



A CASE STUDY ANALYSIS OF BANDHAN BANK MICROFINANCE SERVICES : A CUSTOMER CENTRIC APPROACH

Management

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ABSTRACT

Inclusive development is one of the critical determinants of national growth. Financial inclusion is one way of empowering people to access social and economic justice. To achieve this, a multi-model approach has been adopted since early seventies of the twentieth century. There are not many reports about the role of commercial banks in microfinance. This can be due to a large level of absence in the field. Microfinance in general does not attract commercial banks. Due to this absence of mainstream commercial banks the micro lending activity was taking over by large number of nongovernmental organizations popularly known as NGOs. This paper aims to study “Bandhan Bank” as a case study from its inception as an NGO to its performance as a Micro finance lending bank. The paper concludes with an analysis of the probable challenges to be faced by Bandhan Bank in its operations as a bank and its role in financial inclusion.

KEYWORDS

Financial Inclusion, Inclusive Development, Microfinance, Financial Literacy, Etc

INTRODUCTION:

THE ROLE OF CHANDRASHEKHAR GHOSH, FOUNDER AND CHAIRMAN OF BANDHAN

In 2001, Ghosh set up a NGO called Bandhan (which meant togetherness) in Konnagar, West Bengal. It was registered under the West Bengal Societies Registration Act. Bandhan's mission was: “To reduce socio-economic poverty substantially and create employment by targeting low-income households across the country through providing cost-effective sustainable financial and non-financial services emphasizing on social securities”. (Bandhan Website). It sought to achieve its objective by giving small loans to the poor in order to raise their incomes.

Based on the model of “Individual lending through group formation”, it provided credit facilities mostly to women for their social upliftment and economic emancipation. Credit was given only for income generating activities like vegetable vending, sewing etc and not for non-productive activities. “Bandhan believes that women, on any given day, make better money managers. Increased income in the hands of women is productively utilized towards children's education, bettering the family's living conditions, and building savings for the future, especially their children's future.”

The branch was lowest in the hierarchy and also served as the focal point of interaction and disbursement of loans to the borrowers. A branch was headed by a branch manager and formed the base of the credit officers and field staff. 6-7 branches combined to form a region (headed by a regional manager) and 5-6 regions in turn formed a division which was under the Divisional Manager. The Divisional manager was the highest field position. 8-9 divisions formed a Zone which was headed by a Deputy General Manager. For granting of loans, the credit officer assessed the demand around his branch and explained the products and functioning of BFSPL to the potential borrowers. That was followed by selection of members and formation of the group. Post group formations, members to be given loans were selected. To be eligible for loan, members should have attended at least two meetings of the group. The borrowers were generally women with monthly family income of less than Rs 3500 in rural areas, less than 5000 in small towns and less than 7000 in bigger cities.

The occasion: Reserve Bank of India on 2nd April, 2014 granted an “in principle” approval to Bandhan to set up a bank. RBI's High Level Action Committee headed by the former RBI governor Bimal Jalan granted license to Bandhan and IDFC from amongst 25 applicants including business giants like Bajaj Finance, Aditya Birla Nuvo, L&T Finance, India Post and ADAG's Reliance capital to name a few. Bandhan was the only Micro Finance Institution which was in the foray for setting up a bank.

- *The parameters assessed by the central bank for granting new licenses included*

- *The analysis of the entities financial statements 10 years track record of running the business*
- *Proposed business model for the bank,*
- *Demonstrated capabilities for running a bank*
- *Culture of compliance and integrity*
- *The plan for expanding inclusion.*

RBI had granted licenses after a decade: Kotak Mahindra bank and Yes bank were the last to get license in the year 2003-04. Prior to that 10 entities had been issued licenses in the year 1993. According to RBI Governor, Raghuram Rajan, “The point we want to make is the banking license in this country is a measure of trust and you have to deserve that trust. And we want to ensure that people who can build that trust get the opportunity to start a bank.” (Economic Times, 2014).

