Digital Banking Units (DBUs)

Why in news?

In order to deepen the financial inclusion, Prime Minister Narendra Modi has inaugurated 75 Digital Banking Units across 75 districts.

What was the initial announcement?

- **Budget-** In the Budget 2022-23, Finance Minister Nirmala Sitharaman had proposed to set up 75 DBUs in 75 districts to commemorate 75 years of India's independence.
- **RBI-** In April 2022, the Reserve Bank of India (RBI) announced the guidelines for DBUs, following the report of a working group of the Indian Banks Association (IBA).

What are Digital Banking Units (DBUs)?

- DBUs will be brick-and-mortar outlets set up by scheduled commercial banks, housing a certain minimum digital infrastructure for
    - Delivering digital banking products and services
    - Servicing existing financial products and services digitally
- **Criteria for opening DBUs**- The criteria for opening DBUs in tier 1 to tier 6 centres, without having the need to take permission from the RBI in each case include
    - Commercial banks (other than regional rural banks, payment banks and local area banks)
    - Past digital banking experience
- **Services provided-** Saving bank accounts, current accounts, fixed and recurring deposit accounts, digital kits, mobile and Internet banking, debit and credit cards, mass transit system cards, UPI QR codes, BHIM Aadhaar and point of sale (PoS).
- Other services include making applications for and onboarding customers for identified retail, MSME or schematic loans.
- **Mode of provision**- In DBU, the products and services will be offered to customers in 2 modes.
    1. Self Service Mode
    2. Digital Assistance Mode

The RBI's Digital Payments Index (RBI-DPI) which aims to capture the extent of digitisation of payments has also seen growth of over 46% since March 2020.

Are digital banks and Digital Banking Units (DBUs) the same?

- Digital Banks are **distinct** from Digital Banking Units (DBUs).
- **Functions-** Digital banking is defined as the present and future electronic banking

services provided by a licensed bank for the execution of banking and financial transactions over digital channels.
- A DBU is defined as a fixed point business unit/hub housing digital infrastructure for delivering digital banking products and services.
- The DBU guidelines state DBUs will be treated as banking outlets that are essentially redefined branches to account for the use of technology.
- **Balance Sheet/Legal Personality**- DBUs do not have legal personality and are not licensed under Banking Regulation Act, 1949.
- Digital Banks will have a balance sheet and legal personality & are proposed to be duly licensed banks Banking Regulation Act.
- **Level of Innovation/Competition-** DBUs improve existing channel architecture by offering regulatory recognition to digital channel. However, they are silent on competition.
- In contrast, a licensing and regulatory framework for Digital banks is more enabling along competition/innovation dimensions.

How are DBUs different from other banks?

- **Traditional banks-** DBUs will provide banking services including cash deposit & withdrawal 24 x 7.
- Services shall be provided digitally.
- People not having connectivity or computing devices can do banking transactions from DBU in a paperless mode.
- Bank staff will be available to help and guide users for banking transactions in assisted mode.
- It will help in providing digital financial literacy and create awareness for adopting digital banking.
- **Neo-banks-** Neo-banks exist solely online without any physical branches independently or in partnership with traditional banks.

What is the significance of DBUs?

- Further financial inclusion
- Enhance banking experience for citizens
- Provision of maximum services with minimum infrastructure
- Simplify the banking procedure
- Provide a robust and secure banking system
- Make the banking system transparent
- Ensure that banking services reach the last mile
- Enable customers to have cost-effective digital banking
- Spread digital financial literacy

References

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Quick facts

Fintech

- Fintech (financial technology) is an economic industry comprising of companies that aim to compete with the traditional financial methods to shape the future of banking.
- It revolutionizes financial services through the use of innovative new technologies.

Digital Lending

- Digital Lending is a remote and automated lending process, largely by use of seamless digital technologies for customer acquisition, credit assessment, loan approval, disbursement, recovery, and associated customer service.
- It facilitates speedy disbursal of loans and helps lower costs.

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