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A New Beginning

The Turnaround Story of Indian Bank

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The Turnaround Story of Indian Bank

Ranjana Kumar
Vigilance Commissioner
Central Vigilance Commission
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To

My grandchildren
Aaroshi, Parie,
Aayush: Become leaders

Foreword

Dr. A P J Abdul Kalam
Former President of India

सत्यमेव जयते

18 March 2008

I am very happy to write the foreword to *A New Beginning: The Turnaround Story of Indian Bank.* When I read this book, I felt that the title of the book should have been 'Accomplishing a Himalayan Task.' The lady leader has indeed shown her indomitable spirit in turning around Indian Bank to high quality-high performance bank.

Smt. Ranjana Kumar had the unique opportunity of serving as the first woman Chairman and Managing Director of Indian Bank or any public sector bank for a period of three years and seven months commencing from May 2000. It is interesting to note that knowing fully well that the bank was in red, she offered herself to be the Chairperson and took up the challenge. The Committee appointed by the Government said that it was a Herculean task and would need the services of a competent, knowledgeable and determined top management to revive the bank which was in a state similar to a patient in an ICU needing multiple surgeries, massive blood transfusion immediately.

In our country when authority is given to a leader, the person goes through the process of completely revamping the organisation by changing key officers and staff. Smt. Kumar used her leadership qualities to build confidence among the existing officers and staff of Indian Bank by reposing trust in their capability to perform and deliver. This is one of the important characteristics of her leadership style. When the problem occurred, she believed in empowering the team for defeating the problem and succeeding. This is the great story of a great leader.

I feel that the invaluable managerial and leadership experience presented in this book, should be an eminently suitable for practising bankers. It should also be prescribed as a textbook in all the management institutions in the country, since it is an Indian experience pertaining to the banking sector. The case in the book should be analyzed, researched and taught to all the students.

APJ Abdul Kalam

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Preface

Towards the end of my assignment with the Indian Bank in November 2003, I had a deep sense of satisfaction of accomplishing a difficult mission. Periodically it occurred to me that the story of revival of the Bank was worth writing about. Four such occasions which I vividly recall were—once when I made a presentation at the Indian Institute of Management, Ahmedabad; second when I spoke to a distinguished gathering of senior international bankers at the Pacific Rim Banker's Training Programme at University of Washington, Seattle, USA; third when I met the Singapore Monetary Authority, who having shown forbearance on our repeated assurance of re-capitalisation of the Bank, were reluctant to allow our operations to continue. Eventually they agreed to a regime of restrictions on our operations for some more time and continued our licence. The rest is history; all restrictions were removed in due course and the Singapore branch is now a thriving unit of the bank. And fourth, when the Bank was able to declare a profit, albeit small in 2002, nearly after a decade.

But I had to hold myself from rushing into writing for three reasons—One, as I was deeply involved in the stupendous task of revival of the Bank, an immediate outpour of my experience would be biased. Two, I wanted to minimise any adverse comments, except to the extent the context warranted, on people during whose tenure the Bank declined. I reasoned that the focus of the writing ought to be on what led to the near collapse of the Bank and what was done to shore it up. Three, my concern was that the revival endured, and that it was not a flash in the pan.

The real trigger for penning the story came out of an unexpected source. His Excellency, the former President of India, Dr. A.P.J. Abdul Kalam was invited by the Indian Bank for inaugurating its centenary celebrations on 4th September, 2006. Dr. Kalam gave me audience to understand the background of the bank and how it came out of the crisis. He heard me intently and said that I should write about it. Dr. Kalam then enquired as to what was the state of my health during the period of restructuring. It was for the first time a question of this kind had been put to me. While I was rather intrigued, I confessed, on recollection that I enjoyed the best of health during that time and felt very energetic during the process. He gave a knowing smile and said that when one is committed for a purpose, energy levels are always at a high. Subsequently during his address, Dr. Kalam observed that the experience of how Indian Bank succeeded in recovering from the difficult times was relevant to the entire banking system in the country.

Having thus been persuaded that writing the story of the turnaround of the Bank was worthwhile, I had to contend with reams of external expert reports, internal notes, gratuitous commentaries, press coverage, my talks in public forums and letters to the staff and of course, wealth of statistics. I gleaned through much of these and decided that more than anything else the narration should capture the true spirit of the task accomplished. Statistics have a place as indicators of progress in our mission but they would not fully reflect the magnitude of the efforts and the zeal involved in the turnaround.

It is easy, for example, for someone to comment retroactively that capital infusion by the Government of India was key to the revival. However, without concomitant reforms in all other parts of the organisation, and deep involvement of the staff, recapitalisation would have been in vain as it happened a few years earlier. The Bank had an accumulated loss of over Rs.4000 crore which had wiped out its entire equity. But for the fact that the Bank was owned by the Government of India, it would have been declared insolvent instead of being termed as "weak". At one point of time when there was some delay in the infusion of capital, the Board of Directors expressed its concern in a resolution stating that the wages and even the directors' sitting fee came out of the depositors' money. The reforms implemented by us covered all the areas of the bank—revamping the credit sanction and delivery systems, management of non-performing loans, upgradation of marginal loans by timely supervision and assistance, thrust on new business like retail lending, housing loans, microfinance where the risk is well diversified and small. A number of innovative deposit products were introduced. As a part of organisational restructuring, the number of administrative layers was reduced; the number of branches dealing with corporate credit was brought down and staffed with good appraising officials. More importantly, the officials who had lost the nerve to deal with credit proposals were encouraged to exercise the delegated powers with an assurance that bona fide actions would not land them in trouble. In fact, the Board of Directors passed a resolution to this effect.

The aspect of low morale of the staff cannot be over-emphasised. Almost for five years the staff of the bank had a grave sense of loss of identity, influenced by frequent rumours of merger with another bank, worse still, liquidation of the bank as gratuitously recommended by an industry association, and accusatory comments on how they were responsible for the near collapse of their institution. Their wages were not revised even though agreed to in the negotiations at the Indian Banks' Association level, facilities like leave fare concession were curtailed or withdrawn, etc. All these evoked muted resentment. Almost everyone knew that the staff in general did not have much to do with the collapse. The biggest challenge was to motivate the staff and convince them of the sincerity of our efforts. I had personally toured over 500 branches, motivated thousands of staff, and organised many training programmes with a view to shore up their morale and give them a sense of confidence and courage to face the reality and move on to resurrect the bank. Simultaneously, we launched a number of training programmes for upgradation of skill, development of computer literacy among the staff as we had begun to implement the first phase of core banking solution without which the bank would have lagged behind its competitors. Surely, the staff or their unions were not always forthcoming but it was understandable—once they understood the pith and purpose of the mission, they came along all the way. One point I would like to mention in this context is that the implementation of the entire restructuring and turnaround strategy was carried out internally. Though identifying a consultant for this onerous task would have been an easier option, however, we at the Bank recognised that time for action was overdue. We had confidence in ourselves to bear the cross as it were, and the staff was determined to bring up their Bank.

I must add that even the auditors of the Bank spoke, almost out of turn, about the remarkable recovery of the Bank. Informally, some of them felt at one point of time, the Bank was perhaps overprovisioning against non-performing assets. I might confess that our senior executives discussed with me the possibility of showing a larger net profit than Rs 33 crore that we declared in 2002. This was a difficult temptation to resist as we could have taken credit for far exceeding the targets accepted with the Government of India while receiving the fresh capital. For me the concern was to sustain the result and not earn kudos.

There is a saying that “The reward for a work done is the opportunity given to do that work”. One might as well add that the joy for a work done is to share with others how it was accomplished so that they too could do it, and better. Only with such thinking, I have ventured into writing this book. It is not strictly meant to educate the readers on how efforts were made towards restructuring Indian Bank. My efforts are not intended to prove or disprove any point, for personal glory but if the narration here helps better understanding, and some useful lessons could be derived, I would think my endeavour was useful.

I realised that writing this book four years after I left the bank first to head NABARD and then as Vigilance Commissioner, Central Vigilance Commission for two years now, had its advantages. For one, I am reasonably confident that I could keep aside any prejudicial comments on people and events. For another, in the intervening time I could reflect on some of the issues confronted by us more objectively than was possible then. I hope I have succeeded in putting across to the discerning readers the true story of revival of the bank.

The issues deliberated here are not solely confined to Indian Bank. Many are common to the Indian banking sector, if not to the global banking industry. With due respect to technology—driven systems and procedures in banking which have made tremendous and rapid progress, it is and will remain still the human mind which drives the operation of banks. Whatever transpired in the Indian Bank could happen in any bank, anywhere in the world. The basic issues are common, though the complexities may vary. Solutions might vary and depend on situations, but hard work, dedication and teamwork are not substitutable.

This book aims to trace the firm imprints of those footsteps that are hailed as turnaround strategies that made the Bank come out of the major ailment with vigour and rigour. The trials and tribulations undergone by the people in the Bank and the patience and perseverance demonstrated by them in rebuilding and bringing it back to glory and the management chorus to motivate people by saying…*we shall overcome… we shall overcome…. we shall overcome one day (Hum honge kamyab ek din).*

When I joined the Bank, deep in my heart I did believe that we would!

It is my hope that this book succeeds in delineating the spirit underlying the restructuring of the Bank which was successfully completed in a record span of time. It is gratifying to see in its 101^{st} year of operations, the Indian Bank's flag flying high.

I have many people to thank for the achievement at the Indian Bank. I am grateful to the Government of India, the Reserve Bank of India for being supportive, to the customers many of who stood by the Bank in difficult times, to the distinguished Board of Directors for their wise counsel, to the officers and the staff whose collective will and action resulted in the recovery of the Bank and laid the foundation for a durable growth and prosperity. The Bank has consistently shown improved performance over the last four years and had the courage to bring out an IPO with a premium in 2007. Further it is marching ahead with the mission of taking banking technology to the common man.

RANJANA KUMAR

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First and the foremost, I would like to acknowledge with a profound sense of gratitude, the suggestion made by His Excellency Dr A.P.J. Abdul Kalam that I should come out with a book on the turnaround story of Indian Bank. I feel humble to take up the responsibility, as called upon by His Excellency.

I am grateful to the successive Chairman and Managing Directors of Indian Bank, Shri M.B.N. Rao, Dr K.C. Chakraborty and Shri M.S. Sundara Rajan for their support.

I am thankful for the encouragement and guidance of Shri P.V. Maiya and Shri Ashok Gupta, erstwhile Directors on the Board of Indian Bank, towards this initiative.

The assistance of Dr Jayanti Lal Jain and Shri V. Srinivasan, General Managers of Indian Bank in this endeavour is worthy of special mention.

My thanks to all other top executives, and the staff at all levels of the bank who were helpful in the writing of this book.

During my tenure I had two Private Secretaries in my Secretariat, Mr. T.S. Bhaskaran and Mr. L.S. Muthukumar. Both of them worked relentlessly and with a great sense of dedication. My day at the office commenced and concluded on interacting with them.

Finally I would like to acknowledge the tremendous amount of psychological strength, support and great understanding which was provided by my husband, Mr. Nand Kumar all through.

My daughter Aparna, son-in-law Sanjay, son Rohan, daughter-in-law Prienca, for their love, understanding and empathy for a working mother.

RANJANA KUMAR

Contents

Abbreviations

AAIFR	Appellate Authority for Industrial and Financial Reconstruction
AIBEA	All India Bank Employees' Association
AIBOA	All India Bank Officers' Association
AIBOC	All India Banks' Officers' Confederation
ALM	Assets and Liability Management
ARMB	Assets Recovery Management Branch
ATMs	Automatic Teller Machines
BCCI	Bank of Credit and Commerce International
BEFI	Bank Employees Federation of India
BIFR	Board for Industrial and Financial Reconstruction
BOT	Bank of Tanjavur
CBI	Central Bureau of Investigations
CBS	Core Banking Solution
CC	Cash Credit
CDR	Credit Deposit Ratio
CEO	Chief Executive Officer
CII	Confederation of Indian Industry
CLCSS	Credit Linked Capital Subsidy Scheme
CLCSTUFS	Credit Linked Capital Subsidy Technology Upgradation Fund Scheme
CMD	Chairman and Managing Director
CPPD	Computer Policy and Planning Department
CRAR	Capital to Risk Weighted Asset Ratio
CRR	Cash Reserve Ratio

CVC	Central Vigilance Commission
DCC	District Consultative Committee
DGM	Deputy General Manager
DICGC	Deposit Insurance Credit Guarantee Corporation
DRT	Debt Recovery Tribunal
ECGC	Export Credit Guarantee Corporation
ECIL	Electronic Corporation of India Ltd.
ED	Executive Director
EDI	Electronic Data Interchange
EDP	Electronics Data Processing
ELBs	Exceptionally Large Branches
FCBU	Foreign Currency Banking Unit
FDIC	Federal Deposit Insurance Corporation
FICCI	Federation of Indian Chambers of Commerce and Industry
GM (PHR)	General Manager (Personnel and Human Relation)
GMs	General Managers
GOI	Government of India
Govt.	Government
HO	Head Office
HR	Human Relations
HRD	Human Resources Development
IAS	Indian Administrative Service
IBA	Indian Banks' Association
IBPS	Indian Banking Personnel Selection Board
ICDs	Inter Corporate Deposits
ICRA	Investment Information and Credit Rating Agency
IFAD	International Fund for Agricultural Development
IMAGE	Indian Bank Management Academy for Growth and Excellence
INBEF	Indian National Bank Employees' Federation
INFINET	Indian Financial Network
IPO	Initial Public Offer
IPS	Indian Police Service
IRAC	Income Recognition Asset Classification
IRS	Indian Revenue Service

IT	Income Tax
LFC	Leave Fare Concession
MAS	Monetary Authority of Singapore
MBA	Master in Business Administration
MIDL	Modernisation and Infrastructure Development Loan
MMTC	Minerals and Metal Trading Corporation
MPBF	Maximum Permissible Bank Finance
NABARD	National Bank for Agriculture and Rural Development
NDS	Negotiated Dealing System
NIBM	National Institute of Bank Management
NPA	Non Performing Assets
NRI	Non Resident Indian
NSC	National Savings Certificate
OBC	Oriental Bank of Commerce
OD	Overdraft
ONGC	Oil and Natural Gas Corporation
PC	Personal Computer
PIL	Public Interest Litigation
PLR	Permissible Lending Rate
PNB	Punjab National Bank
PSB	Public Sector Bank
PSU	Public Sector Undertaking
RBI	Reserve Bank of India
RCF	Rural Credit Frenchise
RRB	Regional Rural Bank
RZB	Raiffeisen Zentral Bank
SARFEASI	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest
SHG	Self Help Groups
SLR	Statutory Liquidity Ratio
SRP	Strategic Revival Plan
SWOT	Strength Weaknesses Opportunities and Threats
TBC	Total Branch Computerisation
USA	United States of America
VLBs	Very Large Branches

The Story in Brief

Chapter 1

1.1 Indian Bank: A Phoenix

The decline of the Indian Bank, a reputed and a longstanding bank, is no small matter for the customers, the staff, the owners—in this case the Government of India—and the general public. But for its ownership by the Government, the bank would have been declared insolvent as it had accumulated losses far in excess of its net worth. Instead it was officially labelled in 1995-96 as 'weak' though there were still doubts as to whether the whole truth was out.

Yet, in less than a decade, the bank was turned around to be a profit making one! It might be mentioned that of this period, the first four/five years were spent more in analysing what went wrong (though the reasons were far too obvious), and on discussing options on what to do with the decadent bank. Also, during this period there was furious activity in handing over cases of bad debts to the CBI for investigation, and instituting disciplinary proceedings against a number of officers, all of which spread fear among the staff and their families. From time to time, opinions were expressed by the authorities that the bank could be merged with a stronger bank, which further demoralised the staff and created anxiety in the depositors and other customers. In parenthesis, it needs to be mentioned that two other banks, viz., the United Commercial Bank and the United Bank of India were also labelled as weak banks though their losses were not as mountainous as that of Indian Bank. In their case, merger with any other bank was not debated, possibly because they were

Kolkata-based where the ruling Communist Party would not have allowed extinguishment of the banks.

Amidst all this, the Confederation of Indian Industry gratui-tously set up a committee in 1999 with a well-known expert from a financial institution and some industrialists, who hastily compiled a report and handed it over to the Finance Minister, recommending that weak banks must be liquidated. This recommendation was severely criticised by the employees of public sector banks. Many industrialists who backed the report initially lost their ardour and beat a hasty retreat when the banks pointed out that the Non-Performing Assets [NPAs] in their, and also in the books of financial institutions were created by these worthies!

It is regrettably true that in the public sector, accountability for failure is a long-winded exercise and, not infrequently, till that is substantially accomplished, remedial measures for rehabilitation of the undertaking are slow to emerge, and at best steps for token survival are only attempted. The case of Indian Bank was not very different. Consequently, some valuable years could not be purposefully utilised for enduring rehabilitation, as survival and keeping the bank afloat became the principal objectives, even as one committee or the other set up by the Government/RBI were busy evaluating possible remedies, and the investigating agencies were digging out the truth and pinning down the officers.

It is not to be denied that a lot was done to stabilise the operations of the bank, including a dependable arrangement worked out with the help of RBI for inter-bank borrowing to support the imbalance in the asset/liability portfolio of the bank (which was the surface manifestation of the deep-rooted problem), introduce a transparent decision making processes by committees of officials, install control and preventive vigilance systems, ferret out further non-performing loans, and initiate legal action for recovery of bad debts, etc. The public had begun to feel a little more confident in dealing with the bank. At the same time some of the old and loyal customers with borrowing arrangements for decades felt the heat of the bank's internal problems which led to curtailment, or even denial of credit facilities enjoyed by them. Loyalty yielded place to disenchantment.

But the big question was whether the bank would survive as an independent entity and a going concern at all. This was because major policy decisions on adequate recapitalisation, restructuring of the organisation, addressing human resources issues (especially of an embattled and demotivated staff), computerisation of branches, delegation of powers to the officials, constitution of a full Board of Directors, including appointment of a Chairman and Managing Director etc. were matters in which the Government's action was called for, but was slow in coming. A clear view on all of these aspects began taking shape only after the Report of the Working Group on Restructuring Weak Public Sector Banks (popularly known as Verma Committee) set up by the Reserve Bank of India in consultation with the Government of India submitted the report in October 1999. The Verma Committee report did not mince words in recommending implementation of a comprehensive plan of restructure and turnaround proposed by it. It further added that other options like merger, privatisation, etc. were neither suitable nor palatable. The message to the Government was loud and clear—that enough analysis had been done, and now do not waste time in any illusive pursuit of less painful solutions if any.

The message for action had the desired impact. A multiple of measures was undertaken in cohesion which helped in the revival process. Yet, if single measure were to be isolated for distinction, it is the restoration of confidence in the employees by openly inviting them to lift the bank out of the morass. The day I accepted the position of CMD, I decided to enthuse the staff at all levels, to believe that we together could achieve the impossible. Shri M.B.N. Rao, the then Executive Director (who succeeded me, and is now the CMD of Canara Bank) was of great support and strength in all our efforts. At the end of the day, I should say we bet on people, and that paid off.

1.2 Good Old Days

The bank, founded on 15th August 1917, exactly three decades before India's independence had a strong base in South India. Its strength was an excellent and committed client base with banking relationship spanning over a few generations. The bank had built a strong mass support which, over the years, gave it a brand image which it effectively publicised with the slogan "nine decades of trust" reposed in it by the customers. The bank had indeed grown to be strong in the 1980s, judged by any professional parameters. It was also considered to be a success story of nationalisation.

1.3 Trust Betrayed?

It really came as a shock to the customers and the public when they learnt in the early nineties that the bank was experiencing difficulties in finding resources to match its growing credit portfolio (which itself was a source of problems). Acute observers even traced the beginning of the problem to the late eighties, coinciding with the well meant publicity blitzkrieg launched by the then management.

Soon rumours about the bank's problems yielded place to the harsh truth as the RBI introduced in 1992 what is called, "prudential norms"—for capital adequacy, income recognition, classification of assets (primarily loans assessed on the basis of recoverability), provisioning for non-performing assets etc.—as per Basel Committee (I) report which was accepted by international banks. To be fair, there was good company for the Indian Bank as quite a few other public sector banks found their balance sheets and income statements (hitherto gloated about) were not any longer true or fair by the application of new norms. In fact, PSU banks as a whole showed net loss in 1992-93—12 out of 26 banks which had declared profits the previous year showed losses of varied magnitude. But that was just a perverse satisfaction as the problems of the Indian Bank were far more deep-seated. The RBI's thrust towards cleaning up the balance sheets of banks, undertaken in the wake of the first phase of Economic Reforms launched by the Government of India in 1991 and the acceptance of Basel Committee (I) report, was precisely meant to be cathartic for the financial system of the country. To blame the introduction of prudential norms for the Indian Bank's woes would therefore be like blaming the messenger.

1.4 What Went Wrong?

Obviously, the introduction of prudential norms could not be blamed. It just exposed serious corrosion of systems and procedures, and indeed the values on which this bank (which started as a 'Swadeshi Bank') had been nurtured during all these years.

In retrospect, one can say that the most dominant reason for the downfall of the bank was the indiscriminate growth of credit. Much of the large exposure by the then Management was to high-risk sectors like construction, persons from film industry and hospitals, educational institutions, etc. The bank also had given loans to core industries like steel, cement, and textiles which were not doing well those days. In some cases, huge credit disbursements were made at the instance of the top management without proper appraisals, or even complete documentation. Often, the decisions were first given to the line officials—many of whom, regrettably even at senior levels, preferred to go along with unsound decisions—as it happens in such cases, to please the top management. Credit decisions had ceased to be professional, and were guided by contacts and sentiments. In many instances, as it was later proved, neither a detailed appraisal, nor the very basic tenets of lending, nor creditworthiness or adequacy of security, guided credit decisions. The net consequence of the 'adventurism' in credit decisions was that the bank ended up with a highly unbalanced position between assets and liabilities.

Between 1989 and 1992, the bank's deposits grew by Rs 3346 crore, and the credit by Rs 2797 crore, giving an *incremental* credit deposit ratio (CD) of 83.5%. The bank's CD ratio stood at 72.04% in 1992 as against 55% of the banking system as a whole. Technically, a bank could not lend more than about 60% of the deposits, after setting aside the cash in tills at the branches, and Statutory Liquidity Requirements prescribed by the RBI. The bank, as could be inferred, was highly over–extended, and the shortfall had to be met from the inter-bank call money market, mainly on day-to-day basis, and often at high cost. Soon the bank began to face resistance from lenders as they began to suspect that it might not be in just a temporary liquidity problem.

The RBI could not keep quiet; it issued several cautionary advices to the bank to rein in credit and re-balance its assets and liabilities. Either it was too late for the bank to bridle the runaway credit or, thanks to political support, the top management did not heed the advice. In the end, the RBI imposed restriction on the bank granting any further credit—an extreme step not suffered by banks generally.

Sadly, despite the clamp on credit expansion and curbs on the powers of the management, credit continued to grow indiscriminately.

Alternative and ingenious routes of funding through the subsidiaries—Indbank Merchant Banking Services and IndFund Management—engaged in merchant banking and mutual funds respectively, were found to fund the undeserving but favourite borrowers.