METHODOLOGY:

1. NEED OF THE STUDY:

The transition from an NBFC to a bank, however, is not going to be as easy. There are many interviews where Mr. Gosh points out to the probable challenges that the bank may face, their observations are overwhelmed by other scholars that suggest strong relationship.

2. OBJECTIVE OF THE STUDY:

As a Micro finance institution, collateral free loans were disbursed which now would be a difficult proposition to continue with. This paper study with an objective bandhan's customers centric approach and discussion of overall operational performance.

3. SOURCE OF DATA:

The Present Study covers the overview of micro finance initiatives adopted by Bandhan bank and successive rate in operational performance FY 2017-18 through the observations of annual reports of bandhan bank and review of literature on financial inclusion in a brief manner.

DISCUSSION ON CONTEXT:

Bandhan bank deliver banking solutions for all, but the focus is on meeting the financial requirements of people who are on the periphery of the formal banking ecosystem. It offers a wide spectrum of asset and liability products and services, which are designed for both our micro banking and our general banking customers. It is improving branch network and expanding into geographies with the unbanked and under banked population. And moreover also leveraging digital technology solutions to enable growth and reduce costs.

According to Ghosh, “Initially, we will lend only to retail customers. We are not going for corporate banking, where there are already many players. We don't want to jump into a crowded sector. On the other hand, few banks take care of the needs for the poor and the unbanked population. This gives us immense opportunity for growth.” (Acharya,

2015).

The loyalty and trust that its existing customers showed would have reduced the effort to hunt for customers from scratch. Since Bandhan understood the needs of the rural masses it would have been in a better position to provide products and services more suitable to their requirements. Moreover in the past, rural populace had often been duped by collective investment schemes. An institution like BFS could have ensured that the savings were utilized effectively. In fact those savings could have been used to offer loans to MFIs, thereby fulfilling its dual objective of profitability and development of the economically weaker sections of the society.

Bandhan also had the advantage of recruiting the best of the best. . It received close to 27,000 applications for the 15 posts that were advertised. Nearly 15-20% of the applicants were from Indian Institutes of Technology (IITs) and Indian Institutes of Management (IIMs) backgrounds.

GROWTH PROSPECTS OF BANDHAN BANK(OPERATIONAL PERFORMANCE)

- a) Growth in liability book size grew by 45.81% on March 31, 2018
- b) The Current Account (CA) portfolio with 66.22% growth as on March 31, 2018, CA acquisitions increased owing to an enhanced value proposition for customers, along with value-added services such as Electronic Data Capture Point-of-Sale (EDC-PoS).
- c) Savings Account (SA) portfolio up by 71.03% as on March 31, 2018. The introduction of corporate salary accounts, along with the maintenance and enhancement of the existing product schemes, enabled robust deposit mobilization in our SA portfolio.
- d) Term Deposits (TDs) up by 35.71% on March 31, 2018.
- e) Return on average assets has grown by 4.06% FY 2017-18
- f) The Bank undertook dedicated communication initiatives through branch banking and social media channels to increase debit card transactions among customers. This yielded favorable results, with the debit cards business registering 10% growth.
- g) Bandhan offers career development opportunities through consistent training, mentoring and engagement to staff and encourage integrity and good citizenship.
- h) In micro banking, bandhan continued weekly group meetings to drive better service and awareness about products and services.

CONCLUSION:

Bandhan strategies are shaped by the philosophy of financial inclusion. Bandhan bank primarily focus on micro lending for unbanked and under banked sections of society. It is playing the role of a change agent in raising financial awareness around savings, credit, and financial investment. Bandhan have reached out to more than 130 lakh customers with a comprehensive basket of financial products across 29 states and five Union Territories. We have 936 branches and 2,764 DSCs, along with a network of 460 ATMs across India. Bandhan bank is an institution of banking excellence, with focus on financial inclusion and economic empowerment of the disadvantaged sections of society.

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