of differentiated banks such as the Small Finance Banks and Payment Banks has also broadened the banking landscape to bring in new players who would leverage on technology to reach out in a cost effective manner. In this context, it was considered necessary to redefine branches and permissible methods of outreach. Accordingly, in the First Bi-Monthly Monetary Policy Statement 2016-17 on April 5, 2016 it was announced that -

"With a view to facilitating financial inclusion and providing flexibility on the choice of delivery channel, it is proposed to redefine branches and permissible methods of outreach keeping in mind the various attributes of the banks and the types of services that are sought to be provided."

1.5 Consequently, an Internal Working Group was set up to review the branch authorisation framework, comprising of Smt. Lily Vadera, CGM, DBR (Chairperson of the Group), Shri Jose Kattoor, CGM, FIDD, Shri R.K. Moolchandani, GM, DBR, Smt. N. Sara Rajendra Kumar, GM, DICGC, Dr. Y.K. Gupta, Director, DSIM and Shri Avinash Kapoor, DGM, DPSS. The terms of reference of the Group are as under:

1. To examine the current policy stance and existing permissible models of business outlets through which banking services are presently provided.
2. Study International experience in peer countries in this regard.
3. Propose rationalisation/modification in the existing permissible channels.
4. Suggest alternative methods of outreach keeping in mind the various attributes of the banks and the differentiated services they provide - at the same time ensuring that the objectives of financial inclusion served.

Approach /Methodology of the Group

1.6 The Group initiated a consultative process with the regulated entities. Meetings were held with various stakeholders including select public and private sector banks, select foreign banks, small finance banks, payment banks and IBA to seek their views and suggestions. During the discussions, small finance banks flagged certain issues which, inter-alia, included the need for time to facilitate an orderly transformation of their existing MFI offices into bank branches, to minimize the transition risk. Since the IWG was entrusted with the task of reviewing the overall branch authorization framework and considering that the Group's recommendations would impact their existing/new branch network, it was felt necessary to examine the issue though not directly provided in the Terms of Reference.

1.7 The Group reviewed the current framework. Some relevant literature, as available on internet, relating to the international developments of changing preferences to use of technology for availing banking services rather than branches was also perused. The Report of the Committee on the Medium-term Path on Financial Inclusion (Chair: Shri Deepak Mohanty) especially with reference to its recommendations on BC model was also looked into. The fast paced developments in banking technology and licensing of differentiated banks and their new business models have also been taken into account.

Organization of the Report

1.8 While this Section (Section 1) is used for ‘Introduction’, Section 2 outlines the current framework on branch authorisation and the emerging environment in the wake of rapid technological developments and the proposed differentiated banks. In Section 3, the issues and concerns as emanating from the current framework and the emerging circumstances have been furnished. Section 4 contains the recommendations of the Group. Annex I contains the suggestions received from various stakeholders during the meetings held with them, Annex II gives the background on how the current regulatory framework has evolved and Annex III is a brief account of the international regulation on opening of branches by local banks in respect of 4 Countries viz. USA, UK, Singapore and Dubai.

Applicability of the Recommendations

1.9 The recommendations by the Group to rationalize the branch authorisation policy framework are being proposed only for the Domestic Scheduled Commercial Banks (DSCBs) (excluding RRBs).

Section 2: Branch Authorisation Policy

Current framework vis-à-vis Emerging Environment

2.1 Current Framework

2.1.1 The branch authorisation policy for Domestic Scheduled Commercial banks (DSCBs) has evolved over the years and has been liberalized to a great extent. Presently, DSCBs enjoy complete freedom in opening a branch in any place (any centre from Tier 1 to Tier 6) in the country subject to compliance with the following conditions :

a) At least 25 percent of the total number of branches opened during a financial year must be opened in unbanked rural (Tier 5 and 6) Centres i.e. centres which do not have a brick and mortar structure of any Scheduled Commercial Bank for customer based banking transactions.

b) Secondly, the total number of branches opened in Tier 1 Centre should not exceed branches opened in Tier 2 to Tier 6 Centres and all the centres in the North Eastern States and Sikkim. However, since there is a continuing need for opening more branches in underbanked districts of underbanked States for ensuring greater uniformity in spatial distribution, banks are provided incentive for opening such branches. Accordingly, for each branch proposed to be opened in Tier 3 to Tier 6 Centres of underbanked districts of underbanked States, excluding such of the rural branches proposed to be opened in unbanked centres, authorisation is given for opening of an additional branch in a Tier 1 centre.

2.1.2 Apart from opening a full-fledged branch, the other modes of banking outreach permissible under the current framework are as under:

i) **Satellite Office (SO):** Considering that opening of branch in all rural centres/villages may not be a viable proposition, banks are allowed to open Satellite Offices in the surrounding villages - staffed and controlled by the staff from a base branch located at a central village/block headquarters. Typically, a Satellite Office functions on a few specified days (at least twice) in a week at specific hours and there are no restrictions on the nature of banking business conducted at SO.

ii) **Extension Counter** : Banks are also permitted to open Extension Counters within the premises of big offices/factories, hospitals, military units, educational institutions etc. where there is a large complement of staff not having access to banking facilities at a reasonable distance. Extension Counters provide the prescribed limited services.

iii) **Mobile Branch**: A DSCB is allowed to operate Mobile Branches in Tier 3 to 6 Centres. The Mobile Vans may visit the places proposed to be served on specific day/hours. These are not allowed to go to villages/centres which are served by a regular branch of commercial bank.

iv) **Ultra-small Branch**: A DSCB is allowed to open an Ultra Small Branch (an intermediate brick and mortar structure) between a base branch and BC locations to provide support to a cluster of 8 to 10 BC units at a reasonable distance of 3-4 kms. It can function with minimum infrastructure such as CBS terminal linked to passbook printer and a safe for cash retention - to be managed full time by bank's staff. This may be treated as a regular branch or a satellite office.

v) **Automated Teller Machine/Cash Deposit Machine/Bunch Note Acceptor Machine**: All SCBs have been permitted to install off-site/mobile ATMs at centres/places identified by them, including SEZs without permission from the Reserve Bank. Similarly, banks have freedom to install cash deposit machines/bunch note acceptor machines at the place of their choice without any prior approval from Reserve Bank.

2.1.3 While the above channels are provided /serviced by bank's staff, a bank can also engage a Business Correspondent (BC) which is an intermediary for providing financial and banking services. These BCs work as agents of the banks and banks are liable for all their acts of omission and commission.

2.2 Emerging Environment - Digital India and Differentiated Banks

2.2.1 The rapid developments in technology and associated digital and telecom revolution has shaped and re-shaped our world in the recent past. Banking and Finance have been no exceptions. Government of India has launched a 'Digital India' Program with the vision to transform India into a digitally empowered society and knowledge economy. Newer digital technologies have already enabled banks to evolve new business models to provide services through the BC model, mobile banking, internet banking, digital banking etc.

