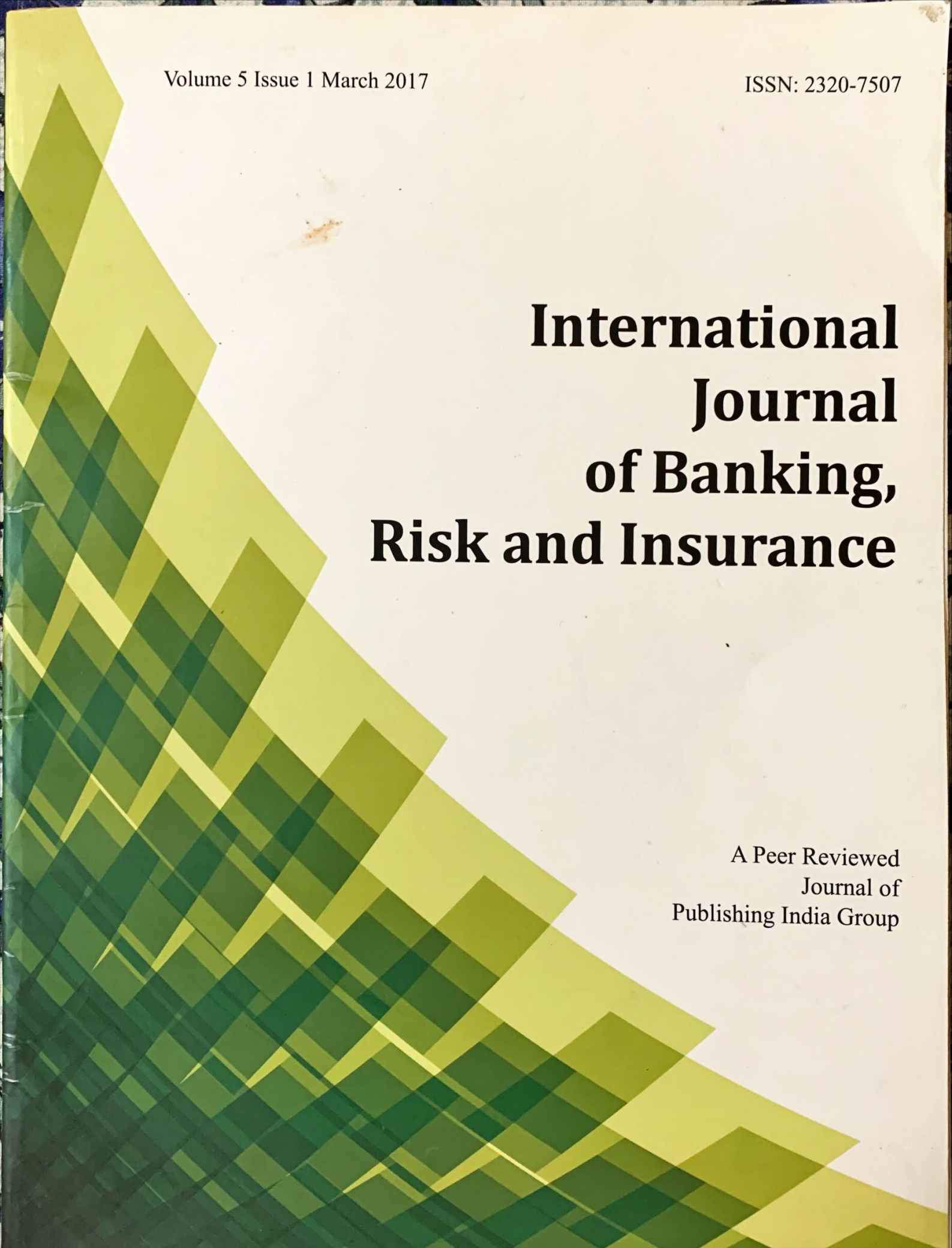


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Analysing the Sustainability of Private Institutions Contributing towards Financial Inclusion: The Case Study of Bandhan Bank

