

A CASE ON PURVANCHAL RURAL BANK¹ (WITH SPECIAL REFERENCE TO EFFICIENCY ENHANCEMENT IN RURAL BANKING SYSTEM)

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Abstract *The case aims to highlight the intriguing fall of business of Purvanchal Rural Bank (PRB) working in the purvanchal region of Uttar Pradesh. Since the inception, the bank has been doing considerably well and has emerged as a landmark in the rural banking industry. But, with the intrusion of private and nationalised banks in rural areas, the Purvanchal Rural Bank (PRB) has started losing its market share. The top management does not share information with the lower level employees who have never been involved in the policy making. Moreover, the new financial plans have been introduced only at the recommendation of government agencies regardless of their viability and suitability for a particular region. Conversely, private sector banks and nationalised banks used product-based marketing. They make a clear distinction in launching products in rural, semi-urban and urban areas. Consequently, they have been operating successfully in these regions.*

The cases put together primarily from secondary sources and aims to address financial issues such as financial operations, product strategies, financial communication, policy making and strategies forming etc. in regard to Purvanchal Rural Bank.

Keywords: *Financial Plans, Policy Making, Product-Based Marketing, Indian Rural Banking and Nationalised Banks in India*

INTRODUCTION

The General Manager (operations), in the head office, holds a meeting with his immediate employees to discuss the concerns in regard to the growth and expansion of Purvanchal Rural Bank (PRB). He has spent an hour fervently arguing over increasing the stagnant growth of bank. The loans have not been recovered and the number of accounts in each branch has reduced considerably. People have started losing faith in PRB and have started relying on private and nationalized banks working in rural area. He has agreed to extend all his support to the employees in their endeavours to reinstate stability and upsurge business. In spite of all his efforts to motivate the employees, he can witness hesitations and skepticism among them. They do not look confident and lack willingness to take initiatives. A few employees who want to put some efforts run short of novel ideas.

After the meeting is over, the manager sits in the office and broods over the discussion in the meeting. He realises that he needs to get connected to the employees on all the levels of hierarchy to send his message. He even needs to communicate the message to the branches spread in the outskirts of the main branch.

PURVANCHAL RURAL BANK: AN OVERVIEW

The Government of India, on October 2, 1975, primarily set five Regional Rural Banks (RRBs). These banks were initially sponsored by State Bank of India, Syndicate Bank, Punjab National Bank, United Commercial Bank and United Bank of India. 50% capital share was held by central government, 15 % by the state government and 35 % by the scheduled bank. Previously State Bank of India controlled

¹ Names of the officials and certain information have been changed in the case to maintain confidentiality.

and decided the rate of interest decided by the RRBs, but since August 1996, RRBs were made autonomous to decide their own interest rates. RRBs focus upon the agro sector at large. These banks were created to meet the excess demand for institutional credit in the rural areas, particularly among socially and economically marginalised sections. In order to provide access to low-cost banking facilities to the poor, the Narasimham Working Group (1975) proposed the establishment of a new set of banks, as institutions which “combine the local feel and the familiarity with rural problems which the cooperatives possess and the degree of business organisation, ability to mobilize deposits, access to central money markets and modernized outlook which the commercial banks have”. These banks were established with a vision to establish rural economy by providing credit for the purpose of development of agriculture, trade, commerce, industry and other productive activities. They were also to provide credit to small farmers, artisans, agricultural laborers and small entrepreneurs. During the years, they have dramatically evolved and reached the remotest areas of the country and have played a very instrumental role in the growth of the country.

PRB is one such venture of SBI which is spread over seven districts-- Gorakhpur, Mahrajganj, Deoria, Kushinagar, Basti, Siddharthnagar and Sant Kabir Nagar. Since its inception, it has been working for the prosperity of rural India. It has always been conscious and responsive towards the national goals and aspirations. They believe in serving humanity with high standards of ethics and excellence. With competent staff members and mutual trust among themselves, the bank wants to dedicate itself in the pursuit of national interest.

The purvanchal region has been known for its huge production of sugarcane in India. PRB operates its 388 branches from its head office based at Mohaddipur of Gorakhpur. PRB has recruited 109 Office Assistants and 92 Officers in 2013 and look forward to more customers which will improve the profitability and reach. PRB operates with dedicated 1923 employees including offices and support staff.