2.2.2. According to a global consumer banking survey[1], regulatory conditions, dynamic trading environments and changing customer preferences are shifting business models across retail, corporate, private and investment banking. This customer survey in 8 countries including India on use of different banking service channels and its findings are furnished hereunder:

[Table 2.1 Percentage of customers who use channels at least weekly]

Country/Mode of	Austr-alia	China	Hong -kong	**India**	Indonesia	Mala-ysia	Singapore	South Korea
Online/Internet	76	64	59	**70**	51	52	56	63
Mobile	29	44	38	**50**	38	26	34	32
ATMs	55	51	66	**71**	71	61	67	54
Branch/Office	13	29	25	**36**	24	21	24	25
Call Centre	4	17	21	**18**	7	6	36	11

2.2.3 As may be seen from the table above, between 50 per cent to 75 per cent of the customers from Asia-Pacific (APAC) markets use online/internet channels at least weekly, and a third use mobile channels. Some salient features of the results of the survey are as under:

- The widespread adoption of mobile technology in emerging markets offers banks a new way to reach the unbanked and underserved in remote areas.
- Banks are developing low-cost, basic services for these customers, using branchless banking enabled point-of-sale and simple mobile payments technologies.
- Many banks are looking at alternative approaches to enlarge their footprints.
- Banks are partnering with third parties to expand their digital distribution reach by teaming up with convenience store retailers to offer mobile bank services.

[1] Ey-Banking in Asia Pacific-2014

- The survey also reveals that although changing customer preferences and the growth of self-service channels means customers are less likely to use branches for routine transactions, human interaction remains a vital sales channel — especially for complex financial products and services.
- While the survey has not abandoned branch usage, it states that as digital adoption increases, traditional branch usage will eventually decline.
- It is the general expectation that branch footprints would contract, as regulatory restrictions around opening of accounts and provision of banking services relax (and governments act to expand financial inclusion).
- Banks need a true “omni-channel” strategy that meets differing customer needs. Digital channels have strong penetration in APAC, with both individual and corporate customers rapidly adopting digital and mobile banking.

2.2.4 Another major development towards this end has been creation of a central unique identifier for every individual in the country by allotting a 12-digit Unique Identification (UID) Number (Aadhaar) by the Unique Identification Authority of India (UIDAI) set up in January 2009. The Aadhaar number is linked to the resident's basic demographic and biometric information such as photograph, fingerprints and iris scans, stored in a centralised database which could be remotely accessed for verification. This has enabled the banks to invent new business models centering on customer acquisition through e-KYC and facilitating transactions through biometric identification.

2.2.5 Thus, considering the swift pace of the technological developments and the demographic profile of the country, it needs to be kept in mind that in the coming years, a large segment of population would be increasingly more comfortable with all the ‘remote access’ channels (computer/mobile) for availing banking services rather than visiting a branch/outlet. Further, to draw the rural poor to the banking services, it is essential to promote the ‘remote access’ channels in view of the cost, distance, time, opportunity cost and loss of man hour factors.

Entry of Differentiated Banks and their Business Models

2.2.6 Reserve Bank has granted in-principle approvals to 11 Payment Banks (August 2015) and 10 Small Finance Bank (September 2015).

Payment Banks

2.2.7. The objectives of setting up of payments banks have been to further financial inclusion by providing (i) small savings accounts and (ii) payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users.

2.2.8. These banks can not undertake lending activities. The scope of activities for payment bank, however, includes acceptance of demand deposits (up to Rs. 1.00 lakh for the present), issue of ATM/debit cards (not credit cards), payments and remittances services through various channels, BC of another bank and distribution of non-risk sharing simple financial products like mutual fund units and insurance products, etc. It has further been prescribed that the operations of the bank should be fully networked and technology driven from the beginning, conforming to generally accepted standards and norms. These banks have been advised to have 25 per cent of the total Access Points (which include branches and BCs) in rural areas (not necessarily unbanked rural Centres) at all times.

2.2.9 Of the 11 entities which got in-principle approvals for setting up Payment Banks, 3 are telecom companies having their outlets in various regions and one is ‘Department Of Post’ which would leverage its post-office network to gain competitive advantage.

Small Finance Banks

2.2.10. The objective of setting up of small finance banks has been to further financial inclusion by (a) provision of savings vehicles and (b) supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high technology-low cost operations. The guidelines issued for SFBs provide that while there will not be any restriction in the area of operations, the bank is required to have 25 per cent of its branches in unbanked rural centres at all times.

2.2.11. Of the 10 entities which got in-principle approvals to set up SFBs, 8 are MFIs already having several branches and use the doorstep delivery model extensively. Of these, while most of them are focused on rural areas, some are focused only in urban areas and have been endeavoring to address the ‘urban financial exclusion’.
These entities are expected to leverage on technology and come up with new business models.

Section 3: Issues and Concerns

3.1 If we look at the current framework and the emerging environment (Section 2), there are two fundamental issues which need to be addressed from regulatory perspective. One is the issue of reaching out to the hitherto unbanked areas/centres of the country which still stand at 5,55,722 (see table 3.2) and the second one is to take into account the alternate modes of presence that allow the use of the rapid technological developments and new business models to provide and facilitate banking services in all areas including unbanked areas. Additionally, the feedback and suggestions received from stakeholders (furnished in Annex I) also raised some practical issues which need attention.

Reaching out to 'Unbanked Centres'

3.2 The current branch authorisation policy framework coupled with the financial inclusion plans has enhanced the outreach of the banks. The number of branches in the country and especially in the rural areas has significantly increased over the years as is reflected in the following Table:

Table 3.1 Branch Expansion of SCBs

As on	Number of Functioning Branches					Branches/ 100,000 Population*				
	Rural	Semi-urban	Urban	Metro-politan	Total	Rural	Semi-urban	Urban	Metro-politan	Total
Mar 31, 2001	30,036	14,980	10,573	10,178	**65,767**	4.37	9.18	10.68	13.00	**6.39**
Mar 31, 2006	29,661	15,936	12,255	11,731	**69,583**	3.99	9.04	11.37	13.51	**6.24**
Mar 31, 2010	31,983	21,004	16,746	15,433	**85,166**	4.04	11.19	14.48	16.27	**7.15**
Mar 31, 2014	44,834	31,820	21,576	19,552	**117,782**	5.31	15.90	17.35	18.79	**9.25**
Mar 31, 2015	48,231	34,095	23,102	20,821	**126,249**	5.62	16.77	18.23	19.53	**9.75**
Dec 31, 2015	49,589	35,312	23,938	21,508	**130,347**	5.71	17.16	18.63	19.81	**9.94**

* Population estimates (for working out branches/100000 population) are based on CAGR between Census 2001 and Census 2011 data.

3.3 Nevertheless, there remain a large number of ‘unbanked’ centres – in rural as well as semi-urban areas as indicated in the following table :

Table 3.2 Number of banked and unbanked centres in Metropolitan, Urban, Semi-urban and Rural population groups along with populations as per census 2011[2] (as on Dec. 31, 2015)						
Population Group	**Banked(including branches of SCBs, RRBs, LABs and Cooperative Banks)**		**Unbanked (without brick and mortar branch of a bank)**		**Total**	
	Number of Centres	**Population**	**Number of Centres**	**Populatio n**	**Number of Centres**	**Population**
Rural	**41,420**	**149,868,118**	**554,064**	**629,090,325**	**595,484**	**778,958,443**
Semi-urban	7,761	179,429,243	1,658	24,002,757	9,419	203,432,000
Urban	459	111,334,672	NIL	NIL	459	111,334,672
Metropolitan	46	116,558,745	NIL	NIL	46	116,558,745
Total	49,686	557,190,778	555,722	653,093,082	605,408	1,210,283,860

3.4 It can be observed from the data above, that the ‘branch-led’ framework, which has been followed for several years, has not yielded the desired results. Despite the policy been in place for several years the number of banked centres is miniscule at 49,686. This data, however, relates to the presence of physical ‘brick and mortar’ branches of Scheduled Commercial Banks, Regional Rural Banks, Cooperative Banks and Local Area Banks. Although data on Extension Counters, Satellite Offices and ATMs are reported by banks, their presence is not taken into account for treating a centre as ‘banked’ centre as all these outlets are linked with their base branches for reporting purposes. Further, this data does not include the banking services rendered through other modes such as Business Correspondents and technology enabled solutions. The penetration of banking services especially through business correspondents is much wider than what has been captured in the statistics above. In the two phases of financial inclusion pursued by Reserve Bank, first all the villages with population