Once the prudential norms were introduced, the true quality of the loan portfolio came to light. Many borrowers had defaulted on repayment of instalments and periodical payment of interest. Additional loans had been given to 'evergreen' loan accounts. Security for several was inadequate or of suspect quality (such as title deeds of properties). Indeed, a host of serious deficiencies surfaced. Thus, the bank was confronted with a double whammy of non-performing loans and heavy borrowings which at times exceeded 25% of the deposit resources in the call money market.

The crisis had begun. For the first time in decades, the bank showed a net loss of Rs 390.65 crore in 1993-94. The very next year, in 1994-95, curiously, the bank posted a net profit of Rs 14.26 crore. However, the mystery behind this result was soon unravelled when RBI inspection identified a huge shortfall in provisioning which resulted in the declared net profit turning into loss of Rs 283.88 crore! In 1995-96 the bank reported an unprecedented net loss of Rs 1336.40 crore, wiping out the net worth and turning it negative. Gross NPA shot up to an incredible figure of 44% of the loan portfolio despite the fact (as it came to light later) that there was incorrect classification of assets by which huge non-performing loans were dressed up as performing. Over the next few years, the bank continued to show net losses mainly on account of additional provisions against bad loans—old and new ones.

1.5 Sagging Employee Morale

The massive loss of Rs 1336 crore, and gross non-performing assets of over Rs 3300 crore were staggering. The Government ended the term of the then CMD who had been on several extensions beyond the original term of office. The Government and the RBI asked the new CMD to quickly take stock of the then precarious situation. Among others, disciplinary action against the erring officials was initiated, and cases of bad loans were handed over to the Central Bureau of Investigation (CBI) for booking the wrong doers. At the same time, the bank had to be kept afloat even as the Government and the RBI were making up their mind on options for restructuring it and reviving its fortunes.

Following the direction for quick action, (perhaps without a detailed examination of the root cause of the malaise, and a fair determination of the responsibility of the officials), the internal disciplinary proceedings and/or investigations by the CBI were unleashed against many officials. A large number of cases were handed over to the CBI. The ruse of accountability was used for questioning even commercial decisions. Some mutely resented this. It might be conceded to an extent that given the gravity of the situation then, it was not easy to segregate the real culprits from those who could only be suspected. Hence, the reputation of the Bank suffered a severe setback. This took its toll on human relations in the bank.

Further, a credit squeeze was imposed, powers delegated to officials for approval of credit were withdrawn, and credit decisions were centralised. Consequently, the morale of the staff at the branches sunk to a new low as they could no longer assist even good customers. In fact, the officials avoided taking decision for fear of being made scapegoats. The problem was compounded by the fact that the managerial staff failed to keep abreast of the changing banking scenario in Indian banking. The demoralised workforce was not conducive to inspire confidence in the customers who started drifting away to other banks—public as well as private—for a more congenial and trusting institution.

1.6 NPA Management Deficient

The impact of faulty credit decisions and de-motivated employees was felt, among others, on the management of non-performing loans. Identification of NPA ordinarily should be followed by decisions on what could be done with it. Is it a genuine case warranting rehabilitation, or is it a case where security was not realised? Is it a case of wilful default where the bank was taken for a ride? Should the bank take legal action or agree to a compromise settlement? A host of such questions arose. Without a detailed examination of the issues and discussions with the borrowers, any course of action could turn out to be arbitrary, and not in the best interest of the bank. Unfortunately, the credit monitoring system in the bank was deficient and, consequently, the foregoing aspects did not receive adequate attention. Instead, several cases were handed over for investigation which foreclosed all other options.

The level of NPAs rose further as new ones were discovered which were earlier incorrectly shown as performing assets. Some of the existing ones deteriorated where timely rehabilitation could have upgraded their quality, while some standard (performing) assets degenerated as they were denied normal credit facilities in keeping with their growth because the credit squeeze directive was implemented across the board. One common feature in all these cases was the virtual lack of communication, leave aside any purposeful discussions with the affected borrowers. The credit officials were afraid of being misunderstood if they tried to be helpful to even good borrowers.

Obviously, NPA management is not merely recovery by sale of security. A much more important aspect lies in arresting slippages. Wilful defaults and diversions of funds, which are not overnight phenomena, can be detected only if the banker is in regular touch with the borrowers. The other very effective tool in NPA management is to enable upgradation of accounts by a restructuring/nursing programme, though this could involve some initial sacrifice and grant of concession from standard terms for the sake of long term viability of the borrower's operations. None of these measures can be achieved by shunning contact with the borrowers. Unfortunately, given the gravity of the situation, the easier option of declaring borrowers as defaulters was resorted to and, ipso facto, their cases were handed over for investigation, shutting down any other option. In many cases, good borrowers, finding the bank unhelpful, moved out. Increase in NPAs and loss of good clients accentuated the prevailing contamination of the credit portfolio.

1.7 Compass of Revival

Before I took formal charge of the bank, I had extensive discussions with the general managers and senior officials which convinced me that though the manifest problem was undoubtedly the heavily contaminated credit portfolio, it could not be resolved unless the issue of human relations was addressed. They assured me of the competence and commitment of the staff, if only they perceived a responsive leader. Of particular immediacy was to give confidence to the staff that they would be treated fairly, with bona fide commercial decisions supported. Also, efforts would be made to review select vigilance cases against them with the CBI/ CVC, with assurance that after re-examination the decisions on them would be obtained quickly so that the agony of suspense ended. Equally important was the need to inculcate in them a sense of self-respect and pride in the work of restoration of their bank to health and former glory. Revival of the bank warranted a multi-pronged approach of which, in my opinion, human relationship was pivotal.

1.8 HR Initiatives

Soon after I took charge in June 2000, I realised that the staff was one of the strong points of the bank, and that they needed to be enthused for the turnaround strategy to succeed. I started meeting the managers and the field staff down the line across the country, spoke to them about the areas of concern for the bank, and sought their direct involvement in the revival process. Some of the senior officers were also similarly asked to tour around to seek active cooperation of the staff at all levels. The mission was to build an open communication channel with the top management, remove fear from the minds of the staff, and hold out hopes that the bank would have a future if they stretched themselves for the cause of the institution. Our sincerity of purpose matched with their hard work, and enthusiasm for the common good. The staff had to forego payment of arrears, post wage revision and some other benefits granted by other banks to their staff. But they had confidence in us that their contributions and sacrifices during the difficult stage of the three-year Restructuring Plan would be acknowledged and rewarded.

1.9 Training

We launched a number of short duration training programmes to upgrade the skills and specialised knowledge of the officials so that they could be identified for appropriate positions. Special emphasis was given to training in credit appraisal, monitoring, and follow-up systems. We invited specialists from other banks as guest faculty, and in some cases our officials were sent to the training colleges of the State Bank of India. Similarly, special workshops were conducted on topics like attitudinal changes, team building, managerial responsibilities, customer service etc. Gradually, many of the training programmes were tailored to suit the requirements of all the categories of the employees, including the messengers. We made it a point to ensure that senior officers like General Managers, and the Executive Director addressed the participants of each such programme to inspire them in the task of revival of the bank, and bringing back the lost customers. I addressed several of such programmes, including one for training of messengers promoted as clerks. That was the first time that CMD had addressed this category and, naturally, the response was exhilarating.

1.10 Management Structure

Over the years, the bank had turned into a centralised organisation, entangled by a mesh of systems and procedures, which distanced the branches as well as their customers. This had to be reversed if the customers were to regain their confidence that their routine issues would not have to get clearance from the distant Chennai headquarters. We therefore decided to delegate larger powers, and a sense of independence to the field level functionaries after giving due emphasis to their competence/ experience with broad directions on policy matters. The control systems were also revamped and made simple.

The bank's four tier structure was reduced to three by eliminating the Zonal Offices to make the process of decision-making faster, and also to reduce the administration cost. Large borrowers' accounts were centralised and handled in a limited number of branches with well-trained staff. Various special committees were formed at the Board level as well as at the General Managers' level for pooling together collective wisdom and experience in decision making in critical areas like Credit Policy, NPA monitoring, NPA settlement etc. The committees met regularly. As compromise settlements of bad debts were a sensitive matter, the bank had earlier inducted outside professionals as independent members of the NPA Settlement Committee, which was found to be useful to dispel hesitancy in settling irretrievable cases. Slowly but surely, the culture of corporate governance was taking root in the organisation.

1.11 Innovations on Retail/ Structured Credit

The credit squeeze imposed in the aftermath of large amounts of bad debts deprived the bank of normal growth in earnings. Some pundits had even suggested that the bank be confined to "narrow banking" by virtually shutting out credit function. *No bank can survive and prosper if its main function of making loans is curbed forever. That at least is not a going concern approach. Fortunately, the Government did not fall for this "exciting" idea!*

With the beginning of restructuring, a new thrust was given to retail financing. Structured and simple credit products were devised by which cases could be decided mostly at the branch/ circle level according to clearly laid down criteria. In fact, one of the features widely publicised was waiver of processing fees in case of delayed decisions. It was a win–win offer. The staff learnt to take quick decisions and the message went to the customers that the bank meant business by quickly disposing of their credit requests. The experience gained by the staff in handling the retail credit portfolio would stand them in good stead to shoulder larger proposals in times to come.

One of the early forays made by the bank during this time was into the housing loan sector which was just coming of age. In fact, an innovation was made of offering interest rate incentives during the festival season by holding housing loan melas. This marketing measure was copied by other banks generously. Likewise, financing of traders up to Rs 25 lakh was made easier by designing simple products. Another area of thrust was enlarging the personal loan segment systemically. This was essential to gain customers back as, during the troubled times, the best of customers had been turned away when they sought small overdrafts/loans.

The credit freeze during the period 1996 to 1999 had considerably reduced the good assets of the bank, which dented its interest income. The bank had to lend to survive, and lend it must for creating healthy assets capable of generating income. Without a steady stream of income, the bank would never be able to improve its profitability. The retail segment was, therefore, ideally suited to meet the requirements of the bank. It gave an opportunity for financing good assets, well spread out and fully secured, and giving relatively high yield.

Here I recollect an incident which took place when I was addressing senior bankers from across a large number of countries at the Pacific RIM Bankers' Association Programme on the real story of the Turnaround of the Indian Bank which was conducted by the University of Washington at Seattle. After the conclusion of my presentation, one of the senior bankers from South East Asia observed that the period the bank passed through—from 1996 to 1999—with tight control on fresh credit disbursal unnecessarily prolonged the recovery, and the agony of all concerned. It is difficult to disagree.

1.12 Credit Monitoring

Building up a strong asset base was only the first step towards revival; the more important one was monitoring it closely for any warning signals. For performing this task, an exclusive Credit Monitoring Department at the Head Office was set up to deal with accounts with limits of Rs 1 crore and more which were causing concern. Down at the Circle Office level, a counterpart of this department was set up for tackling accounts with limits of less than Rs 1 crore. The accounts targeted were those in which interest or instalments were not serviced for two months, or where the security of hypothecated assets was stagnating. The HO committee headed by a General Manager met regularly and followed up the accounts where required, by deputing special officers for close monitoring.

A close watch was kept on the problems affecting particular industries in which the bank had sizeable exposure. Likewise, a watch was kept on any developments relating to promoters/management of borrowers lest they should hurt the bank's interests. Senior executives of the bank, including the CMD and the ED maintained contacts with the top management of the borrowing companies. Overall, the system worked to pre-empt any surprises in large accounts, and to find need-based solutions like restructuring the credit arrangements, which were applied in good time.

The Restructuring Department set up at the Head Office performed a marvellous job in nursing some large NPAs by restructuring and rehabilitation. These accounts were evaluated to have gone bad due to circumstances beyond their control. The restructuring consisted of re-scheduling repayments, infusion of more funds, grant of concessions in interest rates etc. Sacrifices made by the bank were in keeping with the regulatory norms, and the policies of the bank. The entire process was transparent. One such case of restructuring was that of a consortium led by Indian Bank with 22 participating banks.

This case sent a clear signal to the market that the bank meant business. Similar Restructuring Departments were set up at the Circle Office level to handle smaller accounts.

1.13 Satisfying Results

The first result was the revitalisation of the credit department. The staff which had become docile became vibrant once again and regained self-esteem. They learnt to act fearlessly and function objectively in the full knowledge that their bona fide actions would be supported by the top management.

A strong retail credit base was created where the risk was well spread, security was dependable, and the yield relatively high. The impressive credit growth in the retail sector brought the much needed income, and improved profitability.

Mutual trust and confidence developed between the top management and staff which was crucial for the revival of the institution. Each member of the staff was made to feel that he or she had an important role in the revival of the bank. With regular messages and open communication by the CMD, the field level staff knew exactly where the bank stood, and what remained to be done to achieve complete revival.

The customers' confidence was regained. They were now sure that the bank would come to their help, if and when required. This reassuring promise was sufficient for them to confide their genuine difficulties with the bank and seek redressal. The slippages were arrested, and recoveries improved with the result that the gross NPA level started coming down—it was 12% by the year 2003.

The turnaround which started to yield results in the year 2000-2001 by the bank posting an operating profit of Rs 61 crore was finally complete in the very next year when a net profit of Rs 33 crore was reported for the first time in eight years. The bank shed the label “weak bank”.

What looked as a hopeless venture in 2000 became rosy enough by 2003. This book is about how a sound bank which was swamped by colossal non-performing loans came out of the rot, and regained its position in the marketplace. As I laid down my office in November 2003, I knew the bank was heading for a stronger position and a much larger profit by March 2004. My successors rightly envisioned taking the bank to the top rung in its second century of life. It tells how the bank which was almost written off emerged like a phoenix and regained its position in the market-place.

Chapter 2

Challenging Mission

2.1 When I Became Chairperson

It was rather an intriguing episode as to how I came to be the Chairman and Managing Director [CMD] of the Indian Bank. I was working as Executive Director and holding concurrent charge as Chairman and Managing Director of the Canara Bank for almost 14 months from April, 1999. There was general expectation, and I too anticipated, that I would be appointed as the CMD of the Canara Bank in due course. However, inscrutable are the ways of the Government. Another senior bank executive was nominated as the CMD of Canara Bank, and I was made CMD of Corporation Bank, a bank which was comparatively smaller in size, but rated high in the overall performance scale among the Public Sector Banks [PSBs].

Around the same time, serious concerns were being expressed by the Government of India and the Reserve Bank of India regarding the future of the Indian Bank. One such concern furiously speculated in the media was about who could be the next CMD of Indian Bank. The former CMD had retired two months earlier, and the Government was finding it tough to get a willing and suitable official for this job. The Government had sounded out senior bureaucrats from Tamil Nadu, and even some retired officials in vain. The precarious condition of the Indian Bank, being labeled as "weakest among the three weak banks", added to the anxiety of the GOI and the RBI.

Owing to my being away as CEO, Bank of India, New York, from September 1995 for three and a half years, I did not have close knowledge of the then current problems of the Indian Bank though I was aware of the fact that this bank had a successful record in the 80s.

Without further thought, I offered myself to the Government of India for the post of CMD of Indian Bank. The Government, I guessed, was not quite ready to receive the surprise and wondered what drove me to choose Indian Bank over the quiet and efficient Corporation Bank which it had offered. At the same time, it was very pleased as its immediate concern had been resolved by my offer. I must add that the officials of the Banking Division nevertheless repeatedly asked me whether I was sure of the decision, and whether I was aware of what I was getting into. I also got a call from the then Deputy Governor, Reserve Bank of India and I confirmed to him that I was looking forward to this assignment as a challenge.

My decision created great interest, rather sensation in the media, and I, who had till then kept a low profile, found myself pushed into the public eye. I said to myself "the job is not even begun yet". I tried to avoid the media which was curious to know, among other questions, what really prompted me to take this decision. I recollect having responded to a correspondent of a very important newspaper with a large all India circulation, when he asked me "Why Indian Bank" I replied, "Why Not"?

It is my experience, having worked with three large Public Sector Banks and one Development Finance Institution, three of which I headed at different times, that most officers at all levels tend to opt for comfortable postings, and for soft, trouble-free assignments, as they consciously not want to take on challenges. The latent fear of taking on 'risky situations' and facing the 'risk of failure' deter them from taking up such assignments. In their reckoning, the opportunity of confronting challenges is not exciting. Alas, for many officials, the fear of the unknown comes in the way of assessing their own ability and potential, and they shy away from taking on interesting but tough ventures thereby allowing their potential to lie latent. Public sector employment has inherent restraints; accountability is for things gone wrong, even if rarely, and not for opportunities passed up. It is said, "A smooth sea never made a skilled mariner".

I was identified to take over the Indian Bank around the second week of May, 2000. Thereafter, till the time I actually took charge in late June 2000, I attended a series of meetings along with senior General Managers from the Indian Bank, with the Government of India and the Reserve Bank of India officials to put in place an effective three-year restructuring plan for the Bank. I recollect that apart from the focus on the restructuring plan, these discussions also brought in suggestions/conditions, two of which deserve special mention. One, the bank should transfer its Singapore branch operations to a large public sector bank in India as it would not be able to manage the same. Second, while enumerating certain sacrifices to be made collectively by the entire staff of Indian Bank, a condition was put that the revised wages should not be paid to the staff until and unless the Government was sure of the performance of the bank, and its ability to achieve the targets under the restructuring plan. Whereas, in the course of these meetings almost all the parameters given by the Government and the RBI were accepted by us, the above two conditions were opposed by me and of course by the team of General Managers from the bank. I thought it would not be fair for the bank to be deprived of the operations of its Singapore branch without even having been given an opportunity to set right matters, and to gain the confidence of the Monetary Authority of Singapore (MAS). (Subsequently, however, we came to know that the MAS, in any case, would not allow a foreign bank on its soil to be taken over by any other bank, whether of the same country or otherwise.) As regard the revised wages, I felt at the outset that it was not fair to the entire staff of the bank, as the majority of them could hardly be held responsible for its woes and problems. Denying revised wages on the top of freezing the arrears of pay due to them was clearly cruel, if not unlawful.

These two conditions would induce, “a counter-productive behaviour” to the process of restructuring of the bank, and we may also not be able to carry conviction to the employees about the merits of such a sacrifice. I could not afford to accept the conditions as it would dampen the enthusiasm of the employees without whose all-out involvement the restructuring plan did not have much of a chance of success. Finally, the Government relented. These meetings and discussions gave me an insight into the problems to shape my course of actions on assuming charge as CMD a month later.

The entire staff of the Head Office of the bank was at the ground floor to receive me the day I reported at Chennai. A novel rception, unheard of in the annals of Banking Industry. It was as if they were really waiting for me. There were mixed expressions of doubts and anxiety on their faces. It seemed they were asking, "Is she serious about this assignment?" "Will she understand?" Will she also doubt all of us, our credibility?" "Will she trust us to deliver?" I was rather overwhelmed at this great reception. It also put me into serious thinking and introspection. With the passage of time, and events that unfurled I realised that I had not only accepted this very daunting responsibility but had made myself accountable for the consequences irrespective of whether or not initial assumptions held good.

I realised that, despite misgivings and multifarious problems, I had to create an open, healthy and transparent work environment conducive to growth, and ensure a successful and sustainable turnaround for the Bank. Among the others, I would need to have both trust and faith in my people. As Ralph Waldo Emerson once said "*Trust men and they will be true to you. Treat them greatly and they will show themselves great*". A powerful statement which shows the importance of interdependence and mutual respect between the employer and the employee.

I was escorted to my office on the 6^{th} floor. A beautiful room overlooking the sea. I could see this as an immediate source of inspiration. I straight away went into business, got introduced to the General Managers and the other senior officials. We exchanged basic courtesies, I extended my hand, a spontaneous gesture from my side, as was my habit. The response was there, some were surprised, some with a sense of initial hesitation, whatever the case I did put them at ease as what they shared with me much later, though it was not by design. As is said that spontaneous reactions are much more convincing as they are natural.

One thing which struck me was the quality of the handshake. Most of them touched my extended palm only by their fingers. I remember I must have on several occasions thereafter while meeting different group of officials instructed them the need to clasp the entire palm while shaking hands as that exhibited the level of self confidence in the official. I vividly recollect that just before I left Indian Bank, one of the questions the Press raised was that, apart from the business growth, which were the other positive developments I could cite. In response, I listed out several such which are brought out in later chapters. However, one thing

I specified was the distinct improvement in the “Quality of the Handshake”.

After meeting the General Managers and other senior officials I met the delegation from the Associations and the unions which had come to welcome me. I also conveyed to them that with planned hardwork and some bold initiatives, obstacles can be got over and results achieved. They of course narrated the glorious past of the bank, and said that it had been more sinned against than sinning.

I then had a detailed meeting with all the General Managers and other senior officials. I asked the General Managers to make a presentation on the respective departments they were heading, a SWOT Analysis as it were. This gave me an idea of the status of the bank then, and how we had to plan ahead for effective implementation of the Restructuring Plan.

One significant fact I would like to share here is that we never discussed the past in terms of individuals, their actions, etc. I was clear that our mandate was to restructure and strengthen the institution, and not to sit on judgement as to who did what and why. My approach was to focus on systems, policies and strategies to enable the bank to move ahead. The past is relevant only to the extent that we do not repeat the wrong doings. This was an extremely important step as we were able to constructively use the time and energy at our disposal. I am happy to say this thinking soon percolated among the rank and file within the organisation and certainly contributed to its healthy development.

One incident alerted me on the first day to an insight which I would like to recall. While getting into the elevator, one of the General Managers, addressing me said that “I was like the Goddess Lakshmi (Goddess of Wealth) having come to the bank on Friday, the auspicious day of the week. I was quite taken aback at this remark which I felt was totally uncalled for. At that moment, not wanting to make it an issue, I responded calmly but firmly “Please do not make such comparisons, and remember never to do it again”. One undesirable feature which I noticed in the bank was sycophancy.

It may not be prudent for me to cite examples in this regard as they would present a rather crude reading and perhaps hurt sentiments, which is not my intention. Suffice it to say that respect should not be mistaken for subservience; and that sycophancy is not a healthy quality if not checked forthwith and firmly.

With passage of time and gaining of deeper insight and understanding of the problems in the bank, I realised that lack of a professional attitude and a deeply ingrained culture of sycophancy were contributory factors to the severe sickness of the bank.

At the end of over three and half years, it is gratifying to see that the revival has endured. What greater joy there could be than the fact that the bank launched an IPO in the year 2007, a task which had been our ultimate objective while implementing the restructuring plan but could not be carried out as it entailed restructuring of capital, a process which needed time.

2.2 Upbeat and Bullish Mood

When I took charge of the Bank in June 2000, Indian Bank was the weakest of the three weak public sector banks and was in a particularly unenviable position. With the networth completely eroded and a huge baggage of non-performing assets, the task of turning the Bank around was certainly not an easy one. But that did not daunt me. I had interaction with different sections of the staff members and I felt that every one of them was very much attached to the Bank and prepared to put in their very best for the turnaround of the Bank. All staff members were very enthusiastic and in upbeat mood. I was also bullish about the future of the organisation after this interaction with the cross section of the staff members.

