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The perception of people about structural changes of bandhan from micro finance institution to banking institution: A case study in Siliguri

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Abstract

Reserve Bank of India (RBI) intended to widen the reach of the ₹84 trillion banking industry to unserved segments. According to World Bank, 2012 document only 35% of Indian adults have access to formal banking services. Granting banking license to Bandhan, a leading microfinance institution (MFI), is the first step towards this as the selection of Bandhan points out to the priority of RBI to enhance financial inclusion. Service quality has become an important factor among the customers in retail banking. Bandhan has been engaged in the delivery of microfinance service for the last 13 years. The model followed is individual lending through group formation. Bandhan's commitment towards triple bottom-line values is strongly asserted by its intervention in development activities and thus, from August 23, 2015, Bandhan Bank started its operations across the country with 600 branches with its presence in 22 states with 67 lakh customers. Today it is more the perceived experience a customer makes in his various interactions with a company (e.g. how fast, easy, efficient and reliable the process is) that can make or break the customer based relationship. Thus, the researcher in this project has tried to study the perception of people about post structural change status of Bandhan. The descriptive research is based on both primary and secondary data with the basic objectives to study the people's perception about banking services provided by Bandhan Bank and the perceptions of people about structural change from micro finance to Banking Institution of Bandhan. The research has found that currently Bandhan's main asset is their existing customers and their trust on their services becomes a major step in setting up of a bank. Their unique ways of working would lead Bandhan as one of the successful banks in banking sector as majority of population is satisfied with the banking services of Bandhan.

Keywords: Retail Banking, Financial Inclusion, Microfinance Service, Perception of People, Structural Change, Customers' Trust

1. Introduction

RBI recently awarded in principle approval to Bandhan and IDFC to set up banks. The selection of Bandhan is surprising and also points out to the priority of RBI to enhance financial inclusion rather than creating clones of existing banks. The Indian banking industry is dominated by public sector banks. The poor financial inclusion is a challenge for the banking industry. The private sector banks were given licenses by RBI and these banks have focused on the urban areas and ignored financial inclusion. A microfinance institution getting a banking license is an opportunity to work for the poor and improve financial inclusion, at the same time presents a challenge to develop the infrastructure, deposit base, expertise and size to survive in a competitive industry dominated by big players. There are not many reports about the role of commercial banks in microfinance. This can be due to a large level of absence in the field. Microfinance in general does not attract commercial banks. Due to this absence of mainstream commercial banks the microlending activity was taken over by large number of nongovernmental organizations popularly known as NGOs. This project aims to study the perception of people about "Bandhan" as a case study from its inception as an NGO to its presence as a bank.

1.1 Bandhan Bank

Bandhan was christened in 2001 under the leadership of Mr. Chandra Shekhar Ghosh, a Senior Ashoka Fellow. The meaning of bandhan is togetherness and its mission and vision

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reflects its name. The main thrust of Bandhan is social upliftment and economic emancipation of women who are socially disadvantaged and economically exploited. To achieve their objective, Bandhan engages in the delivery of microfinance services to the poor women residing in rural and urban areas across the country. Bandhan has been engaged in the delivery of microfinance service for the last 13 years. The model followed is individual lending through group formation. Bandhan's commitment towards triple bottom-line values is strongly asserted by its intervention in development activities and thus, from August 23, 2015, Bandhan Bank started its operations across the country with 600 branches with its presence in 22 states with 67 lakh customers.

Bandhan started as an NGO and in 2006 got its status as an NBFC. It further grew into becoming one of the first MFIs to have granted a banking licence. But why does it need a banking licence, while it does the basic activity of banking i.e. lending. Even though NBFCs perform functions similar to that of banks, there are a few differences. One of them is that an NBFC cannot accept demand deposits, it is not a part of the payment and settlement system and as such, an NBFC cannot issue cheques drawn on itself; and deposit insurance facility of the Deposit Insurance and Credit Guarantee Corporation is not available for NBFC depositors, unlike banks.

Over the past couple of years, the Indian banking sector has displayed a high level of resilience in the face of high domestic inflation, rupee depreciation and fiscal uncertainty in the US and Europe. This has necessitated the banks in India to concentrate much more on operating efficiency, outsourcing and cost optimization now than ever before. With deregulation of savings bank rate and bleak global economy, the banks are focusing on alternative sources of revenue, like fee income, trade and vendor financing, geographic expansion *et al* to maximize their revenues. The Banking sector in India has adopted and embraced technology to keep pace with the international development in the banking industry and offer quality products to its clients. Reserve Bank of India (RBI) intended to widen the reach of the ₹84 trillion banking industry to unserved & under-served segments. According to World Bank, 2012 document only 35% of Indian adults have access to formal banking services. Granting banking licence to Bandhan, a leading microfinance institution (MFI), is the first step towards this. As it gears up to start operations, Bandhan's founder Chandra Shekhar Ghosh aims at extending services beyond credit to economically weaker sections who have been deprived of these services so far. Nonperforming assets and defaulters are not an issue for his new bank, he says, but recruiting people for rural services will be a challenge. Bandhan borrows fund at 12 to 13% & to disburse them among the borrowers.