[2]a) Semi-urban unbanked centres contains 765 centres which were upgraded from rural (in census 2001) to Semi-urban and 43 newly created Centres in 2011.
b) This data is prepared by collating information available in Census 2011 and MOF system which is dynamically updated based on the information received from the banks.
c) List of centres in census 2011 (Towns and Villages) does not account for changes occurred due to the Geographical reorganisations which took place after December 2009.
d) Geographical reorganisations are affected in MOF system as and when they came to our notice through Banks, FIDD and Government departments of respective states.

above 2000 were envisaged to be covered (by making services available through branch or BC) - and then all the villages with population below 2000 were also envisaged to be covered. As per the data received from banks, as on March 31, 2016, a total of 5,31,229 'Banking Outlets', through BCs, are in rural areas while 1,02,252 urban locations are covered through BCs. If the presence of a fixed location 'bank mitras' i.e. 1.25 lakh areas (PMJDY web-site) are taken into account for treating the area as a 'banked' centre, the number of unbanked centres comes down to around 4.25 lakh.

3.5 It can thus be said that the concerns regarding 'unbanked centres' are being addressed by coverage through BCs and other technology enabled solutions. IT enabled solutions and the BC model can reach banking services to remote areas in a more cost effective manner and obviate the need for a physical presence of a branch. The geographic location of brick and mortar branches seems less relevant in the current context. Instead, it is the provision of banking services by all modes that needs to be captured and taken into account for assessing their availability and to get a true picture of banking reach.

3.6 Currently, the domestic scheduled commercial banks have been advised to open 25 per cent of their branches in unbanked rural (Tier 5 and 6) centres i.e., a centre that does not have a brick and mortar structure of any Scheduled Commercial Bank. They are given a one-year time frame and they can open it in the next year if they are unable to open a branch in an unbanked rural centre in the year they intended to do so. It is either, through their own surveys or through the SLBC mechanism that a bank finds an unbanked rural center and plans to open a branch to meet the regulatory prescription.

3.7 Besides, in terms of FIDD's instructions, (December 31, 2015) to SLBCs, banks have been required to open brick and mortar branches in all villages with population above 5000. SLBCs have identified, in all 6608 villages with population above 5000.

3.8 These two conditions are aimed at enhancing the physical presence of banks in hitherto 'unbanked centres'. While the mandate to open branches in URCs is necessary, the feedback from the banks revealed that the business prospects in an unbanked rural centre are not commensurate with the cost of having a full-fledged 'brick and mortar' branch, rendering it unviable to open these branches. Besides, they also face infrastructural issues (lack of roads or a pucca house for the branch, lack of connectivity, etc.).

3.9 Further, after identification of an unbanked rural centre and including it in its annual branch expansion plan, it takes some time for a bank to open the branch there. If before that another bank has opened a branch, it does not remain unbanked and the first bank needs to re-commence the entire exercise.

BC Model and its Challenges

3.10 The guidelines on Business Correspondents have been in place since 2006 and over the last decade significant relaxations have been given and large number of individuals and entities including 'For Profit' Companies, Non-Governmental Organizations (NGOs) / Self Help Groups (SHGs), Civil Society Organizations (CSOs), Post Offices, Primary Agricultural Credit Societies (PACSs), Micro Finance Institutions (MFIs), NBFCs, Payment Banks, etc. have been allowed to be engaged as Business Correspondents of banks. However, despite the enabling regulatory instructions being in place, the BC model is yet to scale up. There are several barriers, as identified by the Committee on the Medium Term Path on Financial Inclusion, such as lack of resources with BCs to scale up enough float, deficient support from the bank branches, lack of awareness amongst customers and consequently insufficient demand for financial services, local competition, etc. which need to be addressed.

Satellite Office

3.11 While the focus of the current instructions is to provide bank branches in rural unbanked centers to ensure reach of banking services in remote rural areas, it is also a fact that financial exclusion also exists in urban and metropolitan centres. In this context, while the extant guidelines provide for Satellite Offices in rural areas only, the interactions with banks revealed that there should be more flexibility given so as to open Satellite Offices in all centres and not only rural centers.

Mobile Branches

3.12 In terms of extant instructions, Mobile branches are allowed to be opened/operated only in Tier 3 -6 Centres (i.e. up to centres with population of below 50,000). With a view to address urban financial exclusion, some banks have expressed the need to allow mobile branches in Tier 1 and 2 Centres as well to enable them to visit underserved areas in urban areas and provide banking services at the doorstep.

ATMs

3.13 Presently, no person other than a security guard is allowed to be posted at ATMs. Some banks have requested that banks be permitted at their discretion to post their staff/BC at ATMs so that the ATMs or electronic kiosks can be well utilized for furthering their business and providing better customer service.

Small Finance Banks' Delivery Channel

3.14 The SFBs are preparing their Annual Branch Expansion Plan for the first year of their operations in terms of the extant instructions on the branch authorization policy as applicable to the Scheduled Commercial Banks and are required to ensure compliance with the requirement of having 25 per cent of the bank branches in unbanked rural centers within one year from the date of commencement of operations. Of these, SFBs which are NBFC/MFIs (8 out of 10) already have a vast delivery channel in existence to reach out to remote areas in an effective manner. In terms of paragraph 10 of the guidelines on 'Licensing of Small Finance Banks', they are required to close or convert their existing MFI branches/offices into bank branches.

3.15 During the discussions, SFBs indicated that these NBFC/MFI branches/offices currently undertake activities primarily pertaining to asset business such as, processing of loan application forms, execution of loan documentation, disbursement of loans to customers, monitoring recovery against the outstanding loan portfolio, acting as an administrative office for the staff who source customers and handle collection of loan installments in the field etc. Given their large number of branches across the country, such entities would need time for transition of their existing structures to bank branches. This will facilitate an orderly transformation and minimize the transition risk. The Group felt that the regulatory framework should provide an enabling environment for banks to conduct their business rather than impede their business. As such, though not directly provided in the Terms of Reference, the Group thought it pertinent to examine this aspect too as it was contextual to the mandate of the Group.

Capturing the data on all outlets

3.16 While branchless modes of banking are here to stay, it will be necessary, going forward, to not only compile data on physical 'brick and mortar' branches/ Extension Counters/ Satellite Offices/ ATMs, etc., as is being currently done, but also the data on all the places of business of a bank (including BC outlets, Access Points, Kiosks, etc.). Besides, wherever 'hub and spoke' model is used, the data on the areas served by mobile teams (staff or agents) and transactions carried out in these areas will need to be captured to have a realistic assessment of banking outreach and level of financial inclusion and banking penetration. However, there may be quite a few challenges in capturing the foot prints of banks and also in ascertaining whether the availability of services is on a continuous and non-disruptive basis.

3.17 Thus all these factors viz. changing contours of technology-aided banking, conditions for small finance banks and payment banks and the nature of their business models and business networks will have bearing on the branch authorisation framework and have been considered by the Group while framing its recommendations.

