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Bandhan: The Making of a Bank

An engaging story on the genesis of Bandhan as an MFI and its progression into a bank

By: [Madan Sabnavis](#) | Updated: August 14, 2016 8:18 AM

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The name Tamal Bandyopadhyay is synonymous with banking and his views on any aspect of the subject are compelling. From being a journalist to a banking specialist, whose insights compare well with any banking analyst from an investment bank, Bandyopadhyay has moved on to becoming an accomplished author. He wrote a biography on HDFC Bank to begin with, and followed it up with a superb investigative book on the Sahara story. His latest book is on the Bandhan Bank, which is probably one of the more interesting cases of an MFI-turned-commercial bank, with the RBI being convinced that it can add value in the area of inclusive banking.

Bandyopadhyay starts by saying that while he has links with the bank, this is not a biography, but a narrative of the creation of Bandhan Bank, hence making it clear that it's not a sponsored book. He initially gives us a background of the creation of the MFI, where Chandra Shekhar Ghosh took his chances. Ghosh had actually seen women borrow R500 everyday from a lender and pay it back in half a day with an addition of R5. One can calculate the implicit interest rate on such a deal if R5 is reckoned as a half-day payment, which would be R10 a day. But the women did not mind, as they felt they had earned enough on the initial R500 to pay R5 interest. Thus germinated the idea of an MFI, and the creation of Bandhan, which went on to become one of the most successful institutions, and was finally vindicated by the faith reposed in it by the central bank in granting it a banking licence.

The road was bumpy and the enterprise grew with a set of committed colleagues who were with Ghosh from 2002 onwards. Conditions were tough continuously, as they had to deal with the challenge of availability of funds that led to the building of a culture of parsimony and high discipline. This remains the hallmark of the bank today, where attention is paid to costs, discipline and hard work. From what Bandyopadhyay has painted, the bank is not a liberal organisation from the point of view of being employee-friendly, and it's only those who are fully committed to doing social good in the banking field who find this culture palatable. Compared with most organisations that are moving towards being more employee-friendly, with easier working hours and free time to rejuvenate the mind, Bandhan is a tough taskmaster. But the fact that there are a large number of employees here does show that the model works.

Some of the tales told by Bandyopadhyay about bringing in technology in the MFI are quite droll, especially the tryst to usher in technology. Ghosh and his team had to go about explaining the basics of computers and clarify that a 'clear all' instruction did not mean that the screen had to be cleaned with a cloth and also that computers did not have to be locked in cupboards at the end of the day. The distance that had to be covered by Ghosh to reach out to his employees, as well as the lowest-income groups to make them conscious of borrowing, was evidently long.

Towards the end, the writer has a chapter on both Vijay Mahajan of Basix and Vikram Akula of SKS to allow the reader to draw inferences from their stories. They could not last after the AP scandal came through and while Bandhan was fortunate not to be affected, being based more in the eastern part of the country, these two leading MFIs encountered serious problems of existence.

However, Bandhan had to face other challenges in its evolution. First, it had to fight the all-pervasive institution of chit funds in Bengal. Next, given the set-up and the concentration in the interiors, getting honest people to work was an issue, and this is what led Ghosh to closely monitor all activities and micro-manage affairs, which has become a habit today. Third, the bank also had to face the nightmare of an income-tax raid, being one of the largest tax-payers in the state. Fourth, the initial collaboration with the ASA of Bangladesh faced a different set of issues concerning poaching, which had to be addressed. Further, Bandhan had to continuously fight hard to ensure that there was no trade unionisation, having over 14,500 employees. But these were addressed well by Ghosh.

Bandyopadhyay also provides an almost day-by-day run-up to Ghosh getting a banking licence, competing with other big names like IDFC and L&T. This part does get interesting

and reads like a thriller, with the difference being that this is a real-life narration and not fiction. The model is unique because an institution that already has a large clientele of borrowers could use the same base for collecting deposits once converted to a bank. However, this is simultaneously a challenge, as the size of the deposit will be small, which has to be serviced through a debit card and other banking facilities, thus putting pressure on profits.

The writer poses an interesting question of Bandhan becoming a small universal bank. Here, he also posits the future challenges in the area of technology and innovation to keep the business moving. Language Internet has not really taken off in the country in a big way and hence has to be addressed through multilingual modes of delivery. Also, pricing of loans will be a challenge, as the spreads that they could earn being an MFI—which could go to 10%—will no longer be available.

Bandyopadhyay does have admiration for the innovation, risk-taking and leadership qualities of Ghosh, which is reiterated throughout the book. His never-say-die attitude is significant. This is quite creditable, as Ghosh comes from a very humble background and is one of those typical rags-to-riches stories.

The book is definitely engaging, with the credit going to Bandyopadhyay for writing this narrative on one of the brighter institutions that has a future. His journalistic expertise helps in making this book readable for anyone seeking inspiration. He is able to keep the reader glued, even though all corporate biographies run the risk of readers losing interest, which was the case with his book on HDFC Bank too. But he manages these problems with dexterity and deserves a lot of praise. Those who would like to do things differently in their own fields like Ghosh can choose from several ideas from this book.

Madan Sabnavis is chief economist, CARE Ratings