Microfinance Practices of Bandhan Bank: A Study of Borrower Outreach and Loan Utilisation

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Abstract: *"Bandhan" is the most popular and trusted brand among poor and lower middle class women of West Bengal, Assam and Bihar. Chandra Shekhar Ghosh founded Bandhan Financial Services in 2001. He realised that lending to small entrepreneurs can be a profitable business. In 2009 Bandhan was registered as a non-banking financial company providing selected banking services. In 2015 Bandhan commenced operations as a bank. Before converting into bank, it was the largest microfinance company in India. It has a large base of borrowers for the quarter ended 31st March 2018, Bandhan Bank reported a net profit of ₹388 crore, representing a year-on-year increase of 20.3% from ₹322 crore in the corresponding quarter of the previous year. For the full financial year 2017–18, the Bank reported a net profit of ₹1,345.6 crore, an increase of about 21% over the previous year. Non-interest income grew 57.4% at ₹ 203 crores for the quarter ended 31st March 2018 against ₹ 129 crores in the corresponding quarter of the previous year. Net interest income for the quarter ended 31st March 2018 increased by 25.2% to ₹863 crore, compared with ₹689 crore in the corresponding quarter of the previous year. For the full year, the annual report states NII of ₹3,032.24 crore for FY 2017–18 compared with ₹2,403.50 crore in FY 2016–17.*

The paper studies the working of the bank, the nature of microfinance of Bandhan, the role of doorstep service centres, analyse the utilisation pattern of micro loans and the various reasons for success of the Bandhan Bank. The point of difference in its functioning when compared to other microfinanciers is their doorstep service centre is given much focus on. From a small NGO to a NBFC and into a bank today it has gone miles before being the largest microfinance company in its preceding glorious years.

Keywords: Microfinance, Bandhan Bank, Financial Inclusion, Doorstep Service Centres, Group Lending, Women Borrowers, Loan Utilisation

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Introduction

Bandhan Bank Limited is an Indian Banking and financial services company, headquartered in Kolkata, West Bengal. Bandhan started as a not-for-profit organisation. It evolved from Bandhan, a microfinance-focused not-for-profit organisation established in 2001. It was started with the objective of financial inclusion and women's empowerment by highlighting sustainable livelihood. Bandhan Bank Limited received its banking license from RBI on 17th June 2015. The banking regulations were commenced by the Bank from 23rd August 2015. Bandhan Financial Services Limited (BFSL) is the parent entity and it received RBI's in-principle approval to establish a bank. As per RBI Guidelines, BFSL established Bandhan Financial Holdings Limited (BFHL) as a Non-Operating Financial Holding Company. BFHL, in turn, incorporated Bandhan Bank Limited as its wholly owned subsidiary. Sri Arun Jaitley, Union Minister for finance inaugurated the Bank on 23rd August 2015 in Kolkata. Bandhan Bank started with 501 branches, 50 ATMs and 2022 Doorstep services centres on day one. Presently Bandhan Bank has 3799 touch points consisting of 893 bank branches, 2696 doorstep service centres and 433 ATMs, serving more than 12 million customers, thereby creating 2,523 banking outlets. The bank has mobilised deposits of more than ₹ 27233 crores with 27300 employees. Currently the savings bank account interest rate is 6% for balance above ₹ 1 lakh and 4% for balance up to ₹ 1 lakh. For term deposits, the maximum interest rate offered is 7%. Microfinance can support financial inclusion when credit is accompanied by savings, capacity building and suitable institutional mechanisms **(Ledgerwood, 1999; Morduch, 1999)**.

Objectives of the Study

1. To highlight the working and growth of Bandhan Bank
2. To study the nature of microfinance services offered by the bank
3. To examine the role of doorstep service centres in expanding access to microfinance.
4. To analyse the utilisation pattern of micro loans among the selected beneficiaries.
5. To find out the reasons of success of Bandhan Bank's microfinance model.