Section 4: Recommendations

4.1 Given the rapid pace of technological developments enabling new service delivery channels by banks, brick and mortar presence of bank branches and their geographic locations have, to a large extent, lost their relevance. The Group has taken cognizance of the fact that after following 'branch-led' framework for several years, currently there are only 50,000 banked centres, while more than 5.50 lakh centres are still unbanked. Taking into account the rural sub-service areas (SSAs) served by 1.25 lakh fixed location Bank Mitras (PMJDY data) for treating them as 'banked Centres', the number of unbanked centres comes down to about 4.25 lakhs. The Group felt that the thrust should now move from the 'branch only' mode to the availability of banking services in all centres, including the remotest corners through low cost delivery channels. Thus, regulation should provide an enabling environment for banks to provide banking services through any mode, including BC outlets, at reasonable cost. The BC model and IT enabled solutions are advantageous for banks as well as customers. For banks, it has the advantage of lowering the costs involved in servicing low-value accounts and extending physical infrastructure to remote, otherwise unbanked areas. For customers likewise, the saved costs (in terms of both time and money) for reaching the nearest bank branch are no less important. Regulators across countries have promoted the BC framework, keeping in view the twin considerations of striking a balance between promoting financial inclusion through profitable, low-cost delivery channels on the one hand and protecting consumers and the integrity of the financial system, on the other.

4.2 In this context, the Internal Working Group is recommending **a two phased approach**:–

a) In the **first phase**, the focus of the recommendations is on broadening of the current framework to include all 'places of business' – to be defined as 'Banking Outlets' - which are at fixed point locations and bring them on par with branches. The objective is to provide operational flexibility to banks while at the same time ensuring that banking services are made available across the country and more so in the 'unbanked centres'

b) In the **second phase**, the recommendation is to look at devising a new data system within Reserve Bank which is capable of capturing the transactions carried out by all 'Banking Outlets' including mobile BCs and non-fixed locations and services rendered through new 'hub and spoke' models once a robust mechanism to map the footprints of such outlets is put in place.

<u>Phase - I</u>

I. Concept of 'Banking Outlet'

4.3 If we look at the statutory framework i.e. Banking Regulation Act, 1949, the following definitions of a branch and a place of business are given:

> "Section 5 (cc): "branch" or "branch office" in relation to a banking company, means any branch or branch office, whether called a pay office or sub-pay office or by any other name, at which deposits are received, cheques cashed or moneys lent and for the purposes of section 35 includes any place of business where any other form of business referred to in sub-section (1) of section 6 is transacted."

> "Section 23(5): For the purpose of this Section (i.e. Section 23 relating to 'restrictions on opening of new and transfer of existing places of business), "place of business" includes any sub-office, pay office, sub-pay office and any place of business at which deposits are received, cheques cashed or moneys lent".

Thus, essentially, a place of business and a branch/branch office is defined in the same manner and includes each and every outlet where either deposits are received, cheques cashed or moneys lent **i.e. either acceptance of deposit or allowing withdrawals or lending should be necessarily carried out to define it as a place of business**.

4.4 Considering the various modes of delivery – now permissible – and newer models – it is recommended to use the term 'banking outlet' and make it a central piece of regulation for the branch authorisation framework. In keeping with the definition of branch and 'place of business' as defined in the BR Act 1949, a 'Banking Outlet' may be defined as under:

> "A '**Banking Outlet'** is a fixed point service delivery unit, manned by either bank's staff or its Business Correspondent where services of acceptance of deposits, encashment of cheques/cash withdrawal or lending of money are provided for a minimum of 4 hours per day for at least five days a week. It carries uniform signage with name of the bank and authorisation from it, contact details of the controlling authorities and complaint escalation mechanism. The bank should have a regular off-site and on-site Monitoring of the 'banking outlet' to ensure proper supervision, 'uninterrupted service' and timely

addressing of customer grievances. The working hours/days need to be displayed prominently."

"Any other fixed point service delivery unit of the bank which does not comply with the above prescription regarding minimum working hours/days will be considered as 'part-time banking outlet'." The treatment of part-time Banking Outlets is given in paragraph 4.9 below.

4.5 The above recommendation would result in broadening of the current framework to include all 'places of business'/ 'Banking Outlets' which are at fixed point locations viz. Extension Counter, Satellite Office, Part-shifted branch, Ultra Small Branch, Access Point (in the context of Payment Banks), fixed point BC outlets, etc. and bring them on par with branches. In terms of current regulations, only a mobile branch (not being a fixed point location) and ATM (not manned) will be excluded from the definition of 'banking outlet'. Similarly, Service Branches (back offices and processing centres), Administrative Offices and Call Centres (not providing customer based banking services and hence not directly contributing to increasing the outreach of banking services), will not be treated as 'Banking Outlets'. It is further clarified that the PoS terminals where limited cash withdrawal facility is allowed by banks in terms of extant instructions[3] without having an arrangement with the concerned entities as 'business correspondent' will not be treated as 'Banking Outlets'.

4.6 The guidelines on Extension Counters, Satellite Offices (prescribed to function at least twice a week), Ultra Small Branches (being intermediary branches between base branch and BC outlets with minimum infrastructure) and Part-shifting of branches (maximum distance between two outlets prescribed to be 1 km. and both outlets not carrying out similar activities) may be withdrawn as these will no longer be relevant in the proposed scheme. These outlets, subject to their satisfying the definition given above, will be subsumed as separate and independent 'Banking Outlets' or 'Part-time Banking Outlets', as the case may be.

II. Unbanked Rural Centres – Redefining thereof and allocation

4.7 In terms of the extant instructions, an 'unbanked rural centre' is defined as a rural (Tier 5 and Tier 6) centre that does not have a brick and mortar structure of any Scheduled Commercial

[3] Circular DPSS.CO.PD.No.449/02.14.003/2015-16 August 27, 2015

Bank for customer based banking transactions'. Currently, the presence of cooperative banks (urban or rural co-operatives) is not taken into account for treating a centre as 'banked' centre. Considering that urban cooperative banks and rural cooperative banks also have a sizeable branch network and they are also providing banking services, it is recommended to take into account their presence to determine the status of 'banked' or 'unbanked' centre. This will give a realistic picture of 'unbanked centres' for the entire country and allow us to focus on remaining unbanked centres.

4.8 It is recommended that 'unbanked rural centre' be re-defined as under:

> "An unbanked rural centre (URC) is defined as a rural (tier 5 and 6) centre that does not have a CBS-enabled 'banking outlet' of a Scheduled Commercial Bank or a CBS-enabled Regional Rural Bank, Local Area Bank, licensed Cooperative Bank or any other CBS-enabled bank licensed by the Reserve Bank for carrying out customer based banking transactions. Till such time as the guidelines for RRBs, LABs, Co-operative Banks and other banks are aligned with the proposed recommendations, their physical brick and mortar branches be taken into account for the purpose."

4.9 Currently, all domestic Scheduled Commercial Banks are required to open 25 per cent of their branches in URCs. Presently, there are more than 5.50 lakh URCs after taking into account the branches of RRBs and Cooperative Banks. As per the information available on Government of India's website (PMJDY), the number of rural sub-service areas (SSAs) (served by fixed location bank mitras) are around 1.25 lakh. Since the proposed definition of 'banking outlet' covers the 'fixed point' outlet, even after accounting for these BCs, there will be more than 4.00 lakh URCs, The Group, therefore, recognizes the need to continue with the 25 per cent norm albeit, with the revised definition of URCs. It is, therefore, recommended that freezing the current position as on the date of implementing these recommendations, all banks be advised to henceforth open at least 25 per cent of their total 'Banking Outlets' opened in a year in 'unbanked rural Centres', as defined in Para 4.8 above. A 'part-time banking outlet', opened in any Centre, will be counted and added to the denominator as well as numerator on pro rata basis for computing the requirement as well as the compliance with the norm of opening 25% banking outlets in unbanked rural centres.