With microfinance continuing to be Bandhan's spine, the next big question that needs to be resolved is of the choice of its banking model. Bandhan is among the first generation MFIs and follows the Grameen model of banking. Under this model, credit decisions are taken at the branch level, which facilitates quick disbursement of loan in about a day's time. New generation MFIs like Ujjivan and Janalakshmi, on the other hand, follow the retail banking model, where credit is disbursed after credit appraisal at a centralised unit. In these MFIs, the credit disbursement usually takes about five days. Bandhan is startlingly different from the other

institution that has also been granted a banking licence – IDFC Ltd. In terms of client profile, management bandwidth and asset size, the two are a study in contrast. There would be number of challenges that they have to face before they make it to be good banks in the country.

Indicative Ratios of Bandhan Financial Services Pvt. Ltd

Sr.No.:	Ratio	YEAR				
		2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
1	Capital/Asset Ratio	10.45%	13.82%	16.51%	16.87%	17.51%
2	Debt To Equity Ratio	8.57	6.24	5.06	4.93	4.71
3	Gross Loan Portfolio to Total Assets	78.37%	91.91%	87.95%	82.89%	91.07%
4	Return on Asset (ROA)	3.56%	5.38%	6.30%	4.78%	5.14%
5	Return on Equity (ROE)	39.13%	41.56%	36.59%	26.85%	28.90%

Source: www.bandhanmfi.org

Capital/Asset Ratio: The above figure shows the Capital/Asset ratio of Bandhan MFI of 5 year. It can be found that there is a gradual increase in the capital asset ratio for years. Most of the MFIs have a CAR well above the 8% minimum. This is appropriate, as analysts suggest that minimum capital adequacy for MFIs should exceed the Basel II recommendations by at least 50%, i.e. that MFIs should maintain CAR of 12% or higher. MFIs should have a larger capital buffer for several reasons: first, delinquency rates for MFIs can be volatile; second, MFI operating expenses are generally higher than for commercial banks; and third, access to funds for emergency recapitalization is more limited.

Debt to Equity Ratio: It is important for all organisations to maintain a proper balance between debt and equity. If an MFI has a large amount of equity and very little debt, it is likely to limit its income generating potential by not making use of external sources of debt (that is, a line of creditor a loan that can be borrowed for, say, 10% and lent to clients at 24%). Therefore, it may be better for the MFI to increase its liabilities, if possible, to increase its income-generating assets (its loan portfolio). However if DER increases rapidly, it can be said that the MFI is approaching its borrowing limits and this can have a hindrance to growth. In case of Bandhan the MFI has decreasing DER which improves its borrowing capacity for future expansions planned.

Gross Loan Portfolio to Total Assets: The Gross Loan Portfolio to Total Assets ratio indicates the proportion of the core earning assets of the MFI. Credit is the flagship service offered by MFIs to clients outside the net of formal financial services. For MFIs, loan portfolio is the primary revenue generating asset. It also gives details about the health of MFIs. The above figure shows that Bandhan has increased its gross loan portfolio to total assets y-o-y and stands at 91.07% in fiscal year 2013, and is also the first among top 10 MFIs in with ₹6107 crore in loan portfolio. It also is an indicator to the performance of the institution and its contribution to the goal of financial inclusion.

From the above indicators it can be observed that Bandhan has a stable financial structure, which would allow it to improve on its borrowings as a structured banking institution. It would require infusing new capital in next few

months to support its long term plans. Its existing loan portfolio will also be further strengthening by starting its activities as a bank. The asset quality of Bandhan is good thus improving its ROA and ROE in long run. The entire situation seems to be favourable to Bandhan to operate as a Bank.

Commercial Bank: A commercial bank is a financial institution that is authorized by law to receive money from

businesses and individuals and lend money to them. Commercial banks are open to the public and serve individuals, institutions, and businesses. A commercial bank is almost certainly the type of bank we think of when we think about a bank because it is the type of bank that most people regularly use.

The basic differences between Commercial Banks and Micro Finance Institutions are

