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# BANKS NEED TO REVAMP BUSINESS AND MARKETING STRATEGY TO OUTREACH POOR

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## ABSTRACT

*Indian banks apparently doing good but with the growing decadence of Indian economy it would not be possible to maintain the present rate of profitability and growth unless some strategic change is not immediately initiated and necessary technical and expertise is developed to successfully persue business model to outreach the poor, it would be difficult to pursue sustainable business. An attempt has been made in this paper to comprehend the problem and to develop sustainable business strategy to steer Indian banks from the looming depressed market.*

*It is true today Indian banks are roaring as is evident from recent reports on financial results of these banks but it cannot be denied that not only in India but also globally banks are noticing that their net interest income which traditionally has been their mainstay is gradually dwindling and their operating expenditure is fast increasing despite upgradation of technology and sophisticated marketing efforts recently undertaken by them. To obviate the situation some experts think banks should explore the possibilities of increasing non-interest income by developing advisory functions and providing services of various types to different types of customers. However a recent research study has revealed that hardly 24% of banks globally feel confident of their ability to develop non-interest income though 87% of them feel that this strategy is very much needed to sustain them.*

## SEARCH FOR NEW MODELS

This obviously has thrown up a new challenge not only in India but globally for banks to develop some such model of business development that may help boosting their revenue earning and profit earning capabilities and space. For this they have to visualize and create drivers of return based on not only on their expertise but also on their assets as well as by enlarging the space by making universal financial accessibility feasible. In fact stress has to be given both for interest and non interest income. The common strategies that are usually adopted by banks are based on efforts to lower operating costs, to develop advisory services and spearhead move to enhance customer base and space. In fact opportunities are all around in today's fast changing market dynamics and banks that attune themselves and are able to pick opportunities through the maze of changes happening in today's financial world will obviously be winner.

**INCUSIVE GROWTH OPPORTUNITY**

In India the opportunity to increase business and revenue is available more through increase of space and base as banking is still unable to reach quite a large number of customer and place. Further it has been increasingly realized that for inclusive growth it is necessary to develop some such marketing model and products and services that would help banks to finance the poor both rural and urban. It has also been observed by banks in India through experimentations over the years that direct financing to farmers and artisans through their own branches would not be sustainable both for high cost and inadequate ability to create rapport and to provide needful support to them. In fact it has been rightly realized by a recent study that priority sector lending in public sector banks in India has created a culture of mechanical lending with a little effort for proper credit appraisal.

Further as per Census 2001, only 4.16 crores households out of 13.83 crores households in rural India could avail banking services. It is surprising that despite so much effort over so many decades banks could link only 30% of rural households in their orbit and that too with the support of Self Help Groups. In fact over 9.47 crores of rural households are yet to be reached by banks. It may further be noted that most of them pursue farming and some of them do not even own any assets. Obviously these people need immediate attention of banks if banks are keen to initiate inclusive growth.

However it is satisfying to note that in recent years one such area which is getting increasing attention of banks in India for obvious reasons is social banking as policy level thinking at all levels are keen for inclusive growth. This is happening surprisingly not because banks are becoming more conscious of their social responsibilities but largely due to the revelation from recent research studies that these lending are safe and rewarding as against the generally held view that such lending is not only highly risky but also hardly remunerative. In fact it is truly surprising that of late it has been observed that lending to the poor is safe as recent success of some of the rural lending institutions in obtaining repayment of such loans has revealed and it has also been observed that such lending is becoming rewarding as because charging of higher rate of interest now has become feasible and acceptable to farmers and artisans. These radical changes in perceptions have helped developing constructive and radical policy guidelines to finance farmers and artisans and to shed initial inhibitions and other financial rigidities are gradually fading. In fact not only Indian banks but also foreign banks are increasingly participating with great interest in such lending. This naturally indicates that lending to poor is not only socially desirable but also economically rewarding if the same is conceived,structured,funded and institutionalized with well thought out policy guidelines.