The nitty-gritty of the strategy adopted and actions taken for revival is best conveyed in my interview with Ms. Mythili Bhusnurmath, *The Economic Times* (Sep. 26, 2000) which is reproduced in full here.

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"Q. Given the problems facing Indian Bank, how do you see the future of the Bank?

RK: *We in Indian Bank are reasonably bullish about the future. And not without reason. We've already initiated a fair bit of re-organisation and re-structuring. Earlier we had four tiers – the Head Office, the Zonal Office, the Regional Office, and then the branch. We've now done away with one tier—the zonal office. This gives us a more compact organisation. Not only does this help cut expenses, but also makes for greater* *efficiency since it expedites the decision–making process and enables us to respond quickly to situations as they emerge.*

As part of this process, we've merged certain branches; the idea is that after the merger, we have a stronger base.

We have also come out with some attractive schemes recently. I feel the retail sector is important for any bank seeking to improve upon its profits. We have got some good schemes for vehicle loans, consumer loans, housing loans, and we are shortly going to launch a scheme for trade finance. The reason why I am so hopeful about these schemes doing well is that the decision making process will be hastened. For our vehicle and consumer loans, in fact, we have advertised that we will give our decision within 48 hours; further, the rates of interest are really competitive.

Another thing we are doing is to make available vital data to the branches to critically analyse their performances vis-à-vis their counterparts and thereby assess their market share at regular intervals.

Q: Where are you going to focus in future?

RK: *I am convinced that in future we should focus in a large measure on retail banking. In retail advances, the amounts are smaller, but the spread is better. The risk, moreover, is spread over a large number of borrowers and the recovery rate is generally satisfactory. Another advantage is that Branch Managers can take a decision at their level. We are trying to empower the Branch Managers to see that they are in a position to take decisions.*

We have seen to it that our rates are in line with the best in the industry. Initially, our Prime Lending Rates (PLRs) were higher than those of other banks for obvious reasons. But the recent hike in interest rates by other banks has worked to our advantage because we have not revised our rates upwards and that has made our present rates very competitive.

We are also giving a greater focus on the IT front. About 250 branches are computerised, and we have got about 30 ATMs.

Fortunately, we have staff at all levels who are willing to take up extra work, go that extra mile, and strive for the bank's progress.

Q: Has all the negative publicity, especially after the CII report, hurt the bank?

RK: *It is unfortunate that we did get a lot of negative publicity—the CII report, and all that. But we are trying to address that problem. To be honest, some sectors were a little apprehensive about us, but that has eased now. We are looking optimistically to the future, but the next two years are going to be tough, and there are sacrifices to make.*

Indian Bank's strength has been its customer service; that is what the bank has always been known for. That's why we have introduced all these new schemes. We want our customers to see us in a new light. We want new customers and we want to get back into our fold some of those customers who have left us. We are trying to make sure that we give them the best that is possible in terms of service. All this will take time but we need to constantly measure our performance to ensure that we are not slipping anywhere.

Q: How is the morale of the staff? One hears of resentment against many of the restructuring moves?

RK: *Staff morale is improving. Yes, it was down for quite some time but is now looking up once again. Of course it would take time before it is back to where it was. We have a long way to go but I have been receiving support in whatever I attempt.*

In fact, one of the strengths of Indian Bank has been its dedicated and committed staff. The past few years have not been easy for them, but they are trying and I am confident that together we will make it.

Q: Even if one accepts that it will be a long time before the bank manages to show net profits, how does one explain the operating losses of the bank, year after year, except of course for last year, when you showed a small operating profit?

RK: *Basically we have to understand that non-performing assets have taken a big toll. For any bank to show operating profits when it has NPAs to the tune of almost 40 per cent of its advance portfolio is tough. It is very difficult to show operating profits as long as we have to fund these assets. But last year, we made a beginning with a small Rs 23.86 crore operating profit as against a loss of Rs 163.23 crore the* *previous year, and I am confident that the trend will continue. But our operations have to be further strengthened.*

Moreover, morale was down, self-esteem was damaged and everyone in the bank felt as if they had been tainted with the same brush, many for no fault of theirs. A fallout of this was reluctance to take decisions—the weakness in decision-making was a major problem.

There was also a need for better planning, for better asset-liability management. We received about Rs 1750 crore in February, 1998, and Rs 100 crore in March, 1999. That did help, but not completely as desired results did not come out. Now we are going in for a fresh package—we are awaiting a fresh infusion of funds as part of a restructuring package.

Q: What does the package entail?

RK: *The restructuring package envisages a certain growth pattern for the bank—we are to show net profits by 2002. It envisages a certain growth in our deposits, and in our advances as well and I am hopeful that we will be able to achieve these milestones. It suggests merger of certain branches—this we have commenced; it also suggests de-layering of the organisation which we have already done. Of course, we have to do more in terms of mergers over a period of time.*

In terms of the restructuring programme we are to get Rs 1750 crore from the Government. When that happens, it should give us a capital adequacy of 9 per cent as of March 2001 and, hopefully, we should be fairly comfortable after that. As to your question whether we would need to go to the Government again, it is too early to say anything now.

I can't give any commitment on that but I am certainly keeping my fingers crossed. I would say, we need to be in a state of constant readiness; you know when you are restructuring, by the time you attend to one issue, another problem crops up.

It would be appropriate to say that the Government is watching our performance and though these funds are not conditional as such, we have to perform.

As per the Restructuring Plan, the bank would show net profit by March 31, 2002. As to your question of whether we would be able to show net profit this year despite the expected provisioning that we would have to make on account of the *higher depreciation on our investment, I am not in a position to respond to that right away. I think that by December this year I would be able to get a better feel of that.*

Q: What about recovery; have you made any progress?

RK: *Yes, we have. Last year we recovered around Rs 500 crore. The recent scheme of the RBI should really fetch us dividends because that is one area where we need to focus. Clear-cut instructions have gone to branches, adequate powers have also been given so that decision making is faster. It is going to act as a shot in the arm for us. We have made good recoveries in some of our larger advances—DSQ Software for instance, but we have a lot more ground to cover.*

We are also trying to improve the skills of our officers in the restructuring of loans because, very often, if assistance is delayed, that itself may worsen the crunch for the borrower.

At the same time, the officer should be able to distinguish between when it is a case of throwing good money after bad, and when it is not. It is also important to remember that NPAs are part and parcel of banking and when the economy is going through a problem some of this will get reflected in the banking industry as well. We need to sharpen our skills in restructuring across the industry.

After all, the bank is a partner along with the borrower so the bank has to be alive to a genuine problem. It is not a question of simply giving more funds, but of being able to identify the problem before it becomes a serious one. You can restructure an account even when it is standard account. Why do you wait for it to become substandard?

Very often customers shy away from the bank when there is a problem so it is for the bank to be alive to these issues. You have got to know your customer like the back of your palm. You have got to know him and the industry; and it is not as if once you have given him a package that's the end of it. Monitoring and control are very important. Not all are wilful defaulters; some will always be there, but the banks' efforts must be to see that incremental NPAs become less and less. If an account has to be written off, do it, why keep lingering there?

This interview indeed, had a tremendous positive and stimulating effect on the staff within the organisation, who evinced confidence and felt the need to come out of their shell and deliver to the bank's clientele and even to others who had severed ties with the bank. The interview had endeavoured to clarify the issues, and in a way defended the integrity and credibility of the work force. This, as future events showed, was a significant input in the turnaround process.

Bank Failures—Global Experience

Chapter 3

3.1 Impact on the Community

The three major banking crises in the twentieth century which had a domino affect on territories far beyond their command area were the collapse of Creditinstalt in Austria in the 1930's, the Tequilla crisis in Mexico in 1994, and the East Asia Crisis in 1997. They have enormous relevance, in understanding the role that banks play in the economic systems of nations, and people's lives.

Economic historians hold that the collapse of the Creditinstalt Bank in Austria in 1931 was one of the major factors contributing to the Second World War. Thus, the collapse of a single bank in Austria sparked a run on banks in Germany raising fears of a general collapse of the financial system and paved the way for all the ensuing social and financial chaos. The lessons from the banking crises in Europe caused by the collapse of Creditanstalt are most significant and relevant as they throw light on the profound impact that poor management of banks could have on society.

As per the IMF staff papers on the crisis in Indonesia (The Asian Crisis: Causes and Cures, June 1988)—*Financial sector weaknesses* were the root cause of the Asian crisis and required urgent attention—viable ones to be restructured and recapitalised, others to be closed or absorbed by stronger institutions.

The East Asian countries were for years admired as some of the most successful emerging market economies, owing to their rapid growth and the striking gains in their living standards. With their generally prudent fiscal policies and high rates of private saving, they were widely seen as models for many other countries. No one could have foreseen that these countries could suddenly become embroiled in one of the worst financial crises of the post-war period. Lack of enforcement of prudential rules and inadequate supervision of financial systems, coupled with Government-directed lending practices led to a sharp deterioration in the quality of the banks' loan portfolios.

At a conference on the subject of "Implications of the East Asian Crisis for Debt Management" (organised by the RBI, Ministry of Finance and World Bank at Kovalam 1999) the following opinions emerged:

- It is not the traditional fundamentals but rather the financial structure which was at the centre of the problem.
- The problem was rooted in excessive credit to the private sector, fuelled by international capital flows to the banks and to corporate borrowers.
- Some experts attributed the crisis to financial panic: The structure of financial claims involved too much debt relative to equity, too much short-term debt relative to long-term, and too much forex relative to domestic currency debt (with the first two weaknesses being manifest in the domestic as well as the external debt structure.) Such a structure of financial claims constituted a tinder box, awaiting some shock that would make investors question whether they ought to run for the exits, i.e. panic. That shock was provided by the devaluation of the Thai Baht on 2 July 1997"

Thus one of the major elements underlying the Asian crisis was serious weaknesses in the banking and financial sector of the debtor Asian economies, and the most important lessons learnt from this crisis was that micro-financial conditions matter as much as macro–economic ones. It is true that the underlying weaknesses in the Indonesian financial system were not revealed by the positive macro–economic data.

The deterioration in loan quality, and liquidity problems arising from small runs put the banks on the brink of bankruptcy. Monetary contraction undertaken by Bank Indonesia, along with partial takeover of deposits and reserves of commercial banks without simultaneously realising their loans put pressure on the commercial banks.

All these developments confirmed that the banking problem had systemic undertones, and were not the reflection of individual or isolated events. That the inadequacies of the banking sector were primarily responsible for the systemic failure leading to the financial crisis became fully evident.

Lack of effective policies and procedures, and failure to analyse the risk factors are the causes for the downturn of the failed banks.

It has been analysed that most of the failed banks had fully divested their investment in one or two industries—real estate, and oil and gas industry—which were flourishing at that time. They lacked in effective planning and procedures. The concept of risk management was totally ignored. Hence it was suggested that in every bank a committee viz., Risk Management Committee should be formed with executives from varied fields. They will have close watch on the market/economic conditions and update the management with the day-to-day conditions. By adopting this procedure, changes in the market conditions can be predicted well and the management could be alerted and given guidance to avoid any drastic situation.

Generally, all banking organisations must follow the general principles and procedures to avoid the pitfalls. An effective organisational structure with full control over the accounting procedures is a must. And the asset status has to be closely watched with an effective audit programme. For doing this, the organisation has to be supported with quality information systems.

3.2 The U.S. Experience

Analyses of the failure of banks by the U.S. Federal Deposit Insurance Corporation (FDIC) and details of the resolution process followed provides very useful insights for bankers anywhere.

The FDIC analyses revealed one common risk undertaken by banks—concentration risk i.e., huge investment or exposure in one or a few industries/asset portfolios, as in the case of the Continental Bank, The First Republic, Penn Square, First City Bon Corporation of Texas, MCorp, The Bank of New England Corporation, South East (huge exposure in energy market, real estate and agriculture market). These banks could not come out of the problem either due to poor economic conditions prevailing then, or poor management practices, deficiencies in documentation, policies and procedures or due to sheer mismanagement. The performance of Crossland declined because of non-performing assets that arose due to adverse market conditions while Pennsylvania suffered due to speculative decisions.

After analysis of the problems, FDIC suggested one of the following options for the banks:

- Purchase of the bank by another institution
- Merger with another institution
- Closure, with FDIC paying off the insured deposit
- Open bank assistance from FDIC
- Liquidation of the assets

The liquidation of the assets of the failed banks was done by FDIC forming an Asset Pool. In some cases FDIC permited the acquiring bank to form the Asset Pool under its management. Later, to encourage attractive bidders, FDIC introduced the loss-sharing agreement by which the risk of acquiring non-performing assets was shared with the acquirer to minimise the burden of the acquiring bank. A large part of the resolution costs of the FDIC had been set aside from the realisation of the assets of the failed banks.

FDIC introduced many norms to protect the uninsured depositors also. Cross guarantee and loss sharing are attractive concepts for upkeep of the failing banks. FDIC succeeded in legalizing out-of-state acquisition which enabled it to find out a competent acquirer.

With the efforts of the FDIC, during the 1980s all insured depositors were protected, unlike during the 1930s. FDIC had also gained experience by handling a number of big failed banks. It had also devised new methods of resolution, i.e., passing a few failed bank assets with little risk to an acquiring institution and sharing the risk with the acquiring institution.

To help depositors avoid the financial disruptions, FDIC paid advance dividends to them. It used some of the effective tools viz., bridge banks, loss sharing, asset pools, cross guarantees, branch break-ups, advance dividends, insured deposit transfers and open bank assistance, sequential bidding, put options, income maintenance agreements, and net worth certificate programmmes—all of which served a purpose for the given situations.

FDIC managed to maintain adequate of liquidity so that the insurance funds remained strong. The put option and sequential bidding designed by FDIC helped put assets back into the private sector quickly, thereby preserving FDIC's liquidity.

Most of the bank failures had coincided with a period of adverse economic conditions and, therefore, it can be presumed that the failures were also caused by economic and other external factors.

However, the report of the Office of the Comptroller of Currency, USA, (June 1988) says that Bank Managements and Boards of Directors bear the ultimate responsibility for the performance of their respective banks. Therefore, it is important to isolate such factors which will help FDIC in identifying banks that are likely to fail, and strengthen its ability to prevent them from failing.

It has been inferred in the study that management-driven weaknesses played a significant role in the decline of 90% of the problem banks. These weaknesses resulted from inadequate loan policies, problematic loan identification systems, and systems to ensure compliance with internal policies and the banking law. It has been, further stated that managements with overly aggressive behaviour led to imprudent lending practices and excessive loan growth that forced banks to rely on volatile liabilities, as also to maintain inadequate liquid assets. Insider abuse and fraud were also found to be significant factors in the decline of more than one third of the banks which had problem or had failed.

3.3 Studies on Board Management and Supervision

Studies relating to Board Management and supervision in the case of failed banks revealed the following characteristics:

- Non-existent or poorly followed loan policies (81 percent of the failed banks:
- Inadequate systems to ensure compliance with the internal policies or Banking Laws (69 percent).
- Inadequate controls and supervision of key bank officers or departments (63 percent).
- Inadequate problem loan identification systems (59 percent).
- Decisions made by one dominant individual, e.g., CEO, Chairman or principal shareholder (57 percent).

- In 42 percent of the failed banks, the Board of Directors was aggressive in a way that had a significantly negative effect on performance. The lending and operative practices of many of these banks also reflected problems.
- Inappropriate lending policies, liberal repayment terms, collection practices, or credit standards (found in 86% of the failed banks).
- Excessive loan growth in relation to the abilities of management staff, control systems, or funding source (51 percent).
- Undue reliance on volatile liabilities, e.g. deposits greater than $100 thousand, but not necessarily brokered (41 percent).
- Inadequate liquid assets as a second source of liquidity (38 percent).
- Excessive credit exception, i.e., missing financial statements or income information about borrowers, or poor collateral documentation/perfection (found in 81 percent of the bailed banks).
- Over-lending, without assessing the debt-servicing capacity of the borrowers (73 percent).
- Inadequate cash flow analysis and relying on collaterals (55 percent).
- Concentration of credits in particular segment or industry.
- Nonexistent or poorly followed asset and liability management policies (49 percent).
- The CEOs of the healthy banks were judged to be strong, but as much as 2/3rd of the failed banks had Chief Executives who lacked experience, capacity or even integrity. The extent of inadequacies in the mentioned area was not marginal.
- Insider abuse and fraud indicated absence of adequate oversight controls which significantly contributed to problems in more than a third of the banks.

As per the *study*, the CEO is probably the most important determinant of the success or failure of a bank, and CEOs of many of the problem banks had significant weaknesses. CEOs of healthy banks, in contrast, were generally judged to be strong. They had no apparent problems with experience, capability and integrity. Similarly, CEOs of the recovered banks had no significant problems in these areas. Thus, *it is very clear that choosing a strong CEO is an important step in ensuring turnaround of a problem bank*.

Problems of insider abuse have contributed significantly in many of the failed and rehabilitated banks during their decline.

Inadequate supervision of the officers, a dominant decision-maker, unwarranted concentration of credit to one industry, out-of-area lending, are some of the areas of insider abuse or fraud. The system of monitoring and supervision fails when there is an insider abuse.

While commenting on “why some banks recover while others fail”, it was noted that factors which contributed to the turnaround of the bank included changes in management, improved banking practices, changes in banking philosophy, capitalisation and improved local economic conditions. Rehabilitated banks had a much better record of compliance

It was also found in the studies that healthy banks generally had fewer internal difficulties in respect of the categories mentioned above. They also had fewer managerial problems. The CEOs had significant strengths in their diverse backgrounds and experience in banking matters. The studies also showed that healthy banks did not experience any significant insider abuse or fraud.

In short, management—driven weaknesses were found to be the critical component which pushed healthy banks to a situation of near-ruin. External factors only added to their self-made difficulties. The failed institutions appear to have common characteristics and, to some extent, they seem to be directly responsible for their misery. They may not have all the negative attributes in each case shown above, but a preponderance of even some of them would be sufficient to induce weaknesses which can overwhelm existing strengths. The negative circumstances they unleash in their respective institutions are so overpowering that they can cause sharp decline in key functional areas.

Such a global perspective and the importance of strengthening bank managements to overcome weaknesses, if any, are equally relevant for the banks in India.

> *We are all from the One Source. The same Power that directs the movements of the planets and the changing seasons flows though all of us. We are all connected.*

Chapter 4

Indian Bank—In Retrospect

The Indian Bank, headquartered in Chennai, with tradition and service spanning ten decades, is a public sector bank with an all-India presence and strong brand equity. It was very popular, with the common saying those days being, that, Madras now Chennai was known for its three distinguishing features—South Indian Coffee, the Hindu newspaper and two local public sector banks—the Indian Bank and the Indian Overseas Bank. The bank is doing extremely well today and is among the front runners in the industry. It may be of interest to the readers to have a glimpse of the glorious past of this bank since its inception.

4.1 Arbuthnot Bank

Arbuthnot and Co., an Agency House from Scotland had been operating from Madras with extensive dealings with other Agency Houses of British origin like Gillanders Arbuthnot and Co. of Calcutta (now known as Kolkata), Ewart Latham and Co. of Bombay (now Mumbai), Arbuthnot Latham of London etc. This Agency House had earned a trustworthy name and the public of Madras regarded its credentials as unimpeachable. No wonder then that the public deposited their savings in the Arbuthnot Bank promoted by this Agency House. It may be added that for all practical purposes, no distinction between the banking and Agency House functions was required to be made in those days. They were synonymous.

George Gough Arbuthnot, the head of Arbuthnot & Co., was a member of the Madras Legislative Council, and was well regarded socially. He used the deposits made by the citizens of Madras to advance his Agency House's interests rather than deploying them for the local community's business needs. He appointed P. MacFayden and Co. as Arbuthnot's correspondents and associates in London which, in the absence of any effective control by Arbuthnot, entered into transactions in London in the name of the principals without due diligence. Consequently, the resources of Arbuthnot consisting of deposits of the public were sucked into the misdemeanours of McFayden and Co over some length of time before they came to haunt them and the Arthbutnot & Co. in Madras. Mr.MacFadyen committed suicide in October 1906 and, soon after, McFayden and Co. petitioned the London court for being declared insolvent. Soon the principals, Arbuthnot in Madras went under, to the detriment of its clientele and the innocent depositors.

If George Arbuthnot had been circumspect and mindful of the interests of the depositors and of his numerous constituents, the Agency House could have continued to grow and prosper. But this was not to be. Documents produced in the trial proved that he had misused public money and was not innocent. He was sentenced to rigorous imprisonment for 18 months. Many depositors lost their lifetime savings. The Arbuthnot crisis was thus eventful in the history of banking in South India as it paved the way for the establishment of a local bank by a few public spirited citizens and businessmen of Madras.

4.2 The Indian Bank Ltd

In the wake of the failure of Arthbutnot Bank, Dewan Bahadur R. Raghunatha Rao, a distinguished administrator and a prominent citizen suggested, establishment of a local bank, a proposal that got warm endorsement by way of letters in the press. Shri V. Krishnaswamy Iyer, a leading advocate, took the initiative by inviting some prominent citizens of Madras to a meeting on November 3, 1906 in his house. (Later, when the bank was established, he became the first and permanent Secretary of the bank—in today's parlance, Chief Operating Officer. Incidentally, the bank did not have a Chairman till 1964. The Board of Directors used to elect a Chairman for each meeting by rotation).

At this meeting, and a couple of more such conclaves, several options to establish a bank were considered by this core group. It was then decided to expand the consultative process with a larger number of people so as to obtain the support of every section of the society. Accordingly, a public meeting was called for in the Mahajana Sabha hall on December 2,1906 which was attended by nineteen other prominent persons, in addition to the participants of the earlier meetings. This meeting enthusiastically decided on the establishment of a bank with a capital of Rs 20 lakh. Among the promoters were business people from different communities settled in Madras—Gujaratis, Chettiars, Muslims and others. In a sense, a pan-India bank was thus conceived. The Chettiars were prominent among the promoters of the Indian Bank who eventually came to guide its destiny for a number of years. Thus, with the support of eminent persons from a wide crosssection of the society, the Indian Bank was registered on March 5, 1907, under the Companies Act 1882. There were hardly any formalities to be complied with at that time—not even licensing, and there were no special provisions covering banking activity. The authorised capital of the bank at the commencement of business was Rs 20 lakh, divided into twenty thousand shares of Rs 100 each. Of this, Rs 10 lakh was paid up at the rate of Rs 50 per share. If the failure of Arbuthnot triggered the thought of establishing a bank by the local people, the Swadeshi movement launched by the Indian National Congress in 1906 gave it added impetus and a sense of pride.

The Indian Bank Ltd. commenced business on 15th August 1907, as though it foresaw the birth of Independent India forty years later on this very day. It secured premises in Parry's Building at the Parry's Corner, opposite the then newly-built High Court but soon moved to Ramakote in Rattan Bazaar Road. After some months, it purchased Bentinck's Buildings in North Beach Road (now renamed as Rajaji Salai) for Rs 1,35,000 and moved into it in July 1910. The present head quarters of the bank, completed and occupied in May 1970, stands on the site of the aforesaid property. Coincidentally, the front entrance of the bank's Head Office building faces a lane which, till recently, had Arbuthnot's name prominently displayed on it, lest the historical circumstances which led to the establishment of the Indian Bank Ltd be forgotten.