Area	Commercial bank	Micro Finance Institution
Focus	Profitability, Market Share, All segment of customer	A sustainable credit system for economically disadvantaged people.
Customer Acquisition	Banks mostly enroll customer through branches.	MFIs have stage-wise strategy-village meetings, formal groups, training of member of groups on financial management and then providing credit-line.
Products	Banks have a basket of retail product that cover savings, credit remittance etc. Credit from banks for BPL-like families is predominantly of INR 25,000 and above; other features are varied rate of interest and varied repayment period.	MFIs specialize in credit. The product is predominantly a graduated credit line with recovery by 50 week EMI. MFI credit is predominantly an average of INR 15,000 minimum of INR 3,000 to maximum of INR 50,000 (housing loan up to INR 1.25 lacs.)
Procedures	Banks have universally identical procedures as well as for internal management. The procedures are primarily multi-tired, record-oriented and resultantly, lengthy at times.	MFIs have a universally identical procedure for their customer for internal management. Features of the procedure are that these are short and simple for customer and for internal recording but are elaborate on verbal processes with customer
Customer Service Mode	Customer access branches.	MFIs access customer at the location of their inhabitation.
Source of Funds	Combination of owned and Borrowed Capital	MFIs operated on Borrowed fund
Cost of Capital	Average cost of Capital for Bank is 8 percent	Average cost of capital for MFIs is 14 %
Location of Operation	Banks have a formula to determine viability of a branch. This determines the availability of the bank in geographical location.	MFIs operate with families that do not have steady and small credit lines from banks. They do not operate on the basis of geographical location.
Cost of Operation	Banks have mechanism that cross subsidies operating cost of several sets of services and products. Branch viability and business per staff is the strategy area of focus. Cost-income ratio of Banks is about 42 %.	MFIs incur high costs on manpower. Business per staff cannot grow beyond a point because the quality of customer contact is the key to the high repayment rate in micro-credit. MFI operations on customer servicing mechanisms are reflected in cost-income ratio of MFIs that is around 62%
Risk Management	Banks have advanced risk management systems that are imposed as well as self-deserved. The risk management system are based in data.	MFIs have completely different approach to risk management. This is through continuous contacts with the customer and by period re-training of customer and off-field staff. Performance incentives to customer and to field staff are another set of tools for risk management.
Mutual Interest	Banks are interested in MFIs because such credit lines enable banks to achieve the 'priority sector' obligation.	Ownership of MFIs lies with the development professionals and social investor who invest with social objectives.
Ownership	Banks in India 'owned' by government (as shareholder and policy maker), regulator and private investor.	Ownership of MFIs lies with the development professionals and social investors who invest in social objectives.
Nature of Institution	Financial Institution	Service Institution
Financial Goal	Profit maximization	Surplus to sustain

1.2 Loan Products offered by Bandhan Bank

No	Loan Product	Loan Amount	Tenure	Rate of Interest
1	Suchana (Micro Loan)	₹1,000 - ₹15,000 Subsequent increase upto ₹10,000	12 months	22.40 %
2	Srishti (Micro Enterprise Loan)	₹16,000 - ₹50,000 Subsequent increase upto ₹10,000. Loan does not exceed ₹35,000- in the first cycle	24 months	22.40 %
3	Samridhi (Micro Small and Medium Enterprise Loan)	₹51,000 - ₹5,00,000	12/18/24 months	22.40%
4	Suraksha (Micro Health Loan)	₹1,000 - ₹10,000	12 months	12.00%
5	Susiksha (Micro Education Loan)	₹1,000 - ₹10,000	12 months	12.00%
6	Fisheries	₹10,000 - ₹1,00,000	12/24 months	22.40%

Other Guidelines

- ✓ Bandhan is complying with both the guidelines as prescribed by RBI circular dated May 03, 2011 pertaining to Bank loans to Micro Finance Institutions (MFIs) - Priority Sector Status and the introduction of new category of NBFCs - Non Banking Financial Company - Micro Finance Institutions (NBFC-MFIs).
- ✓ Loans are sanctioned for supporting and enabling the members for undertaking Income Generating activities.
- ✓ Processing fee is charged at the time of disbursement.
- ✓ Borrowers and their spouse are covered under insurance.
- ✓ Penalty is not charged in case of default.
- ✓ Prepayment allowed but without penalty.
- ✓ Admission fee will not be taken.
- ✓ Loan is without collateral.
- ✓ Security deposit is not taken at the time of disbursement.
- ✓ Loan is repayable by weekly, fortnightly or monthly instalment at the choice of the borrower.

1.3 Customer Perception: Customer perception is a marketing concept that encompasses a customer's impression, awareness and/or consciousness about a company or its offerings. Customer perception is typically affected by advertising, reviews, public relations, social media, personal experiences and other channels.

1.4 Why customer perception is important for businesses: In today's globalising economy, competition is getting more and fiercer. That means it becomes more difficult for products and services to differentiate themselves from other offerings than ever before. Not only is the number of competitive offerings rising due to globalisation of production, sourcing, logistics and access to information. Many products and services face new competition from substitutes and from completely new offerings or bundles from industry outsiders. Since product differences are closed at an increasing speed and many companies try to win the battle for customers by price reductions, products and services tend to become commodities. On the other hand, customer behaviour becomes more hybrids. Customers are increasingly price sensitive – searching for bargains at marketplaces like ebay or buying their groceries at discount markets. Customers are widely aware of their greater power, which raises their expectations on how companies should care for them. Bringing it all together, it becomes ever more difficult to differentiate a product or service by traditional categories like price, quality, functionality etc. In this situation the development of a strong relationship between customers and a company could likely prove to be a significant opportunity for competitive advantage. This relationship is not longer based on features like price and quality alone. Today it is more the perceived experience a customer makes in his various interactions with a company (e.g. how fast, easy, efficient and reliable the process is) that can make or break the relationship. Problems during a single transaction can damage a so far favourable customer perception.

1.5 Review of Literature

Vandana Tandon Khanna and Neha Gupta have done their research work on customers' perception about banks technology for innovative delivery channels of public sector

banks of India with the objective to focus on the customers' perception about technology being used for delivery of financial products and services by Public Sector Banks (PSBs) of India in the year 2015. Vandana Tandon Khanna and Neha Gupta have used the primary data and applied variance test to achieve the research objectives. They have found that Public Sector bank need to understand the factors that influence the perception of an individual to add greater value to customers in terms of delivering financial products and services through innovative delivery channels. Their research has also revealed that there is also a need to educate the customers, so that effective, secure and safe use of innovative delivery channels can be made available to all and delivery can be used effectively for marketing of products and services.