## SELF-HELP GROUPS LED MICRO FINANCING INSTITUTIONS

It has also been rightly realized that such lending banks are required to take help of non government organizations (NGOs) and self help groups (SHG's) of social workers and farmers and artisans. Such external help is needed to reduce cost of delivery and also to provide much needed extension services to farmers and artisans. In recent years it has been widely accepted strategy of banks to develop and build relationship with micro financing institutions (MFI's) created by NGO's. However many experiments are still going on to identify suitable structure and appropriate funding strategy for MFI's.

In India several types of MFI's have grown over the years. However main types may be classified as follows:

# Self help groups promoted by non government organizations with federations at apex level and linkage with banks;

# SHG's formed by NGOs drawing institutional funds directly and lending to farmers and artisans directly;

# MFI's that are organized as cooperatives and assisting rural poor to develop employment

generating activities like SEWA & MACTS in Gujarat and Andhra Pradesh
# MFI's that are organized as non banking finance companies (NBFCs) and providing loans to artisans and farmers directly like Basix, and Share Microfinance ltd. Etc.

However these institutions are still in formative stages and obviously beset with many problems. Some of these are: a).Have no business orientation) lack accountability and management expertise, c) Funding problem as most of these are unable to raise fund from the market and private fund and donor funding generally is inadequate to undertake any commercially viable project to help the poor; d) difficult to develop coordinated policy and linkage as because these are location wise scattered and their mindset is also local centric and generally dole and subsidy seekers

Of late there is conscious effort made by the policy makers and social workers to tackle these issues and to make MFI's a sustainable institution to assist poor to undertake profitable business or farming. So much so some of them have not only become profitable organization but also could mobilize funds from market both Indian and foreign.
This is indeed a remarkable achievement and raised new hope for artisans and farmers. in today's scenario the need is to develop innovative and forward looking policies based on experimentation and ground work realities experienced by some successful MFI's. In this regard some of the recent experiments undertaken by NABARD and ICICI bank may be worth studying. These institutions have pioneered some innovative models and also undertaking continuous research on the same. It is true that Government of India and Reserve Bank of India both are keen to make this institution vibrant and help achieve the much expected goal of providing financial services to the poor.

In India NABARD first initiated the SHG- Bank Linkage Programmed in 1992 first as a pilot project and thereafter as a mainstream project in 1996. The programmed aimed at providing formal banking services to the rural poor by introducing linkage of SHGs with financial institutions to create savings and credit for rural poor. The program got tremendous support of banks over the years and so much so that as on March 2006 banks could link 22.38 lakhs groups and could disbursed about 11.4 K crores The details have been enumerated in Table I given below:

This is indeed an innovative method as it relies on people resources to be supplemented gradually from the banks resources. It creates self-intervention social and economic change through group leadership and grows on collective leadership and develops collective decision making capacity of down to earth people and utilizes this latent capacity for their upliftment. Obviously this has brought out not only social change but also given a wake up call to banks for coming forward to join hands with the poor not only for poverty alleviation but also develop more sustainable business model for them. So much so today commercial banks with more than 32000 rural branches have largest share(50%) of linking credit to poor through SHGs'. In the similar RRB's also have linked with SHGs to the extent of 38% of their credit to poor through their about 12000 branches The total picture region wise has been detailed out in Table II given below

In fact after considerable search and efforts banks have found in SHGs a sound and safe credit delivery system that is sustainable and could become cost effective also if handled judiciously and cautiously. However the rapid growth of SHGs within a span of 5-6 years has thrown up some serious challenges. These have to be addressed as fast as possible so that it may not become another infructuous instrument of delivery. A Task Force of Planning Commission has recently brought out that primarily these challenges could be summed up in two areas: 1.Capacity building of SHG members and 2.Developing adequate system of Monitoring of SHGs. These challenges are obviously surmountable and therefore any serious committee could address the same could suggest action plan to counter these challenges

Banks however need to comprehend that SHGs as conceived are self managed institutions. It has therefore to be nurtured upto that point when it acquires the capacity to become self managed group. This obviously implies that it has to be strengthened in all management areas particularly in credit and fund management. NABARD has initiated a pilot project called Computer Munshi to help setting up proper account keeping and helping credit management. These experiments have proven rewarding but these are not conclusive. This is building up social revolution and hence all types of facilitators have to be experimented and gradually some conclusive recommendation may emerge on the basis of such trials and experiments.