The first directors of the bank were chosen very carefully, so as to reflect the cosmopolitan character which Madras had already acquired at that time. They were Lord Govind Doss, R.M.M.S.T Chidambaram Chettiar, Dewan Bahadur S.R. M. Ramaswamy Chettiar, T. Seetharama Chetty, Mohamed Abdul Azeez Badshah Saheb, Murleedoss Ramdoss, V. Krishnaswamy Iyer, Dewan Bahadur M. Adinarayana Iyah, and C. P. Ramaswami Aiyar—each of them eminent in his own chosen profession.

4.3 Years of Slow but Steady Growth: 1907-1947

Select indicators of the financials of the Bank as at the end of some calendar years when significant milestones were reached are given below.

➢ Table 4.1 (Amount in Rs)

Year	*Balance Sheet size*	*Deposits*	*Profits*	*Dividend (%) p.a*
1907	9,72,723	2,01,157	5,505	4
1916	46,83,233	32,38,690	1,31,495	6 + 1.50 bonus
1921	1,01,53,707	76,41,229	1,60,324	9 + 1.5 bonus
1926	1,36,58,053	1,13,65,837	1,26,139	9
1932	2,32,41,860	1,99,20,517	1,93,282	12
1939	4,70,31,536	3,85,68,378	3,16,947	10
1946	24,73,27,886	17,46,62,356	23,45,057	10 + 4 bonus

It is not fair to be critical of the bank's growth now in retrospect without being fully aware of all the circumstances which shaped its policies. Nonetheless, it appears that the Board of the bank deliberately chose to be conservative and cautious. At best the growth of the, bank judged by key parameters like balance sheet, profit & loss accounts, deposits etc, could be described as sedate. The bank opened just two branches—one in Madurai and another in Kakinada in the first seven years. During the World War I years, it added one more branch in Esplanade. In later years, the bank realised the need to expand into even smaller towns and establish branches for attracting deposits. Many of the important branches of today, like those at Gudivada, Tuticorin, Bangalore City, Bangalore Cantonment, Tiruppur, Guntur, Bombay (Mumbai), Tiruchirapalli, Karaikudi, Erode, Salem, Trichur and Quilon were opened during the Great Depression years—from 1929 to 1938. The results justified the expansion of the network of branches.

Nonetheless, some other banks, like the Canara Bank, the Punjab National Bank, Corporation Bank, Bank of India, and Bank of Baroda established around the same time as the Indian Bank seemed to have been more aggressive. Business-wise however, the war time boom in foreign trade and exchange business helped the foreign banks, known as Exchange Banks, rather than the Indian banks in general. In each geographical region, the merchants understandably preferred the local bank. Each bank determined its lending rates according to its prime borrowers, with the interest rates on deposits being thus influenced by the lending rates. In the case of the Indian Bank, the bulk of the lending at this time appeared to have been to the leading business community of Tamil Nadu for financing their operations, mainly in Burma and some other countries. They had pegged their borrowings to around Rs 1 crore, dividing their business between the Imperial Bank and the Indian Bank, with a marginal preference for the latter. Both banks offered them pretty competitive rates of interest on the loans as they had good credentials. The loans were mostly in the form of term loans and discounting of trade bills. But the profitability of the loans depended on the margin which was available to the lending bank over the average cost of its funds. The preponderance of current accounts, in contrast to the pattern of bank deposits in much later periods, high productivity of labour and austere standards set for expenses ensured continued profitability of the bank, even during periods of relative slackness in the demand for funds. The bank maintained a steady dividend and issued bonus shares several times in the first forty years.

With the constitution of the Reserve Bank of India (RBI) in 1935, several banks, including the Indian Bank Ltd, were classified as Scheduled Banks (included in the II schedule of the RBI Act) and brought under the related Regulations of RBI effective July 5, 1935. Among other things, scheduled banks were required to deposit statutorily prescribed minimum balances as related to their demand and time liabilities with the Reserve Bank. Simultaneously, banks became eligible to borrow from the RBI in case of need as defined by the RBI.

On August 30, 1932, which also marked its crossing a figure of Rs 2 crore in its balance sheet size, the Indian Bank celebrated its Silver Jubilee. Sir P.S. Sivaswami Aiyer, who described himself as a detached observer, presided over the celebrations. He claimed on behalf of the bank that it had fulfilled all reasonable expectations. The years of the Great Depression did not affect the bank in any significant manner.

As a result of war time disturbances and disorganisation of life in general, the bank witnessed heavy withdrawals by depositors till about the middle of 1942. Despite the withdrawals, the bank could not gainfully use the available funds for the major part of the year. It was forced in these circumstances, as a measure of economy, to close its branches at Duggirala, Narasaraopet, Marateru, Udumalpet, Adoni, Repalli, Royapettah, Sowcarpet, Calcutta (Kolkata) and Colombo. As the scare about the war receded and life became near normal in the city, there was an upturn in the bank's fortunes, which was as dramatic as the deterioration in the preceding year. The increase in deposits in 1943, and also in the profits proved to be the highest in the bank's history up to that time. It passed through the remaining two years of the war without further worry. The bank had gained from the war time increase in deposits even as the cost of deposits continued to decline because of abundance of money supply in the economy, and non-interest bearing current account deposits

As business grew and, in particular, deposits began rising, the bank decided to increase the paid-up capital, in 1941 to Rs 27.60 lakh. Later in 1943, the authorised capital was increased to Rs 100 lakh to accommodate future calls.

4.4 Overseas Operations

The overseas ventures of the Indian Bank have had a chequered history. Following the trading interests of the business community of Tamil Nadu and its activities in Malaysia, Ceylon (Sri Lanka), Singapore, Rangoon (now Yangon), etc. and the Tamil migrants, the bank saw good business opportunities in these centres. The bank first thought quite naturally of Ceylon (Sri Lanka), which was geographically very close, and where the grain trade and other imports from India, besides remittances to or from that country were largely controlled by these firms. The bank's Colombo office was first opened in 1932. It continued for about ten years, till the earlier half of 1942. Another branch at Jaffna, opened in 1935, had to be closed in 1939. The Second World War had taken its toll. Later, in 1947, the Colombo branch was re-opened, and it has been by and large a successful operation since then.

The bank's branch in Rangoon, opened in the second half of 1940, too came to be closed as all the Indian banks came under the ambit of nationalisation by the Burmese government in the 1950s. The bank opened the Singapore branch in September 1941. Kuala Lumpur, Ipoh and Penang followed soon thereafter. All the branches had however to be closed consequent to war conditions by the end of 1941—all within a few months of their opening. While the bank did not suffer any great loss at its Singapore branch, it lost heavily in the branches in Malaya.

Over the years the Indian Bank had earned a reputation for being a solid institution, conservative in its lending activities, excellent in service, and customer friendly. Its growth was congruent with the culture of the people whom it served predominantly. It celebrated the Golden Jubilee in 1958 and the Chief Guest, Shri. H.V.R. Iyengar, the RBI Governor, and the then Finance Minister T.T.K. Krishnamachari had words of praise on that occasion for its achievements.

4.5 Nationalisation of Banks

Indian Bank was one of the 14 banks nationalised on July 19, 1969. The then Chief of the bank was appointed its custodian. The history of the bank, like that of the other 24 banks, changed forever. The sea change was from class banking to mass banking; banking suddenly assumed the role of a catalyst in economic and social transformation of the country. Among the main instruments of this goal of transformation were: rapid branch expansion, decentralisation of authority to make, in particular, credit decisions, appointment of lead banks to rejuvenate backward areas, priority sector lending, emphasis on lending to poorer sections of the society without being unduly rigid about security cover etc. In short, the banking system, hitherto static in character, had to convert itself into a dynamic set-up to subserve the societal needs as directed by the Government.

The Indian Bank (the term 'Ltd' was dropped on becoming a Government entity) adapted itself soon to achieve the goals of nationalisation. It opened literally hundreds of branches within 10 years, the strength of the branches going up from 239 in 1969 to 1000 in 1984. Presently, the bank has around 1500 branches. What is more, it has branches in all the states, and in almost every prominent business centre of the country. The Indian Bank has become a truly pan-India bank.

The concept of a Lead Bank was given final shape in the closing weeks of 1969. Indian Bank was nominated almost immediately after nationalisation as one of the Lead Banks under the Government's Lead Bank scheme, and was made responsible for surveying the potential, and arranging for grant of assistance to all viable projects, either through its own branches or through other agencies, in 11 districts in South India—5 in Tamil Nadu, 3 in Andhra Pradesh, 2 in Kerala and 1 in Pondicherry. The bank also introduced an employment oriented credit scheme during the year for enabling professional persons and other small borrowers to obtain loans and advances for starting and stabilising their enterprises. The custodian of the bank subsequently assumed charge as the Chairman and Managing Director on Dec. 11, 1972. The bank's Board of Directors was reconstituted in December 1972 and one representative of workmen, and another of non-workmen were nominated to it.

One fallout of nationalisation was that the three branches of the Indian Bank, and eight branches of the Indian Overseas Bank and the United Commercial Bank in Malaysia could not continue under the local laws as they were deemed to be agencies owned by a foreign government. The business of all these branches was, therefore, transferred to a new Malaysian bank—United Asian Bank, Berhad—in which the three Indian banks together owned a minority of the shares, up to 33 1/3 percent, with the right to manage the bank for a specified period. With the transfer of business of the Malaysian branches to the United Asian Bank, Berhad, Indian Bank was left, after 1972, with only two foreign branches—one in Colombo, and another in Singapore.

From time to time the Central government issued a number of directions covering practically all areas of banking. One such was the then Prime Minister Indira Gandhi's 20-point programme essentially meant to assist the poor. Another similar programme was Differential Interest Scheme Loans which attracted only 4% interest. Cottage and village industries, tiny sector, agriculture (which was hitherto the forte of cooperative banks), small businesses, small scale industries—indeed anyone with a viable business proposal was asked to be assisted. In fact the banks opened consultancy cells to assist new entrepreneurs, qualified agricultural assistants etc. The dynamics of change were visible.

Not to be left behind, for the first time, all the existing depositors were given the benefit of increase in the deposit rates effective from the dates of an increase in the interest rates, notwithstanding the original contracted period of the deposit.

Other areas which received attention were the procedure for recruitment of staff through establishment of a the Banking Service Recruitment Board (for two or three banks), training, accounting system revamping, inter-branch reconciliation, etc. The Indian Bank and the Indian Overseas Bank together had one such board in Chennai to select officers (including specialists) for both the banks and for recruiting clerical staff for all branches of the nationalised banks in Tamil Nadu, Andhra Pradesh and Pondicherry.

The pay scales were revised as per industry norms based on the report of the Pillai Committee which had recommended, as a pre-requisite, classification of branches business-wise, and assigning cadres of officers to each class of branches. Accordingly, branches were classified into small, medium, large and exceptionally large branches.

In keeping with the times, the Indian Bank's new logo consisting of three circling arrows arranged around a central point was approved in July 1978. The three arrows stood respectively for Savings, Investment and Surplus. Saving leads to investment, investment to income, and income in turn to surplus or saving, in a circular chain, signifying ever-increasing prosperity.

The bank's deposits crossed the Rs 1000 crore mark in 1980. The Singapore branch undertook both off shore and on shore banking activities. The Foreign Currency Banking Unit was inaugurated at Colombo in May 1980. The Indian Bank, in collaboration with the Bank of Baroda and the Union Bank of India promoted a deposit-taking company in Hong Kong known as the IBU International Finance Limited. This company, which was owned to the extent of one-third each by the three banks, was inaugurated on

October 23, 1980. The Chairman of Indian Bank was appointed as the first Chairman of the new company.

In the last quarter of 1980, three task forces/committees were constituted for “Rationalisation of Returns”, “Structural Re-organisation” and for bringing out “Manuals” for the guidance of branches. These had become crucial as the expansion in business had stretched the existing systems to breaking point and the large number of staff recruited needed to be trained on the job as well.

The Indian Bank entered the arena of Merchant Banking with a view to providing specialised services to the corporate clientele in their expansion and diversification programmes and capital programmes market forays. This service offered corporate counselling and investment management.

Notwithstanding the rapid branch expansion, the Government felt the need for another set of banks to cater to rural areas where it was thought nationalised banks might not be able to penetrate, and where a different type of approach was required. Accordingly, the banks were asked to set up Regional Rural Banks with majority shareholding, the balance being met by the Central and State Governments concerned. The Indian Bank’s first Regional Rural Bank—Sri Venkateswara Grameena Bank—was established at Chittoor in 1981.

4.6 Making of a Strong Bank

With a view to imparting greater resilience to the organisation and streamlining its administrative machinery, a decision was taken to reorganise the structure of the Indian Bank in 1982. Each Zone was divided into different Regions (headed by Regional Managers), with some Regions having a few Areas (headed by Area Managers). The bank was broadly divided into 8 Zones, and the Zones, in turn, were divided into 27 Regions. The Zonal/Regional authorities were vested with adequate discretionary powers to enable them to take decisions in respect of a majority of business proposals. With a view to equipping these zonal/regional authorities adequately to face future challenges, the bank drafted a long range plan for them for five years.

The revamped systems and procedures were put in place during 1982. Great importance was given to developing skills in the bank by induction of talents available in the industry. Senior officials of other banks/Reserve Bank of India came on for limited periods to handle portfolios such as Foreign Exchange, Priority Sector, Government Transactions, Industrial Relations etc.

The Indian Bank has had a succession of capable CMDs since nationalisation which helped it to grow. The organisation was moulded to keep pace with the fast paced growth. The bank crossed the Rs 1000 crore mark in credit in 1983. Forty Gramodaya Kendras (Rural Development Centres) were set up in different parts of the country to reinforce the rural branch network and to accelerate the flow of credit to the rural community. Incidentally, the Indian Bank was one of the few to have consistently complied with the Government norms on priority sector lending. In 1984, the number of branches of the bank crossed the 1000 mark, while its global deposits crossed the Rs 2000 crore mark. A year later, the global deposits crossed the Rs 3000 crore mark. Alongside these developments, computerisation of some peripheral functions was initiated. A Perspective Plan projecting the performance of the bank in key functional areas was finalised for a 2-year period ending December 1987. This included not just the business goals, but also identification of major areas of deficiency which needed to be addressed. In the main, they were concerns on profitability, non-performing assets, house keeping, weak systems in some social lending, etc. Suitable strategies were evolved to take control of these areas.

The bank's organisational structure was once again re-cast, during 1987, to cope with rapid expansion of business and branch network. Zones were placed in the charge of DGMs who were vested with larger powers and autonomy, and with more infra-structural support. A two-year Action Plan (April 1, 1988 to March 31, 1990) was drawn up and implemented during the year.

The then Executive Director of the Bank was elevated in December 1988 as Chairman and Managing Director. He belonged to the Indian Bank cadre of officials and his choice as CMD gladdened the staff as he was the first in-house official to be appointed as the CMD. His tenure was for seven years. A number of new initiatives were launched, not only to expand business but also to build the brand image of the bank.

The salient steps taken included the following:

1. A mainframe computer was installed at the Head Office in March 1989.

2. Six ATMs were installed during the year; in fact Indian Bank was the first public sector bank to have installed an ATM in India. It was followed by installation of a drive-in ATM in Chennai which was again the first of its kind in the country in 1990.
3. The Bank implemented the concept of Service Area Approach in 868 branches covering 9267 villages.
4. The Bank of Thanjavur Ltd. (BoT) with 157 branches was amalgamated with the bank. With the merger of BoT, Regional Offices were opened in Kumbakonam, Thanjavur, Tirunelveli, Poonamallee and Tiruvannamalai.
5. The Bank launched its housing subsidiary, Indbank Housing Limited, in January 1991. Indbank Mutual Fund, set up earlier in 1990, launched four new schemes which was a record then. The bank had drawn up the Third Long Range Plan (1990–95) which was launched during the year 1991.
6. Model Village Project, the bank's innovative experiment to bring about comprehensive transformation of villages, introduced in 1989-90, gained momentum in its second year of operation. The bank undertook, with the help of Government Departments and Voluntary Agencies, several non-credit activities in the 245 adopted villages for their overall development.
7. Considering the importance of housing, in tune with the national policy, the bank formulated a new Rural Housing Scheme, which was initially implemented in all Model Villages of Tamil Nadu.
8. The Computerised Credit Information System became live, and got stabilised in all but one zone and a few branches.
9. In keeping with the momentum of growth, Government of India contributed a sum of Rs 50 crore to the capital of the bank during 1992. As a result, owned funds of the bank improved to Rs 300.17 crore from Rs 218.67 crore at the end of March 1991.
10. The bank prepared an Action Plan covering 1992-94 with an ambitious target of Rs 10,000 crore as deposits by March 1994. The Plan had other ingredients of improvement in profitability, credit management, customer service, house-keeping, inter-branch reconciliation, rating of branches etc.
11. The first total branch computerisation project was inaugurated on May 18, 1993 by the Governor of RBI at the Anna Salai Branch (Chennai), and Total Branch Computerisation (TBC) was implemented in 8 branches during 1993-94.
12. The Kisan Gold Card Scheme, a novel scheme for providing cash credit to farmers, was launched by the bank at Belagoundapalli

village, a model village of the bank's Mathakondapalli branch (Tamil Nadu).

13. The bank had the honour of receiving the prestigious FICCI Award 1993-94 from the Prime Minister for its commendable work in Rural Development through its Village Adoption Scheme, Gramodaya Kendras, Model Village Project, Cluster Village Development Project, Women's Development through Group Dynamics, and relief projects for victims of natural calamities etc.
14. A new employment generation scheme—AGRIGEMS—was launched by the bank in 1995 to enable agricultural graduates to take up self-employment ventures. The scheme envisaged credit deployment up to a maximum of Rs 10 lakh per farm graduate.

It must be mentioned that the various schemes launched by the bank gave it a lot of publicity. The achievements were commendable and it may not be an exaggeration to say that the bank became a household name, at least in Tamil Nadu.

4.7 Towards Globalisation of Indian Banking

The 10 Years that Changed the Banking Sector in India

Following the first phase of Economic Reforms launched by the Government of India in 1991 (immediately triggered by the foreign exchange crisis), the Reserve Bank initiated a number of measures to shore up the banking system. Like the rest of the banks in the world, the RBI too had accepted the Basel-I committee report for implementation by the Indian banks.

The success of business entities lies in how they change the internal operations and strategies to combat the changes in the external environment. The banking sector is also, as a business entity, impacted by the changes in the external environment brought about by changes in international practices, and changes in the policies of the Government and the Regulators.

In India, Banking Sector Reforms were introduced as a part of an extensive economic reform programme launched by the Government in 1991 with a view to promoting efficiency of the system through intensified competitive forces. Suitable strategies were adopted to improve the operational efficiency, and impart functional autonomy to banks through reduced direct intervention of the State in their working. The objective included imparting greater transparency in dealing and reporting by the entities besides developing and integrating various segments of the financial system such as call money market, debt market, foreign exchange market, and the capital market.

The reform measures were broadly based on the recommendations of the Committee on Financial Sector reforms 1991 (Narasimham I), and the Committee on Banking Sector Reforms, 1997 (Narasimham II). These recommendations, in turn, effectively provided a blue print for the reforms recommended by the S. Chakrabarty Committee on the Monetary System (1982), and the Vaghul Working Group on Money Market.

Some of the banking sector reform measures are as follows:

1. Reduction in the pre-emption of funds through lowering of the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).
2. Redefining and redesigning directed credit programmes.
3. Dismantling administered interest rates.
4. Establishment of relevant institutional framework, including legal reforms, to improve infrastructure such as the Discount and Finance House of India, Securities Trading Corporation of India as well as the Delivery Against Payment (DAP), and Negotiated Payment and Settlement system,
5. Setting up of a level playing field–by redefining the role of banks and other financial entities,
6. Promoting competition by permitting new banks in the private sector.
7. Improving financial health of banks through prescription of risk –weighted capital adequacy ratios, recapitalisation and restructuring of weak banks.
8. Relaxation in respect of investments while simultaneously tightening the valuation of principles of such investments.
9. Amendment to bank branch licensing policy with a view to helping banks to rationalise their branch network, and to deal effectively with loss-making branches.
10. Promoting higher standards of disclosure by prescribing and gradual tightening of norms of income recognition, asset classification and provisioning for assets on international lines.
11. Imparting flexibility in the credit delivery system by withdrawing the concept of MPBF, and increasing the share of the loan segment in bank credit.

12. Setting up of Debt Recovery Tribunals (DRTs) for improving recovery of bank loans.
13. Introduction of a scheme to disclose information about wilful defaulters.
14. Adoption of reporting standards comparable to international ones, strengthening internal monitoring through audit and control systems through reporting, adoption of modern technology, rationalisation of manpower (including introduction of voluntary retirement scheme) and adoption of the principles of corporate governance, etc.
15. Merger of Banks—The Times Bank with HDFC Bank (1999–2000), Bank of Madura with ICICI Bank.
16. Capital infusion by Government of India to enable the banks to achieve requisite capital adequacy, which was depleted due to provisioning for assets as per income recognition and asset classification norms. This action was to complement the banks' other endeavours to comply with the regulatory requirements.

Adapting to new realities was the requirement for the banks to overcome the new challenges and find newer opportunities to reap the benefits of liberalisation and reforms.

Those banks which had strong fundamentals, those which could foresee the changes and were adequately prepared to bear the impact, were the ones to quickly seize the opportunity and grow with the changes.

Those banks which had good policies, and sound internal processes and practices were immensely helped by the recapitalisation, and could overcome the difficult period of reforms.

Banks which took the challenges lightly and were neither adequately prepared to undergo the reform processes, nor had strong fundamentals or sound internal processes and practices were the ones to suffer, despite recapitalisation. The problems were further compounded by inadequacies of the management.

4.8 Immediate Impact

For the first time in the post-nationalisation era, Indian Bank incurred a net loss of Rs 390.65 crore for the year 1993-94, but recovered to show a marginal profit of Rs 14.26 crore for the year 1994-95. The first pre-requisite was to clean up the balance sheet, give a true account of non-performing assets, scale up provisioning against bad loans, and apply stricter tests for recognizing income etc. Indian Bank, like many others, had to adhere to prudential norms to classify the loan accounts as per their quality. The true state of affairs came tumbling out. In the post reform year 1992-93, as many as 12 public sector banks showed losses, as against the 26 which reported profits in the earlier year. However, Indian Bank showed losses in 1995-96, with a further loss of Rs 1336.40 crore. It was not believed to be the end of the losses as they continued over further years. Eventually, the bank was labeled as a weak bank needing urgent resuscitation and restructuring.

Taking over as CMD in the year 2000, I had the unenviable task of ensuring survival first, even as revival options were getting debated and discussed in all forums. How the Government as the owner, the RBI as the regulator and the management and staff came to tackle this unprecedented problem is the story of the turnaround.