Methodology

The study is based on both primary and secondary data. Primary data is collected regarding microfinance of the Bank from Jorhat District, Assam. Primary data were collected from 35 selected microfinance beneficiaries in Jorhat district, Assam. Information was collected through a structured questionnaire, personal interaction with beneficiaries and discussions with selected officials of Bandhan Bank's microfinance service centres. The Jorhat-level findings are based on the researcher's field survey.

Secondary data were collected from Bandhan Bank annual reports, RBI publications, NABARD reports, newspaper reports, official documents, and other relevant books and journals. The study uses descriptive analysis to understand loan utilisation, borrower behaviour, repayment practices, accessibility of services, and the role of doorstep service centres. T

Limitations of the Study

The present study is limited to selected microfinance beneficiaries and selected service centres in Jorhat district of Assam. The sample size of the study is limited to thirty five beneficiaries. Therefore, the findings cannot be generalised for all the customers of Bandhan Bank in Assam or India. The study is based partly on the response of beneficiaries and bank officials and therefore the answers may be influenced by personal opinion and memory of the respondents. The financial figures and institutional details used in the study relate to the period of study and may change over time.

Need of Microfinance

Microfinance is very important for a developing country like India where a large number of poor people are still outside the formal banking system. Poor households require small amount of money for purchase of raw materials, petty trade, education of children, medical treatment, agriculture, livestock, repair of house and other family needs. In absence of institutional finance, they depend upon local money lenders, relatives and informal sources. Such sources generally charge a high rate of interest and the borrowers remain under financial pressure for a long period.

Microfinance provides small loans to poor people without asking for traditional collateral security. It tries to reach the people who cannot easily approach commercial banks. It is especially useful for women, small vendors, daily wage earners, home based workers and small entrepreneurs The main purpose of microfinance is not only to provide loan but also to bring poor people under the banking habit. Through regular meetings, repayment of instalments and savings activities, the beneficiaries become familiar with formal financial services.

Microfinance can become an important tool of financial inclusion if the borrowed money is used for productive activities. A small loan can help a woman to start a tailoring unit, vegetable business, food processing activity, small shop, beauty parlour, livestock activity or any household-based business. In this way, the borrower can earn additional income and improve the economic condition of the family. But if the loan is used only for consumption purposes, it may create repayment pressure without creating any additional source of income.

Bandhan Bank seeks to offer its banking products and services to urban, semi urban and rural customers alike. It is a Bank for all but focuses to meet the financial needs of people who are overlooked by the formal banking system. It provides better education, health care and self-employment opportunities. Women’s empowerment through microfinance depends on social context, control over funds, and meaningful economic participation **(Kabeer, 2005)**. There are four types of Micro banking loans

1. **SUCHANA**: Under this scheme minimum loan amount is ₹ 1000 with a maximum of ₹ 25000. This is provided to co-owned, co-run business loan with other aspiring women. It is an easily accessible group capital at doorsteps and conveniently repayable with other group

members Loan is tenured in 1 year. The current interest rate is 18.40% per annum. Bank provides simplified doorstep documentation for hassle free loan processing.

2**. SRISHTI**: It is a business loan where home-based business can be extended to cottage industry by hiring more workers, buying better equipments and raw materials. It is a group based individual loan. Loan amount varies between ₹ 25000 to 100000

3. **SURAKSHA**: An existing micro loan customer can access funds conveniently at doorsteps to support family's emergency health needs without any stress. Minimum loan amount is ₹ 1000 with a maximum of ₹ 10000. The current interest rate is at 10.52% p.a.

4. **SUSIKHSHA**: It is an educational loan. An existing micro loan customer of the Bank can access funds conveniently at doorsteps. The minimum loan amount is ₹ 100000 and maximum is ₹ 1000000 with a rate of interest of 10.52% p.a.

Growth of Bandhan From Ngo To Bank

Bandhan started its journey as a small organisation with the aim of helping poor women through micro credit. At the initial stage, it worked mainly with women borrowers in West Bengal and gradually expanded its activities to other states. The organisation understood that poor women are generally regular in repayment if they get proper support and easy access to credit. This understanding became the base of Bandhan's microfinance model.