Uday Singh Rajput has done his research work on customer's perception on e-banking service with the objectives to study the growth and progress of Electronic Banking and to study the impact of E-Banking on customers and bankers, in the year 2015. They have used the primary data as well as secondary data and applied frequencies, average and correlation test to achieve the research objectives. Their research has found that 45% people have positive perception and are satisfied with E-Banking and rest are not as they have little knowledge about internet and computer, so they feel hesitation in using E-Banking services.

Jafirullah Khan Jebran and Md. Afzal Hossain have done their research work on consumers' perception general banking activities of commercial banks: a study in the banking context of Bangladesh with the objectives of finding out different activities of general banking division and to draw the relationship among the consumer perception and bank activities, in the year 2012. With the application of same statistical tools and data like the previous one they have found that customers are highly conscious about their reliance on banks as well as customers are concerned with the safety issues of their assets.

Ms. Fozia has done her research work on a comparative study of customer perception toward e-banking services provided by selected private and public sector banks in India with the objectives of identifying the overall customer perception towards E-Banking services and knowing whether demographic variables of the customer have influence on customer satisfaction on E-Banking, in the year 2013. Ms. Fozia has used both primary data as well as secondary data and applied mean, standard deviation mean square to achieve the research objectives. She has found that different age group of customers have different perception towards E-Banking services and good number of customers showed keen interest in using E-Banking services like student, business class, professionals etc.

Rajesh Kumar Srivastava has done his research work on customers perception on usage of internet banking" with the objectives to know hat are customers perception about internet banking and how customers have accepted internet banking as well as what are the factors that drive customers towards internet banking, in the year 2007.

Rajesh Kumar Srivastava has used primary data and applied correlation test to achieve the research objectives. His research has found that the perception of the consumers can be changed by awareness program, friendly usages, less charges, proper security and best services offered.

Manasa Nagabhushanam has done his research work on customer service quality of banks in India with the objectives to understanding customers' perception about service quality factors leading satisfaction level towards the banks and to understand the influence of service quality on customer satisfaction, in the year 2011. The researcher has used primary data and applied simple regression model to achieve the research objectives. The research has found that close bond exists between service quality factors and customer satisfaction level. The research has also revealed that the impact of service quality factors on customers' satisfaction varies with the demography of the customers.

Jazula M has done his research work on customer perception of banking products and services in Kerela with reference to specific customer segments in the urban areas. The objectives were to study customer's choice behaviours with respect to selection of banks and to study the leading factors in choice of credit and deposit products as well as nature of perception of customers, in the year 2001. The researcher has used primary data as well as secondary data and applied tests of correlation and chi square test to achieve the research objectives. The researcher has found that customers perception about choice of banks, reason for choice of different banks, service quality factors which would influences choices in future.

H. Vasanthakumari and S. Sheela Rani have done their research work on customer perception of service quality in the retail banking sector with the objectives of identifying the perception of customers of banks through the relationship of five factors along with the demographic characteristics of customers, in the year 2011. They have used the primary data and applied mean, standard deviation, coefficient to achieve the research objectives. Their research has found that customer' perception can put influence on performance and irrespective of gender and occupation, customer perceive the various factors in the same manner. For better service quality, service providers have to overcome the weaknesses in order to attract new customers.

L. Leo Franklin and A. Vellimalarruby have done their research work on customer perception towards services provided by banks specially A.T.M services in Ramanathapuram city with the objectives to study the customers preference towards ATM services by banks and to analyze the various problems faced by customers in A.T.M centres, in the year 2014. They have used primary data as well as secondary data and applied simple percentage analysis and chi- square test to achieve the research objectives. The researchers have found that maximum 80% of the people know about A.T.M cards only through TV and radio advertisements and 10% of peoples know about A.T.M cards through newspapers and posters. Interestingly they have also found that 92% of people know that A.T.M cards services as debit cards.

Bhupendra Kaur Saluja, Dr. Vivek Sharma and Juhi Naik have done their research work on customer perception towards banking services of banks in Indore region with the objectives to study what do people expect in new era of banking and to understand the customer perception on internet service quality, the various dimension associated with satisfaction. They have done their research work on primary data and applied T-test to achieve the research objectives. The researchers have found that banks should pay special attention to human resource development by giving timely training to the employees to conduct

themselves better. They have also found that new investment schemes should also be displayed at appropriate places.

2. Importance of the Study

India is a county where still a large population is very poor, financial inclusion is of great importance to them. It is a major challenge for the poor to access secured and organized finance options. Ensuring the optimum utilization of the resources they possess is also difficult. Economic and societal uncertainties mean volatility in their income, can have an adverse reaction on the financial stability. Thus, many a time it exposes them to unorganized financial help like money lenders and small time lending institutions. The hope of financial inclusion now lies with banks, both private and public. According to census 2011, out of 24.67 crore households in the country, only about 14.48 crore or 58.70% households had access to banking services. Further, of the 16.78 crore rural households, only about 9.14 crore or 54.46% households were availing of banking services. Now there lies a big scope for Bandhan to come forward and play an important role in bringing large population to financial inclusion.