4.10 In terms of extant instructions, banks are encouraged to consider front-loading (prioritizing) the opening of branches in unbanked rural centres over a 3 year cycle co-terminus with their Financial Inclusion Plan (FIP). Credit is given for the branches opened in unbanked rural centres in excess of the required 25 per cent for the year which is allowed to be carried forward for achieving the criteria in the subsequent year(s) of the FIP. It is recommended to continue the incentive, albeit without linking it to the FIP, and banks may be allowed the benefit of the 'Banking Outlets', if any, opened in the URCs, **in excess of 25 per cent of the total 'Banking Outlets'** during a year which may be allowed to be carried forward for a maximum period of 2 years.

4.11 The concerns relating to unbanked rural centres will be addressed through recommendation to open 25 per cent of 'Banking Outlets' in these Centres. Besides, as mentioned in Para 3.7 above, banks have been advised to open brick and mortar branches in all villages with population above 5,000. The Group does not recommend revisiting these guidelines as they were put in place only recently in December 2015, and will be applicable to around 6608 centres as identified by SLBCs where banks will need to open physical brick and mortar branches. It is, therefore, recommended that no further conditions be put on opening of 'Banking Outlets' for any other centre. Banks should be given sufficient operational freedom and be allowed to open 'Banking Outlets' as per their discretion and commercial considerations. Hence, it is recommended that current prescription of branches in Tier I not to exceed branches in Tier 2 to 6 Centres and branches opened in all centres in North Eastern states and Sikkim may be removed. As a corollary, it is also recommended that the incentive of allowing Tier I branches for opening the branches in underbanked districts of underbanked States be withdrawn.

4.12 However, it is proposed to provide some incentive for opening a branch in any tier in North-Eastern States and Sikkim as well as in the 106 Left-wing Extremism (LWE) affected districts in 10 States as notified by the Government as on February 24, 2016[4] and as updated from time to time. It is, therefore, recommended that opening of a 'banking outlet'/'part-time banking outlet' in any Centre of North-Eastern States and Sikkim as well as in any LWE affected districts, notified by the Government of India, may be considered as equivalent to opening a 'banking outlet'/'part-time banking outlet' in an Unbanked Rural Centre. Thus, a bank

[4] PIB-Government of India, Ministry of Home Affairs Press Release dated February 24, 2016

may fulfill its target by opening 25 per cent of ‘Banking Outlets’ in unbanked rural (Tier 5 and 6) centres and/or any Centre in North-Eastern States and Sikkim/ in any notified LWE affected district. As mentioned in Para 4.5, Mobile Branches, ATMs, Service Branches (back-offices and processing centres), Administrative Offices and Call Centres will not be reckoned as ‘Banking Outlets’ for this purpose.

4.13 To address the concerns of the bank about identifying a URC and opening of a branch by another bank before they may open, it is recommended that SLBCs be advised to play a constructive role in this regard. SLBCs should have at all times an updated list of unbanked Centres in the State which may be referred to by banks for choosing the place where they want to open a ‘Banking Outlet’ and it may be earmarked for them. The time given to the bank for opening the outlet be reduced to one year (as against the current period of 2 years i.e. 1+1 year extension allowed) failing which the SLBC convenor bank may indicate the centre as ‘available’ for any other bank to open an outlet. The updated list may be placed on the website of the SLBC Convenor banks and non-member banks of the SLBC may also refer to the website.

III. Improving the BC Model

4.14 To ensure deep penetration of banking services into ‘hitherto unbanked and under-banked centres’, BC model needs to be effectively strengthened and utilized. The Committee on Medium Term Path on Financial Inclusion (Chairman: Shri Deepak Mohanty) had, taking into account the prospects as well as the constraints of a BC Model, made various recommendations which included emphasis on fixed point BC outlets, linking them with a branch for monitoring purposes, registry and certification of BCs, enhancing the awareness about the availability of their services and introducing a cash management system which will enable them to scale up. Currently, the work is in progress on many of these recommendations (FIDD being the nodal department) and these need to be taken to their logical conclusion.

4.15 Moreover, it is expected that the proposed framework of Banking Outlets, which can be manned either by the bank staff or its agents, would provide the enabling regulatory environment for the BC model to be leveraged by banks. The fact that fixed location BC outlets were not reckoned for treating the centre/location as ‘banked’ is a possible constraint as the thrust was on a branch-led framework.

4.16 As per an FIDD Study carried out on ‘Efficacy of BC Model’, banks have reported that the cost per transaction done through brick & mortar branches is considerably higher in comparison to the cost per transaction incurred by banks in business transacted through BCs. As gathered by them from major banks, the average cost per transaction through a branch comes to Rs.59/-, while the average cost per transaction through a BC comes to Rs. 29/- which is expected to further come down with an increase in the volume of transactions through the BCs. The flexibility to have a ‘banking outlet’ through any mode (and not through a brick and mortar branch) should, therefore, reduce the costs for the bank and they should proactively invest their resources to strengthen the BC network and make it sustainable and viable.

4.17 Further, the BCs, currently being used mainly for accepting deposits and allowing withdrawals and remittance transactions, should also be utilized for more services like loan sourcing, loan recovery and follow-up, etc. which will enable them to provide full-fledged services leading to more remuneration and becoming viable over a period of time. Central Government has been arduously working on routing all the benefits under various Government of India Schemes through the mechanism of Direct Benefit Transfer (DBT) to beneficiaries’ accounts which is likely to help in increasing the volume of transactions carried out by BCs.

4.18 Recently, approvals have been given for 11 Payment Banks, including Department of Post and 3 telecom companies, which are, inter alia, allowed to become BCs of other commercial banks. It is expected that these entities, by virtue of already having a large network of their stores/offices across the country and available technology, would be able to render banking services, as BCs, in an effective, viable and sustainable manner and banks will be looking to tie up with these entities to scale up their outreach. Similarly, given the large presence of Primary Agriculture Cooperative Societies (PACSs), banks may also explore engaging them as BCs for expanding their network.

4.19 It is expected that with the implementation of the recommendations made by the Committee on Medium-term Path for Financial Inclusion, more G2P Transfers under Government Schemes and competitive pressure created by the entry of new players which can act as BCs, the BC model in the coming days will get a fillip and will prove to be the most significant mechanism to achieve the ultimate objective of full financial inclusion.

IV. Grandfathering of MFI Structure of the SFBs

4.20 Out of the ten entities which got in principal approval for small finance banks, eight are Micro Finance Institutions and one is an NBFC which have been working with large number of existing offices across the country to extensively serve the underserved segment of population. Considering the constraints expressed by these entities as mentioned in paragraph 3.14 and 3.15 above, the IWG, felt that the regulatory framework needs to provide an enabling environment to preserve the advantages of their vast structure with a view to further financial inclusion and have a holistic approach to the branch authorization policy.