Bandhan Bank expanded its banking operations after receiving the banking licence **(Bandhan Bank Limited, 2018)**. The journey of Bandhan from an NGO to a large microfinance institution and finally into a bank is a matter of great importance in the Indian banking sector. It shows that financial services for poor people can also be operated on a large scale. Before receiving banking licence, Bandhan had already created a strong customer base in rural and semi urban areas. After becoming a bank, it got the opportunity to provide deposit facilities, savings accounts, fixed deposits, MSME loans and other banking products along with micro loans.

he success of Bandhan is based on its close relationship with customers The bank did not remain limited to the formal branch system. It continued the microfinance model through doorstep service centres and field employees. The borrowers therefore feel comfortable in approaching the bank because the employees are available near their locality and understand their local needs. RBI continued efforts to expand financial inclusion during 2017–18 **(Reserve Bank of India, 2018)**.

MSME Loans:

MSME loans help to create income generating assets. Samriddhi Business loan fulfils entrepreneurial dreams. Maximum loan amount offered by bank is 25 lakhs. The repayment time is extended to 5 years with 60 monthly instalments while business starts generating profits at interest rate of 16% p.a.

Importance of Doorstep Service Centres

The doorstep service centre is one of the most important features of Bandhan Bank. It differentiates Bandhan from many other formal banks. Poor and low income borrowers often hesitate to visit a bank branch because they feel that banking procedures are difficult. They may also face problems of distance, transportation cost, lack of time and lack of proper documents. The doorstep service centres reduce these difficulties.

The service centres are located near the borrowers and the staff members maintain regular contact with them. The women borrowers can obtain information regarding loan, repayment and renewal of loan from the nearby centre. The bank employees visit the field and attend group meetings. This close contact creates confidence among the borrowers It also helps the bank to collect weekly instalments regularly.

Doorstep service is very useful for women borrowers because many women have household responsibilities and cannot travel frequently to a distant bank branch. By providing services nearer to their residence, Bandhan has made the process of borrowing easier. The system may be called customer friendly because it saves time and reduces the inconvenience of the borrowers.

However, the doorstep model should not only focus on loan disbursement and loan recovery. The employees should also guide the borrowers about proper use of funds, savings, insurance, digital payment and financial planning. This will make the microfinance service more useful for the long term development of the beneficiary families.

The bank's financial performance and micro-banking operations are reported in its annual reports **(Bandhan Bank Limited, 2017 and 2018)**.

Status of the Bank in 2017

Revenue – ₹ 4320.12 crore
Operating Income – ₹ 1704.47 crore
Net income – ₹ 1111.95 crore
Total Assets – ₹ 30236.09 crore
No. Of employees – 24220
Capital ratio – 26.36%

The bank reported 20% rise in profit at ₹ 388crore against ₹ 322 crores, (Atmadip Roy ET Bureau, 27 April 2018) gross non-performing assets ratio improved to 1.25% at the end of the fiscal year, from 1.59% in the preceding quarter. According to the Bank's FY 2017–18 financial disclosures, the Bank recorded strong growth in total income, net interest income, deposits, advances and profitability. The annual net profit for FY 2017–18 was ₹1,345.6 crore.Bandhan Bank has 1.1 crore customers (28% CASA) and low NPA. The bank has been making very good progress. The bank wants to grow in micro credit through doorstep service centre, the bank provides small credit and small deposit services to the customers. There are 887 bank branches across the 33 states.

