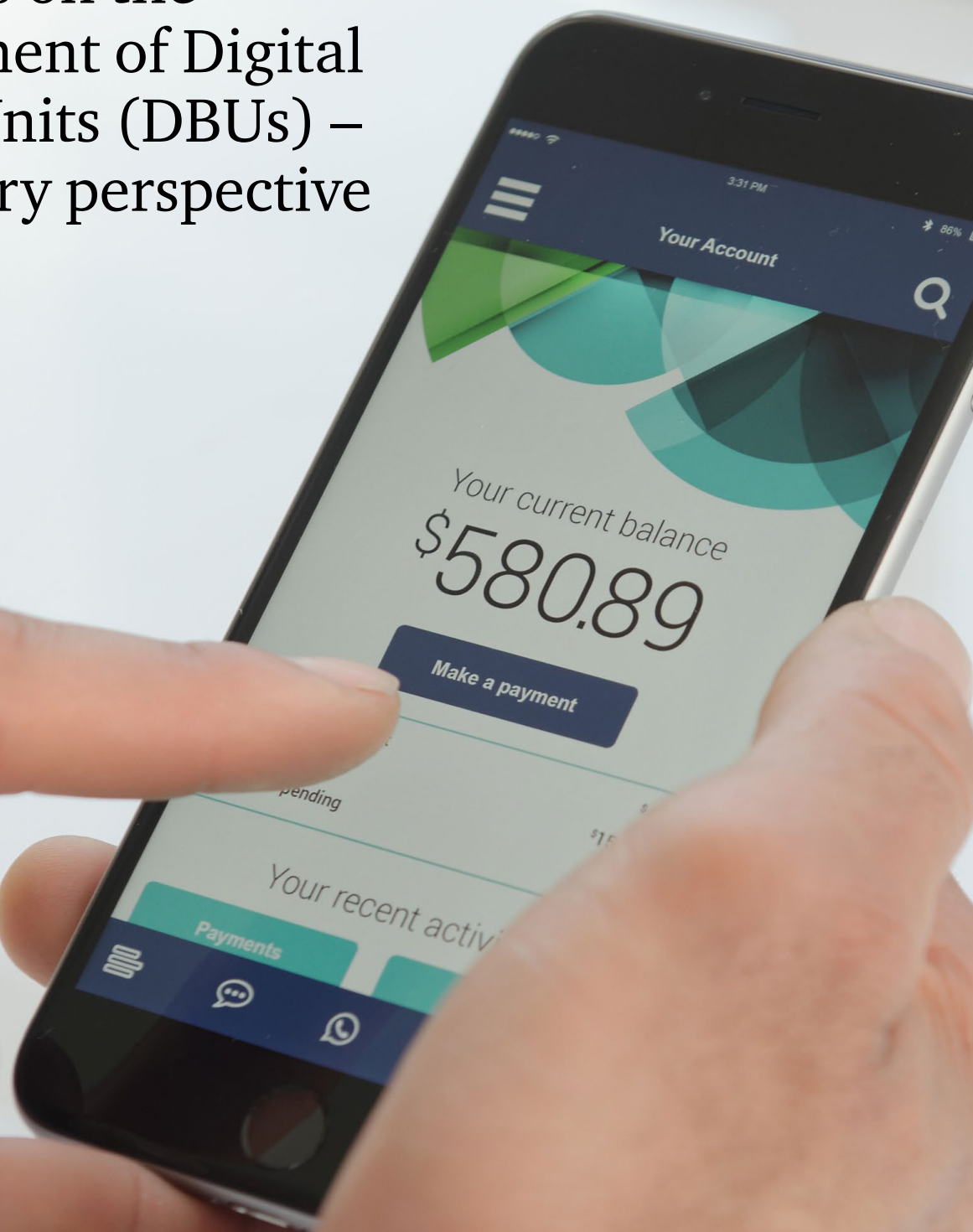


Guidelines on the establishment of Digital Banking Units (DBUs) – a regulatory perspective



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The recently issued guidelines¹ on the establishment of Digital Banking Units (DBUs) permit scheduled commercial banks (other than regional rural banks [RRBs], private banks [PBs] and local area banks [LABs]) with past digital banking experience to open DBUs in tier 1–6 centres without having the need to take permission from the Reserve Bank of India (RBI) in each case. Such DBUs will be treated as banking outlets as defined by the RBI in the circulars pertaining to branch authorisation.

Amongst other requirements, setting up a DBU entails adhering to various operational and governance compliances. The figure below shows some of the key compliance considerations.



Source: PwC analysis

1 <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT19B668901332F243BEBDFD0DEB77E17F68.PDF>

As per the figure above, the key compliance considerations for setting up DBUs are:

- offering products and operational processes that are compliant with overall regulatory requirements while being operational digitally
- having appropriate outsourcing arrangements in compliance with relevant guidelines where any of the DBU-related functions are outsourced
- putting in place an appropriate customer grievance and education-related mechanism
- having a governance set-up with necessary appointments made to comply with the guidelines
- ensuring clarity on distinct disclosures and requirements
- offering products and operational processes that are compliant with overall regulatory requirements while being operational digitally
- ensuring that ancillary aspects such as data privacy and data storage are adhered to while undertaking DBU activities or leveraging on third parties to do so.

With the operations being primarily digitally driven, regulatory compliance assumes importance in each of the processes proposed to be implemented in DBUs. As an example, a customer life cycle journey is detailed below:

- While undertaking onboarding and running KYC processes digitally through video KYC, digital KYC, etc., the RBI prescribed processes need to be followed. In addition, adequate disclosures pertaining to various aspects such as sharing of data (if applicable), product information, and terms and conditions, should be made.
- Risk monitoring, seamless customer servicing and appropriate grievance redressal measures, adherence to fair practices, etc., need to be established by drawing references from various RBI regulations.
- At the time of exit, a customer must be duly notified of the procedures and the manner in which the same can be undertaken digitally, how customer balances can be utilised, etc.

In case any of the above-mentioned processes are outsourced, the RBI's outsourcing guidelines on entering into an agreement, vendor due diligence, right to audit, business continuity measures, etc., need to be adhered to.

Thus, a digitally run operation will have various granular aspects that may have to be assessed and evaluated considering multiple regulations that are generally applicable to a bank along with following the RBI mandated DBU guidelines.

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