Table 4.2 Capital Contribution by Government of India to Nationalised Banks During 1992-93 To 1998-1999 (Rs in crore)

Name of the Bank	*Capital contributed upto 31.3.92*	*Capital allocated 1992-93*	*Capital allocated 1993-94*	*Capital contribution in 1994–95 towards*			*Capital allocated in 1995-96*	*Capital allocated in 1996-97*	*Capital allocated in 1997-98*	*Capital allocated in 1998-99*	***Total capital contribution***	*Capital returned to Government*	*Net capital contribution*
				Tier I	Tier II	Total							
Allahabad Bank	106.33	65.00	90.00	356.20	101.61	457.81	160.00	–	–	–	**879.14**	–	**879.14**
Andhra Bank	59.00	30.00	150.00	184.32	–	184.32	–	165.00	–	–	**588.32**		**588.32**
Bank of Baroda	113.00	50.00	400.00	–	–	–	–	–	–	–	**563.00**	381.00	**182.00**
Bank of India	455.00	–	635.00	848.38	348.22	1196.60	–	–	–	–	**2286.60**	93.47	**2193.13**
Bank of Maharashtra	147.08	35.00	150.00	334.19	–	334.19	80.00	–	–	–	**746.27**	–	**746.27**
Canara Bank	37.50	75.00	365.00	–	–	–	–	–	600.00	–	**1077.50**	–	**1077.50**
Central Bank of India	175.74	–	490.00	632.46	–	632.46	–	500.00	–	–	**1798.20**	–	**1798.20**
Corporation Bank	35.40	30.00	45.00								**110.40**	30.00	**80.40**
Dena Bank	95.63	50.00	130.00	6.11	72.28	78.39	–	–	–	–	**354.02**	–	**354.02**
Indian Bank	159.00	35.00	220.00	230.96	180.94	411.90	–	–	1750.00	100.00	**2675.90**	–	**2675.90**
Indian Overseas Bank	357.00	–	705.00	258.60	132.74	391.34	–	–	–	–	**1453.34**	–	**1453.34**

Oriental Bank of Commerce	46.90	30.00	50.00	–	–	–	–	–	–	–	**126.90**	–	**126.90**
Punjab & Sind Bank	120.61	85.00	160.00	116.03	–	116.03	72.00	150.00	–	–	**703.64**	–	**703.64**
Punjab National Bank	90.00	75.00	415.00	–	–	–	–	–	–	–	**580.00**	138.33	**441.67**
Syndicate Bank	148.50	–	680.00	278.59	88.79	367.38	172.00	–	–	–	**1367.88**	–	**1367.88**
UCO Bank	492.00	–	535.00	515.52	–	515.52	110.00	54.00	350.00	200.00	**2256.52**	–	**2256.52**
Union Bank of India	102.00	30.00	200.00	–	–	–	–	–	–	–	**332.00**	–	**332.00**
United Bank of India	360.19	–	215.00	538.87	–	538.87	256.00	338.00	–	100.00	**1808.06**	–	**1808.06**
Vijaya Bank	75.72	50.00	65.00	62.31	–	62.31	–	302.00	–	–	**555.03**	–	**555.03**
New Bank of India	123.40	60.00	–	–	–	–	–	–	–	–	**183.40**	–	**183.40**

Chapter 5

Troubled Waters

5.1 Decline in Fortune

When a large and venerable institution declines, it is natural for people to ask what went wrong and who caused it. The decline in the fortune of the Indian Bank was no small matter, not just for the customers, or to the Government of India which fully owned the bank, but more importantly to the general public. After all, the deteriorating health of any one bank has reverberating effect on the banking system as a whole. Therein lies the rationale and justification for the very elaborate checks, vigil, and rather extensive regulations on the conduct of business by banks. Like other businesses, banks too have to take risk in their role as lenders. When a loan goes bad, there are enough number of people to question the decision and conduct of the loan account, and to attribute all kinds of motives to the officials who handled those accounts. There is not much appreciation of the fact that every lending decision is, among others, based on assumptions of future projection. And rarely do they come true fully, hence risk is inherent in lending.

The decline of the Indian Bank from a healthy one to a weak bank, as it came to be referred, is attributed primarily to a number of bad loans, which seemed to indicate bad judgment and recklessness. Multiple causes were dug out in the investigations which inexorably followed, and the role of some executives too was the subject matter of investigation by the Central Bureau of Investigation and the Central Vigilance Commission. A number of officials were investigated for their alleged role in the large number of non-performing loans. In many cases the law has taken its course and punishments have been meted out. It is not intended to further elaborate on these matters, except to the contextually relevant extent narrated elsewhere, but to indicate how the conduct of the management could influence the organisational behaviour with or without explicit directions. Once a wrong direction is taken, eventual deterioration gathers momentum.

Earlier, attempts were also made to make it generally a common man's bank. The management passionately decided to identify itself and the bank with the 'welfare' of the common man. The concept was appealing though not well defined for banking purpose. It enhanced the image of the bank as a truly common man's bank. Perhaps what started as an image building exercise for the bank, somewhere along the way got subsumed imperceptibly by a conception of popularity. It is well said that prudent bankers strive to consciously lay emphasis on being trusted rather than being popular.

The popularity and visibility of the Indian Bank in Tamil Nadu as a brand name for service soared during the late 1980s and early 1990s. It must be acknowledged that this popularity helped the bank to some extent to promote a good image of itself in the public, and select business circles.

The good Samaritan image however did not gel well with the commercial nature of banking business. Whatever it may be, eventually it turned out to be a stigma on the bank's corporate governance. The obvious lesson is: a bank must remind itself often that it is an intermediary between the savers and the wealth creators of the community, and banking is an act of fine balancing of the two segments. In short, the qualitative aspects of performance of the bank was eventually eclipsed by the quantitative financial damages inflicted on it. One may recall a famous letter from Hugh McCullough, the Comptroller of Currency, USA to the national banks in 1863 (indeed 1863): "Treat your customers liberally, bearing in mind the fact that a bank prospers as its customers prosper, but never permit them to dictate your policy. Pursue a straightforward, upright, legiti-mate banking business. Splendid financiering is not legitimate banking …"

The financial, and reputation damage suffered by the bank progressively over five years was extensive, and the writing on the wall was clear that without massive efforts the bank would not be brought back to health in any short term. Also, any shotgun approach of investigations, CBI raids, and other disciplinary actions unleashed without focus and proper procedural compliance could be counterproductive as they would corrode the morale of the staff. For any CMD, the first task would be to identify where to begin the rehabilitation. A "going concern approach"' was needed to take the staff into confidence without being charitable, but also without holding them as partners in crime. The CMDs themselves needed support from the Government and the RBI, without undue restraint on new initiatives.

As the CMD of the Bank, I had to initially take stock of the overall situation against the backdrop of the adverse situation indicated in the earlier chapters, before initiating the restructuring/turnaround process. Some of the crucial issues confronting me at that point of time were:

5.2 Credit Management

The Credit Management of the Bank was not conducted in a professional way with due regard to various regulatory norms and banking prudence. It was observed that certain credit sanctions involving large sums were made only to support influential borrowers by extending various facilities to them. An analysis of the reasons for such a huge portfolio of NPA gathered by the bank gave mixed inferences, largely internal to the bank, and quite a few attributable to the reluctant borrowers and the external environment, like the following:

- Defective credit appraisals and sanction of facilities on an adhoc basis without a comprehensive assessment of the credit requirements of the borrowers, and the units thereof.
- Excessive reliance laid on the securities, not mindful of whether they were readily realizable, in preference to the inherent strengths and viability as well as cash flow of the units. Overexposure to real estate, film industry, educational institutions, etc. (Example: obtaining pledge of shares of the borrower company as security, which would be of no consequence when the company went through difficulties).
- Absence of proper risk management systems to mitigate the credit and other risks consequent to which the system of

financing had become skewed, mostly in favour of a handful of borrowers and group of companies.

- Proper delegation of authority and resultant empowerment was not made, and the decisions to lend were concentrated at the top level in view of several restrictions in vogue on the exercise of discretionary powers at various levels.
- Branch functionaries were not allowed to make independent scrutiny of the credit proposals based on financial statements, background of the borrowers, nature of security etc. Instead, they were directed to forward select proposals with recommendations immediately, preferably on the same day of submission of fresh proposals though the limits sought were huge. Oral sanctions were given and desired work was done through the second/lower level officers.
- High risk prone facilities were sanctioned, instead of facilities with lesser risk in the bank's point of view. Under the pretext of avoiding delay, proposals for huge credit limits were sanctioned without critical analysis (exceeding the powers delegated) and placing the sanctions for confirmation of the appropriate sanctioning authority later on.
- Undesirable takeovers not meriting approval were resorted to, resulting in bad quality assets flowing into the bank from other banks.
- Frequent allowing of excesses, digression of sanctioned terms and conditions, waiver of certain potent securities, and indefinite non-renewal of limits had resulted in non-settlement of claims from the Credit Guarantee Organisation in most cases.
- Several cases of deficiencies/irregularities in documentation compelled the bank to fight in the courts to establish its rights on securities in case of certain recalcitrant and unscrupulous borrowers as well as the tenants/lessees of the bank's premises. Improper legal compliance system prevailed in the bank.
- Non-verification of end use of funds by bank officials, excessively trusting and relying on the borrowers and their statements/declarations including their financial statements. This had led to inter-group diversion also.
- Poor monitoring and follow–up of advances at all levels. The bank indulged in a spree of lending with the avowed objective of increasing the balance sheet size at the cost of quality, not

being able to/not wanting to anticipate the consequences of the rash decisions in order to earn a place amongst the top banks of the country. In doing all this a matching concern for close monitoring—an essential attribute for maintaining a healthy credit portfolio—was not exhibited.

- Many of the properties accepted as securities were not physically inspected or verified. Thus, important aspects like accessibility, tenancy, saleability, etc. were not verified or even looked into.
- To circumvent the RBI guidelines in respect of 'exposure to group companies', huge credit facilities were sanctioned to newly floated companies which, in reality, belonged to the same group which had exhausted its exposure limits. In the proposals of such new firms, the Branch/Regional/Zonal level officers were made to mark them as new connections, and not belonging to any existing group of companies financed by the bank. After sanctioning credit facilities to these "newly floated" companies, proceeds of the loans were transferred to their group accounts to meet their financial needs/service their overdues. A highly unethical practice.
- To favour certain large borrowers whose requirement of credit was beyond the delegated powers, plans were made to sanction loans to more than one firm of the borrower's group in such a way that the individual limits to each firm fell within the powers of the sanctioning authorities. There are instances where Zonal Managers also exceeded their powers and permitted the branches to allow excesses/adhoc sanctions etc. and later getting them ratified by the respective sanctioning authorities. The directions of the Board were either diluted or ignored in some accounts to favour certain borrowers.
- Branch Managers were generally not allowed to make independent scrutiny of the credit proposals based on financial statements, background of the borrowers, nature of security, etc., as is the required norm. Instead, they were, in such cases, directed by the authorities to forward the proposals with recommendations forthwith, though the limits sought were huge.
- Selective sanctions were given over the phone by the then top executives. The Branch Managers were directed to release the funds immediately. There are also instances when

Branch Managers who were reluctant to follow such guidelines were sent out of the branch on duty (like training) and, during their absence, the credit facilities were released through the second/lower level officers.

- Certain credit proposals rejected by the Board were again placed for sanction in the next Board meeting without any material change in the terms and conditions/security/limits, and sanction obtained from the Board.
- As the bank had extended its credit portfolio to a level where there was total mismatch between funds mobilised and deployed, in order to bring down its credit portfolio to abide by the RBI's directions, the Bank devised a plan to shift a few borrowal accounts to one of its subsidiaries by way of inter-corporate deposits besides offering a 'comfort letter', with an unconditional undertaking to pay on due dates, irrespective of whether the borrower had credit balance or not. These accounts naturally slipped into NPA later on.

In some cases, lending was done outside the Consortium arrangement without keeping the leader and other members duly informed, without recognizing the importance of the Consortium spirit, leading to issues of priorities and charges in settlement of dues later on.

Despite adverse comments in the inspection reports on the conduct of these borrowal accounts and various areas of non-compliance with the terms of sanction (which continued to persist) such excesses were continued. All these inadequacies in credit management, coupled with the general industrial recession in certain sectors in which the bank had huge exposure, ultimately resulted in huge NPA.

The bank opened two subsidiaries—Indbank Merchant Banking, and Ind Bank Housing in 1990-91. These subsidiaries were given a line of credit by Indian Bank for further-lending to its customers. With a view to containing the CD ratio within the stipulated norms, the bank resorted to lending to a select group of borrowers through its subsidiaries by placing the funds of these subsidiaries as Corporate Deposits (ICDs) for short periods with high interest rates.

Since the borrower companies did not repay ICDs on due dates, the ICDs were rolled over many times—an unethical practice. Eventually, many of these companies did not repay the ICDs due to economic downturn or otherwise, placing a strain on the financials of the subsidiaries and driving them to forced closure. The failure of such advances thus adversely affected not only the bank but also the subsidiaries.

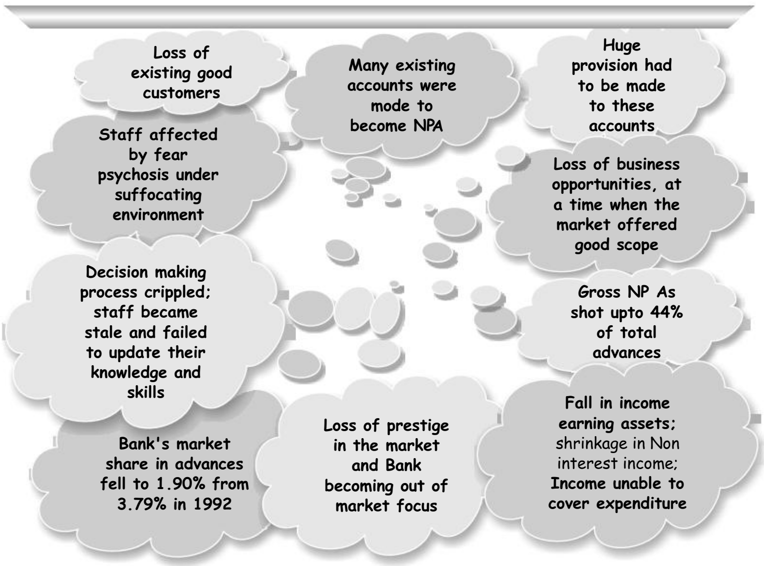

Fig. 5.1 Implications of Imposing Restrictions on Expansion in Credit

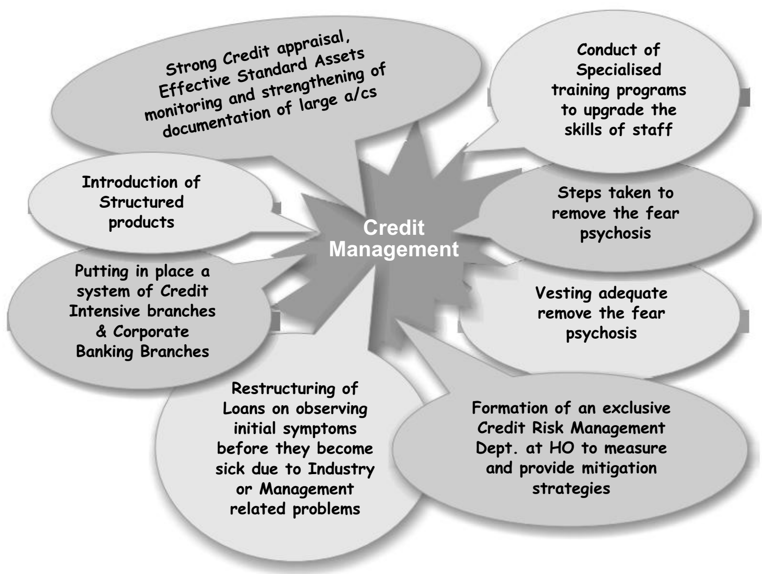

Fig. 5.2 Steps taken to Strengthen Credit Management

5.3 Funds Management

The bank was cautioned during the credit budget discussions held in June 1990 by RBI to ensure that non-food credit expansion was kept strictly within the prudent limits permitted by its own resources, and was also advised to reduce its heavy reliance on volatile money market funds. But the bank did not pay heed to this advice. During the financial year 1990-91, the bank's incremental net non-food credit-deposit ratio exceeded the stipulated 60 percent during 10 fortnights, the ratio reaching as high a level as 135 per cent in the fortnight ended March 22, 1991. These were totally unsustainable levels of credit. The bank was also relying heavily on money market funds. The average borrowings amounted to Rs 645 crore for the fortnight ended April 19,1991 (with the peak borrowing at Rs1930 crore for the fortnight ended March 22, 1991) which was equivalent to 10 per cent of the aggregate deposits of the bank.

The bank was advised by the RBI to invest a part of its reserves in 182 days Treasury Bills with a view to imparting increased flexibility to its funds management. However, the holdings of 182 days Treasury Bills of the bank were only Rs 5 crore as on May 20, 1991. It was increasingly, though consciously, deviating from all the basic cannons of prudent management. The bank was urged by RBI to take immediate steps to avoid defaults in reserve requirements, contain the incremental non-food credit (excluding export credit)-deposit ratio within the stipulated 45 per cent during 1991-92, and to undertake a substantial reduction in heavy reliance on volatile money market funds.

For the fortnight ended April 19, 1991, the bank defaulted to the extent of Rs 244.82 crore in the maintenance of CRR which was equivalent to 24.4 per cent of amount of CRR required to be maintained. During the week ended March 29, 1991, the deposits of the bank increased by Rs 318 crore, which was equivalent to two-thirds of the increase in the full financial year ended March 22, 1991. The bank continued to have large increases in deposits in one week, which eventually created severe problems for it.

Further, the bank was warned that if it continued to violate the prescribed guidelines regarding reserve requirements and credit, the RBI would be constrained to take stern measures which could include withdrawal of all refinance facilities, and other administrative measures to ensure compliance.

Despite the warning by RBI, the non-food CD ratio of the bank as on March 20, 1992 was substantially high at 64.6 percent as compared with 52.4 percent for the banking system as a whole. The aggregate deposits of the bank increased by Rs 37 crore only in the first quarter of 1992-93 as compared with the projected increase of Rs 175 crore in the credit budget for 1992-93, while non-food credit increased in the same period by Rs 506 crore resulting in an incremental non-food credit-deposit ratio of 1368 percent. As this order of non-food credit expansion was not sustainable, the bank had to depend on volatile call money market funds. The fortnightly average borrowings during the first quarter of 1992-93 exceeded Rs 1000 crore, with peak borrowings going as high as Rs 2903 crore. For the fortnight ended July 10, 1992, the average borrowings in the call/notice money market amounted to Rs 1634 crore, and the peak level of borrowing was Rs 3239 crore.

The bank was directed to bring about a significant and sustained reduction in the non-food credit-deposit ratio, and also to reduce its dependence on volatile call money market funds. Other conditions imposed on it included the following:

(a) Borrowings in the bills rediscounting market should not exceed Rs 65 crore at any point of time till Dec. 1992.

(b) The bank should not allow any drawing over the levels as on date in respect of cash credit/overdraft/bills discounting limits of any of its borrower constituents where the aggregate funded and non-funded facilities exceed Rs 1 crore.

(c) It should not allow any drawings over the levels as on date in respect of cash credit/overdraft/bills discounting limits of any of its borrower constituents without the prior concurrence of its Management Committee, where the aggregate funded/non-fundedfacilities exceed Rs 25 lakh.

(d) No sanction of any fresh-funded or non-funded facilities/limits to any existing or new borrower where the aggregate of both kinds of facilities, inclusive of proposed limits, would exceed Rs 25 lakh.

(e) It should shed some of its larger accounts, particularly those in consortia with other banks.

(f) It should garner additional resources by way of deposits, CDs etc. so as to bring down the credit-deposit ratio significantly.

(g) The bank should reduce funding support, if any, granted to its subsidiaries in a phased manner, and

(h) Offload investments, if any, in non-approved securities to the extent possible.

The average excess borrowings in the call/notice money market and term deposits markets during the period covering fortnights ending Aug 21 to Dec. 25, 1992 worked out to Rs 379 crore, and hence the RBI reduced the interest payable on eligible CRR balances based on the net demand and time liabilities on March 23, 1990 from 10.5 percent to 7.35 percent per annum for three fortnights viz. fortnights ended Feb. 19, March 5 and March 19, 1993.

RBI instructed the bank to continue to observe the restrictions imposed on its lending and warned that in case it exceeded the stipulated non-food CD ratio levels, the excess amount of non-food credit would be deducted from the eligible CRR balances for the purpose of calculation of interest payable to it, and that this penalty would be over and above the penalty prescribed for exceeding the stipulated ceilings on call/notice money borrowings and inter-bank term deposits.

As a part of BASEL I compliance, pursuant to the Narasimham Committee recommendations on "Income Recognition and Asset Classification (IRAC) Norms, the banks were advised by RBI in Sept. 1992 to:

1. Classify the advances based on asset quality and recoverability as Standard, Substandard, Bad and Doubtful, and Loss assets.
2. Not to recognise the interest income for the Substandard, Bad and Doubtful, and Loss Assets unless it is actually received (shift from accrual basis to actual recovery basis)
3. Make provision for the Substandard, Bad and Doubtful, and Loss assets at certain prescribed ratio for the year ending March 1993.
4. Make a review of assets on half yearly basis as per the IRAC norms.

To overcome the reduction in capital consequent to provisioning for Substandard, Bad and doubtful, and Loss assets, reduction in income and resultant profit under income recognition norms. And, in order to help the banks to maintain the minimum CRAR (Capital-to-Risk weighted Assets Ratio), recommendations were made by RBI for recapitalisation by the stake holder of the public sector banks—the Government of India, during the years 1993–1995.

The banks undertook, on priority, a thorough cleaning of their balance sheets, reviewed the quality of their advances and investment portfolios, made adequate provisioning, and received recapitalisation. During this period Indian Bank did not undertake the income recognition/asset classification exercise properly and, consequently, did not make proper provisioning. The bank declared net profit in the years 1992-93 and 1993-94 and, as a result, failed to get adequate recapitalisation during this period, unlike its peers.

It was observed by RBI, in the year 1993-94 that the published net loss of Indian Bank at Rs 390.65 crore would have been much higher had the bank classified many of the advances properly as NPAs, instead of treating them as standard assets (resulting in short provisioning) and also recognising income thereon on an "accrual basis". But, instead of initiating any corrective measure, the bank resorted to show an illusory profit of Rs 14.26 crore for the next financial year ending March 31, 1995, with scant regard for the prudential guidelines on provisioning, income recognition and investments.

The bank was advised by RBI to recast its balance sheet for the year 1994-95 in strict compliance with its instructions in respect of valuation and provisioning requirement in respect of investments. In response to the representation made by the bank, RBI permitted it not to recast the balance sheet as of March 31, 1995, subject to the condition that all the deficiencies of the type noticed in the accounts of 1994-95 should be rectified in the final accounts for 1995-96 which had been done. As a result, the bank posted a net loss of Rs 1336.40 crore for the year ended March 31, 1996.

The following were the major contributing factors for the bank's decline based on its analysis of its performance during the 1990s.