Bandhan Bank is the most popular name among the poor and lower middle-class families of the state. A good number of branches and service centres have been openedin a district. There are two types of office premises - one is a full-service Bandhan Bank branchand other is microfinance service centres. In the banks in an average of approximately ten officialsand microfinance service centres accomplices an average of seven employees. In Jorhat district such centres are located in Pulibor, Rarowia, Lichbari, Kenduguri, Lahdoigorh and in Teok. There are two clusters in Assam: one is upper Assam and other is lower Assam. In upper Assam cluster there were as many as 10 microfinance centres in Tinsukia, 12 in Dibrugarh, 12 in Sibsagar, 2 in Charaidew, 9 in Jorhat district. In January 2018, there are 450 nos. of employees in upper Assam cluster. Newly appointed employees undergo training for a period of 3 to 7 days. A single microfinance service centre can provide 2 crores to 2.5 crores financial assistance to the loanee. They can easily borrow from microfinance centres by submitting easily accessible documents. Bank officials render doorstep service to the loanee. It may be termed a s a convenient and simplified loan process. A single borrower can borrow money as many times as he wants irrespective of his loan in other bank if he is regular in weekly instalment payment. According to the information provided by the selected microfinance service-centre officials during the field survey, the Jorhat centre reported a very high repayment rate during the study period. There is no NPA in Jorhat, i.e. 100% recovery. Weekly instalment repayment is mandatory for all loanee. However, this observation is limited to the selected centres and should not be interpreted as the official NPA position of Bandhan Bank as a whole.

Group Lending and Repayment System

Group lending is the basic strength of the microfinance model of Bandhan Bank. Under this system, women borrowers form a group and take responsibility for regular repayment of loan instalments. The group members meet at regular intervals and the weekly instalment is collected from them. The responsibility of repayment is not only individual but also collective in nature.

The group system creates discipline among borrowers Every member knows that delay in repayment may affect the other members of the group. Therefore, group members encourage one another to pay the instalment on time. This reduces the risk of default for the bank. It also helps the bank to provide loans without demanding valuable collateral security from poor borrowers

The system has both positive and negative sides. On the positive side, it creates mutual trust, repayment discipline and regular contact with the bank. On the other side, if one member faces a health emergency, loss in business or family problem, the entire group may face pressure. Therefore, the bank should consider genuine difficulties of borrowers and provide suitable support in emergency cases.

Findings

Most of the beneficiaries borrow for consumption purposes. Out of thirty-five beneficiaries of my sample only seven of them utilised the fund in most productive manner. They successfully raise their income by investing the money in various small business. The key to the success story of the bank is group responsibility of the beneficiaries and team responsibility of the employees. Secondly the doorstep service has also contributed towards the success of the bank. The office hours of Microfinance centres start at 7.30 A.M and closes at 3.30 P.M. The group of the loanee is responsible to pay the weekly instalment on time otherwise all are penalised. The present lending rate is 18.88%. a large number of poor people bear such a heavy burden of interest rate without any hesitation. They repeatedly borrow from microfinance service centres because the entire process is painless. They just visit the centre, receive the money and repay the loan instalment weekly. But it is a matter of serious concern that 80% of the loanee spend the loan amount in unproductive activities. A single centre daily collects ₹18 to 20 Lakh as loan recovery. Loan amount varies from ₹ 10000 to ₹ 100000.

The study reveals that Bandhan Bank has been successful in reaching a large number of poor and lower middle class women through its microfinance service centres. The borrowers prefer Bandhan because the loan process is simple, the documentation is comparatively easy and the service centres are available near their localities. The borrowers also have faith in the staff members because they meet them regularly during weekly meetings.

The study also reveals that the high repayment rate of microfinance loans does not always mean that the loan has been used for productive purpose. In the present sample, only seven beneficiaries out of thirty five used the loan amount in income generating activities in a proper manner. The remaining beneficiaries used the money mostly for consumption, family requirements, treatment, repayment of old loans, social functions and other urgent needs.

This finding is important because microfinance can bring real development only when the loan helps in increasing income. If the borrower takes repeated loans only to meet consumption expenses, the repayment burden may become heavy. The borrower may remain regular in repayment because of group pressure, but her financial condition may not improve. Therefore, the bank should give greater attention to the utilisation of loan amount along with recovery of instalments.