Bandhan's Mr. Ghosh says in an article that its core commitment to the marginalized section will give it an edge over other banks while they serve all communities of the society, they will continue to serve the poor in fact, and they will have a separate head that will look into the underprivileged section of the society. They will serve the poor to began with it will start with 600-700 branches across the country. He also added that they would introduce the Human Teller Machines (HTMs) rather than ATMs. This could reduce Non Performing Assets (NPA) because personal touch with human can help to understand their requirement about financial products & services & also know about their capacity to repay the loan amount. As a bank, Bandhan will have access to low-cost savings deposits which will help it reduce lending rates in the future. With its conversion into a bank, 30 lakh of its existing borrowers who don't have bank accounts till now will come into banking fold automatically.

Reserve Bank of India (RBI) intended to widen the reach of the `84 trillion banking industry to unserved segments. According to World Bank, 2012 document only 35% of Indian adults have access to formal banking services. Granting banking license to Bandhan, a leading microfinance institution (MFI), is the first step towards this. Service quality has become an important factor among the customers in retail banking. For the success and survival in the banking sector, provision of high service quality is necessary in meeting several requirements such as customer satisfaction and its consequent loyalty, attracting new customers and to increase the market share and profitability. In today's globalizing economy, competition is getting more and fiercer. That means it becomes more difficult for products and services to differentiate themselves from other offerings than ever before. Customers are widely aware of their greater power, which raises their expectations on how companies should care for them.

In a nut-shell, today it is more the perceived experience a customer makes in his various interactions with a company (e.g. how fast, easy, efficient and reliable the process is) that can make or break the relationship. Problems during a single transaction can damage a so far favourable customer

perception. Therefore, this project aims to study the perception of people about structural change of “Bandhan” as a case study from its microfinance status to a bank.

3. Objectives of the Study

- ✓ To study the people’s perception about banking services provided by Bandhan Bank.
- ✓ To study the influence of advertisements of Bandhan Bank on people.
- ✓ To study the perceptions of people about products of Bandhan Bank.
- ✓ To study the perceptions of people about structural change from micro finance to Banking Institution of Bandhan.
- ✓ To study the perceptions of people about banking services to the poor sections.

4. Research Methodology

4.1 Statement of the Problem: Customers are lifeblood for any business and banking industry is highly service oriented business. When there is service concern, it always deals with the perceptual decision taking of the customer. Here, in this project the researcher has tried to study the perceptions of people of Siliguri and surrounding area about products of Bandhan Bank and to study the perceptions of same people about structural change from micro finance to Banking Institution of Bandhan. At the same time this research has tried to put light on perceptions of people about banking services to the poor sections on the basis of non-customized products, time taken and cumbersome procedures, high transaction costs and demand for collateral securities.

4.2 Research questions:

1. Does the structural change of Bandhan from MFI to Bank negatively influenced peoples’ perception about Bandhan?
2. Does the volatile income streams and expenditure pattern of people force back the banks from catering to people?
3. Does the high default risk, small size of loans and inability of people to provide collateral securities lead the banks think twice from catering to people?
4. Does non-customized products and cumbersome time consuming procedures of banks force poor to avoid banks as a source of funds?

4.3 Research design and Data used: Perception of people about structural changes, especially of financial institutions, depends on both internal and external variables. However, the management decision making process may focus on few variables which are prima facie in nature. Thus, based on literature review, the researcher has tried her best to identify the significant variables affecting the perception of people about structural changes of “Bandhan” from micro-finance to banking institution according to the research objectives. Therefore, the research is more descriptive in nature and in some cases analytical approach has been followed to achieve the project objectives and both primary and secondary data are used to gather relevant data and generate information.

4.4 Data collection method: The secondary data are collected from different printed materials and electronic medium through internet from different domain sources.

Different books and journals are also gone through to conceptualise the issue.

The researcher has used questionnaire and scheduling technique to collect primary data using the survey method. In case of non-cooperation, the next targeted respondents were approached.

4.5 Sampling area: The survey was conducted in selected areas of Siliguri Hakim Para, Shivmandir, Bagdogra and Siliguri S.F. Road. However, to facilitate data collecting process within the speculated time frame (45 days project) only the areas were visited which have close vicinity around Bandhan Bank branch areas.

4.6 Sampling Plan and sample size: The respondents were selected randomly using convenient sampling technique and thus, primary data are collected from 200 respondents (sample size) through scheduling.

4.7 Research instruments: A questionnaire was prepared in a scientific way based on research objectives to collect and generate information. As per requirement different statistical tools like mean, mean deviations, standard deviation, correlation, and rank correlation are used and significance tests are conducted for mathematical reasoning of the findings.