1. Unplanned credit growth between 1988 and 1992 from 53% to 67%, and between 1994 and 1996 from 56 to 62%.
2. Excessive borrowings from Inter-Bank market to fund credit expansion.
3. High level of NPA/Net credit (40% as on 31.3.97) as per the prudential norms for Income Recognition and Asset Classification (IRAC) introduced from 1992.

4. Simulation exercises revealed that Indian Bank generated NPA at a secular rate of 8.8% over the period 1987 to 1991, higher than the 2% level that is indicated in the case of benchmark banks. The NPA generation rate was even much higher during 1991-96.
5. Poor Credit Management and poor follow-up of end use of credit.
6. Lack of risk spread on the various sectors of credit and concentration of credit in certain sectors like hospitals, film industry, real estate etc. where the bank lacked the required expertise.
7. Geographical spread of credit risk was not there. While a few North Indian branches had a CD ratio as low as 10%, there was concentration of credit, particularly in and around Chennai.
8. Poor Asset Liability Management and Risk Management, and Asset and Liability mismatch.
9. Centralisation of authority and power at the top, and severe deficiencies in human resource management and control.
10. The bank's weaknesses, which were clearly visible as early as 1991–1992, were compounded by amalgamation of the ailing Bank of Thanjavur besides external economic factors that prevailing at that time, such as higher interest rate climate leading to high cost funds, foreign exchange and balance of payment crisis (1991), introduction of prudential NPA norms in 1992 etc.

    To illustrate, during the period 1992-93, interest on premises loan was around 22.75% p.a. (excluding overdue interest of 2%); the repayment by way of rent fixed on the premises loans was insufficient to meet the interest portion alone. Similar was the case in respect of OD/CC etc wherein an interest of around 22% was charged. Application of mind while processing these advances was totally absent. This resulted in huge NPAs.
11. Creation of huge high-cost deposits in the form of NR-NR-RDs at the rate of 15% p.a.
12. The liquidity crunch during 1992-95 forcing the bank to borrow over Rs 1000 Cr. per day from the call money market, which worked around 25.5% of deposits. The average cost of borrowing was around 20.9% during 1991–92.

13. To ensure that banks implemented IRAC (Income Recognition and Asset Classification) norms, and for compensating the loss provided thereby, Government provided recapitalisation of funds to all the banks during the years 1992-94. Most of the banks had at that point of time declared net losses by fresh provisioning of NPAs, and cleansing their balance sheets through recapitalisation by the Government.

    Indian Bank, on the contrary, showed profits or reduced losses without proper identification of NPAs and thereby lost the opportunity to receive funds from the Government.

14. RBI, as a monetary and credit policy measure, had directed in 1991 that the incremental domestic non-food, non-export, Net Credit-Deposit (CD) ratio of Scheduled Commercial Banks should not exceed 45% over the level of 22.3.91, effective from 20.04.01. Against this, Indian Bank had a very high incremental CD ratio during the period.

15. Due to the liquidity crunch, the RBI imposed a credit restriction on Indian Bank, directing it to not expand the credit level beyond the position as on 11th August 1992. This credit restriction had the following implications:
    - The bank could not expand its performing credit, resulting in migration of many good customers to other banks.
    - Existing credit profile was locked in non-performing and unyielding assets.
    - Non-accrual of fresh credit earning additional interest income, funding cost, and provisions for NPAs resulted in negative contribution from the credit portfolio.

5.4 Public Interest Litigation (PIL)

'Troubles come in plenty to compound miseries', so goes the saying. The earlier period of turnaround was volatile, with attacks coming from unknown angles also which had to be endured by the bank. Given below is an excerpt from news paper reports then:

A Public Interest Litigation (PIL) writ petition filed in the Supreme Court alleged that CBI and other Government agencies had failed to perform their duty by not properly investigating into the multi-crore loan fraud. Supreme Court orally asked the Union of India on January 13,1998 to file by March 2, 1998, its

Action Taken Report on the reports submitted to it by the investigating agencies concerned, including the RBI, in respect of the "Multi Crore Indian Bank Scam matter". Accordingly, a three judge bench consisting of Chief Justice J.S. Verma, Justice S.C. Aggarwal and Justices S.P. Bharucha were monitoring the probe. It was reported in the press that "*Amicus Curiae*" Mr. Anil Divan appointed to assist the Court had handed over the confidential RBI note to the judges and the Attorney General. It was submitted to the Court in a sealed cover. The Court was told that even before the public interest litigation had been filed before it, Finance Ministry had asked the RBI to probe into the non-performing accounts of the bank, and that the writ had been filed for "political reasons". The Court was told that on the basis of the report, disciplinary action had been initiated against several officers with regard to some of the 40 accounts, while inquiries were on in respect of others. The Judges told the Attorney General that if the statutory agencies were performing their duty, the Court had no cause for worry. However, the Court would like to peruse the RBI report as well as other probe reports in the bank scam case to satisfy itself of the efficiency of the agencies.

On April 28, 1998, the Supreme Court asked the Solicitor General to let it know by May 5, 1998 the Centre's stand on the action proposed to be taken to book culprits in the Indian Bank case. The direction issued by the three Judge Bench assumed importance in view of the fact that seasoned politicians and astute parliamentarians categorically voiced grave concerns on an ongoing basis, including through the media, on the serious state of affairs in the bank which could be likened to a major scam.

5.5 Fear Psychosis

The morale of the staff members including top executives was at the lowest level, and a fear psychosis swept across the bank. Although the overall situation in which the bank was placed following the balance sheet revelations in 1996 and the adverse media reporting that followed had affected their self-confidence, the arrest of some top officials of the bank had indeed taken a toll on their self-esteem. They were looked down upon by the society, in particular by a section of the bank's customers. Their very credibility was at stake. Most of them turned defensive in their approach and did not want to take even the least of the risks in their day-to-day responsibilities. The fear of being questioned at a later date, should some of their decisions go wrong, haunted them. This was the impact of the arrests on the psyche of the bank's staff. The customers, markets, owners and regulators invariably gained the impression that given such predicament of the staff members, the bank would find it very difficult to restore normalcy in operations. After all, for a complete turnaround of any bank, the first and foremost requisite was a highly confident and committed team of staff members. This was deemed suspect at that point of time.

The factors outlined here had a ripple effect on other aspects of banking as well, resulting in overall deterioration in the bank's performance in the subsequent years, placing it in troubled waters.

Chapter 6

Early Navigation

The Indian Bank's unprecedented net loss of Rs 1336 crore during the year 1995–96, shattered its image. Everyone in the bank was looked upon with suspicion resulting in de-motivation and terrible fear psychosis in the officers and staff. With the serious financial trouble the bank was put into, it was felt that the foremost task would be to adopt appropriate strategies to stem further deterioration in the position i.e., giving thrust to planning, introducing professionalism at all levels of management, setting up proper systems and procedures, and putting in place a proper monitoring mechanism.

There was growth in aggregate deposits and the reduction in gross credit and gross CD ratio was 56.3% in December 1997. NPA recovery was Rs 234 crore up to December 1996. The financial imbalance was narrowed down by Rs.1448 crore in December 1996. Special recovery cells were constituted at Zonal levels and recovery teams were formed at the Regional Offices. Non-interest non-salary (NINS) expenditure was brought under strict budgetary supervision. The bank introduced a system of MoU with Zonal/Regional Branch Managements in key areas. A Settlement Advisory Committee was constituted on 31.12.1996. Considering that the CRAR was negative as on 30.09.1996, the bank sought recapitalisation from the Government. The global credit portfolio shrunk during 1996–97 and the reasons were stated as a conscious decision on the part of the top management of the bank as part of the consolidation process.

6.1 Study of the Problems

The consultants made a study of the problems faced by the bank and submitted a report for its quick turnaround based on which a Strategic Plan covering a three year period—from 1997–98 to 1999–2000—was drawn. The consultants had also done a detailed analysis of the various cost factors, and observed in this report as follows:

- The year 1995–96 was an unusual year for the bank, because the financial statements (despite the adjustments that were made) reflected the accounting backlogs of the past years.
- However, even if one were to make further adjustments towards reducing the provisions for NPA in 1995–96 (i.e. apportioning them to the prior year), the credit portfolio would still make a sizeable loss.
- While the investment portfolio looked profitable, depreciation and the interest rate risks in the portfolio needed to be looked into in the contribution statement. Also, the employee and administrative expenses appeared too heavy to be supported by the bank's then level of revenues.
- The solution of transforming the bank into a profitable proposition would go beyond better NPA management alone, and would involve several other equally important aspects of operations as well.

To achieve the turnaround, the bank was required to prepare a Strategic Revival Plan (SRP), which was soon drawn up, based on the consultant's report on turnaround strategy, for the three year period 1997–98 to 1999–2000 and submitted to Government in July 1997.

As part of the turnaround strategy, the management had signed a Memorandum of Understanding with the Employees Unions and Officers' Association on 8.10.1997 covering four broad areas viz.,

(i) Business Plan,
(ii) Structural changes,
(iii) Economy in expenditure,
(iv) Work culture.

6.2 Recapitalisation

Recapitalisation at the following level was sought to be given by September 1997 by Government of India for achieving the required level of Capital-to-Risk weighted Asset Ratio (CRAR).

Recapitalisation pattern		Rs 2150 crore by Sep.97–Sep.98
Purpose of Recapitalisation		To achieve CRAR of 8% by 31.3.98 and thereafter
Projected Financial Position of the Bank		
1996–1997	Operating Profit:	(–) 95
	Net Profit:	(–) 508
	CAR:	(–) 20.3%
1997–1998	Operating Profit:	92
	Net Profit:	(–) 213
	CAR:	9.1%
1998–1999	Operating Profit:	272
	Net Profit:	(–) 20
	CAR:	8.1%
Cost to Government		Rs (–) 1005 crore
Benefit to Bank		Rs 1132 crore
Comments		Best option in terms of cost and benefit

But a re-capitalisation of Rs 1750 crore only was made by the Government as on 26.02.1998. A further recapitalisation of Rs 400 crore was envisaged during the year 1998–99, against which only a recapitalisation of Rs 100 crore was made during February 1998. (interest benefit of about Rs 93 crore was not available to the bank due to this shortfall in recapitalisation—on Rs 2150 crore for 5 months @ 10% and Rs 400 crore for 1 month @ 10%).

The Strategic Revival Plan was monitored periodically to evaluate progress and suggest course corrections. The bank had taken the following steps for implementation of SRP:

- Monthly and quarterly performances were reviewed and reported to Government and RBI. Periodical performance review was also reported to the Committee of Directors.
- Implementation of the MoU with the Employees' Unions and Officers' Associations was reviewed periodically by the MoU monitoring committee.

The following were identified as focus areas for the five years 1997–2002:

- Sustained growth of at least 16% p.a. in deposits.
- Gradual growth in fee based income by 12%, 15% and 20% during 1997–98 and 1998–99, and thereafter respectively.

- NPA generation rate to fall from the historical figure of 8.8% p.a. to less than 2% p.a. (It was concluded that if this did not take place in the succeeding two years and stayed at the historical level, the bank would be unlikely to show any improvement).

The bank adopted "Profit-making Bank with Growth and Glory" as its mission statement. The fact that it would not be able to turnaround before the completion of the Strategic Revival Plan (SRP) was clear as early as March 1998, itself when the Bank could not meet many of the SRP targets, particularly on account of fresh accretion of NPAs, additional provision made due to slippage of earlier assets from substandard to doubtful, and then to loss assets. There was also a slow down in credit initially to contain the CD ratio, and the performing advances fell drastically (a) due to slippage and (b) no fresh lending due to various factors, including fear psychosis.

RBI advised a slow down in lending to contain the non-food CD ratio to 53% as in March 1997, from 60.9% in July 1996. A Special Monthly Monitoring Report was also introduced by RBI for the bank. To tide over the situation, the bank's share of food credit was ceded to other banks. RBI advised the bank to place the excess SLR in repos to reduce the call borrowings and also to gradually reduce the Certificate of Deposits from a level of 13.5% to 5% of aggregate deposits.

Shri P. Chidambaram, the Union Finance Minister, paid a visit to the bank and addressed the staff at the Head Office/Chennai city branches at the Bank's Training Centre (IMAGE) during December 1996. He also addressed customers and the Board of Directors, and inaugurated the bank's web page 'www@indian-bank.com' to instil confidence in the minds of the public and staff.

Even though the Strategic Revival Plan was drawn and taken up for implementation in right earnest, it could not achieve the desired results due to certain external and internal factors. There were also quick changes of Chairmen and Managing Directors before the completion of the SRP and this affected the continuity of the process. Many of the strategies adopted earlier were either not continued fully, or there was a time lag in implementing them.

6.3 Non-achievement of SRP Targets

Some of the reasons for non-achievement of the targets were:

- Decrease in interest income and poor credit off-take partially due to general slump in the industry. Drop in interest income on advances due to lower level of performing advances and drop in average interest rates.

- The bank could not expand credit due to various factors such as absence of attractive schemes, credit squeeze, fear psychosis etc. Further, its credit portfolio suffered from three major adverse features viz., high concentration of credit, connected lending and high risk advances.
- Stiff competition between banks which had drifted away from the social banking concept, and pressure to reduce PLR taking into account market conditions.
- High level of NPAs outstripping the banking industry average; large NPAs in a few groups which were either defunct or broken; complicated legal process and procedures; NPAs of varied kinds and magnitudes posing difficulty in recovery. The top 15 NPA accounts constituted more than 30% of the gross NPAs. Hence, a single strategy fit for all was not possible.
- NPA recovery could not be achieved as projected, and fresh addition to NPAs and higher provisioning on them due to passage of time aggravated the situation. The bank had to make additional provisions for old NPAs due to rejection of claims by Deposit Ins. Credit Guarantee Corpn./Export Credit Guarantee Corpn.
- Recovery efforts were hampered as, with passage of time, many of the major accounts/units had become defunct without any revenue generation to service the bank's debt. It only widened the gap between the value of security and the outstanding dues from the borrower. Further, compromise settlements were not attempted actively.
- Certain deficiencies like high NPAs and Poor Profitability were far more deep rooted, necessitating major structural readjustments over a longer period. Hence, the objective of reduction of NPAs and earning operating and net profit could not be achieved.
- Decision making suffered due to various vigilance cases against the officers and probing by CBI, and public interest litigation.

There were certain events/reports during this period that vitiated the climate resulting in retardation of turnaround initiatives. A brief on such reports is given here so that the situation the bank was facing at that time can be understood.

6.4 Report of the CII Task Force

The National Task Force (NTF) of the Confederation of Indian Industry (CII) headed by ICICI Managing Director Mr. K. V. Kamath (and Messrs Rahul Bajaj, Arun Bharat Ram, Jamshed Irani, Nimesh Khampani and Lalita Gupte, as other members) submitted its report on the Non-Performing Assets (NPA) in the Indian financial system to the then Finance Minister which suggested liquidation/closure of three weak banks, namely, United Bank of India, UCO Bank, and the Indian Bank as part of their recommendations which also included privatisation of some banks, reduction of Cash Resource Ratio/Statutory Liquidity Ratio, organisation of Asset Reconstruction Companies, over-hauling of SICA (Sick Industrial Companies Act), amendment to the Banking Regulations Act etc.

The report did not estimate properly as to what would be the minimum amount that would be required for liquidation of these banks, and how to deal with the problems of liquidation that may arise in the process. The report did not really help anybody, and nothing was done to follow-up on its recommendations, *except to create adverse publicity about these banks*.

On the subject of dealing with these three banks, there was a multiplicity of views that actually damaged the operations of these banks as they were sending wrong signals at a time when their respective managements and employees were trying to adopt strategies to come out of the problem. This had a significant impact on their image and business. There were huge withdrawals of deposits from the Indian Bank amounting to several hundred crore. It became a difficult task for the bank to arrest these withdrawals. In fact, it had to make special arrangements with the Reserve Bank of India and other banks to meet the huge cash outflows. This also started a debate within and outside the bank, and in the media about the possible course of action for these banks, and particularly for the Indian Bank pronounced as "weakest of the weak". Therefore, though no importance was attached to the recommendations of the CII Task Force, it did result in creating many complications for the bank.

It is an irony of fate that the CII submitted a report *which was never asked for* by the Government of India or the RBI to suggest ways for restructuring the Banking Industry. On the contrary, unions in the banking industry started demanding that the list of defaulters, which included some large business houses, be published and that laws should be amended to help quicker recoveries and confiscation of their properties. The unions and associations strongly protested against the report and said that instead of suggesting ways to recover the monies due to the banks from defaulters, the Task Force had chosen to recommend liquidation of the banks.

"It is highly deplorable and unethical too on the part of those who grew with the banks' assistance to now leave the institutions high and dry".

So much was the hue and cry against the report that some observed that the Confederation of Indian Industry should exclude the defaulters of the bank's loans from CII membership.

Further, it was observed that "several so-called doctors these days have emerged on the scene with a variety of prescriptions. Unfortunately, these self-styled medical practitioners, instead of doing what their profession demands i.e. try to help an ailing person come round, are actually recommending drastic surgery; as if chopping off the head is the best cure for headaches". (Source: Business Line *15.12.1999)*

6.5 Report of the Verma Committee

RBI, in consultation with government of India, set up a working group under the chairmanship of Shri M. S. Verma, former Chairman, State Bank of India, and later Honorary Advisor to RBI, to suggest measures for revival of weak public sector banks. The tasks to be undertaken were:

(a) draw up criteria for identification of the weak banks for a case-by-case examination:
(b) study and examine the problems of weak banks;
(c) undertake a case-by-case examination of the weak banks; identify those which are potentially revivable; and,
(d) suggest a strategic plan for financial, organisational and operational restructuring of weak public sector banks.

Since the 1970s, over 130 countries, both developing and developed, had experienced banking crises in one form or the other. The working group tried to understand the strategies adopted by some of these countries in the handling of the crisis. Restructuring of the banking system was needed to address macro economic issues pertaining to factors responsible for ensuring banking soundness, and the micro level problems of individual banks.

While there was no unique solution to the banking crises that could be prescribed and applied across the board to all countries, there were some common threads that seemed to run through all cases of successful restructuring. Initially, each bank needs to be restored to a minimum level of solvency through financial restructuring. Thereafter, only long term operational and systemic restructuring can help them maintain their competitiveness, and enable them to ensure sustained profitability. Only a comprehensive approach to restructuring can have a lasting effect on the cost, earnings and profits of the bank to be restructured.

In its report of 1999 for restructuring of weak banks, the Verma Committee ruled out privatisation, merger and acquisitions, but recommended a four-point strategy involving operational, organisational, financial and systemic restructuring. The report also recommended recapitalisation, but added that it must be accompanied by strict conditions relating to operating as well as managerial aspects.

The committee wanted the Indian Bank and other weak banks to shed 25% of their staff through VRS, freeze wage rise for five years, sell off foreign branches and subsidiaries, induct information technology and appoint younger “war time generals” as CMDs with a tenure of 4 to 5 years. It also wanted merger of unviable branches of weak banks. The Committee identified Indian Bank as a weak bank in terms of its seven-fold criteria covering solvency, earning capacity and profitability.

There had been a lot of criticism of the recommendations of the panel, including that of giving a “weak medicine for weak banks”, and holding that a new treatment would not deliver the goods. Some critics even questioned the very idea of rescuing the weak banks and held the view that euthanasia might be a better option for the chronically ill banks.

The report was rejected by the Joint Forum of Unions in the Indian Bank—the AIBOC and AIBOA and three other staff unions, AIBEA, BEFI and INBEF—and the forum held protest demonstrations against these recommendations. The report was considered anti-employee, biased, and an attack on the job security of employees as if to say that the employees were solely responsible for the poor health of the banks.

6.6 Report of the Management Advisory Group

Following the M.S. Verma Committee, whose recommendations were published in October 1999, a Management Advisory Group under the Chairmanship of Shri Deepak Parekh was constituted exclusively for suggesting corrective action for improvement of the Indian Bank's performance. The other, members of the group included Shri S.D. Kulkarni former MD & CEO, Larsen & Turbo Ltd.; Shri Ram K. Gupta, former MD & CEO, State Bank of Patiala; and Shri Dileep Chokshi, Chartered Accountant. Three possible options were considered by the Group, namely (a) closure (b) merger with some other bank (c) revival.

After careful consideration of the same, the group proceeded on the premise that the bank needs to be revived, acknowledging at the same time that it was an "uphill task" given the bank's position at that time. The group made certain suggestions regarding non-performing assets, subsidiary companies, foreign branches, generation of resources from within, rationalisation of branch network, operational improvements, cost reduction, management structure, top management and support from Government of India.

Regarding the suggestion on the Top Management, the group stated that "the starting point in a turnaround is the competence, will and determination of the top management team....The urgent task before the Board/Government is to select a new CMD who should possess missionary zeal, conviction, courage and foresight/experience to carry through the challenging task."

In conclusion, the report stated "the patient is in the ICU in a highly critical condition. The diagnosis is fairly clear. What is needed is multiple surgeries and massive blood transfusion. There is no time to lose." (Detailed Report in Appendix).

6.7 Second Phase of Study

After the second phase of study, the consultants submitted their recommendations in March 2000. Among other things, the recommendations included segmentation of branches, change management strategies for functions such as credit and risk management, Asset & Liability Management, technology upgradation, financial restructuring including recapitalisation, hiving of subsidiaries etc.

Sub-groups of executives were formed to examine implementation of the recommendations, and the Bank's Board approved customer segmentation, branch segmentation and organisational restructuring.

6.7.1 Customer Segmentation

To adopt focused strategies for each customer segment for realising long term goals, customers were grouped as Corporate, Commercial, Personal and Rural.

6.7.2 Branch Segmentation

To have customer-centric products and services and customer-centric delivery channels, branches were grouped as Corporate, Commercial, Personal and Rural, with focus as under:

(a) Corporate Banking branches covering large and medium sized corporates whose credit limits fall within the powers of the central Office, and Food Credit.

(b) Commercial Banking branches covering all industrial credit other than those falling within the purview of the Central Office and wholesale trade, services, and the SSI segment.

(c) Personal Banking branches covering metro and urban households, individuals, small businesses.

(d) Rural Branches covering rural and semiurban households, individuals, small businesses and agricultural credit

Branch segmentation based on customer segmentation was contemplated to meet the growing expectation of customers for quick and efficient servicing, essential for the bank to face the growing competition. The structure was designed to exhibit and ensure a speedier decision making process.

6.7.3 Organisational Restructuring

One tier in the organisation was sought to be removed, thereby making it a three-tier organisational structure. It was considered necessary for improving operational efficiency and speed, avoiding duplication/overlapping of functions, and economies in expenditure.

In order to meet the expectations of corporate borrowers, Corporate Banking Branches were identified and designated to handle large volume clients. They were to report directly to the Head Office. Since the experience of such a system with other banks was mixed, it was felt desirable to introduce the system of Corporate Banking Branches in one or two centres initially, and extend it to other select centres later after thoroughly evaluating the benefit/deficiency of the system.

Consequent to this, the organisational structure at the Head Office was also proposed to be realigned to meet the corporate goals pertaining to the customer and branch segments.

The select performance indicators, as against the estimates for the three years ended March 1998 to March 2000, are of the period prior to the second restructuring effort by the bank, and they highlight the enormity of the task before the management and staff of the bank.

