



PERFORMANCE APPRAISAL OF ANDHRA BANK AND ITS ROLE IN FINANCIAL INCLUSION

Tatayya Bommali

Research Scholar of Andhra University, Visakhapatnam and Lecturer in Commerce in N.H. Goel World School – Raipur, Chhattisgarh.

Abstract

Right of entry to finance, especially by the poor and susceptible groups, is an essential indispensable for employment, economic development, poverty mitigation and social up-liftment. Here lies the importance of financial inclusion. Financial inclusion or inclusive financing is the deliverance of financial services at affordable costs to sections of disadvantaged and low income segments of the society. The Government of India has taken a number of initiatives so that the banks can serve the poor in a hassle-free manner. With a view to spreading the services to poor and weak groups Andhra Bank plays a vital role in financial inclusion. Keeping this view, the authors have attempted to discuss the role of Andhra Bank towards Financial Inclusion as the main purpose of this paper. It also analyses the performance of the Andhra Bank in terms of its deposits, advances, income, expenditure, profitability etc

Introduction

The banking industry has shown tremendous growth during last few decades. Despite making significant improvements in all areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the under privileged sections of the society into the fold of basic banking services. In this respect, there could be multiple levels of financial inclusion and exclusion. At one extreme, there are customers who are actively and persistently courted by the financial services providers and who have at their disposal a wide range of financial services and products. At the other extreme, there are people who are denied access to even the most basic financial products. Keeping in view the above, the concept of 'Financial Inclusion' has come into force to enable to cover the financially excluded category of customers

Objectives of the Study

The study has been made:

- To review the performance of Andhra Bank;
- To know about the conceptual aspect of Financial Inclusion;
- To understand the role of Andhra Bank towards Financial Inclusion

Research Methodology

The data collected for the study includes secondary data. The various sources used to collect secondary data include annual reports of Andhra Bank, research papers, journals, Status of Microfinance in India reports published by NABARD and various other websites.

Profile of Andhra Bank

Andhra Bank was founded by Dr. Bhogaraju Pattabhi Sitaramayya in 1923 in Machilipatnam, Andhra Pradesh. He was an eminent freedom fighter and a multifaceted genius. The Bank was registered on November 20, 1923 and commenced business on 28 November 1923 with a paid up capital of Rs. 1.00 lakh and an authorized capital of Rs 10.00 lakhs. In 1956, linguistic division of States was promulgated and Hyderabad was made the capital of Andhra Pradesh. The registered office of the Bank was subsequently shifted to Andhra Bank Buildings, Sultan Bazar, Hyderabad, Andhra Pradesh. In the second phase of nationalization of commercial banks commenced in April 1980, the bank became a wholly owned Government Bank.

Vision of the Bank

To become a significant player, providing full range of banking services through innovative customer centric products and to maximize stakeholders' value.

Mission of the Bank

To work together towards delivering excellent customer service by leveraging on technology and human resources to attain world class performance standards.