The study also indicates that women borrowers require more guidance regarding small business activities. They may have the willingness to start a business but they may not have proper knowledge about market demand, cost of production, pricing, record keeping and profit calculation. Training and financial counselling can help them to use the loan more effectively.

Suggestions

On the basis of the study, some suggestions may be given for improving the effectiveness of microfinance services. First, Bandhan Bank should provide basic financial literacy training to the borrowers before sanctioning the loan. The beneficiaries should understand the importance of using borrowed funds for productive purposes and the need to maintain proper repayment discipline.

Second, the bank may organise short training programmes for women borrowers who want to start small businesses. Such training may include basic knowledge of business planning, purchase of raw materials, pricing, profit calculation, saving, digital payment and market linkage. This will help the borrowers to convert the loan into an income generating asset.

Third, the bank may maintain a separate record of productive and non-productive utilisation of loans. This will help the bank to understand whether the loan has actually improved the income level of borrowers The field officers can identify successful borrowers and motivate other members of the group by showing practical examples.

Fourth, emergency loans for health treatment, education and family crisis should be treated separately from business loans. A poor family may genuinely require money for emergency purposes. But repeated use of business loans for consumption can create financial problems in future. Therefore, proper counselling is necessary at the time of loan sanction.

Fifth, the bank may encourage savings along with borrowing. If borrowers develop a regular savings habit, they can manage small emergencies without depending completely on loan. Savings, insurance and financial literacy should go together with micro credit.

Conclusion

Bandhan Bank has emerged as an important institution in the field of microfinance and inclusive banking in India. Its journey from a small NGO to a NBFC and then into a full-fledged bank is remarkable. So far, they are able to manage their operations efficiently. The founder Chandra Shekhar Ghosh takes an active part in the running of the bank. As MD and CEO of Bandhan, he leads from the front. Before converting into a bank, it was the largest microfinance company in India. The bank has shown that poor and low income households can be served through a structured financial model. Its strong presence in West Bengal, Assam, Bihar and other states has made it a trusted name among women borrowers and lower middle class families.In Assam all needy women both in rural and urban areas know this brand. “Bandhan” is the most popular name among them.

The major strengths of Bandhan Bank are its large borrower base, group lending system, regular weekly repayment method, simple documentation, local service centres and doorstep banking facilities. The bank has been successful in maintaining close contact with borrowers through its microfinance service centres. The group responsibility of borrowers and team responsibility of employees have played an important role in maintaining regular recovery of loans.

The study in Jorhat district shows that the service centres have made credit easily available to poor women. The borrowers prefer Bandhan because the loan process is comparatively painless and convenient. The bank staff members are available near the localities of borrowers and the weekly collection system ensures regular contact. This is one of the major reasons behind the popularity of Bandhan Bank.

At the same time, the study also points out an important concern. A large number of borrowers use the loan amount for consumption and non-productive purposes. Only a few borrowers are able to use the loan successfully for small business and income generation. Therefore, the real success of microfinance should not be measured only by the number of borrowers, rate of recovery or profit of the bank. It should also be measured by the increase in income, savings, assets, financial awareness and standard of living of the beneficiaries. It seems that no one is responsible for proper utilisation of fund. The amount is sanctioned by the doorstep agents and they collect the recovery amount strictly from the groups. Here the popular Indian quote "*Rinog Kritwa Ghritong Pibet*" seems as misused. Once you borrow than the borrowed amount should be utilised for generation of income so that you can consume ghee (the balanced diet) daily. But there is a question of doubt how far the loanee are successful in doing the same.

Microfinance can become a powerful instrument of development when credit is combined with financial literacy, entrepreneurship training, business guidance, savings habit, insurance awareness and proper monitoring of loan utilisation. Bandhan Bank has already created a strong foundation through its doorstep service model. With more focus on productive use of loans and livelihood development of borrowers, the bank can make a greater contribution towards financial inclusion and socio-economic development of poor households.

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