As revealed in the Table II there are regional imbalances in the development of SHGs and its spread. But this is largely due to variation of banks penetration ratio into rural households. It is therefore necessary for banks to improve their penetration ratio so that they could develop larger number of SHGs in less developed regions and wipe out the regional imbalances

Beside SHGs during the last few years banks, NGOs and social and political change agents have developed another institution all over the world to reach to the poor. This institution has been christened as Micro Financing Institution (MFI). though their number is fast rising and some of them under inspired leadership of banks particularly private and foreign banks have been found highly effective and generally pioneering delivery of credit to poor in sophisticated but comprehendible and acceptable to poor however in some states, a few of them have been found guilty of charging high rate of interest and also coercing rural poor to repay their loans.

However commercial banks and regulatory authorities have recognized that MFI in one form or the other is a viable model to lend to the poor. Despite keen interest of banks much progress has not been made compared to what could have been done if it could have been properly structured and funded by banks. Not that there is any dearth of experimentation but hitting the nail is still far away from the goal.

**GRAMEEN BANKS AND OTHER MODELS**

In this context it would be interesting to study some of the successful experiments made in our neighboring country Bangladesh and also in our country. In Bangladesh Grameen Bank model developed by Prof. Mohammad Yunus is worth noting. In fact many organizations in India like SHARE, MICROFIN ltd.and CASHPOR have adopted with some variation here and there. This model is based on:
# Homogenous groups formed at villages,
# Field staff of Grameen Bank facilitates group formation of villagers,
# Group members are provided with inductive program,
# Groups undergo Group Recognition Test to make each member conversant of all other

Members,
# After the Test membership is offered to woman member only,
# 8 joint liable Groups constitute CENTRE
# Centre meets at a defined time every week and a bank staff assist in conducting such meetings
# Loans are disbursed at the Centre,
# Every member compulsorily deposit Rs. 10 (TAKA)
The most significant part of this model is joint liability, compulsory deposit and high loan recovery.

Another successful MFI in India has been the Cooperative Development Model (CDF) of Hyderabad. It has been registered under the NEW Generation Cooperative Act 1995. the main features of this are as follows:
# Each CDF consist of 300 members of the same village,
# Initially it started with smaller units and now it has extended itself into large units,
# These created women thrift cooperative and men thrift cooperatives consisting of small groups (10 to 50) members to facilitate better management and supervision
# the group nominates group leader and leader is seen as the face of the group
# these groups register under the New Generation Cooperative Act and function as per the provision of the Act.

These Models have proved effective and worth emulation as they have been able to outreach successfully and also have an average loan repayment of above 90 %.

**EXPERIMENT UNDER STUDY BY ICICI BANK**

It would be also interesting to study in this regard experimentation undertaken by one innovation oriented bank in India viz., ICICI Bank. This bank despite its very recent origin has embarked upon many new strategies to make banking customer centric and enhancing space and time to reach distant and last call of customers. The strategic partnership models that ICICI bank has been experimenting could be summed up as follows:

- Equity Participation with MFIs

- Funding total loan requirements
- Securitization of loans funded by MFIs
- Appointing them as Agent to reach local poor
- Making them agent to sell specific product of the bank
- Jointly promoting MFIs by providing intellectual and financial support to interested social workers

No doubt these experimentations by the bank are not only comprehensive but also laudable. These experiments have revealed the potentiality of these institutions to become effective, economic, and viable agent of banks to reach poor in any part of the country. It has also been observed that these organizations are helping banks to reduce transaction costs, provide technology and manpower support with ease with much less operating costs. These institutions have been found highly suitable and adjustable to reach large number of farmers and artisans without creating any brick and mortar support. As revealed by BASICS (one of the leading MFI) and the World Bank that majority of rural households in India lack access to deposits as well as credit facilities and therefore there could not be any further convincing proof that banks in India need appropriate agency to reach the poor both in rural and urban areas and in this role of MFI's if structured and funded appropriately would certainly be rewarding and satisfying.

