

Business Standard

RBI's move to ease definition of bank branches to provide level playing field to all banks

Small finance banks to also benefit from interim relaxation in norms

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A Reserve Bank of India (RBI) internal working group report that has

recommended easing of branch definition to include all places of business to be defined as banking outlets is expected to give a fillip to several banks, including old private sector banks, small finance banks (SFBs) as well as to business correspondents to expand their presence.

It is also expected to give a level playing field to all banks.

In its report of the Internal Working Group (IWG) on Rationalisation of Branch Authorisation Policy, RBI said that 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'. These are fixed-point locations, and the goal is to bring them on par with branches and capture their presence in RBI's 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 business correspondents and non-fixed locations and services rendered through the 'hub and spoke' models.

Ashvin Parekh, managing partner, Ashvin Parekh Advisory Services, said that these norms will benefit old private sector banks. "It will reduce infrastructure costs to put up a presence for the banks. This will also be

beneficial for the business correspondents tied to the banks," added Parekh.

Here, a 'banking outlet' is a fixed-point service delivery unit, manned by either the 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 four hours per day for at least five days a week. However, RBI said that the bank should have regular off-site and on-site monitoring of the 'banking outlet' to ensure proper supervision, 'uninterrupted service' and timely addressing of customer grievances.

Those which include any other fixed-point service delivery unit of the bank which do not comply with the above prescription regarding minimum working hours and days will be considered as 'part-time banking outlet'.

The report said that considering the constraints expressed by SFBs during the interaction relating to closing or 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 micro finance institutions and non-banking financial company structure to these entities. This is 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," the report said. It recommended that while prospectively they may be required to open 25 per cent of the total 'banking outlets' proposed to be opened or converted from their existing branches in a year in unbanked rural centres or in any centre in North-Eastern states, Sikkim, or in any left-wing extremism affected districts, they may be given a reasonable time period of three years to close or convert all their existing branches into 'banking outlets'.

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 appropriate restrictive measures on further branch expansion by such banks will be considered and imposed, as deemed appropriate.