

Banking Expansion Can Prevent Another Saradha-like Scam: FM

The first private bank to become operational in India in a decade will focus on small and micro enterprises, besides micro loan customers, and keep out of large corporate lending. Bandhan Bank, the first microfinance company to transform into a full fledged scheduled commercial bank, was inaugurated by Finance Minister Arun Jaitley on Sunday, ushering in an era that will see entities of different capabilities reaching out to cater to the unbanked population.

“It is a landmark initiative in the service of the country and state,” Jaitley said. According to the finance minister, small entrepreneurs, from shopkeepers to hawkers, generate almost 11-12-crore jobs, while the large, organised industry is able to create only a small fraction of that. “It is these entrepreneurs, many of them in the unorganised sector, who form the backbone of the Indian economy,” the minister said.

IDFC Bank, the only other organisation to get a bank licence along with Bandhan last year, will begin its operations on October 1. “We are in the second phase of financial inclusion after Jan Dhan Yojana,” Jaitley said. “Banking is going far beyond brick-and-mortar branches with business correspondents working in villages. Expansion of this segment, along with the initiatives to set up 11 new payments banks, will help people get rid of unreliable institutions they invest in.”

Jaitley was referring to schemes run by money-circulating firms such as Saradha, which had mushroomed in the eastern region in the absence of robust banking penetration.

Bandhan Bank has started off with 501 branches and 2,022 customer service centres and will try to raise its stake for bottom-of-the-pyramid customers by offering savings, remittance and insurance services, even as established lenders such as State Bank of India and ICICI Bank are in a race to add customers from the unbanked population.

Bandhan will stay away from large corporate lending, MD and CEO Chandra Shekhar Ghosh said. It will continue to cater to unorganised sectors such as daily wage earners and women running small businesses-segments that have been its borrowers for a decade.

“Bandhan Bank is the first to be off the block as new changes happen in the country's finance and banking field,” Uday Kotak, executive VC and MD of Kotak Mahindra Bank, said on the eve of the inauguration.

“We will pass on the benefits of lower cost to our borrowers as we start raising deposits,” Ghosh said. It raised Rs.80 crore of deposits on the first day. “Bandhan's challenge would be to make products suitable for low-income group customers,” RBI deputy governor HR Khan said.

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