**Performance of the Bank
ANNUAL REPORT FROM 2012-2016 FINANCIAL YEARS**

Balance Sheet of Andhra Bank	----- in Rs. Cr. -----				
	Mar '16	Mar '15	Mar '14	Mar '13	Mar '12
	12 mths	12 mths	12 mths	12 mths	12 mths
Capital and Liabilities:					
Total Share Capital	681.16	602.85	589.61	559.58	559.58
Equity Share Capital	681.16	602.85	589.61	559.58	559.58
Reserves	10,313.23	9,461.24	8,147.84	7,881.60	6,919.81
Net Worth	10,994.39	10,064.09	8,737.45	8,441.18	7,479.39
Deposits	174,302.40	155,012.24	141,845.12	123,795.58	105,851.22
Borrowings	9,715.59	15,307.22	13,185.09	11,119.34	8,240.56
Total Debt	184,017.99	170,319.46	155,030.21	134,914.92	114,091.78
Other Liabilities & Provisions	4,949.38	4,786.80	3,573.26	2,942.84	2,974.22
Total Liabilities	199,961.76	185,170.35	167,340.92	146,298.94	124,545.39
	Mar '16	Mar '15	Mar '14	Mar '13	Mar '12
	12 mths	12 mths	12 mths	12 mths	12 mths
Assets					
Cash & Balances with RBI	8,791.01	7,517.40	7,912.06	6,022.14	5,563.89
Balance with Banks, Money at Call	181.34	146.36	1,528.54	767.46	3,081.70
Advances	130,787.89	125,954.73	107,644.20	98,373.30	83,222.98
Investments	53,864.19	46,499.43	45,356.62	37,632.40	29,628.90
Gross Block	1,368.44	1,263.57	391.17	299.34	299.99
Net Block	1,368.44	1,263.57	391.17	299.34	299.99
Capital Work In Progress	0.00	0.00	42.75	4.14	2.56
Other Assets	4,968.88	3,788.85	4,465.58	3,200.17	2,745.36
Total Assets	199,961.75	185,170.34	167,340.92	146,298.95	124,545.38
Contingent Liabilities	48,699.29	60,250.98	45,867.42	32,605.57	44,440.49
Book Value (Rs)	161.41	166.94	148.19	150.85	133.66
Source : Dion Global Solutions Limited					

Hyderabad: State-run **Andhra Bank** is bracing for a hit after farmers in Andhra Pradesh and Telangana stopped repaying agricultural loans even before the new governments of the two states release money to follow up on loan waivers promised in their budgets for the year to 31 March.

Ninety per cent of Andhra Bank's agricultural loan book of Rs.21,215 crore is made up of loans to the two southern states that are its home market, making it highly vulnerable to defaults by farmers. Farm loans accounted for 19% of the lender's total advances of Rs.1.14 trillion as of 30 June.

Andhra Bank accounted 14% of total agricultural advances in Andhra Pradesh before its division and the grant of statehood to Telangana. The total farm advances in united Andhra Pradesh of all banks put together on 31 March was Rs.1.37 trillion,



of which Telangana made up 40%. Andhra Bank classified agriculture loans worth Rs.1,076 crore as non-performing assets (NPAs) in the fiscal first quarter and expects another Rs.1,000 crore to turn bad in the July-September period if the issue of the loan waiver scheme is not resolved.

Farm NPAs, which typically made up around 2.5% of total NPAs at Andhra Bank, rose around three times in the first quarter, Rajendran said.

Farm loans are classified as NPAs if the loan repayment is delayed over two agricultural seasons. The bank said it has exposure of Rs.13,000 crore in terms of agricultural loans and Rs.4,400 crore worth of SHG loans in Andhra Pradesh. In Telangana, the bank has an exposure of Rs.7,000 crore to agriculture.

Andhra Pradesh is struggling for funds in the face of a revenue deficit of Rs.6,064 crore in the year to next March and a fiscal deficit of Rs.12,064 crore in the previous fiscal year. The state government made a provision of Rs.5,000 crore in the state budget towards the farm loan waiver, which covers only 12% of total loan waivers. The state government is exploring options, including bond sales, to raise money to repay banks. Telangana is relatively comfortable because the state has a revenue surplus of Rs.3,555 crore.

Andhra Bank is seeking to de-risk its business model by focusing on retail loans and expanding aggressively beyond its home base, which accounts for 60% of its total business. Rajendran said the bank is focusing on reducing the "concentration risk by expanding aggressively" outside of Andhra Pradesh and Telangana and seeking to build a pan-India presence.

Farm loan waiver is the worst form of populism to win votes," said Rajesh Chakrabarti, executive director at the Bharti Institute of Public Policy at the Indian School of Business. "It completely destroys credit culture because it creates an environment where farmers become more prone to taking loans and assuming that government will come and bail them out." Andhra Bank's gross NPAs stood at 5.98%, or Rs.6,827 crore in the quarter ended June, higher than the average gross NPA of the banking industry, which stood at 3.9%. Around 11% of total advances are being recast.