5. Findings

- ✓ Majority of the population is going with the statement that high uncertainty or volatile income streams and expenditure patterns is one of the reasons for banks shying away from catering to the poor.
- ✓ Majority of the population is not going with the statement that high risk of default because of lack of credit information is one of the reasons for banks shying away from catering to the poor.
- ✓ Majority of the population is not going with the statement that high transaction cost because of small size of loans, frequency of loans and illiteracy is one of the reasons for banks shying away from catering to the poor.
- ✓ Majority of the population is going with the statement that lack of collateral is one of the reasons for banks shying away from catering to the poor.
- ✓ Majority of the population is going with the statement that products are not customized for their volatile income and expenditure patterns is one of the reasons for poor avoiding banks as a source of funds.
- ✓ Majority of the population is not going with the statement that high transaction cost is very high is one of the reasons for poor avoiding banks as a source of funds.
- ✓ Majority of the population is going with the statement that time taken and cumbersome procedures for seeking loans and opening accounts is one of the reasons for poor avoiding banks as a source of funds.
- ✓ Majority of the population is going with the statement that banks demand collateral against loans which poor households cannot afford is one of the reasons for poor avoiding banks as a source of funds.
- ✓ The nature of relationship between the factors of supply side failure (banks shy away from catering to the poor) and factors of demand side failure of banks (poor avoids banks as a source of funds) for the respondents

who highly agree with the statement is negatively and moderately related to each other since the correlation coefficient (r) is - 0.49

- ✓ The nature of relationship between the factors of supply side failure (banks shy away from catering to the poor) and the factors of demand side failure of banks (poor avoids banks as a source of funds) for the respondents who agree with the statement is positively and significantly related to each other because the correlation coefficient (r) is 0.66
- ✓ The nature of relationship between the factors of supply side failure (banks shy away from catering to the poor) and the factors of demand side failure of banks (poor avoids banks as a source of funds) for the respondents who disagree with the statement is positively and poorly related to each other as because the correlation coefficient (r) is 0.33
- ✓ The nature of relationship between the factors of supply side failure (banks shy away from catering to the poor) and the factors of demand side failure of banks (poor avoids banks as a source of funds) for the respondents who highly disagree with the statement is positively and poorly related to each other since the correlation coefficient (r) is 0.29
- ✓ Respondents who are going with different statements and facts are deviating from each other at a high range as the calculated S.D. of their responses is amounting to 23.22 with a mean value of 105. The mean deviation is 2.14.
- ✓ On the other hand respondents who are not going with different statements and facts are deviating from each other at a low range as the calculated S.D. of their responses is amounting to 8.21 with a mean value of 44.29. The mean deviation is 0.00071.

6. Suggestions

In order to come out with the appropriate strategies for the Bandhan, management has to consider a number of factors. Management is likely to maintain the same advertisement campaign as a signalling device to convey information about prospective issues and products the company. Thus, ensuring stability in the potential customers' perception can resolves uncertainty in the minds of the stakeholders. However, based on the objectives and findings of this research we may suggest followings to facilitate the decision making process of Bandhan because Bandhan can play a very important role in financial inclusion in India by taking up the following:

- ✓ Providing financial literacy & awareness for financial empowerment.
- ✓ Providing loans only for productive purposes.
- ✓ Providing loans for education of existing customers' children for books & fees etc. & also providing health loan, emergency health requirement & sanitation purposes.
- ✓ For real financial inclusion they need to target families and work for their up-liftmen.
- ✓ Increased emphasis on grassroots level banking for maximum reach and financial inclusion.
- ✓ Keeping up to its main objective of poverty alleviation & women empowerment by introducing organised banking services and products for women.

7. Conclusion

With an experience of 13 years as a successful Micro-Finance Institution, it won't be difficult to successfully perform its operations. Their financial status is good and many organisations have started funding their project by now. Granting banking license to Bandhan, a leading microfinance institution (MFI), is the first step towards this. Service quality has become an important factor among the customers in retail banking. For the success and survival in the banking sector, provision of high service quality is necessary in meeting several requirements such as customer satisfaction and its consequent loyalty, attracting new customers and to increase the market share and profitability. The bank and its CMD are determined to stick to their main objective that is to provide financial products & services in unbanked rural area and to achieve the financial inclusion through women empowerment & provide employment for alleviation of poverty in rural area. Currently Bandhan's main asset is their existing customers and their trust on their services becomes a major step in setting up of a bank. Their unique ways of working would lead Bandhan as one of the successful banks in banking sector. In this context it will be worthwhile if Bandhan consider providing loans for education to existing customers' children for books & fees etc. & also providing health loan, emergency health requirement & sanitation purposes as an added product to its portfolio.

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Annexure- 1

In the sampling area, 90 respondents out of 200 were found to highly agree with the statement that high uncertainty in income streams and expenditure patterns is one of the reasons for banks shying away from catering to the poor. The issue is does this information support the conclusion that majority of the population in sampling area are going with the statement?

Approximate Tests

The assumption is that the proportion of population in the whole sampling area going with the statement is 50%, i.e., $P = 0.5$

We are interested to see whether the proportion of population (P) is more than 50%.

