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भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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Freedom to domestic Scheduled Commercial Banks to open branches in Tier 3 to Tier 6 centres and rural, semi-urban and urban centres in North Eastern States and Sikkim recommended

A Group constituted by Reserve Bank of India has recommended that domestic scheduled commercial banks (other than RRBs) may be given freedom to open branches in Tier 3 to Tier 6 centres (centres with population upto 49,999), without the prior permission of Reserve Bank of India, subject to reporting.

The Group has also recommended that domestic scheduled commercial banks (other than RRBs) may be given general permission to open branches in rural, semi-urban and urban centres in the North Eastern States and Sikkim.

The Group further recommended that banks would continue to approach Reserve Bank of India for prior permission for opening of branches in Tier 1 and Tier 2 centres (centres with population of 50,000 and above as per 2001 Census). The number of branches which would be authorised by RBI based on such applications may depend, inter alia, upon various aspects including a requirement that banks may plan their annual branch expansion in such a manner that at least one-third of total number of branches opened in a financial year are in underbanked districts and financially excluded districts of underbanked States as also upon a critical assessment of the steps taken by the bank towards achieving the goal of financial inclusion such as the rate of credit growth in rural branches, growth in number of deposit accounts in rural areas and growth in credit accounts for less than Rs.25,000/- etc.,

The Group has also recommended that the branch authorisation policy in respect of foreign banks may remain unchanged until review of the roadmap for foreign banks.

The Group is also of the view that the way forward for ensuring banking penetration and financial inclusion would be to have an appropriate combination of the physical 'brick and mortar' branch model and the branchless models such as Offsite ATMs/Point of Sale terminals, Business Correspondent model, mobile banking etc., and it should be basically left to the banks themselves to decide as to which model would be suitable for delivery of banking services in a particular area, depending upon the special needs of that area.

Background

As per the extant branch authorisation policy in vogue since September 2005, banks are encouraged to open branches in underbanked districts and rural areas. Further, notwithstanding the system of banks submitting their branch expansion plans on an annual basis, they are free to submit any proposals for opening branches in underbanked / rural areas anytime during the year which are being considered by RBI on merits. Generally, all proposals received from banks for

opening branches in underbanked districts/rural areas are considered favourably by Reserve Bank of India.

Recent relaxation

As regards Off-site ATMs, banks have been granted general permission to install Off-site ATMs with effect from June 12, 2009, subject to reporting, without having the need to take permission from the Reserve Bank in each case. However, this is subject to any direction which the Reserve Bank may issue, including for closure/shifting of any such Off-site ATMs, wherever so considered necessary by the Reserve Bank.

Review of Branch Authorisation Policy

There have been demands from various quarters that RBI should free branch licensing. The debate further intensified after various committees like the Committee on Financial Inclusion (Dr. Rangarajan Committee) and Committee on Financial Sector Reforms (Dr. Raghuram Rajan Committee) submitted their recommendations. While the Committee on Financial Inclusion has recommended that greater emphasis should be given to opening branches in financially excluded and underbanked districts, the Committee on Financial Sector Reforms has advocated abolishing of branch licensing, altogether.

Against this background, it was announced in the Annual Policy Statement of 2009-10 that a Working Group would be constituted to review the extant branch authorization policy with a view to providing greater flexibility, enhanced penetration and competitive efficiency consistent with financial stability. Accordingly, a Group was constituted with Shri P.Vijaya Bhaskar, CGM-in-charge, Department of Banking Operations and Development as the Chairman and officials from select commercial banks and the Reserve Bank of India as members. The Group has since submitted the report.

Full text of the [Report of the Group to review the extant Branch Authorisation Policy](#) has been placed on the RBI Website.

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