**SOME LATENT CHALLENGES**

It is true that it has also been observed in recent years that these agencies also suffer serious shortcomings and for that reason need in- depth review. These have been found guilty of charging high rate of interest and also for developing unhealthy practices and procedures of lending and coxing and harassing for repayment of loans. These obviously deterred some banks to align with these institutions for sometime. But now it is an acknowledged fact that these institutions are at the centre stage of Indian financial market as viable and sustainable tool to lend to the poor. But these institutions are yet to have an ideal structure and strategy and needs alignment with the available technology and expertise to be groomed as an ideal institution to provide comprehensive support to the poor. In fact micro financing has been recognized all over the worlds as an effective and efficient model to finance the poor but

MFIs are yet to become an accepted and ideal model to deliver such finance. Though the potential market for micro finance as estimated by Consultative Group to Assist the Poor(CGAP) is around 5 billion people, the efforts so far adopted by banks to develop, structure and strategize MFI's appears to have not taken seriously commensurate to the potentiality that exist in this area.

A closer study would reveal that these institutions need some radical transformation to become a fit institution to grasp the challenge to provide not only finance to the poor but share the risk of business with farmers and artisans and thus make their farm and firm a viable and sustainable institution. The areas that need immediate attention to transform these institutions may be summed up as follows:

a) Widen and Broaden Ownership Pattern in a comprehensive and inclusive basis based on Partnership Model;

b) Extend Financing Pattern by developing new models to fund such institutions through not only internal deposits and shares but also developing innovative instruments to raise funds from market both national and global;

c) Avoid high transaction costs by adopting better technology and creating efficient and trained management team;

d) Conventional thinking of policy makers that poor people seek subsidy and relief loans should be done away with and steps to be taken to make them proud and conscious of their latent strength both to perform and deliver if level playing field is provided to them;

e) System of political patronage and providing small loans to gain temporary patronage for one objective or the other should be avoided as these have been breaking their backbones over the years;

f) Financing farmers and artisans should not be seen as social obligations but has to be looked as pure business opportunity;

g) Dependence on grants howsoever lucrative has to be avoided as it builds crutches for farmers and artisans and create mental block in them in becoming entrepreneurs; and

h) help them to develop institutions where they remain accountable not only to themselves but also the society, government and regulatory authority as that way only they can shed century old hangover to de depend on doles and subsidies.

It is now well recognized truth that involvement of any institutions in delivering their services and products to their customers becomes more effective and less costly if it is partly or fully owned by customers themselves. More the ownership is widened and spread out among the present and expected customers the greater is the effectiveness of such institutions. This is all the more felt when it has to be related with unorganized sector of the community.

**INITIATIVE OF NABARD**

National Bank of Agriculture and Rural Development (NABARD) has taken some bold and innovative steps to bolster up the program of developing SHG's and MFI's to strengthen institutional support to lending to farmers and artisans. In this its recent initiative to set up a MFI in conjunction with few banks is certainly a healthy move. This MFI to be called Nabfins will have an initial authorized capital of Rs 100 crores. The objective of this institution is said to offer credit to farmers at competitive rate and shall extend financial advisory services to farmers and artisans. This is no doubt pious objective but one can easily visualize the helplessness that would soon be felt by this institution when it will face the enormous and vast challenge that is star kingly standing on the path of such institutions with such laudable objective but with so poor resources even when supported by the proposed financial inclusion fund of Rs.500 crores of Govt.of India. However this move is welcome for reasons that now it has been officially recognized that MFI has to be supported through equity finance and lending has to be competitive and not at usurious rate that has become almost a must for these institutions at present under the pretext that the operating cost to lend to unorganized sector is always high and also the fact that such lending should always be along with advisory services.

However the recent move of the Govt. of India to come out with a micro finance bill that may exclude MFIs registered as companies from the purview of the proposed MFI Act is obviously will hit the movement very badly... It is not only surprising but highly deleterious move as it has now widely recognized that MFIs to be successful should adopt company form of incorporation and avoid non profit or trust form of registration to become viable and sustainable institution to lend to farmers and artisans. It is therefore certainly backward and infructous move of the Govt. and it is certainly surprising that even the Select Committee of the Parliament dealing with the Bill has made no comment on this. At one time when NABARD which is considered as pioneer in strategizing lending to the poor is going to set up a company with some commercial banks and at the same time Govt. of India is moving a bill to prohibit MFI to register as limited company. In fact our country abounds in such inconsistent policy decisions and for that reason desired level of growth and implementation of policies become difficult. It is therefore necessary to develop some healthy coordination in between them.