- Observed value of $P = \frac{90}{200} = 0.45$
- Expected value of $P = 0.5$

Therefore, Standard Error (S.E) of P is

$$S.E. = \sqrt{\frac{E(P)[1-E(P)]}{n}} = 0.035$$

The test statistic is

$$Z = \frac{\text{Observed value} - \text{Expected value}}{\text{Standard Error}} = -1.43$$

Since, the critical region of the test is one – tailed, at 5% level of significance critical region is $Z \geq 1.645$

The value of test statistic is – 1.43 or 1.43 do not lie in the critical region and hence is insignificant. We therefore accept the assumption at 5% level of significance. Thus, it may be concluded that majority of the population is going with the statement that high uncertainty or volatile income streams and expenditure patterns is one of the reasons for banks shying away from catering to the poor.

Annexure- 2

In the sampling area, 84 respondents out of 200 were found to agree with the statement that high risk of default due to lack of credit information is one of the reasons for banks shying away from catering to the poor. The issue is does this information support the conclusion that majority of the population in sampling area are going with the statement?

Approximate Tests

The assumption is that the proportion of population in the whole sampling area going with the statement is 50%, i.e., $P = 0.5$

We are interested to see whether the proportion of population (P) is more than 50%.

- Observed value of $P = \frac{84}{200} = 0.42$
- Expected value of $P = 0.5$

Therefore, Standard Error (S.E) of P is

$$S.E. = \sqrt{\frac{E(P)[1-E(P)]}{n}} = 0.035$$

The test statistic is

$$Z = \frac{\text{Observed value} - \text{Expected value}}{\text{Standard Error}} = -2.286$$

Since, the critical region of the test is one – tailed, at 5% level of significance critical region is $Z \geq 1.645$

The value of test statistic is – 2.286 or 2.286 lie in the critical region and hence is significant. We therefore reject the assumption at 5% level of significance. Thus, it may be concluded that majority of the population is not going with the statement that high risk of default is one of the reasons for banks shying away from catering to the poor.

Annexure- 3

In the sampling area, 82 respondents out of 200 were found to agree with the statement that high transaction cost due to small size of loans, frequency of transactions and illiteracy is one of the reasons for banks shying away from catering to the poor. The issue is does this information support the conclusion that majority of the population in sampling area are going with the statement?

Approximate Tests

The assumption is that the proportion of population in the whole sampling area going with the statement is 50%, i.e., $P = 0.5$

We are interested to see whether the proportion of population (P) is more than 50%.

- Observed value of $P = \frac{82}{200} = 0.41$
- Expected value of $P = 0.5$

Therefore, Standard Error (S.E) of P is

$$S.E. = \sqrt{\frac{E(P)[1-E(P)]}{n}} = 0.035$$

The test statistic is:

$$Z = \frac{\text{Observed value} - \text{Expected value}}{\text{Standard Error}} = -2.571$$

Since, the critical region of the test is one – tailed, at 5% level of significance critical region is $Z \geq 1.645$

The value of test statistic is – 2.571 or 2.571 lie in the critical region and hence is significant. We therefore reject the assumption at 5% level of significance. Thus, it may be concluded that majority of the population is not going with the statement that high transaction cost because of small size of loans, frequency of loans and illiteracy, is one of the reasons for banks shying away from catering to the poor.

Annexure- 4

In the sampling area, 96 respondents out of 200 were found to agree with the statement that lack of collateral is one of the reasons for banks shying away from catering to the poor. The issue is does this information support the conclusion that majority of the population in sampling area are going with the statement?

Approximate Tests

The assumption is that the proportion of population in the whole sampling area going with the statement is 50%, i.e., $P = 0.5$

We are interested to see whether the proportion of population (P) is more than 50%.

- **Observed value of P** = $\frac{96}{200} = 0.48$
- **Expected value of P** = 0.5

Therefore, Standard Error (S.E) of P is

$$\text{S.E.} = \sqrt{\frac{E(P)[1-E(P)]}{n}} = 0.035$$

The test statistic is:

$$Z = \frac{\text{Observed value} - \text{Expected value}}{\text{Standard Error}} = -0.571$$

Since, the critical region of the test is one – tailed, at 5% level of significance critical region is $Z \geq 1.645$

The value of test statistic is -0.571 or 0.571 do not lie in the critical region and hence is insignificant. We therefore accept the assumption at 5% level of significance. Thus, it may be concluded that majority of the population is going with the statement that lack of collateral is one of the reasons for banks shying away from catering to the poor.

Annexure- 5

In the sampling area, 90 respondents out of 200 were found to agree with the statement that products are not customized matching their volatile income and expenditure patterns, is one of the reasons for poor avoiding bank as a source of funds. The issue is does this information support the conclusion that majority of the population in sampling area are going with the statement?

Approximate Tests

The assumption is that the proportion of population in the whole sampling area going with the statement is 50%, i.e., $P = 0.5$

We are interested to see whether the proportion of population (P) is more than 50%.

- **Observed value of P** = $\frac{90}{200} = 0.45$
- **Expected value of P** = 0.5

Therefore, Standard Error (S.E) of P is

$$\text{S.E.} = \sqrt{\frac{E(P)[1-E(P)]}{n}} = 0.035$$

The test statistic is:

$$Z = \frac{\text{Observed value} - \text{Expected value}}{\text{Standard Error}} = -1.43$$

Since, the critical region of the test is one – tailed, at 5% level of significance critical region is $Z \geq 1.645$

The value of test statistic is -1.43 or 1.43 do not lie in the critical region and hence is insignificant. We therefore accept the assumption at 5% level of significance. Thus, it may be concluded that majority of the population is going with the statement that products are not customized matching their volatile income and expenditure patterns, is one of the reasons for poor avoiding banks as a source of funds.