Sayanee Nayak*

Abstract

Poverty is the prime factor for India's backwardness. In order to eliminate poverty, unemployment needs to be minimised for achieving economic growth and development. Various studies have revealed that participating in the financial system, people get access to credit which helps them start their own businesses and contribute to the greater good of the society thereby reducing income inequality and accelerating economic growth. Financial inclusion starts with having a bank account at first. The 2014 Global Financial Inclusion database states that 21% of the world's and two-thirds of the South Asia's unbanked population resides in India¹. Therefore, India needs increased penetration of banks into the unbanked areas. The microfinance sector serves the disadvantaged section of the society in these areas with short term credit, where Bandhan Financial Services Private Limited has achieved success with 0.1% non-performing assets (NPA). But, sustainable development requires better financial services, i.e. credit, deposits, remittances and insurance which only a bank can give. To extend the geographical extent of banks, Reserve Bank of India (RBI) had granted "in principle" approval to two applicants of banking license on 2nd April, 2014 which was valid for 18 months, following which in 2015 India witnessed the birth of two new banks, one being the Bandhan Bank. This paper aims to study the sustainability of Bandhan Bank which aims at working towards inclusive growth after achieving success as a microfinance institution (MFI).

Keyword: Financial Inclusion, Microfinance, Bandhan Bank, Sustainability

¹ Global Findex, published in June, 2015

Introduction

"While delivering microfinance services, we realize that it is not the last word for development of the poor. There is lot of other support that the poor need for their holistic development."

Mr. Chandra Shekhar Ghosh, Chairman and Managing Director, Bandhan Bank

Financial inclusion can be a powerful accelerator of economic progress, and can help achieve the goals of eliminating extreme poverty and building shared prosperity². Therefore, economic development calls for finance as the powerful intervention. It has been witnessed that financial exclusion is responsible for social exclusion in the bigger scenario. The government of India (GoI) along with the RBI has taken various steps for providing formal finance to various disadvantaged sections of the society but the penetration level is not satisfactory. Raghuram Rajan Committee back in 2008 had proposed restructuring of the Indian Banking System by setting up of private sector small finance banks and bestowing appropriate legal status to channels like telecom companies to become regulated financial intermediaries as the number of banks had to be increased in the unbanked areas to catalyse financial inclusion process. Year 2015 has been a landmark year where various institutional initiatives were taken by the GoI:

- Two new private sector banks started their banking operations namely Bandhan Bank and IDFC Bank
- Eleven payment banks (PBs) were set up of which four were telecom companies (Aditya Birla Nuvo,

² Inclusive Finance India Summit, 2015

* Faculty Member, UG and PG Department of Commerce, Shri. Shikshayatan College (Under University of Calcutta), West Bengal, India. Email: sayanee.nayak@gmail.com

This would again prove to be a potential competitor, especially at the rural and semi-rural areas for Bandhan bank.

Infrastructural Challenges

Availability of electricity in the interior areas of Indian rural sector along with internet network coverage is a mandatory criterion to make full-fledged use of core banking system which is used by all other banks, irrespective of its type.

Consolidation of PSBs

As an effort to adopt Basel III regulations and stringent capital adequacy norms by March, 2019, RBI has taken a step to merge the problematic PSBs. Such merger would increase their size and together with more infusion of funds from the government would prove to be a challenge for the new players like Bandhan Bank.

Road Ahead

If we look at the positive aspects of Bandhan Bank, it has been able to justify 'financial inclusion' in its truest sense. It has created profit earning avenues not only for Mr. C. S. Ghosh but also for the people who are associated with it, - be it the employees or the customers that it transacts with. This fits the definition of "social entrepreneurship" as the tagline rightly suggests "*Apna Bhala, Sabki Bhalai*" (growing with the growth of others). This creates an expectation among the stakeholders that it will not let go of any opportunity that comes along its way to be the shining star in the banking industry. However, it is not a fool proof system that would work effortlessly without any ups and downs in its path. Therefore, winning over the weaknesses by building on its strength and overcoming the challenges by taking advantage of the opportunities would make Bandhan Bank sustainable.

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