

RBI/2005-06/160

DBOD. No.BL.BC.35 / 22.01.001/ 2005-06

September 8, 2005
Bhadra 17,1927 (S)

The Chairmen and CEOs of all Scheduled Commercial Banks
(excluding RRBs)

Dear Sir,

Section 23 of the Banking Regulation Act, 1949 - Liberalised Branch Authorisation Policy

As you are aware, the opening of new and transfer of existing places of business by the banks is governed by the provisions of section 23 of the Banking Regulation Act, 1949, while the extant operating instructions in this regard have been issued vide our Master Circular on Branch Licensing No.DBOD.BL.BC. 5/22.01.001/2004 dated July 8, 2004. In terms of the statutory provisions, the banks cannot, without the prior approval of the 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 places of business. Section 23(2) of the B.R. 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 company, the general character of its management, the adequacy of its capital structure and earning prospects and that public interest will be served by the opening or, as the case may be, change of location, of the place of business. Accordingly, the RBI has so far been processing the requests and granting licenses to banks for each place of business on a case-to-case basis.

2. While the current policy for authorisation of overseas branches of Indian banks will continue, it is proposed to liberalise and rationalise the policy for authorisation of their branches in India. With this objective, it has been decided to put in place a framework for a branch authorisation policy which would be consistent with the medium term corporate strategy of banks and public interest. The new branch authorisation policy framework would have the elements enumerated in the following paragraphs.

3. As regards the public interest dimensions of the policy framework, the following aspects would be kept in view in processing the authorisation requests:

- (a) The RBI will, while considering applications for opening branches give weightage to the nature and scope of banking facilities provided by banks to common persons, particularly

in underbanked areas, actual credit flow to the priority sector, pricing of products and overall efforts for promoting financial inclusion, including introduction of appropriate new products and the enhanced use of technology for delivery of banking services.

- (b) Such an assessment will include policy on minimum balance requirements and whether depositors have access to minimum banking or “no frills” banking services, commitment to the basic banking activity viz., acceptance of deposits and provision of credit and quality of customer service as, *inter alia*, evidenced by the number of complaints received and the redressal mechanism in place in the bank for the purpose.
- (c) The need to induce enhanced competition in the banking sector at various locations.
- (d) Regulatory comfort will also be relevant in this regard. This would encompass:
 - compliance with not only the letter of the regulation but also whether the bank's activities are in compliance with the spirit and underlying principles of the regulation.
 - the activities of the banking group and the nature of relationship of the bank with its' subsidiaries, affiliates and associates.
 - quality of corporate governance, proper risk management systems and internal control mechanisms.

4. As regards the procedural aspects, the existing system of granting authorisations for opening individual branches from time to time, would be replaced by a system of giving aggregated approvals, on an annual basis, through a consultative and interactive process. Banks' branch expansion strategies and plans over the medium term would be discussed by the RBI with individual banks. The medium term framework and the specific proposals would, to the extent possible, cover the opening/ closing/ shifting of all categories of branches/ offices including the ATMs. The authorisations given on an annual basis would be valid for one year from the date of communication.

5. The above policy parameters will be applicable to foreign banks, in addition to the criteria which are specific to foreign banks, as detailed in the revised master circular being issued. While the branch expansion of foreign banks would be considered keeping in view India's commitments at WTO, ATMs will not be included in the number of branches for such computation.

6. All branch authorisation applications from banks will, henceforth, be examined in detail in the light of the foregoing policy framework which will be implemented with due flexibility. The proposals for the one year period, along with the bank's medium term plans, on the lines indicated

above, may be submitted to us at an early date. As a transitional arrangement, however, it is proposed to consider urgent requests, if any, from banks for processing their applications already submitted to the RBI and approve those, on a case-by-case basis, which are considered to be broadly in consonance with the above policy framework.

7. It is also proposed to rationalise the extant categories of branches and simplify other procedures relating to authorisation of branches for which a revised Master Circular on Branch Authorisation is being issued simultaneously.

Yours faithfully,

(K.J. Udeshi)
Deputy Governor