The early navigation efforts mentioned above clearly indicate that the financial and reputation damage suffered by the bank over the years was extensive, and that without massive efforts, it would not be brought back to health in a short term. For any CMD, the first task would be to identify where to begin the rehabilitation. 'A going concern' approach was needed to take the staff into confidence without being charitable, and also without holding them as partners in crime. The CMD also needed support from the Government and the RBI, without undue restraint on new initiatives. The staff had the sense of pride, and were willing to put in their best if only they could be heard and led without pervasive suspicion that they were involved in the decline of the bank. The Verma Committee's report was down to earth on what needed to be done and within what time frame, and strongly rejected half-hearted measures. This became the base document and it needed, as the Committee stated, a "war time general" to implement.

When you are true to yourself, you build on your strengths and throw away your weaknesses. You can only be your own Best Self. You cannot be the best of anyone else!

➢ **Table 6.1** Key Performance Indicators for the Years 1997–98 to 1999–2000 (Rupees in crore)

Key Parameters and Ratios Year 1997–2000

Key Parameters and Ratios	*1997–98*		*1998–99*		*1999-00*	
	Projections	*Actuals*	*Projections*	*Actuals*	*Projections*	*Actuals*
Total Deposits	15155	15423	16900	17156	19067	19114
Gross Advances	9230	8799	10067	9584	11115	10237
Gross NPA	2963	3428	2632	3709	2359	3355
Net NPA	1406	1889	1028	1625	729	1327
Operating Profit	–40.43	–209.50	126.38	–163.20	297.36	23.80
Net Profit	–236.43	–301.50	26.38	–778.50	154.36	–427.00
CD Ratio %	60.90	57.05	59.57	55.86	58.29	53.56
CRAR %	–2.76	1.42	–2.43	–8.94	–1.26	–11.64
Interest Income	1635.37	1464.20	1982.36	1625.20	2314.00	1898.60
Interest Expenditure	1369.16	1352.90	1463.72	1428.00	1595.03	1518.70
Net Interest Income	266.21	111.30	518.64	197.20	718.97	379.90

Chapter 7

Restructuring Plan

The need for a "war time general" was stated by the Verma Committee to implement the restructuring plan. The Management Advisory Group, about which a mention has been made earlier, suggesting corrective action for improving the bank's performance concluded in its report as follows:

> *"the most crucial aspect of the turnaround would be finding a right person with requisite zeal and credential to head the bank, giving adequate freedom to choose his/her top management team, from within or from outside, consistent with public sector discipline as far as possible".*

The bank continuously incurred net losses since 1996, but showed some positive signs in 1999–2000 and a likelihood of recording operating profit of about Rs 62 crore. Since the earlier SRP (Strategic Revival Plan) did not yield the expected progress in its functioning, on the advice of the Government of India, the bank initiated steps to formulate a comprehensive Restructuring Plan for a period of three years—2000 to 2003—towards achieving turnaround and consolidation of its position.

7.1 In-House Plan

At that time, I joined the bank as Chairperson. As there was no option other than to revive the bank, earnest efforts were made at the top level to formulate a workable Restructuring Plan. It was decided at the top management level that the *Plan should be prepared in-house, as an outside Consultant might not fully understand and appreciate issues on hand as he would be unfamiliar with the work* *ethic, customer loyalty to the bank, goodwill earned by it over a period of time etc. and, above all, the psyche of the staff members who had withstood sufficient criticism earlier.* Hence, it was concluded that the consultant would not be able to present a realistic plan.

Accordingly, an '*in-house*' team was formed for preparing the Restructuring Plan. The formulation of the plan was co-ordinated by Dr. Jayantilal Jain, General Manager in charge of Planning who interacted with all concerned executives and departments, collected requisite information, prepared a draft plan in consultation with Select team of General Mamagers under the overall guidance of the Chairperson. There were several rounds of discussions with top officials of RBI, and the Ministry of Finance on the draft plan before the final 'blue print' emerged.

It is important to mention the valuable contribution made by Shri. S. P. Talwar, the then Deputy Governor, RBI and Shri N.C. Damodaran, the then Joint Secretary, Government of India who were closely associated with the revival efforts.

As the bank had inherent strength and good staff (though risk-averse), a strong union but with concern for the bank's performance, and loyal customers, I was convinced that it could be turned around provided systematic and planned efforts were undertaken for its revival. I was all along aware that, in a way, being the first woman CEO of any nationalised bank in the country, my success or failure would be keenly watched by my fellow bankers and other professionals.

7.2 Main Objectives

- Achieve sustained growth in business, and improve it further year after year.
- Earn net profit, and achieve industry standards in performance parameters.
- Achieve speedier recovery of NPAs.
- Improve the standard of customer service for gaining greater market share in business and clientele.
- Reduce operational cost through organisational restructuring, merger/relocation of branches, rationalisation of manpower and subsidiaries etc.

- Draw an HRD Plan towards building up a cadre of motivated and skilled staff to suit growing prospects of business in the emerging changed banking scenario.
- Upgrade technology to face the competitive market.
- Optimise profit by improving interest–spread and reduction in cost.
- Build up quality credit portfolio for minimising the risk.
- Tap the capital market towards restructuring the capital in 2005.

7.3 Important Points of Restructuring Plan

A gist of the important points of the Restructuring Plan is given below:

7.3.1 Organisational Restructuring

- On the basis of the recommendations, it was proposed to eliminate one tier in place of the then prevailing four-tier structure (viz., Branch, Region, Zone and Head Office).
- In order to have customer-centred products and services and customer-centred delivery channels, branches of the bank should be segmented in terms of Corporate, Commercial (which include SSI and overseas branches), Personal and Rural Banking.

The scheme was to become fully operational by September 30, 2000.

7.3.2 Branch Rationalisation

The bank proposed to take up branch rationalisation by way of merger/closure/relocation of 65 branches including loss incurring/overlapping metropolitan/urban branches during the Plan period, as under:

➢ Table. 7.1

Year	*No. of Branches proposed for closure/merger*
2000–2001	40 branches*
2001–2002	15 branches
2002–2003	10 branches

* Of which 30 were to be rationalised before December 2000.

- The bank proposed to open 10 new branches during 2001–2002 and 2002–2003 based on business considerations and subject to it making net profit.

7.3.3 Overseas Branches

- The bank had two Overseas Branches in Singapore and Colombo, and one Foreign Currency Banking Unit at Colombo. Their growth prospects were bright and they made a mark in terms of performance in the respective countries. These offices were to be retained with adequate monitoring and control. Their performance was to be reviewed at regular intervals.
- As per the Plan, these branches were to earn together, for the three-year Plan period, an operating profit of around Rs 125 crore.

7.3.4 Subsidiaries

- Efforts to be initiated to hive off the Indian Bank Mutual Fund (IBMF), and Indbank Merchant Banking Services Ltd. (IBMBS) during 2000–01.
- Considering the performance of Ind Bank Housing Ltd. (IBHL) and the scope for growth in lending for Housing in the country, it was proposed to put the company under an Action Plan with effective monthly monitoring towards improving its performance. Avenues to be explored to identify a strategic partner with major share holding.

7.4 Operational Restructuring

7.4.1 Business Plan

The bank prepared a Business Plan covering the three year period 2000–2001 to 2002–2003. The projections in regard to key functional areas were as under:

7.4.2 Deposits (Domestic)

➢ **Table 7.2**

Parameters	*1999–2000*	*2000–2001*	*2001–2002*	*2002–2003*
Growth (%)	12.60	13.60	15.00	16.00
Low cost deposits (%)	31.83	33.00	34.00	35.00
Cost of Deposits (%)	8.19	7.90	7.65	7.56

- All high cost Preferential Deposits were to be substantially reduced.
- Global Deposits to grow by 13.15% for 2000–2001, 14.39% for 2001–2002, and 15.34% for 2002–2003.

7.4.3 Credit (Domestic)

➢ **Table. 7.3**

Parameters	*1999–2000*	*2000–2001*	*2001–2002*	*2002–2003*
Growth (%)	11.31	12.63	16.34	16.76
Return on advances (%)	10.24	9.79*	10.36	10.86
Gross C-D Ratio (%)	48.09	47.68	48.24	48.55

Note: The fall in rate of return estimated was due to reduction in PLR by one percentage point.

- Growth in Global Credit projected at 10.19%, 14.47% and 14.87% during 2000–01, 2001–02 and 2002–03 respectively.
- The Domestic Credit–Deposit ratio not to exceed 50%.
- The low rate of return on advances at that point of time was on account of high NPAs (and not due to low yielding advances), and attempts to be made to improve the yield by recovery of NPAs, and also through fresh lending with thrust on the retail sector.
- To be competitive in the market, it was proposed to lend one-third of the incremental credit each year at a rate below PLR to PSUs and large corporates, subject to the bank's rate not being lower than the rate prescribed by the consortium leader.
- Performing advances (domestic) projected at Rs 7031 crore, Rs 8840 crore, and Rs 10936 crore for 2000–2001, 2001–2002 and 2002–2003 respectively.

7.4.4 Investments (Domestic)

- Investments under private placement to be confined only in 'AA' and above rated corporate bonds, and the bonds issued by public sector undertakings, banks, financial institutions etc.
- Considering the low interest rate regime, return on investment was projected at 10.37% for 2002–2003 as compared to 11.11% for 1999–2000 (provisional).

7.4.5 Non-Interest Income

Non-Interest Income was projected to grow to Rs 369.56 crore at the end of the Three Year Plan period from Rs 250.77 crore for 1999–2000.

7.4.6 Expenditure Control

- Measures to be undertaken for reduction in administrative expenditure by rationalisation of air travel and annual transfers, rationalisation of branches and training centres, deployment of bank staff as Concurrent Auditors instead of outside Chartered Accountants etc. These measures esti-mated to result in a reduction of expenditure amounting to Rs 7.50 crore.
- Further reduction in overhead costs was deemed not feasible, taking into consideration (a) revenue expenditure relating to technology upgradation, (b) need for renovation of premises, particularly the bank's own premises, and revision of rentals relating to the pending 300 or so expired leases of premises, and (c) effective control already being exercised in revenue expenditure of the bank.
- The bank not to incur major capital expenditure other than capital expenditure on technological upgradation and any other essential capital expenditure.
- Existing ceiling on donations at Rs 5 lakh per annum to continue.
- Unutilised premises to be sold/let out. This step estimated to bring in additional Rs 20.95 crore during 2000–2001.

7.4.7 Cash and Bank Balance

The percentage of Cash and Bank balances to be below 1% of the total deposits throughout the Plan period.

7.4.8 Profit

As per the Business Plan, the global net loss of the bank was estimated at Rs 8.54 crore for 2000–2001 (the interest income on re-capitalisation fund reckoned only for one quarter). However, the bank would endeavour to earn a global net profit of Rs 295.73 crore and Rs 342.91 crore for 2001–2002 and 2002–2003 respectively.

7.4.9 House-keeping

To instil greater discipline,

- The bank will ensure completion of balancing of books as per prescribed periodicity. It will introduce the concept of non-payment of wages to the staff entrusted with balancing of books where the books have been allowed to remain unattended. This eventuality however did not arise.
- The bank would ensure reconciliation of inter-branch accounts, clearing adjustment accounts and Nostro accounts within the specified time frame, accompanied by accountability for non-performance.

7.4.10 Management of Non-Performing Advances (NPA)

The estimated position of Gross and Net NPA during the Plan period was:

➢ Table 7.4

Year ended/ending March	*Global Gross NPA as % to Global Credit*	*Global Net NPA as % to Global Net Credit*
2000	32.97	16.93
2001	26.59	13.71
2002	21.08	9.34
2003	16.59	7.35

The details of NPA (domestic) recovery during the year 1999–2000 and projections for three years 2000–2001 to 2002–03 were as under:

➢ Table 7.5

Particulars	*Actuals*	*Estimates (Rs crore)*		
	1999–2000	*2000–2001*	*2001–2002*	*2002–2003*
NPA reduction (excluding MOI)				
1. Cash recovery	81	190	200	220
2. Upgradation	16	100	80	75
3. Compromise/	83	50	90	75
4. Write-off	321	30	10	30
Total (Excluding MOI)	501	370	380	400
MOI recovery	133	100	100	100
Fresh NPA	213	114	141	177

- In order to achieve speedier recovery of NPAs, which was crucial to its turnaround, the bank would develop a more flexible and pragmatic compromise settlement policy.
- The bank would endeavour to contain incremental NPAs to 2% of its Performing Assets each year.
- A detailed Monitoring System on follow-up/recovery of NPAs, which was already would vogue, would be continued. NPA accounts would be monitored as under:

NPA Levels Allocated to Executives for Monitoring

Rs 10 crore and above	CMD
Rs 5 to Rs 10 crore	ED
Rs 1 to Rs 5 crore	GMs
Rs 10 lakh to Rs 1 crore	RMs
Up to Rs 10 lakh	Branch Managers

- A separate Deputy General Manager to be made in-charge of follow-up of suits filed for NPA accounts and DRT/BIFR cases.
- In regard to BIFR cases, the bank would file applications with BIFR seeking its permission for filing recovery proceed-ings with DRT as delay in finalisation and implemen-tation of package would hamper recovery besides accentuating the problem of dissipation of securities.
- When ARC comes into existence, the Bank would consider utilising its services for recovery of NPAs.
- The bank envisaged a detailed Credit Appraisal, Risk Management, Credit Monitoring and Supervision system as part of the Plan towards minimising fresh NPAs in future.
- Exercise of delegated lending powers to be monitored on an on-going basis to ensure desired credit off-take and expansion.

7.4.11 Rationalisation of Staff

- Business per employee (domestic) projected to grow to Rs 168 lakh for 2002–2003, from Rs 101 lakh for 1999–2000.
- Recruitment of required staff to be as per Manpower Policy laid down by the Board.
- The system of reviewing the performance of officers after completion of 30 years of service, or at the age of 55 to be effectively implemented.

- Recruitment in clerical and sub-staff cadre to be around 100 for 2001–2002 and 2002–2003 each year, strictly based on need.
- Arrears of wages payable after a moratorium of two years only from surplus/net profits. Provision made in the Plan for payment of revised wages effective 1.7.2000.
- Training to be one of the major tools in HRD in upgrading and sharpening the skills/competency of staff members to generate greater confidence. It was proposed to seek the assistance of outside agencies and outside faculty for training in specialised areas like Credit Appraisal and Risk Management.
- The bank to consider taking 10 officials on deputation from other banks/financial institutions in specialised areas like Credit Appraisal, Treasury, Technology, Rehabilitation and Revival, HRD etc. (Against this, four officials were taken on deputation.)

7.4.12 Voluntary Retirement Scheme (VRS)

- In order to rationalise manpower, upgrade technology, impart specialisation, introduce skill replacement and enrichment, and reduce operating cost in the bank, a VRS was envisaged.
- Staff cost to be pruned down by implementation of VRS by reducing the existing manpower by 12%. The cost of the scheme estimated at Rs 325 crore and expected to result in an annual saving of Rs 60.15 crore in the future wage bill of the Bank.
- The Scheme was thrown open to all staff, and it was envisaged that about 3,120 employees of the then existing 26,127 employees would avail of it. It was proposed that the Scheme would be open from October 2000 to March 2001.
- As the bank was not in a position to generate surplus to meet the cost of VRS, financial support of the Government was sought by way of interest-free loan, repayable with a moratorium of 3 years, and thereafter over a period of $5\frac{1}{2}$ years.

7.4.13 Motivation of Staff

- Motivation of staff towards meeting new challenges and achieving higher levels of productivity to be given top priority, and greater thrust simultaneously. The performers to be identified and awarded with suitable incentives/encouragement.

- The bank to initiate a study on motivation by reputed institutions like IIM/NIBM towards identifying the weaknesses in the system and suggesting measures for motivating the staff.
- To improve the morale of the staff, due consideration will be given for quick disposal of pending vigilance cases for creating a congenial climate for decision making. In terms of CVC guidelines, the bank would not give cognizance to anonymous letters. The main aim was to clear the fear psychosis from the minds of staff members so as to enable them to take decisions.

At the instance of the then Director, CBI, CMD had addressed a team of senior CBI officials on all the major issues faced by the bank, and the efforts being made towards its turnaround. A similar presentation was made to CVC as well. It was felt prudent to talk to the agencies forthwith and straight, precluding any communication gap or misunderstanding. After all, not all the cases reported were necessarily malafide.

7.4.14 Customer Service

- The bank had enjoyed good brand equity in the market and it was proposed to focus further on this aspect to strengthen its position to improve its business.
- Customer service was to be given top priority. It was decided to devise and implement innovative services to cater to the demands of the ever-changing preferences and needs of the customers.
- Periodical Customer Service Surveys were to be conducted to assess the quality of customer service in the bank and to initiate necessary actions to improve the same.
- Upkeep and proper maintenance of the bank's branches, particularly bank's own premises to be given added thrust. This was a very weak area.
- The bank proposed to obtain ISO 9001 Certification for select branches towards improving total quality management of the branches, and publicise the same so as to create required demonstrative effect on its other branches.

- All restrictive practices affecting customer service, internal discipline and efficiency were planned to be identified and removed.

7.4.15 Technology Upgradation

- The bank prepared a plan for technological upgradation covering the three-year period viz. 2000–2003. The total outlay was Rs 328 crore of which Rs 57 crore was to be availed of under the Modernisation and Institutional Development Loan (MIDL) from the World Bank. The balance of Rs 271 crore was sought to be funded by way of interest-free loan repayable with a moratorium period of three years and thereafter in five-years span.
- The Plan proposed to achieve computerisation of 72% of its business before March 2001, and an attempt to be made to cover 80% of the business by 2003.

Major targets of the Plan were as under:

➢ **Table. 7.6**

Particulars	*Projections as on*		
	March 2001	*March 2002*	*March 2003*
Total number of branches computerized	449	499	549
Rural Branches provided with PCs	300	600	700
Percentage of business covered through computerised branches	72	77	80
Mini Computers/LAN at HO	18	18	18
Computers at HO	302	352	402
Mini computers/LAN in Controlling Offices	139	139	139
PCs at Controlling Offices	594	844	1094
Number of branches with any Branch Banking through ATMs	100	200	300
Total number of branches networked	100	200	300
ATMs	70	75	80

- 80 ATMs, of which 20 off-site, to be installed during the Plan period.

- 63 branches/ATMs to be networked before March 2001 and, totally 300 branches to be networked by end of March 2003 to facilitate transfer of funds by the customers.

7.4.16 Internal Control

The internal control mechanism was sought to be further strengthened in terms of control of exercise of discretionary powers, review and monitoring of borrowal accounts, track migration analysis, loan review mechanism, house keeping, reconciliation of inter-branch accounts, and all other aspects towards adequate control over operations of branches/regions. It was proposed to constitute Head Office Audit Committee headed by Chairperson with Executives as Members for effective internal control.

7.5 Support from Government

The bank required financial support from the Government for the following purposes:

7.5.1 Financial Support

(i) Capital Requirement
Requirement of capital infusion to improve capital base to 9% of Risk Weighted Assets –Rs 1750 crore

(ii) Interest Free Loan
 (a) For implementation of VRS, repayable with a moratorium of 3 years and thereafter over a period of $5\frac{1}{2}$ years
 –Rs 325 crore

 (b) For implementation of Technological Upgradation Plan, repayable with a moratorium of 3 years and thereafter, over a period of 5 years –Rs 271 crore

- The bank sought recapitalisation assistance of Rs 1750 crore by September 2000 as this amount would be essential to attain the business targets.
- Interest income from recap fund was reckoned for one quarter during 2000–2001 while drawing up the plan for income.

It may be noted that the recapitalisation was not made on the above lines. The actual recapitalisation was made in the year 2002 and 2003 based on achievement of various parameters of the Plan over a period of time during the restructuring period, and assessment of the actual capital requirement by RBI and Government of India.

As such projections were revised with the approval of RBI and Government of India, before embarking on the implementation of the plan as in Table 8.1.

7.6 Other Support

7.6.1 Morale Boost

- Pending actual infusion of funds, the bank sought a letter from the Ministry of Finance indicating re-capitalisation to facilitate initiation of the growth process as per plan.
- A special request was made to the Ministry of Finance to write to the Bureau of Public Enterprises to exempt the bank under CRAR, networth and rating norms to facilitate growth, till re-capitalisation was done so as to enable it to secure accounts of public sector undertakings.
- The bank requested the Ministry of Finance to write to major PSUs assuring that deposits placed with Indian Bank were safe.
- To improve the morale of the workforce, the bank requested the Government to urge CBI/CVC expedite the pending cases.

7.6.2 Credit Expansion

- The bank sought allocation of additional share of food credit of Rs 1000 crore.
- The RBI was requested to permit the bank, as a special case, to lend 1/3 of the incremental increase in credit at sub-PLR for select borrowal accounts so as to be competitive in the market, as reduction in PLR across the board would adversely affect it's overall income.
- Public sector undertakings were requested to induct the bank in the Consortium by allocating a share in the total funds requirements.
- Public sector undertakings were requested to avail limits in preference to other banks in the utilisation of credit requirements by them in consortium accounts.

7.6.3 Recovery

- Considering the indiscriminate lending done in the past, and high incidence of NPAs in it and the need to give greater thrust for their early recovery, the bank sought permission to evolve a more flexible and pragmatic compromise policy (not to be on par with other banks) for timely recovery of NPAs.
- To ensure expeditious settlement of legal cases/dues, a request was made to set up an Additional DRT by end of July 2000 to focus especially on the cases relating to Indian Bank in Chennai.
- A request was made for speedier settlement of pending claims by ECGC amounting to Rs 212 crore, and DICGC amounting to Rs 43.29 crore.
- Repayment of overdue investments in Bonds guaranteed by State Governments, and immediate honouring of invoked guarantees by State Governments were also sought.

7.6.4 Other Issues

Requests were also made for (i) early posting of an Executive Director for managing the day-to-day affairs of the bank, and for facilitating implementation of measures to turnaround the Bank and (ii) early constitution of a full professional Board.

7.7 Restructuring Plan—The Aspects Considered

- Bank's then prevailing business position, and future growth;
- An evaluation of the working and financial position of the bank as on 31.3.2000, and the need for immediate infusion of capital;
- Need to focus on the main thrust area of the bank viz. the then prevailing situation of low net interest income due to high incidence of NPAs. The thrust was towards speedier recovery of NPAs, mobilisation of low cost deposits, acquiring quality assets and minimising the incidence of fresh NPAs through improved risk management;
- The requirements of the Customers in Terms of New Products and Services.

- Emerging scenario and the need to operate in the market characterised by competition, increased use of technology, increased pressure on spreads, and expectations of lower interest rates by 'triple A' rated borrowers;
- Ensuring projected results through a system of incentives for performance, and disincentives for non-performance;
- Potential and prospects of increasing the non-interest income substantially;
- Attaining 'autonomy' status at the earliest.