Micro finance and Financial Inclusion - Implementation in Andhra Bank

The State of Andhra Pradesh has been a great success story in micro finance and Andhra Bank plays a significant role in this story. The bank has 1289 branches spread all over the country and 918 branches are located in Andhra Pradesh. The rural and semi-urban branches constitute 59.89 percent of the total branches giving an ample scope to be a forerunner in helping the poor and play a pivotal role in the mission of financial inclusion. The huge network of branches in rural / semi-urban areas provides a natural edge for the bank besides its robust financials and dedication and committed workforce.

Opening of No Frills Accounts

Possessing a bank account is a minimum requirement for any citizen so that banking channels are kept open to him. The bank has so far opened 1,41,826 no-frills accounts, with average balance of Rs: 430/- per account and Rs: 5/- for opening of account. A pilot scheme for achieving 100% financial inclusion by providing no-frills accounts has been implemented in Srikakulam district in Andhra Pradesh and Ganjam district in Orissa, where we happen to be the lead bank, in collaboration with other banks. This was a gigantic task and required a lot of coordination amongst banks, educating the customers, making due identification, etc. The task, however, was successfully completed by March 2007. It is proposed to extend the scheme to all other districts in the State of Andhra Pradesh.

General Purpose Credit Cards

Access to minimum credit is increasingly being seen as a "right" of the customer, rather than a "facility" sanctioned by banks after so much of scrutiny. The bank has initiated steps to cover households to meet the credit needs for economic activities under the existing schemes and also to initiate steps for sanction of "General Purpose Credit cards" to the eligible and needy. This is expected to materialize at the earliest.

Strengthening of SHGs

SHGs are the most important vehicles of financial inclusion. The bank is in the forefront of SHG movement in the country with much emphasis in Andhra Pradesh. The bank also aims at preparing the individuals to avail viable loans by providing them necessary training to secure purpose based finance. Therefore, the SHGs and individual members are being trained in nine Rural Development Institutes of the bank. All the SHGs who have paid their bank loans promptly will be eligible for interest relief from Government of Andhra Pradesh i.e. the ultimate interest paid by the SHG is only 3% per annum. It is aimed to disburse Rs: 1000 crore during this year. The bank has also introduced some innovative systems for the benefit of



members of SHGs like SHG Credit Cards, Janashree Bima Yojana Scheme (life cover), Swasthya Bima Yojana scheme (health cover), etc.

Debt Swapping

To provide institutional credit to the indebted members of SHGs to repay loans taken from non-institutional lenders (private moneylenders), debt swapping scheme was introduced wherein SHGs will be given an additional loan. The objective is to bring down the interest burden of the indebted farmers and SHG members from as high as 48% in some cases to 9% p.a. In case of SHGs, this may go further down to 3% p.a. as the State Government allows interest subsidy for these additional loans. This year, it is proposed to implement the scheme for SHGs in two villages each under service area of the bank branches. The bank has adopted debt-swapping scheme to farmers also besides covering SHGs

Use of Technology in Financial Inclusion

The banks has installed several ATMs in rural and semi urban areas. However the constituents coming under financial inclusion are mostly illiterate and would not be in a position to use PIN numbers, etc. To facilitate the operation of ATMs by these people, for the first time, the bank has introduced biometric ATMs and also mobile ATMs carrying biometric facility. This is a modest beginning and will pave the way for more and more people being benefited by this initiative,

Use of Smart Card Technology for Payment Old Age Pensions and Wages Under REGP

The bank has also participated in a pilot project in Warangal district of Andhra Pradesh along with six other banks in payment of wages under National Rural Employment Guarantee Programme & Pensions under Social Security scheme through "smart cards": Six banks namely Andhra Bank, State Bank of India, State Bank of Hyderabad, Andhra Pradesh Grameena Vikas Bank, Union Bank of India and Axis Bank have taken up six mandals in Warangal district and are implementing the project with the support from Rural Development Department, Government of Andhra Pradesh. Connectivity is an issue while payments are made on line through cards. However, it has been overcome since business correspondents are doing the payments offline and transmitting the data when connectivity is available.

