



RBI's DBU guidelines

Highlights, implications and next steps



Establishment of Digital Banking Units

The Reserve Bank of India (RBI) on 7 April 2022 released a circular establishing the guidelines on setting up Digital Banking Units (DBUs). This is part of the announcement made in the Union Budget 2022–23 to set up 75 DBUs in 75 districts. As digital banking (DB) has become a convenient channel for delivering banking services over the last couple of years, the RBI aims “to improve availability of digital infrastructure for banking services”¹ to “accelerate and widen the reach of digital banking services”² by establishing these guidelines. The guidelines were prepared by a working group formed by the RBI in collaboration with Indian Banks’ Association (IBA) and other banks. The scope of application of the guidelines includes domestic scheduled commercial banks (SCBs), excluding rural banks, payments banks, and local area banks.³ The guidelines will enable SCBs with past DB experience to open DBUs in tier 1–6 centres without any specific permission from the RBI.

The establishment of DBU guidelines is a significant step taken by the RBI towards providing a clear understanding about the operations of digital banks from regulatory and business perspectives which the Indian financial services ecosystem can adopt.

Key points

The key points in the context of RBI’s DBU guidelines are:

- SCBs with past DB experience can open DBUs without taking specific permission from the RBI
- division of existing ‘retail banking’ segment into ‘digital banking’ and ‘other retail banking’ for disclosure purposes
- using suitable smart equipment (self-card issuance devices, interactive teller machines, etc.) for front-end distribution layer while back end can be shared with existing systems or can adopt independent digital technologies
- banks can select in-source or outsourced models for operations of the digital banking segment in compliance with outsourcing guidelines.
- ensuring cyber security, providing customer education on using DB products and services to improve penetration
- digital mechanism to address customer grievances should be established.

1 <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12285&Mode=0>

2 Ibid.

3 Ibid.

Minimum products and services to be offered by DBUs⁴

The RBI has released an illustrative list of products and services to be offered by DBUs. In addition to these, the banks can offer any product or service to address specific customer needs. With time, the DBUs are expected to migrate from standard offerings to more structured and customised products leveraging their digital capabilities. In a nutshell, DBUs can provide any product/service that is enabled via mobile/internet banking and distributed/serviced through self-service or an assisted model.



Liability products and services

- Account opening: Savings bank account under various schemes, current account, fixed deposit, and recurring deposit account
- Digital kit for customers: Mobile banking, internet banking, debit card, credit card, etc.
- Digital kit for merchants: UPI QR code, BHIM Aadhaar, PoS, etc.



Asset products and services

- Retail, micro, small and medium enterprises (MSMEs) or schematic loans
- Identified Government sponsored schemes which are covered under the National Portal



Digital services

- Cash withdrawal and cash deposit only through ATM and cash deposit machines respectively
- Passbook printing/statement generation
- Internet banking kiosk
- Transfer of funds (NEFT/IMPS support)
- Updating KYC/other personal details, etc.
- Lodging of grievance digitally and acknowledgement thereof and tracking of resolution status
- Account opening kiosk
- Kiosk with e-KYC/video KYC
- Digital onboarding of customers for Government schemes

⁴ <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12285&Mode=0>

Implications of the DBU guidelines

Let's look at the digital banking guidelines from regulatory, technology and ecosystem perspectives, and their impact on the Indian financial services ecosystem.

1. Regulatory

- a. The circular is a welcome move as it paves the way for formal recognition of the concept of undertaking banking operations in an end-to-end digital manner. However, the adoption and implementation of the provisions (including compliances) of the circular will be better understood going forward.
- b. The circular has enabled banks to outsource digital banking operations and thus, given a discreet regulatory framework for bank-FinTech partnerships.
- c. As per Niti Aayog's discussion paper⁵ on digital banks, the circular is expected to serve as a base framework for the expected digital bank framework.

2. Technology

- a. Banks can adopt more core-independent digital-native technologies to operationalise DBUs. This gives them an opportunity to experiment with disruptive technologies on cloud and provides suitable chances for banking as a service and cloud companies.
- b. Banks can choose to reuse existing infrastructure and applications, opt for a completely revamped tech stack or deploy a hybrid model where the DBU leverages some of the existing elements of the incumbent bank's tech stack and procures/builds the rest of the elements separately.
- c. Banks will have to reengineer several front-end and back end processes as well as integrations to provide a superlative digital customer experience.
- d. Comprehensive risk evaluation and adequate safeguards for cyber security of the DBUs will have to be ensured while connecting with external application providers.

3. Ecosystem

- a. The circular provides clarity on banks considering independent technology platforms for DBUs. This further incentivises collaboration and partnerships with FinTechs and SaaS players.
- b. Banks could also consider leveraging the digitisation efforts already achieved in several adjacent customer ecosystems such as e-commerce, MSMEs, health and education to collaborate with existing established technology players to expand into these untapped ecosystems.
- c. The limitations for adoption of DBUs would be low public awareness and internet penetration in tier 3+ regions. The DBU circular emphasises the need to educate customers on using DB products.
- d. DBUs will give rise to ecosystem orchestrations of products and services aligned to customer needs (both FS and non-FS) by merging DBUs with other digital ecosystem initiatives.

5 https://www.niti.gov.in/sites/default/files/2021-11/Digital-Bank-A-Proposal-for-Licensing-and-Regulatory-Regime-for-India.24.11_0.pdf

Next steps for banks

Banks which are looking to adopt a DBU strategy to improve their digital market share can consider the following:

- Articulate a clear vision for DBUs and create alignment across the organisation with key stakeholders.
- Decide on the financial and operational boundaries of the DBU from other digital initiatives (including accounting, reporting and technology stack).
- Initiate proactive steps towards regulatory and disclosure compliance of the DBU.
- Analyse the target customer segment to pinpoint their needs and pain points that can be serviced by offerings of the DBU.
- Take stock of the technology capabilities and requirements for efficient operation of DBU offerings. Decide on build vs partner for key front and back-end capabilities.
- Define an ideal end state for the DBU and prepare a strategic road map towards achieving the end state.

Delineate key DBU projects with clear objectives and make rapid progress to achieve those objectives, and set up a dedicated DBU project management unit to drive these key projects.



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