4.21 As such, it is recommended that the existing network of these entities be frozen as on the date of their getting 'licence' for the bank and prospectively they may be required to open 25 per cent of the total 'Banking Outlets' proposed to be opened/converted from their existing branches in a year, in the unbanked rural centres (as defined in paragraph 4.8) or in any centre in North-Eastern States, Sikkim and in LWE affected districts. As regards their existing NBFC/MFI branch network, they may be given a reasonable time period of 3 years to close or convert all their existing branches into 'Banking Outlets' as defined in paragraph 4.4 above. For this purpose, banking outlets converted from existing branches means, such of the existing branches where it intends to conduct banking business of accepting deposits, allowing encashment of cheques/withdrawals besides the current lending activities. Till such time, the existing structures may continue and would be treated as 'Banking Outlets' though not immediately reckoning for the 25 per cent norm. Thus, at the end of three years, all SFBs should have opened 25 per cent of their total Banking Outlets in unbanked rural centres failing which restrictive measures on further branch expansion by such banks will be considered and imposed, as deemed appropriate. This dispensation will be made applicable to all the existing banks that were NBFCs/MFI earlier as well as NBFC/MFI entities that may apply for bank license in future, as they would face similar challenges. This would place all such entities on a level playing field.

V. Manned ATMs

4.22 In terms of extant instructions, off-site ATMs are required to remain unmanned (i.e. only Security Guards are allowed to be posted at such ATMs). As a corollary to the definition of a 'banking outlet' being manned by bank's own staff or its BC, it is recommended that this condition on off-site ATMs be removed and any electronic kiosks and ATMs/CDMs/BNAs, etc., if manned by bank's staff or BC, for providing limited customer based banking services (apart from services made available through ATMs) to their walk-in customers, should also be treated as a 'banking outlet' for the purpose of these regulations. The banks have to follow the minimum prescribed working hours (para 4.4 above) for the staff/BC so posted. The on-site/off-site ATMs may, however, continue to be functional 24x7 as hitherto.

VI. Mobile Branches:

4.23 As requested by some banks, the group has evaluated the prospects of allowing mobile branches in Tier 1 and Tier 2 Centres. As this mode of service delivery may help banks to provide doorstep service to hitherto excluded segment of population in urban areas, it is recommended that mobile branches may be allowed to be opened in Tier 1 and 2 Centres as well. However, as they will not be at a fixed location, they will not be treated as 'Banking Outlets'.

VII. Mapping the Footprints

4.24 As branchless modes of banking are here to stay and with the proposed changes which relax the condition of opening 25 per cent 'brick and mortar branches' in URC by allowing the banks to have a 'banking outlet', it is essential for Reserve Bank as a regulator to have a very robust online and real time system to capture all the bank-wise/centre-wise details of all types of places of business.

4.25 Currently, all the banks are sending their reports on opening, closing, shifting of branches, Extension Counters, ATMs etc. to the Department of Statistics and Information Management (DSIM). However, there is a time lag and certain inconsistencies in data being reported by banks which require regular follow-up and rectification.

4.26 DSIM is presently maintaining details of bank branches/ offices of all commercial banks. The data coverage of other 'Banking Outlets' such as Extension Counters, Satellite Offices, Mobile Offices, ATMs, etc. which are Non-Administratively Independent Offices (NAIOs) is not complete and up-to-date. Also, it does not include outlets run by bank authorized agents/business correspondents. The Department is in the process of revamping this system to make it online with in-built validation checks for which it has constituted a Technical Advisory Group. It is, therefore, recommended that the current system may be modified to capture details of all 'Banking Outlets' including the information on villages covered by a branch under 'hub-and-spoke' model. This needs to be GIS-mapped to enable Reserve Bank to have the picture of 'banked and unbanked' centres on the country's map at all times.

4.27 Owing to interoperability of BCs, there may be a possibility of two banks reporting the compliance with the condition of 25 per cent outlets by having the same BC in a URC. Similarly, as Payment Banks are allowed to become BCs of banks, there may be a possibility of double counting of Access Points opened by them as a bank/BC of a bank. The data system has to take care of such nuances, to the extent possible – e.g. in the first case, it may capture the date of opening of a BC Banking Outlet by a particular bank to assess as to which bank needs to be given the benefit and in the latter case, while such double reporting/counting cannot be avoided, the data formats should be so designed as to take care of such possibilities and reflect the true picture.

4.28 From the point of view of assessing the 'banked' and 'unbanked' centres, having the above data system to capture the presence of all fixed point 'Banking Outlets' may be sufficient. However, financial inclusion (FI) being the overarching objective of banking expansion and in view of the above recommendations giving operational flexibility to banks, it is felt that the Boards of the banks should monitor the transactions in these outlets to see that banking services are being transacted in these outlets and more specifically the target customers for financial inclusion are getting the banking facilities in unbanked rural centres. As such, the Boards of banks should set internal targets for financial inclusion. While setting the targets the Board should take into account all relevant factors to set limits on products both on the asset and liability side. Data on centre-wise and tier-wise customer accounts and transactions (Type and number of accounts, deposits received, advances made, remittances processed, outstanding balances, etc.) would need to be captured on regular basis. The growth rate fixed for assets and liabilities should be in line with general rate of growth of banking projected for the bank in year. The growth targets should be incremental for every year. As the Small Finance Banks and Payment Banks have been set up to further financial inclusion and their client base would primarily be migrant labour workforce, low income households, small businesses, other unorganised sector entities, etc. their internal targets should be in line with their objectives. The Board should monitor the progress in this regard on regular basis, (say on quarterly basis) and make the required data available to Reserve Bank as and when required.

VIII. Extant Instructions - Review and Simplification

As the extant instructions need to be reviewed and aligned with the proposed changes, the following recommendations are made:

4.29 With the proposal to bring all 'Banking Outlets' on par with branches and operational flexibility being provided to all banks, it needs to be ensured that the current branch network (especially in rural centres), does not reduce owing to new guidelines. Therefore, the guidelines on merger/closure/shifting of branches should be retained and modified to the extent of substituting the words 'banking outlet' wherever the word 'branch' has been used. Accordingly, the following may be prescribed:

a) Banks may shift, merge or close all 'Banking Outlets' except rural 'Banking Outlets' and sole semi-urban 'Banking Outlets' at their discretion.

b) Shifting, merger or closure of any 'rural banking outlet' as well as a sole semi-urban 'banking outlet' would require approval of the DCC/DLRC which will ensure that banking needs of the centre continue to be met.

c) Customers of the 'banking outlet' should be informed well in advance before actual shifting/merger/closure of the 'banking outlet' to avoid inconvenience to them.

d) Banks are required to ensure that they continue to fulfill the role entrusted to their 'Banking Outlets' under the Government sponsored and DBT schemes.

e) In case of shifting, 'Banking Outlets' should be shifted within the same or to a lesser population centre i.e. semi-urban 'banking outlet' to a semi-urban or rural centre and rural 'banking outlet' to another rural centre.

4.30 Although banks are free to open/convert specialized branches into generalized branches and vice versa, in view of the proposed regime, these instructions may be withdrawn.

4.31 Similarly, as Extension Counters and Satellite Offices will be subsumed within the definition of 'Banking Outlets', the instructions on their upgradation to full-fledged branches be withdrawn.

4.32 The banks which do not have general permission to open branches need to approach the Reserve Bank with their Annual Branch Expansion Plans with the consolidated details regarding proposals for opening, closing, shifting, merger and conversion of all category of branches where prior permission of the Reserve Bank is required. Following the approval of consolidated proposals, individual proposals for opening new branches at specific centres are submitted to Reserve Bank in prescribed Proforma (Form VI). It is observed that the proforma, which are currently prescribed, for branches and Extension Counters seek lot of data/details for each place of business which may not be meaningfully used for exercising any regulatory discretion. It is recommended that requirement for such banks to approach Reserve Bank with individual proposals be dispensed with. Since Form VI is prescribed in terms of Banking Regulation (Companies Rules), 1949 (Rule 12, Section 23), it is recommended that the matter may be taken up with the GoI, in consultation with Legal department, at appropriate level to dispense with the requirement of individual specific approval for place of business.

