



DIGITAL BANKING UNITS - GS III MAINS

Q. Digital Banking Units can add digitally value-added services to the customers. Bring out the significance of Digital Banking Units in the present Indian economic scenario. (15 marks, 250 words)

News: *Digital banks: Dawn of a new era*

What's in the news?

- It is time for banks to go digital-only. A concept gaining ground worldwide, digital banks offer all sorts of banking services and products through digital channels, without the need for physical branches.

Digital Banking Unit:

- A digital banking unit is a specialised fixed point business unit or hub, housing a certain **minimum digital infrastructure for delivering digital banking products** and services as well as servicing existing financial products and services digitally in self-service mode at any time.

Who will set up these DBUs?

- **Commercial banks** (other than regional rural banks, payment banks and local area banks) with past digital banking experience are permitted to **open DBUs in tier 1 to tier 6 centres**, unless otherwise specifically restricted, without having the need to take permission from the RBI in each case.

Services offered by DBUs:

- As per the RBI, each DBU must offer certain minimum digital banking products and services. Such products should be on both liabilities and assets side of the balance sheet of the digital banking segment.
- **Digitally value-added services** to conventional products would also qualify as such.
- The services include saving bank accounts under **various schemes**, current accounts, fixed deposit and recurring deposit accounts, digital kits for customers, mobile banking, Internet banking, debit cards, credit cards, and mass transit system cards, digital kits for merchants, 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**.
- This may also include **end-to-end digital processing of such loans**, starting from online application to disbursement and identified government-sponsored schemes that are covered under the national portal.



How will these DBUs compete with fintechs?

- Currently, **fintechs operating as neobanks offer digital banking services** but they do so in partnership with non-banking financial companies (NBFCs).
- Some of the neo-banks offering services in India are **Jupiter, Fi Money, Niyo, Razorpay X**.
- Compared to conventional banks with online and mobile banking facilities, neobanks or digital banks excel at **product innovation and offer far better digital solutions**.
- However, given the arrangement they have currently with NBFCs or scheduled banks to conduct the actual banking part, some in the industry have pegged these digital banks as **“glorified digital distribution companies”**.

Significance of Digital Banking Units:

- 1. Digital India:** It will prompt the banks, including the traditional ones to adopt a Digital Strategy and thereby moving a step closer in realising the objectives of Digital India mission.
- 2. Cost Effective Banking:** DBUs will help banks themselves which are now looking to reduce physical footprint with fewer brick & mortar branches, with a ‘light’ banking approach.
- 3. Increases Rural Penetration:** The move will open up the rural market for service providers besides providing a boost to credit flow.
- 4. Personalised products for new age customers:** The units can also be branded as new-age banks that can help provide personalised finance management tools to new customers.
- 5. Financial Literacy:** More such units will encourage more financial literacy and a favourable outlook towards digital banking – which is the need of the hour.
- 6. Fosters Innovation:** This will also prompt the launch of new products or services or transition of the existing ones to become holistically digitized, particularly for the Retail and SME segments, fostering innovation.
- 7. Better Consumer Experience:** Such units will be cheaper to establish than a new branch and can provide better customer experience aided by technology.

Disadvantages of Digital Banking:

- The limitations of DBU include **low public awareness and internet penetration in lower-tier cities**.
- Digital banking forums are prone to vulnerabilities and hacks such as **phishing, pharming, identity theft, and keylogging**.
- **Huge investment needed:** Banking institutions are investing a lot in their security systems.



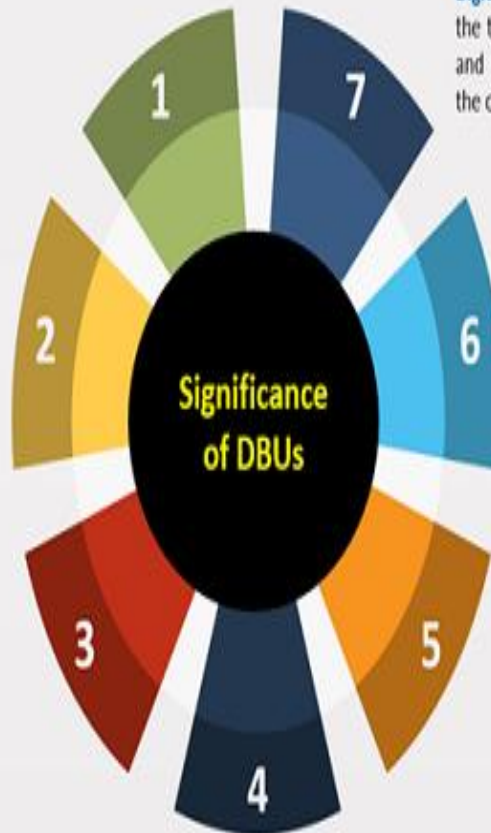
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Financial Inclusion: DBUs will improve the access for banking products and services to people living in far flung areas.

Light banking approach: DBUs provide maximum services with minimum infrastructure through leveraging the digital technology, which will lead to enhanced banking experience.

Financial Literacy: More such units will encourage more financial literacy and a favourable outlook towards digital banking – which is the need of the hour.



Digital India: It will prompt the banks, including the traditional ones to adopt a Digital Strategy and thereby moving a step closer in realising the objectives of Digital India mission.

Rural penetration: DBUs will open up rural market for service providers besides providing a boost to credit flow.

Personalized banking services: DBUs can also be branded as new-age banks than can help provide personalized financial products and services to new customers.

Fosters Innovation: DBUs will also prompt the launch of new products or services or transition of the existing ones to become holistically digitized, particularly for the Retail and SME segments, fostering innovation.

