

Why Digital Banking Units Failed to Grow in India

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What's in Today's Article?

- Digital Banking Units India Latest News
- Digital Banking Units (DBUs)
- Digital Banking Units (DBUs) in India
- Digital Banking Units India FAQs

Digital Banking Units India Latest News

- In October 2022, to commemorate India's 75th year of Independence, 75 Digital Banking Units (DBUs) were launched across remote districts to extend banking access to the last mile.
- Despite the initial enthusiasm, little progress has been made in expanding DBUs nationwide.
- As defined by the RBI, DBUs are specialized hubs equipped with digital infrastructure to offer banking services in both self-service and assisted modes.

Digital Banking Units (DBUs)

- DBUs, as defined by the Reserve Bank of India (RBI), are specialized fixed-location hubs equipped with essential digital infrastructure to deliver and service banking products digitally.
- These units offer a range of digital banking services in both self-service and assisted modes.
- DBUs aim to provide customers with cost-effective, secure, paperless, and year-round access to banking services, enhancing their overall digital banking experience.

Who Can Set Up DBUs

- Commercial banks with prior experience in digital banking (excluding regional rural banks, payment banks, and local area banks) are permitted to set up DBUs across tier 1 to tier 6 centres.
- These banks do not need prior RBI approval for each DBU, unless specifically restricted.

Services Offered by DBUs

- As mandated by the RBI, DBUs must offer a minimum set of digital banking products and services, covering both asset and liability segments.
- **Liability Products**
 - Savings accounts (under various schemes)
 - Current accounts
 - Fixed and recurring deposits
- **Customer Services**
 - Digital kits for Internet and mobile banking
 - Debit cards, credit cards, mass transit system cards
 - Merchant Services:
 - Digital kits including UPI QR codes, BHIM Aadhaar, and PoS devices
- **Loan Services**
 - Application and onboarding for retail, MSME, and schematic loans
 - End-to-end digital processing from application to disbursal
 - Access to government-sponsored schemes via the national portal

Benefits of DBUs for Customers

- **Convenience:** Offers paperless, cost-effective, and secure banking.
- **Accessibility:** Self-service available with manual help for rural and less tech-savvy users.
- **Financial Inclusion:** Expands digital banking awareness and services to underserved regions.
- **Efficiency:** Reduces the need for physical branches, lowering operational costs while improving service reach in remote areas.

Digital Banking Units (DBUs) in India

- **Inauguration of DBUs**
 - In October 2022, to commemorate India's 75th year of Independence, PM Modi launched 75 DBUs across 75 remote districts.

- The initiative aimed to bring banking services to the last mile, moving away from the old expectation that the poor should visit banks.

- **Limited Expansion Post-Launch**

- Despite the initial enthusiasm, over two years later, there has been little to no expansion of DBUs.

- **Challenges in Implementation**

- Banks were given only 45 days to set up DBUs and instructed on specific locations.
- However, bankers pointed out that such top-down directives don't work uniformly across different banks and regions.
- Setting up a digital branch doesn't guarantee business, especially in areas where physical presence and fieldwork remain crucial.
- Experts highlighted that in tier-III cities and smaller towns, just installing a digital-looking branch does not ensure increased deposits. Building trust and visibility remains essential in such areas.

- **Strict RBI Guidelines for DBUs**

- RBI mandates that DBUs must:
 - Be housed separately from existing branches.
 - Have distinct entry and exit points.
 - Be designed appropriately for digital users.
 - Use smart equipment like Interactive Teller Machines, Service Terminals, and Cash Recyclers.
 - Each DBU must be integrated into the bank's overall digital strategy and led by a senior, experienced executive.

- **Operational and Logistical Hurdles**

- While DBUs can enhance financial inclusion in remote areas, high setup and operational costs remain a significant deterrent for banks, making expansion difficult.

Digital Banking Units India FAQs

Q1. What are Digital Banking Units (DBUs)?

Ans. DBUs are fixed digital branches offering paperless, secure banking through self-service and assisted modes in rural and urban areas.

Q2. Why were DBUs launched?

Ans. To promote financial inclusion and digital banking access in remote districts, commemorating India's 75th year of Independence.

Q3. Why didn't DBUs expand?

Ans. Banks faced rushed timelines, high costs, and lack of local trust, limiting DBU growth beyond the initial 75 locations.

Q4. What services do DBUs offer?

Ans. They provide account services, loans, digital kits, and access to government schemes using self-service and assisted digital infrastructure.

Q5. What are the main challenges?

Ans. High costs, rural user trust, RBI compliance, and lack of immediate business returns deter banks from opening more DBUs.

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