4.33 The extant instructions do not allow any customer interface at Central Processing Centres (CPCs). However, it is observed that at the requests of some banks, limited customer interface has been allowed on case-to-case basis which lacks uniformity. While some banks have been given the permission to only complete the loan documents (received from branches) at these Centres, others have been allowed a fairly large number of services to be rendered including loan sourcing, accepting loan documents, disbursement of loan instalments, issuing account statements, follow-up for recovery, etc. It is recommended that with banks getting lot of flexibility in opening of ‘Banking Outlets’, the current instructions on not allowing customer interface at CPCs should be strictly followed. The banks currently having this permission, on case-to-case basis, may be given one year’s time to comply.

4.34 In line with the extant instructions on ‘Extension Counters’, it needs to be reiterated that any ‘Banking Outlet’ where Government Business is proposed to be carried out would require prior approval of the concerned Government Authority as also of Department of Government and Bank Accounts, Reserve Bank of India.

4.35 Currently, the frequency of reporting by banks relating to opening, closure, merger, shifting and conversion of branches to DSIM is prescribed at quarterly intervals. As Reserve Bank needs to have the data on all ‘Banking Outlets’ at the earliest possible, it is recommended that banks may be advised to report details of opening/closing/merger/shifting of a ‘banking outlet’ immediately and in any case not later than two weeks after such event.

4.36 The extant instructions on Business Facilitator/Business Correspondents, which are fairly extensive in scope and application, should continue to be applicable and no change is envisaged at this stage.

PHASE 2:

IX. Capturing the level of Financial Inclusion

4.37 Reserve Bank as a Regulator – being concerned about achieving the goal of 100 per cent financial inclusion – should be able to keep a track of the level and degree of financial inclusion achieved in remotest part of the country. Presently, branch level data on number of accounts and amounts outstanding are being captured through Basic Statistical Returns and these are being used to estimate the spread of financial inclusion at state/ district/ village levels. However, the extent of banking penetration in URCs, through new channel of ‘Banking Outlets such as BCs (fixed as well as mobile), etc. and opening of new accounts (in banked/ unbanked areas) by reaching to new customers are not available. This data is being subsumed in the data pertaining to their respective base branches of BC/ NAIOs.

4.38 It is, therefore, recommended that going forward, in the 2nd phase, possibility may be explored to devise a data system for capturing transactions carried out through any ‘Banking Outlet’ on online/ real-time basis. This should also have a provision to capture the mobile BCs’ details as well as the details of the transactions/services provided in ‘unbanked villages’ through ‘hub and spoke’ model i.e. having a ‘banking outlet’ at one location and serving nearby villages (which may continue to remain unbanked as per the definition). All the relevant data which will help in assessing the extent of banking penetration through any mode and level of financial inclusion in a particular area/centre (such as type and number of accounts opened, deposits received, advances made, remittances processed, outstanding balances, etc.) should be captured which will enable us to monitor the level of activity in a particular centre and ascertain whether regular service is being provided by the banks in a particular village or centre as reported by them or whether a particular BC/Access Point is active or dormant. Such a system should be feasible considering that all the transactions, whether carried out at BC outlets or Branches are ultimately getting reported to/through CBS switch of the bank. This data will also be very useful for future policy reviews on branch expansion and financial inclusion.

Annex I

What do the Stakeholders say?

As part of the consultative process, the Group Members met with the representatives of all the stake holders as under:

- Meeting with Small Finance Banks and Payment Banks was held on May 5, 2016. In addition, feedback was received through discussions with these banks while scrutinising their applications for branch authorization and from the New Bank Cell in DBR.
- Meeting with select Private Sector Banks and Foreign Banks was held on May 12, 2016
- Meeting with select PSBs and IBA was held on May 16, 2016.

Some of the significant suggestions/feedback received are as under:

Small Finance Banks/Payment Banks (May 5, 2016)

SFBs

- As an NBFC-MFI, they have vast set up of offices which currently undertake activities pertaining to asset business such as processing of loan application forms, execution of loan documentation, customer training, disbursement of loans to customers through pre-paid cards, monitoring recovery against the outstanding loan portfolio, acting as an administrative office for the staff who source customers and handle collection of loan instalments in the field. Customers visit these offices only once in the entire loan lifecycle - for execution of loan document, training and disbursement. It is requested to permit continuation of these offices post conversion into SFB and these offices may be excluded from norms relating to opening 25 per cent branches in unbanked rural centres and Tier 1 branches not exceeding branches opened in Tier 2 to 6 Centres.
- SFBs should be allowed to keep some of their present Microfinance Offices as Satellite office/CSP/DSC/Asset Only Centre (AOC) attached to their full-fledged Branch.

- NBFCs/MFIs need to plan to convert all their existing branches into SFB branches over a period of next 3 years. Till such time, existing branches (not converted) may be allowed to function as Doorstep Customer Service Centres (DCSCs). These centers will serve existing loan customers and also provide BC services. These DCSCs will be linked to the full service SFB branches and all transaction accounting will be done at the bank branch. Opening of deposit accounts/loans, compliance with the KYC/AML norms, closure etc. and transaction posting will be undertaken in the branch. The DCSC will not have an independent branch status and will be under the overall supervision of the SFB branch.

- A 3 year window should be given for the SFBs to convert all of their existing offices into branches.
- The existing MFI branches be allowed to operate as Door Step Centres (DSC), which would continue to service the existing micro loan customers and also provide BC services as per RBI guidelines. DSCs will primarily offer cash withdrawals and deposits of under Rs. 50,000 per customer per day and would be linked to their full service SFB branches and all transaction accounting will be done at the base branch. Opening of account/loans, closure etc and transaction posting will be undertaken in the branch. The DSC will not have an independent branch status and will be under the overall supervision of the base branch. DSCs be permitted in order to take financial inclusion (which includes not only credit but also deposit) to the remotest part of the country and increasing the outreach of banking sector.
- The SFBs to be exempted from the requirement of having a base branch for a certain number of BCs/Access Points managed by BCs as currently stipulated in the RBI guidelines to Scheduled Commercial Banks.
- The SFBs may engage companies including the companies owned by their business partners as “BCs”. These companies can have their own branches managed by their employees operating as “Access Points” or may engage other entities/persons to manage the “Access Points” which could be managed by the latter’s staff.

Payments Banks

- There is a need for defining additional metrics to gauge the effectiveness of Access Points in furthering the cause of financial inclusion.
- The number of transactions in rural areas as compared to total number of transactions by a payments bank should be captured to ensure that their rural Access Points

remain active and provide sustained growth in transactions. As a starting point, 15 per cent of total transactions should come from rural areas.

- Payments Banks to be encouraged to bring innovative financial products that are more suited for generating transaction throughput from rural customers.
- The proportion of active accounts from rural areas can also be considered as a metric to track the level of financial inclusion achieved by a Payments Bank.
- Adequate safeguards to be put in place prior to closure of branches or service points or suspension of certain services in areas where payments bank is the sole service provider.
- Access Points may be defined.
- The prior approval requirement for annual branch expansion plan may be dispensed with.
- The method & modalities of customer grievance handling & supervision of agents to be guided by Board approved policy of respective Payments Bank and subject to supervision of RBI.
- BCs and Access Points may also be allowed to act for multiple banks considering the limited availability of such Access Points in remote areas considering the fact they are not allowed to do offline transactions.
- In case of inter-operability, both/multiple banks may be given benefit of having Access Point.
- Certain issues were raised relating to applicability of certain conditions prescribed in ‘Master Circular on Branch Authorization’ to Payments Banks relating to Tier I branches not exceeding Tier 2 to Tier 6 branches, etc.
- The Payments Banks may engage companies including the companies owned by their business partners as “BCs”. These companies can have their own branches managed by their employees operating as “Access Points” or may engage other entities/persons to manage the “Access Points” which could be managed by the latter’s staff. In the above cases, from the regulatory perspective, the bank will be responsible for the business carried out at the ‘Access Points’ and the conduct of all the parties in the

chain regardless of the organizational structure including any other intermediaries inserted in the chain to manage the BC network.