**FLOATING A NEW MODEL OF MFI**

The need to develop MFI as incorporated body is to help them to avail equity capital from the market as present dependence on loans have made their operation costly and consequently their lending rate has also become exorbitant and this has not been appreciated by any one though supported by RBI in a limited way.. In fact the unexplored opportunity to draw fund from the market at a reasonable cost need to be explored. Worldwide it has now been recognized that MFI's are viable as their business is based on competitive norms proven by two healthy features. Their non performing asset ratio is even lower than the ratio of commercial banks lending to organized sector and this has been achieved by these institutions despite charging comparatively higher interest rate and obviously retaining high margin with them. Moreover by converting these institutions into a corporate body it would be possible to float various types of funds to attract charity and investment funds to participate. NGO scheme that depends upon doles and charity with almost no accountability will be replaced with this healthy investment policy of charity, subsidy and endowments instead of frittering away such funds in doles and no return. Further it would help garnering savings of people and this would be again a source of low cost funds. One therefore fails to comprehend the reason for debarring MFI to become a corporate body. It is therefore to be realized sooner the better that such institutions should only be a corporate entity and abhor the idea of becoming a trust, Cooperative or even a registered society.

It is true that in recent months these institutions got a jolt due to their coercive collection practices that lead spurt of suicides among borrowers. However this has happened not only due to unbridled power and rising greed to grow fast and take advantage of helpless poor. In fact these institutions so far worked almost without assessment of risk offered services and fund on the basis of peer pressure only. This has obviously caused a death knell to these institutions.

It has therefore become necessary to undertake some rethinking to check this malaise and collapse of these institutions. In fact it is necessary to develop comprehensive risk sharing partnership model for such institutions... It is high time that policy markers and strategist should realize that inclusive finance is feasible and sustainable only when the risk is shared with the participants (farmers and artisans) by financial institutions as most of them (farmers and artisans) are not able to assess risk on their own and are mostly subjected to vagaries of nature and volatility of market without any power (both financial and physical) to comprehend and safeguard their interest in such situation. They suffer heavily in such a situation without primarily responsible for the same. Some efforts have been made by introducing some crop insurance policies but these are more or less haphazard and hardly meet the loss. In fact such ameliorative steps can be taken only by the financing institutions if they start sharing risk of such enterprises along with entrepreneurs. Not only they are much more equipped financially as well as technically and thus not only qualified to assess risk but also to bear such risk and to take mitigating measures in the form of commodity derivatives and risk insurance.

The model that can safely be tried would be based on the following special features:

.Equity participation with commercial banks;

b) Equity participation with farmers and artisans to be created gradually based on initial funding through venture capital to be contributed by the financing bank;

c) Lending on profit sharing basis mopping up savings as deposits, shares and debentures;

d) Providing insurance by developing derivatives to mitigate risk arising due to nature or market volatility;

e) Developing structuring collaterized debt instruments to mop up charity funds and savings of institutions and people;

f) Creating kiosk for gathering and distilling technical and marketing information to farmers and artisans; and finally

g) Organizing and training a management team for running the business- farm or firm.

h) Developing profit and loss sharing ratio based on the contributions both physical and financial of all participating partners in the farming and or in business run by farmers and artisans.

This model of partnership of Bank, MFI and FARMERS/ ARTISANS would create a viable and sustainable organizations to not only fund the poor and help them to manage their farms or farms with adequate support of modern technology and expertise but also to make the unorganized sector organized and thus become true entrepreneurs and forget doles and subsidies,. It is true to translate this to reality lot of homework and dedication of selfless NGOs policy makers and financial institutions will be needed but nothing is impossible if people see the benefit and comprehend the same and also get assured of adequate support of dependable institutions like banks, regulatory authorities and government of the country

In fact the recent initiative taken by the RBI to appoint correspondents in villages to cater to the financial needs of villagers. Brazil has already shown a way for this by appointing corner shops of their villages as bank correspondents. For this banks have provided both technologies and marketing support to these stores. Similar efforts could also be undertaken in India by banks to outreach poor and provide universal financial accessibility—a dire need for the country.