Annexure- 6

In the sampling area, 80 respondents out of 200 were found to agree with the statement that high transaction cost of dealing with banks is one of the reasons for poor avoiding bank as a source of funds. The issue is does this information

support the conclusion that majority of the population in sampling area are going with the statement?

Approximate Tests

The assumption is that the proportion of population in the whole sampling area going with the statement is 50%, i.e., $P = 0.5$

We are interested to see whether the proportion of population (P) is more than 50%.

- **Observed value of P** = $\frac{80}{200} = 0.4$
- **Expected value of P** = 0.5

Therefore, Standard Error (S.E) of P is

$$\text{S.E.} = \sqrt{\frac{E(P)[1-E(P)]}{n}} = 0.035$$

The test statistic is

$$Z = \frac{\text{Observed value} - \text{Expected value}}{\text{Standard Error}} = -2.857$$

Since, the critical region of the test is one – tailed, at 5 % level of significance critical region is $Z \geq 1.645$

The value of test statistic is -2.857 or 2.857 lie in the critical region and hence is significant. We therefore reject the assumption at 5% level of significance. Thus, it may be concluded that majority of the population is not going with the statement that high transaction cost of dealing with banks is one of the reasons for poor avoiding bank as a source of funds.

Annexure- 7

In the sampling area, 94 respondents out of 200 were found to highly agree with the statement that time taken and cumbersome procedures for opening accounts as well as seeking loans is one of the reasons for poor avoiding bank as a source of funds. The issue is does this information support the conclusion that majority of the population in sampling area are going with the statement?

Approximate Tests

The assumption is that the proportion of population in the whole sampling area going with the statement is 50%, i.e., $P = 0.5$

We are interested to see whether the proportion of population (P) is more than 50%.

- **Observed value of P** = $\frac{94}{200} = 0.47$
- **Expected value of P** = 0.5

Therefore, Standard Error (S.E) of P is

$$\text{S.E.} = \sqrt{\frac{E(P)[1-E(P)]}{n}} = 0.035$$

The test statistic is

$$Z = \frac{\text{Observed value} - \text{Expected value}}{\text{Standard Error}} = -0.857$$

Since, the critical region of the test is one – tailed, at 5% level of significance critical region is $Z \geq 1.645$

The value of test statistic is -0.857 or 0.857 do not lie in the critical region and hence is insignificant. We therefore accept the assumption at 5% level of significance. Thus, it may be concluded that majority of the population is going with the statement that time taken and cumbersome

procedures for seeking loans as well as opening accounts is one of the reasons for poor avoiding banks as a source of funds.

Annexure- 8

In the sampling area, 96 respondents out of 200 were found to agree with the statement that banks demand collateral against loans which poor households cannot afford is one of the reasons for poor avoiding bank as a source of funds. The issue is does this information support the conclusion that majority of the population in sampling area are going with the statement?

Approximate Tests

The assumption is that the proportion of population in the whole sampling area going with the statement is 50%, i.e., $P = 0.5$

We are interested to see whether the proportion of population (P) is more than 50%.

- **Observed value of $P = \frac{96}{200} = 0.48$**
- **Expected value of $P = 0.5$**

Therefore, Standard Error (S.E) of P is

$$\text{S.E.} = \sqrt{\frac{E(P)[1 - E(P)]}{n}} = 0.035$$

The test statistic is

$$Z = \frac{\text{Observed value} - \text{Expected value}}{\text{Standard Error}} = -0.571$$

Since, the critical region of the test is one – tailed, at 5% level of significance critical region is $Z \geq 1.645$

The value of test statistic is -0.571 or 0.571 do not lie in the critical region and hence is insignificant. We therefore accept the assumption at 5% level of significance. Thus, it may be concluded that majority of the population is going with the statement that banks demand collateral against loans which poor households cannot afford is one of the reasons for poor avoiding banks as a source of funds.

Annexure- 9

Findings from Correlation Coefficient Test

1. The nature of relationship between the factors of supply side failure (banks shy away from catering to the poor) and factors of demand side failure of banks (poor avoids banks as a source of funds) for the respondents who highly agree with the statement is negatively and moderately related to each other since the correlation coefficient (r) is -0.49
2. The nature of relationship between the factors of supply side failure (banks shy away from catering to the poor) and the factors of demand side failure of banks (poor avoids banks as a source of funds) for the respondents who agree with the statement is positively and significantly related to each other because the correlation coefficient (r) is 0.66
3. The nature of relationship between the factors of supply side failure (banks shy away from catering to the poor) and the factors of demand side failure of banks (poor avoids banks as a source of funds) for the respondents who disagree with the statement is positively and poorly related to each other as because the correlation coefficient (r) is 0.33

4. The nature of relationship between the factors of supply side failure (banks shy away from catering to the poor) and the factors of demand side failure of banks (poor avoids banks as a source of funds) for the respondents who highly disagree with the statement is positively and poorly related to each other since the correlation coefficient (r) is 0.29 .