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**Report of the Internal Working Group (IWG) on
Rationalisation of Branch Authorisation Policy**

The Reserve Bank of India today placed on its website, the [Report of the Internal Working Group \(IWG\) on Rationalisation of Branch Authorisation Policy](#) (Chair: Smt. Lily Vadera, Chief General Manager, Department of Banking Regulation). Suggestions/comments, if any, on the recommendations contained in the Report, may be sent by [email](#) on or before November 5, 2016.

Recommendations

The thrust of the recommendations is to facilitate financial inclusion by ensuring availability of banking services in all centers through low cost delivery channels and mapping the footprints of various banking channels. The Group has recommended a two-phased approach.

The key recommendations of the IWG are as under:

- A. In the first phase, the recommendations focus on broadening of the current framework to include all 'banking outlets' which are fixed point locations and bring them on par with branches.
 - i) A 'banking outlet' has been defined as "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 a 'part-time banking outlet'.

- ii) Banks to open banking outlets subject to their meeting the 25 per cent norm of opening banking outlets in unbanked rural centres. An unbanked

rural centre (URC) has been redefined as a “rural (tier 5 and 6) centre that does not have a CBS-enabled ‘banking outlet’ (including a fixed point BC 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”.

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 compliance with the norm of opening 25% banking outlets in unbanked rural centres.

- iii) With a view to incentivizing opening of banking outlets in North-Eastern States, Sikkim and in Left-Wing Extremism Affected Districts, a banking outlet or a part-time banking outlet opened in any of these States/notified districts, will be treated as a banking outlet/part-time banking outlet in an unbanked rural centre.
 - iv) Grandfathering of MFI/NBFC structures of Small Finance Banks to be provided to facilitate an orderly transformation and to minimize the risk of transition. The existing network of these entities would be frozen as on the date of their getting ‘license’ for the bank. Prospectively, with respect to any new banking outlets opened/converted from their existing branches, the bank should, within a year of commencement of business, comply with the norm of opening 25 per cent of the banking outlets in unbanked rural centres or in any centre in North-Eastern States and Sikkim and notified Left Wing affected districts. As regards their existing NBFC/MFI branches, they may be given a time period of 3 years to close or convert these into ‘banking outlets’. During this period, the existing structures may continue, and these would be treated as ‘banking outlets’ though not reckoned 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 would be extended to all NBFC/MFI entities that have converted to banks or would convert in future to put them on level playing field.
 - v) The Boards of the banks should set internal financial inclusion targets and collate and compile tier-wise/center-wise data and monitor, on regular basis, the transactions in these outlets to ensure that banking services are being transacted and more specifically, the target customers for financial inclusion are getting the banking facilities in unbanked rural centres. The data should be made available to the Reserve Bank as and when required.
- B. In the second phase, a new data system may be devised 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 which will aid in capturing the degree and level of financial inclusion and will be useful for future policy reviews. The data needs to be GIS mapped to enable getting a complete picture of banked and unbanked centres on the country’s map at all times.

Background

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 associated digital and telecom revolution, banks are looking at alternative approaches to enlarge their footprints and reach out to the unbanked and underserved centres in remote areas in a cost effective manner. With a view to facilitating financial inclusion and providing operational flexibility on the choice of delivery channel, 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 accordingly an Internal Working group was constituted for the purpose.

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