Use of Intermediary

The bank is enrolling suitable organisations as business correspondents. These business correspondents will in turn appoint Customer Service Points (CSPs) for payment at village level. At present, Village Organisation leaders are being utilized for this purpose. (around 10-15 SHGs federated at village level is called village organization) The correspondents also act as a facilitator for provision of micro finance, savings, and other financial services of the bank and financial Institutions.

Barriers to Financial Inclusion

Banking network

Hours of operation of bank branches in rural areas: Restrictions at bank: Problems Encountered in the Initial Stages Social & Economic position: Information: Identification/Introduction: Financial literacy: Absorptive capacity: Large geographical spread of customers: There are several barriers to financial inclusion, some are characteristics of service providers and some are of customers. The following are the characteristics of financial service providers which add to financial exclusion: There are no bank branches in remote areas/tribal areas and difficulties in closure/ mergers/shifting of bank branches which were hitherto operated in tribal areas / remote rural areas.

Hours of operation of bank branches in rural area

Timings are inconvenient for the poor people as they have to go for farm operations (or) go to wage earning. In that case visiting branch during daytime would mean loss of wages for a day. Lack of information about the financial services

Restrictions at bank

Personal identification, minimum balance, price of the product, technologies adopted at branches sometimes restrict the people.

Financial Inclusion - Action Plan for Banks

Following action points are suggested for banks for achieving greater financial inclusion Banks to replicate the model of micro credit delivery to farmers and artisans through NGOs, SHGs, and farmers clubs selectively.

Banks to use the Business Correspondents/ Business Facilitators models for enhancing the capacities of existing branches for increasing outreach with proper care. They can use this model properly assessing their capabilities and reputation to avoid any problem for the banks at a later stage.



Banks to use of Information technology (IT) based solutions like smart cards extensively to facilitate offsite banking. A fully IT-driven system would make the bank branches more effective and cost efficient. Use of IT based solutions like ATMs, mobile ATMs, debit and credit cards, smart cards will result in greater financial inclusion. To provide banking services at far flung areas where the banking network is weak.

.Banks to initiate action to convert the primary multiple societies as their agents to retail financial products in the rural areas. Banks together with NABARD to actively engage themselves with facilitation of group formation and group linkage for savings, deposits, and other financial services like insurance.

Banks to take up capacity building programmes for branch managers, SHGs, NGOs, local persons and BCs. RBI and NABARD also to think of providing training programmes to convert traditional bankers to doorstep bankers.

Banks to expand insurance linked deposit and credit products. In light of criticisms on recovery procedures, etc. there is an increased need to improve financial transparency and governance issues.

The walls between the micro finance community and the broader world of financial community needs to be removed to ensure greater efficient delivery of micro finance.

Conclusion

While the levels of globalization increase, more economic wealth is created and distributed. The challenge for the national government is to ensure that the benefits of globalization are equitably distributed amongst population so as not to cause large scale social and economic disruptions. This is where the concept of "Financial Inclusion" assumes an increasingly greater importance. Banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of "bottom of the pyramid" group treating it both a business opportunity as well as a corporate social responsibility. They have to make use of all available resources including technology. Even the relatively low margins on high volumes can be a very profitable proposition.

Financial inclusion can emerge as commercial profitable business and can truly lift the financial condition and standards of life of the poor and the disadvantaged. We as bankers have a small but significant role to play in this unfolding of future story of economic growth and distribution and we shall strive to achieve the set goals.

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