Hierarchy in Purvanchal Rural Bank

The PRB is a large organisation with its branches spread in rural areas of purvanchal region. The organisation has well-structured hierarchy starting from the Chairman and coming down to the chief managers at the head office, followed by regional managers. It is governed by the board of directors comprising nominees from sponsored bank, RBI, NABARD and State Government.

The policies and strategies have been decided at the top level and the information has been shared among the members of top management. The policies are directly introduced

and implemented at the bottom level. They do not have any agency or device which can analyze their past financial data. New financial plans have been introduced on the recommendation of the government agencies for rural semi-urban and urban areas.

THE PRIVATE SECTOR BANKS IN INDIA

Reserve Bank of India (RBI) has drafted and released guidelines for licensing new banks in private sector. The guidelines have been drafted on the basis of the information gathered from banks, non-banking financial institutions, industrial houses, other institution and the public at large. The applications of private banks are accepted according to the Banking Regulation Act 1949. The key features of the draft guidelines are:

1. Entities/Group in the private sector should have sound credentials and successful track record and integrity.
2. The bank should be set up through wholly owned Non-Operative Holding Company (NOHC) and should be registered with RBI as a non-banking financial company (NBFC).
3. The Minimum capital requirement is 500 crore.
4. The total non-resident shareholding in the new bank should not exceed 49% in the first five years.
5. Minimum 50 percent of the directors of the NOHC should be independent directors.
6. The bank shall get its share listed on the stock exchanges within two years of licensing.
7. The bank should open at least 25 percent of its branches in unbanked rural areas.
8. The business model should be realistic and sustainable and should address how bank proposes to achieve financial inclusions.

The private banks have been working since the inception of banking system in India. There are two major categories in banks: old banks and new banks. The old private sector banks are Bank of Punjab, Dhanlaxmi Banks, Jammu and Kashmir Bank etc. The new private sector banks are Axis Bank, HDFC Bank, ICICI Bank, Kotak Mahindra Bank etc.

PRACTICES IN PRIVATE BANKS AND NATIONALISED BANKS

The private banks have equal share in both urban and rural sector. To reach the rural areas where it is difficult for the private sector banks to open branches, they have used the ‘partnership model’. They combine the social mobilisation strength of Non-Governmental Organisation (NGOs) and Micro Finance Institutions (MFIs) with the financial strength

of the banks. Some private sector banks also use indirect-channel partnership which increase distribution points and to cost effectively serve the bottom of the economic pyramid. The model leverages the current infrastructure and relationship that microfinance institution and non-governmental organisation have in place to deliver banking services to the rural India. Moreover, the banks have been gradually looking forward to technology-based delivery channels and progressive lessening of physical branches to the maximum possible.

When the private sector banks found their rural branches neglected, they made it compulsory for all the managers in their bank to spend minimum of two years in the rural branch to be eligible for further promotion. This attracted a lot of talented, educated and motivated managers to work in rural areas and helped in increasing the business of banks. The employees in rural banks were given extra incentives and they were also made to attend orientation programs in regard to rural banking. The employees were free to discuss their issues with the higher officials and they were welcomed to put forward their views in deciding policies and practices.

As far as nationalised banks are concerned, they have dominated the banking scenario of India. The nationalisation bank occurred in 20th century when Imperial Bank of India got nationalised, according to SBL act, in 1955. The prime objective of nationalised banks has been to reach the clients in rural and urban India and to provide them quality service. The public sector banks persistently played a very protruding role in both deposit mobilisation and credit disbursal even after the enactment of reforms since 1991. Nationalised commercial banks analyze the financial data to form strategies to cope with the uncertainties of future, relying mainly on the data of past and present with the current trends. The Manager stresses on the proper analysis of the financial data which can be further used for projections and performance analysis. This information is shared with all the branches and all the employees. The employees also have the feeling of ownership for the organisation as they have a sense of security while working in public sector banks.