Private Sector Banks and Foreign Banks (May 12, 2016)

- Brick and Mortar Branches losing relevance; with UPI and Cash Management Services most of the transactions can be done electronically.
- BC Model to be revisited and BC Access to be ensured through hub and spoke model.
- For BCs minimum qualification, experience, etc. to be prescribed.
- Human Supported (manned) ATMs to be allowed.
- Flexibility to man Ultra Small Branch by BC – might be a solution going forward.
- BF and BC distinction should not be maintained.
- White Label ATMs – co-branding may be allowed.
- Mobile Branch to be allowed in metro/urban Centres for providing door-step service.
- Scope of 25 per cent unbanked rural Centres to be widened/modified.
- Mobile branches to be included for calculation of 25 per cent.
- In remote places digital model may not work owing to connectivity/electricity issues.
- Cash Management with BCs remains a challenge.
- SLBC is forcing to open more branches in rural centres than prescribed; (prima facie owing to RBI (FIDD) instructions dated December 31, 2015 to SLBCs on opening a brick and mortar branch in all villages with population of 5000 and above – may be revisited.
- Ultra Small Branch can be included in 25 per cent.
- Villages may be allotted for coverage and respective banks to be responsible for that.
- Satellite Offices may be opened for the reasons of viability.
- Infrastructure availability and viability issues to be considered while framing the new guidelines.

  Ultra Small Branches may be included for ascertaining compliance of the norm of opening 25 per cent branches in unbanked rural centres.

IBA and Public Sector Banks (May 19, 2016)

- Rendering services through Brick and Mortar branch in unbanked rural centres is not cost-effective.
- Flexibility to man Ultra Small Branch by BC.
- Condition of 25 per cent branches in unbanked rural centres to be revisited. Emphasis should be more on coverage and not through physical structure/presence.
- Connectivity in rural areas remained a major challenge and that most of the branches in rural areas had to be connected through VSAT.
- Circulate the updated list of the underbanked districts in underbanked states.
- A fixed point banking outlet working on the lines of business correspondent model be allowed in rural centres.
- Review of the instructions (issued by FIDD) on opening of branches in all villages with population of above 5000 was requested.

A brief account of how the branch authorisation framework has evolved over the last 7 years (from 2009 to the current date) is furnished hereunder:

Evolution of Policy Framework

- To enhance the penetration of banking in rural and semi-urban areas, Domestic Scheduled Commercial Banks (excluding RRBs) were permitted in December 2009 to open branches in Tier 3 to Tier 6 Centres (with population up to 49,999 as per Census 2001) and in the rural, semi-urban and urban centres in North-Eastern States and Sikkim without having the need to take permission from Reserve Bank of India in each case, subject to reporting.
- In July 2010, the general permission granted to banks for opening branches in Tier 3 to Tier 6 Centres was extended for operationalising Mobile branches in these Centres.
- In January 2011, consequent on granting general permission to banks for opening of branches in Tier 3 to Tier 6 Centres, general permission was also granted to Domestic Scheduled Commercial Banks, for opening of Administrative Offices and Central Processing Centres(CPCs) / Service Branches at such centres.
- In view of the continued need to step up the opening of branches in rural areas so as to meet the objectives of increasing banking penetration and financial inclusion rapidly and meet the targets set out for providing banking services in villages with population over 2,000 by March 2012, and thereafter progressively to all villages over a period of time, Domestic Scheduled Commercial Banks were further advised in July 2011 that while preparing their Annual Branch Expansion Plan (ABEP), they should allocate at least 25 percent of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) Centres, i.e., centres which do not have a brick and mortar structure of any Scheduled Commercial Bank for customer based banking transactions.
- Since there was a continuing need for opening more branches in under-banked districts of under-banked States for ensuring greater uniformity in spatial distribution, banks were

provided incentive for opening such branches. Accordingly, for each branch proposed to be opened in Tier 3 to Tier 6 Centres of underbanked districts of underbanked States, excluding such of the rural branches proposed to be opened in unbanked centres, authorisation is given for opening of an additional branch in a Tier 1 centre.

- In November, 2011, as it was observed that branch expansion in Tier 2 Centres had not taken place at the desired pace, Domestic Scheduled Commercial Banks (other than RRBs) were allowed to open branches in Tier 2 Centres (with population 50,000 to 99,999 as per Census 2001) without the need to take permission from the Reserve Bank in each case, subject to reporting.

- The incentive given in the form of authorisation for an additional branch in a Tier 1 centre for each branch proposed to be opened in Tier 3 to Tier 6 Centres of underbanked districts of underbanked States, excluding such of the rural branches proposed to be opened in unbanked centres that may be located in the underbanked districts of underbanked States, was extended to Tier 2 Centres also.

- Finally, in September 2013, general permission was granted to banks for opening of branches in Tier I Centres also and with this the branch banking was freed completely for well-run Domestic Scheduled Commercial Banks. The following extract of the Monetary Policy announced in September 2013 underlines the thought process going behind this liberalization :

> “The Indian public would benefit from more competition between banks, and banks would benefit from more freedom in decision making. The RBI will shortly issue the necessary circular to completely free bank branching for Domestic Scheduled Commercial Banks in every part of the country. No longer will a well-run Domestic Scheduled Commercial Bank have to approach the RBI for permission to open a branch. We will, of course, require banks to fulfil certain inclusion criteria in underserved areas in proportion to their expansion in urban areas, and we will restrain improperly managed banks from expanding until they convince supervisors of their stability. But branching will be free for all Domestic Scheduled Commercial Banks except the poorly managed.”

Annex III

Setting up additional bank branches by local banks in overseas geographies[5]

1. The branch regulation regime varies from being very strict in nature to very liberal as noted hereunder :

USA	UK	Singapore	Dubai
Each national bank proposing to establish a branch shall submit to the appropriate district office a separate application for each proposed branch. Each state regulates the establishment and location of bank branches within its borders. Most states permit their banks to branch on a state-wide basis; however, a few states prohibit or limit the establishment of new branches in certain locations, such as in small towns or cities where community banks are headquartered.	There are no regulations restricting banks from opening additional branches under the existing banking license.	No bank shall open a new place of business or change the location of an existing place of business in Singapore without submitting a written application in respect thereof to the Authority which may — a. give its approval; or b. without assigning any reason, refuse to give its approval.	There are no regulations on expansion of business plans specified in the DFSA rulebook.

2. Besides, Developed Countries have relied on other measures to encourage financial inclusion; such as:

- Using Post Office as delivery points – where the primary interface of the customers would be the Post Offices while banks provide back-end technology and operating support.
- Allowing Industry to respond to financial inclusion Corporate Social Responsibility (CSR) - contributing to a dedicated industry financial inclusion fund.
- MoU between banks and regulators for promoting access to basic banking and monitoring the commitment under MoU through regulatory Agency.

[5] Source; Material available on internet and Report of the Working Group to Review Branch Authorization, October, 2009 (Chair: Mr. P.Vijaya Bhaskar).