Further, the marketing strategies of both the private banks and the nationalised banks are quite similar. They follow the model of product-based marketing. They make a clear distinction in launching products in rural, semi-urban and urban areas. The schemes related to gold loan, housing loan, festival advanced scheme and computer loan scheme etc. have been run in urban and semi-urban areas whereas schemes related to mahilayojna, kisan credit card, rural bank credit card and agricultural loan etc. have been run in rural areas. The effect of these strategies is that both these kinds of banks are working successfully in rural, semi-urban and urban areas.

ROAD AHEAD

Within a short period of six months after inception, Purvanchal Rural Bank covered the lives of 22 000 people living below the poverty line. It became a landmark in the rural banking industry. It had been ranked number one State Bank of India (SBI) sponsored Rural Banks Plan India in micro insurance (Rural Shakti). During the recent years, the business of the bank per branch has escalated from Rs. 13.62 crore to Rs. 15.72 crore. However, the annual data of the bank explicate that the business per employee has grown passively from Rs. 2.76 crore to Rs. 3.12 crore.

The bank is facing a serious problem of dissatisfaction among the customers. The customers have neither been opening new accounts, nor have they returned the loans they have taken from the bank. Moreover, they are closing the already opened account. The manager has to instill confidence among his customers as well as the employees for the future of bank. They have to recover loans without losing customers and need to expand business.

At this juncture he needs an expert's advice on the following issues:

Q1: How could the bank maximize the profitability?

Q2: How can the marketing of financial services be improved in PRB?

Q3: Advice a complete solution to manager about business operations in PRB.

EXHIBIT 1: THE OBJECTIVES OF PURVANCHAL RURAL BANK

1. To provide credits to farmers for agriculture and farming and raise their living standard.
2. To identify the credit needs of each region and allocate the resources properly to avoid wastefulness.
3. To help in eradicating poverty and eliminate financial impediments for farmers, laborers and artisans.
4. To combine the features of commercial banks and cooperative societies for simplifying the banking process for illiterate mass living in villages.
5. To enhance the membership of primary societies and expand them in a substantial way.
6. To create a healthy environment of loan recovery and discourage non-payments.
7. To financially help small scale industries, animal husbandries, cottage industries, poultry and fishery.

EXHIBIT 2: THE DISTRICT-WISE POSITION OF THE BRANCH NETWORK IS AS UNDER

Table 1: District-wise position of the branch network

Name of District	Rural	Semi Urban	Urban	Total
Gorakhpur	48	11	11	70
Maharajganj	45	01	01	47
Deoria	57	04	01	62
Kushi Nagar	58	04	02	64
Basti	49	04	-	53
SantKabir Nagar	45	01	-	46
Siddharth Nagar	42	04	-	46
Total	344	29	15	388

EXHIBIT 3: PURVANCHAL RURAL BANK'S VARIOUS DEPOSIT AND ADVANCE SCHEME

Deposit Scheme:	Advance Scheme:
1. Current Account	1. Mahila Credit Card
2. Saving Bank	2. Swrojgar Credit Card Loan Scheme
3. Recurring Deposit Scheme	3. Pensioners Loan Scheme
4. Term Deposit Scheme	4. Rural Bank Credit Card Scheme
5. Special Term Deposit Scheme	5. Rural Bank Laghu Udhyami Card Yojana
	6. Kisan Credit Card Plus Yojana
	7. Kisan Credit Card Yojana
	8. Rural Bank Avas Loan Scheme
	9. Rural Bank Grahak Samridhi Yojana
	10. Saheli Rasoai Gas Yojana
	11. Rural Suchalaya Yojana
	12. Combine Harvesterovitta Posan
	13. Swarn Jayanti Rural Avas Yojana
	14. Bhoomihin Krishak Credit Card Yojana
	15. Liquidity Deposit cum Over draft Scheme
	16. Two wheeler Loan Scheme for Farmers
	17. Computer Loan Scheme (For Public)
	18. Festival Advance Scheme (For Public)
	19. Rural Bank Education Loan Scheme
	20. Krishak Saath Yojana
	21. Solar Home Light Scheme
	22. Four Wheeler Loan Scheme for Personal Use
	23. Four Wheeler Loan Scheme for Commercial Use
	24. Gold Loan Scheme

EXHIBIT 4: PURVANCHAL RURAL BANK'S ADMINISTRATION

Figure 1: Purvanchal Rural Bank's Administration