7.8 Directions of the Government

- Statement of the Hon'ble Finance Minister in the Budget speech for 2000–2001 that a "as responsible owner of the bank, the Government have decided to consider recapitalisation of weak banks to achieve prescribed Capital Adequacy norms, provided a viable restructuring programme acceptable to the Government as the owner and RBI as regulator, is made available by the concerned bank".
- Letter of the Government of India D.O. letter 45/2/99-BOII dated April 6, 2000 advising the Bank to formulate and submit a Restructuring Plan.
- Discussions held with the Government on 22.5.2000 and 6.7.2000 based on the draft plan submitted to it.

7.8.1 Process

The Restructuring Plan was evolved after an in-depth internal debate/discussion including:

- Threadbare discussions were held among the Top Management of the bank for the finalisation of the Plan.
- Obtaining views of field level functionaries, apart from top management, obtained through an opinion survey;
- Discussions with representatives of the Unions and Associations;
- Discussions with the Board of Directors.
- Business Plan for 2000–2001 and performance of the bank in the past in terms of the Strategic Revival Plan drawn earlier.

A schematic representation of the Restructuring Plan and Targets set along with Corresponding Performance of previous three years are given below.

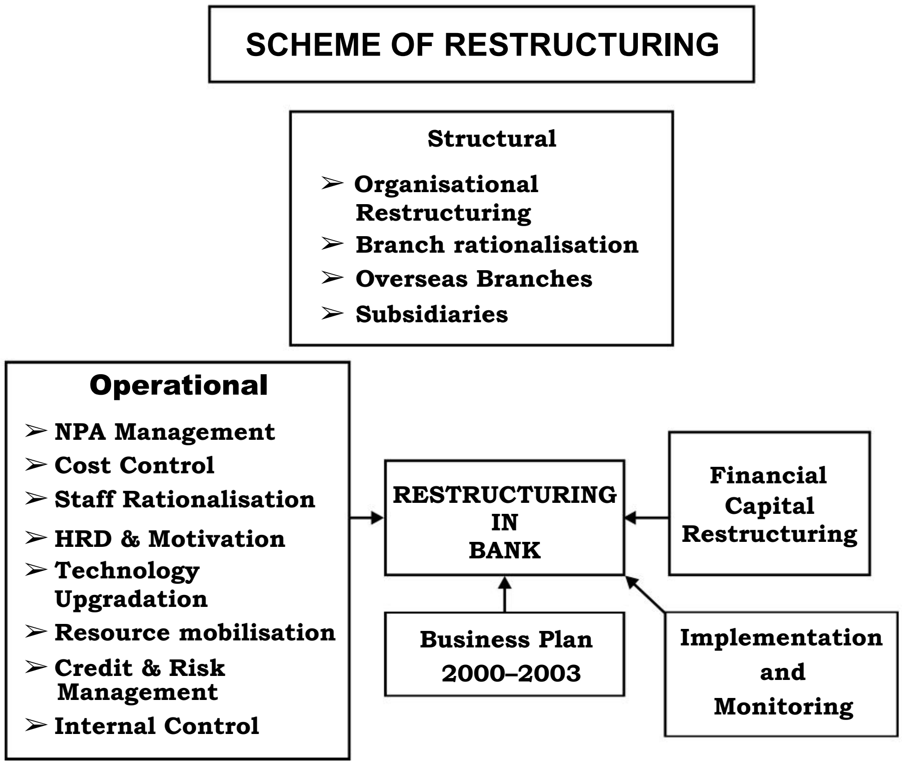

Fig. 7.1 *Scheme of restructuring*

➢ **Table. 7.7** Key Performance Indicators (Domestic Position) (Percentage)

	Mar –98	*Mar –99*	*Mar –00*	*Mar –01 Estimate*	*Mar –02 Estimate*	*Mar –03 Estimate*
Deposit growth	7.64	12.91	12.6	13.60	15.00	16.00
Cost of deposit	8.96	8.61	8.19	7.90	7.65	7.56
Investment growth	30.48	11.54	12.07	*38.30	9.99	11.80
Yield on investment	11.6	11.9	11.11	10.97	10.63	10.37
Advances growth	5.75	9.39	11.31	12.63	16.34	16.76
Yield on advances	10.35	9.42	10.24	9.79	10.36	10.86
Interest spread	0.72	0.94	1.78	1.95	2.81	2.80
Gross NPA (Rupees in crore)	3428	3120	2832	2576	2337	2114
NPA Slippage (Rupees in crore)	484	238	213	114	141	177
NPA Reduction (Rupees in crore)	347	147	501	370	380	400
Net NPA Addition (Rs in crore)	137	91	–288	–256	–239	–223
Gross NPA Ratio	38.96	40.72	33.20	26.81	20.91	16.20
Net NPA Ratio	26.01	21.67	18.41	15.40	10.16	7.91
Staff Cost/ Total Cost	20.89	22.28	22.22	23.11	21.60	**23.54
Global Operating Profit Rs in crore.	–209.5	–163.2	62.24	83.46	380.73	406.91
Global Net Profit Rs in crore	–302	–778.5	–455.02	–8.54	295.73	342.91
No. of employees	26994	26584	26127	22691	23441	23699
CRAR	1.41	–ve	–ve	9.07	10.04	10.92

* Assuming recapitalisation of Rs 1750 crore.
** Assuming payment of arrears of wages. Without arrears, it would be 21.05

Plan Implementation-I

Chapter 8

8.1 Role of the Board

At the core of Corporate Governance lies the Board of Directors. The first and foremost point to be noted is that the Board is appointed by the shareholders and so it is accountable to them. An independent Director must be a non-executive member of the Board. To be really effective, independent Directors need to have a substantial say in the matters concerning the Board, by being in a majority. However, the independence of judgement has much to do with the following:

- The choice of Directors and the skills that they bring to the Board.
- The conduct of Board meetings;
- The quality and quantity of financial, operational and strategic information supplied by the management to the Board;
- The management's appetite for independent evaluation and 'critical evaluation' of strategies and performance;
- The extent to which promoters and management truly want a healthy debate and independent oversight;
- The de facto role of the various Committees of the Board; and,
- How much a company is willing to pay for the experience and skill sets of professional, independent Directors.

In this context, as the CMD of Indian Bank, I was quite fortunate and rather privileged to have an ideal Board of Directors comprising people of eminence, a number of whom had held top positions in the banking industry before they came to our Board.

Their rich experience, wisdom and sagacity were of tremendous value as we embarked upon the restructuring exercise. Their crucial inputs ensured that the turnaround strategies were bold, foolproof and achievable. Their sense of commitment, involvement and concern for the bank were quite extraordinary. I cannot forget the quality time I had with each of them, deliberating on the future of the bank, beyond Board meetings. I take this opportunity to salute their role in the turnaround of the bank. The various Committees of the Board, the Audit Committee in particular were conducted periodically and the deliberations in the meetings lent sound direction for the bank to give shape to the policies laid down, and address the attendant requirements.

8.2 The Core Turnaround Team

For reviving, strengthening, and giving a fresh lease of life to this public sector bank, the people within had to be made aware of their strengths and their potential, and they needed to play a pivotal role in the process of restructuring of the bank.

Keeping the aforesaid objective in view, a closely knit Top Management Committee was constituted to take things forward to their logical conclusion. I was privileged to head the team of highly committed executives with tenacity and a clear vision. The members were :

Shri M.B.N. Rao, Executive Director of the bank gave me good support in all my endeavours towards turning around the bank. In about two months time, I was able to identify him for the position of the Executive Director of the bank. Shri Rao, had been General Manager of the bank when I assumed charge as CMD.

I found in him a good knowledge of the nuances of overall banking, including international banking and more than that, a high degree of equipoise, balance and maturity—qualities so essential to address the daunting task we had on hand. The total understanding and involvement with which the CMD and ED worked during this 3 ½ year period proved to be a great facilitator in the turnaround process.

Dr. Jayanti Lal Jain, General Manager, was heading the Planning and Research Department. He was assisted by Dr. S. Lakshmanan, then AGM in the Department. Under Dr. Jain's guidance, the Department initiated the Restructuring Plan without any external support or assistance. The Draft Plan was initially discussed at the Top Management Committee and all useful suggestions were incorporated, perfected, meticulously implemented and monitored.

The Draft Plan was then submitted to the Ministry of Finance/ Banking Division and RBI for their considered views.

I was very clear from the beginning that the Plan should be prepared only by an insider who knew the SWOT of the organisation and could prepare a meaningful and achievable Plan. The work of the Planning and Research Department did not end with the preparation of the Plan; it was following up with the Circles for achieving the targets, and also reporting the progress at monthly intervals to the Reserve Bank of India/Government of India.

Shri V. Santhanaraman, the then General Manager (presently ED, Bank of Baroda) was looking after Credit, inclusive of Retail Credit. He had a deep insight into many operational areas.

Shri S.R. Shivaswamy, General Manager of the Bank (since retired) was looking after Priority Sector Credit during the Restructuring Plan period. The bank's performance in respect of agriculture/rural lending, particularly SHGs, had won lot of laurels.

Shri Kota Krishnamurthy, General Manager, was in charge of recovery of NPAs during the Restructuring Plan period. The NPAs situation at the point of my taking charge was alarming and he did an excellent job, working relentlessly with his team in introducing new measures for recovery of NPAs.

Shri A.R. Nagappan, General Manager, (now retired as ED from Indian Overseas Bank) in charge of the Personnel Department and his team worked untiringly when the bank announced the Voluntary Retirement Scheme and sabbatical in 2000–01. He played a key role in the MoU executed by the Unions/Associations with the management, which was a pre condition for seeking capital infusion from Government of India. He was supported by Shri T.Valliappan, another senior General Manager of the bank (presently ED of Vijaya Bank), in such exercise.

Mr. V. Srinivasan, General Manager, headed the Singapore operations during the crisis period when the Monetary Authority of Singapore (MAS), due to negative networth and capital inadequacy, was reluctant to renew the licence in April 2001. Due to Mr. Srinivasan's efforts and, constant follow-up with the MAS, and able assistance from the Corporate Office, the bank could get the licence renewed.

8.3 Deputation of Executives from Other Banks

Government of India, suggested that I could selectively request for GMs with expertise from other banks to move laterally to Indian Bank to assist me in the process of restructuring. I was well aware that these were very sensitive decisions I needed to reflect on. I analyzed these proposals in depth and was not in a hurry to come to a decision. In the meantime, I was regularly interacting with the GMs at Head Office and also at the larger Zonal Offices. I did not feel it necessary that I should import any GM from other banks.

I realised the seriousness of the situation. Here was an ailing institution, a Public Sector Bank, which needed to be strengthened, revived and given a fresh lease of life. At the same time I felt, the people within had to be made aware of their strengths and, their potential and made to play a pivotal role in the process of resurrection and restructuring of the bank, instead of seeking the services of an outside consultant, which was suggested to me in many quarters.

Besides, recent years had seen much negative publicity for the bank—the CII report, M.S. Verma Report on weak banks, etc etc. This had already adversely affected the performance of the bank and brought down the morale and self-esteem of its employees. This trend therefore had to be reversed. The best solution under the circumstances was to make the employees themselves responsible and accountable for the onerous task of building up the institution with proper systems in place. This approach would bring three major benefits:

(i) The staff would have the satisfaction, pride, and sense of achievement in rebuilding the institution and would therefore be equally responsible and accountable at each step.

(ii) The bank would not be at the mercy of any outside consultant to tell the people in the bank what has to be done, and irrelevant gossip could be avoided. Besides, further negative publicity could be ruled out.

(iii) This would also give the bank the added advantage of cost effectiveness.

Thus, the restructuring plan was prepared within the bank, and got vetted by both the owner and the regulator. No assistance was taken from any outside consultants. People within were empowered for this responsibility and this was a way of ensuring their total involvement. This empowerment resulted in increasing their individual creativity and personal development tremendously.

The first few months of the restructuring plan brought out certain very weak areas within the institution, which needed immediate attention. These weaknesses called for:

(i) Effective supervision and monitoring of accounts, including Standard Assets.

(ii) Restructuring of select advance accounts on an ongoing basis.

(iii) Ensuring healthy and vibrant treasury operations, and

(iv) More attention towards recovery and of non-performing assets.

In the process, after due consultation with the Executive Director and the top management, the bank went ahead to seek deputation of four officers in these identified areas working as AGMs from the Bank of India and the Canara Bank. They were carefully picked for the job after due consultation with their respective top managements. They were selected not only for their expertise in their respective fields, but more importantly, on their ability to get along and adjust themselves to a different, and weaker, institution.

I must say as I look back, and this is not my view only, but that of the entire top management and the rest at Indian Bank, that these officers committed themselves totally to the strengthening of Indian Bank, never feeling or showing that they were outsiders. They mixed well with the staff, appreciated the problems on hand and understood the reasons why they had been brought into the bank. They carried out their responsibility to the utmost satisfaction of the bank, and their valuable contribution in the restructuring of the bank would be etched in its history.

It is gratifying to note that these officers, barring one who retired from Indian Bank, got their next promotion on repatriation to their respective parent banks.

8.4 Sensitising the Staff Members

One of the major factors leading to the financial woes of the bank was the utter disregard shown by the earlier top management and the field level functionaries towards certain crucial data such as cost of deposits, yield on advances, total income, total expenditure, and likely slippage of assets. Branch Managers in particular were oblivious of such criteria for business/profitability and were simply engaging themselves in unproductive expansion of business, that too essentially according to what was told to them by higher authorities.

As the Chairperson and Managing Director, I had planned to meet the field level functionaries across the country and sensitise them to the existing state of affairs in the bank, the concerns of RBI, and Government of India, and what needed to be done (along with the above stated vital requisites), so that the mistakes of the past would not be repeated.

I recognised that the effectiveness of the Restructuring Plan would to a large extent depend on the degree of response from the entire staff, and their accepting the various changes which were being ushered into the institution—both in the systems as also management styles.

In the meanwhile, I had come to learn that apart from Chennai, and perhaps to some extent in Mumbai/Delhi, the staff in general were quite ignorant (apart from media/press reports) about what had actually gone wrong in the bank leading to the precarious situation it had landed into. Effective communication within the organisation, a vital input, had been poor, in fact almost absent.

In my address to the staff members across the country, I made it a point not to present a gloomy picture of the bank, notwithstanding the adverse financial position already reported and made public. My primary objective was to make them understand the task ahead of us in the matter of setting right the anomalies that had crept into the system. After all, not long ago Indian Bank had been among the best banks in the country, having tasted success. So, achieving goals was not going to be alien to us. The bank had definitely gone through a bad patch, but it was not the end of the road. My talks with them encompassed all aspects of the then status of the bank and its priorities and prospects. I stressed that though not all the staff members could be held responsible for the state of affairs, it was essential that everyone contributed his/her best to the bank, made the needed sacrifices as a responsible part of the team to work towards its turnaround.

I also drove home the fact that people became much more resilient when their respective organisations passed through a crisis, and therefore re-emerged stronger. I told them that continued good times of an organisation generally made people complacent. Those who had seen the adverse side were generally better prepared and alert in running the organisation. In this manner, the staff members of Indian Bank, who had witnessed both good and bad times, I said, were bound to come out of the situation more mature and wise.

Following the adverse media reporting on the bank, market speculation over its dwindling financials and the misgivings of customers across the country on its reported state of affairs, the morale of the employees at various levels was very low. Imprisonment of the former Chairman and Managing Director and certain executives had compounded the fear psychosis in their minds. All these factors led to gross risk aversion among the bank's rank and file. Decision making thus became a casualty. Branch Managers were merely servicing the customers and engaging themselves in day-to-day routine. They virtually forgot the art of lending. It became the market perception that Indian Bank's branches merely accepted deposits, and nobody could expect any sort of credit assistance. I therefore advised the staff that unless the bank took immediate corrective measures and changed such an adverse perception, the proposed restructuring/turnaround exercise would be meaningless.

With a view to empowering the Branch Managers to perform, I introduced the concept of financing 'structured products' in a large way. They were relatively simple schemes, backed by clear operational guidelines and checklists to preclude various risk factors generally associated with such type of financing. With effective risk management in place, Branch Managers were enthused to exercise discretionary powers granted to them. As a consequence, staff members started going out for marketing, not only to bring new customers into our fold, but also, importantly, to bring back those dissatisfied ones who had left us. I informed the staff that this was a special target for them to achieve. Thus, introduction of financing structured products had a salutary effect on the bank's lending and marketing and in turn, restoring our overall image. In my meetings with the staff members, I underscored the importance of our bank performing well in respect of our financing 'structured products', as I deemed it, a panacea for our business growth/profitability at that point of time.

While I boosted everyone's hope and confidence, I also gave precise directions with a sense of urgency for achieving the various targets/deliverables underlying our commitment to the Government/RBI towards receiving the recapitalisation. I told them that since 1992, the bank had received recapitalisation of Rs 2,400 crore, including a sum of Rs 1,800 crore in 1998. But, this amount had gone down as 'sunk capital', as, in the absence of proper restructuring, the losses had continued. I made it abundantly clear in my meetings with the staff members that the Government was not prepared, and rightly so, to infuse additional capital into our bank, unless we delivered the results on an ongoing basis as per the Restructuring Plan, ensuring sustainable growth. I also told them that payment of their arrears was linked to achievement of targets. We had to rebuild the very foundation of the bank. It was like rearing a child from birth, with care and concern. I cautioned them that both the Government and RBI were keeping a close watch on the developments relating to our progress in terms of the Restructuring Plan. Our customers including those who had left us, were constantly watching the improvement in our functioning. The media too was keenly watching us. In short, the entire market was watching us. So, I told them every one of us should be both responsible and accountable, as there was not going to be a second chance for us.

I gave them a Five Point formula which I said each staff member at all branches must have on his/her fingertips (1) to have total grip on the Balance Sheet of the branch: (1) Cost of Deposits (2) Yield on Advances (3) Total Income (4) Total Expenditure and (5) Likely slippage in asset portfolio.

I furnished to the staff the latest business figures v/s the targets, and the areas where we needed to put in extra efforts.

Owing to continued losses and pressure on expenditure, a majority of the branch premises was in dismal condition in terms of their interiors, condition of furniture, upkeep and maintenance. The task of attending to this vital area was therefore simultaneously taken up in a planned manner so that essentials were provided and taken care of. It took us almost 2½ years to complete this task and fortify our branch outlets.

I told them that it would have been very simple and easy for the management to have handed over this task of preparing the Restructuring Plan and its implementation to a renowned consultant for a fee and make them finally accountable. But, I emphasised, the management had consciously and rightly taken the decision to prepare the Restructuring Plan in-house to ensure its success with the involvement of the entire rank and file. Therefore, I said, the responsibility and accountability lay on each staff member. And also that (when we succeeded), the credit for the same was also ours to share.

I also stressed that the Government of India had, for the first time in a Public Sector Bank, directed that action would be taken against the top management of the bank if results were not achieved. It was a Sacred Responsibility, and therefore we had to work as a strong team.

I should mention that my staff meetings across the country had a tremendous effect in making people realise their individual roles and responsibilities in bringing the bank back to its glory. This approach helped in galvanising them into action. It was the cornerstone of our restructuring/turnaround initiative.

Here are some of the actions that impacted the people within the organisation and enhanced their belief that the success of the bank was possible:

- Telling the staff repeatedly to forget the past and work on the present for a bright future.
- Advising the staff to:
  - ★ always talk about positive developments in the bank.
  - ★ deal with the customers courteously, sincerely and politely.
  - ★ notify on regular basis the bank's achievements to the public/clients to remove any adverse opinion about it.
  - ★ enhance the ambience of the branch (it is a belief that wearing a tie enhances the confidence of a man. The Branch Managers were advised to wear a tie).
  - ★ Acknowledge and appreciate good work (even a small one) of staff members.

Place attractive hoardings at various prominent places. (Frequent press releases and advertisements about credit products were published to maintain the hype created).

Fig. 8.1 *Indian Bank—Turnaround Team*

Indian Bank — Ranked as NUMBER ONE among South Based Service Brands

Brand Equity

Source: AC Nielson ORG-MARG Survey. Published in The Economic Times

Fig. 8.2 *The Indian Bank emerged as the Number 1 South-based service brand (Source: Brand Equity-Survey by AC Nielson-ORG–MARG), in December 2003 conducted by "Economic Times" and maintained the same position for subsequent three years*

Indian Bank was selected as the 13th most trusted service brands and 7th among banks as per a survey conducted by AC Nielson ORG-MARG (published in *The Economic Times*,17th Dec. 2003)

INDIA'S TOP 50 MOST TRUSTED SERVICE BRANDS		
1 LIC	18 Pizza Hut	35 Corporation Bank
2 State Bank of India	19 Bank of Baroda	36 Oberoi Hotels
3 Reliance IndiaMobile	20 Tata Indicom	37 Standard Chartered Bank
4 Bank of India	21 McDonald's	38 Air Sahara
5 BSNL	22 Syndicate Bank	39 Andhra Bank
6 ICICI Bank	23 LIC Mutual Fund	40 Cafe Coffee Day
7 Indian Airlines	24 HDFC	41 HDFC Mutual Fund
8 Central Bank of India	25 HDFC Bank	42 Reliance Mutual Fund
9 Punjab National Bank	26 UCO Bank	43 SBI Mutual Fund
10 Kendriya Vidyalaya	27 Indian Institute of Tech (IIT)	44 Institute of Management Studies (IMS)
11 Union Bank of India	28 Allahabad Bank	
12 Taj Hotels	29 Indian Overseas Bank	45 Indian Institute of Mgmt (IIM)
13 Indian Bank	30 ICICI Prudential Life Insurance	46 Prudential ICICI Mutual Fund
14 Canara Bank	31 Delhi Public School (DPS)	47 Citibank
15 Airtel	32 IDBI	48 Jet Airways
16 UTI Bank	33 MTNL	49 UTI Mutual Fund
17 BPL Mobile	34 Orange/Hutch	50 Idea Cellular

इंडियन बैंक Indian Bank

8.5 System Based Initiatives

During the three years of the Restructuring Plan, the bank could achieve consistent growth in business and also a sustainable turnaround, due to initiation of various structural, operational, cost control, marketing and motivational strategies, and strengthening of the planning and monitoring system. These strategies not only helped in overall re-engineering of the bank's business, but also enhanced its ability to face challenges in the future.

The system based initiatives implemented are briefly described follows:

8.5.1 Structural

Three-tier Structure

- The four tier structure of the organisation viz, Head Office, Zonal Office, Regional Office and Branch, was converted into a three tier structure by removing the intervening Zonal structure.
- Segmentation of branches. The branches were categorised as Corporate, Commercial, Personal and Rural Banking as per the main responsibilities entrusted to them. Corporate and credit-intensive branches were asked to handle corporate credits.
- Merger/rationalisation of 119 branches with nearby branches.
- Sale of Indian Bank Mutual Fund and taking over of IndBank Housing by the bank.
- Introduction of VRS Scheme and relieving 3295 Employees under it.

8.6 Planning

- Accent was placed on planning for growth of business, resulting in improvement in Net Interest Income and Non-Interest Income.
- Branch Managers and staff members were made aware of the importance of Cost of Deposits, Return on Advances, Interest Income, Interest Expenditure, and likely slippage in asset portfolio—the five point formulae—at staff meetings.

- Training programmes for Planning Officers was held at Circle Offices.
- Month-wise review of performance of Circle/Exceptional Large Branches, and fortnightly review of the larger Circles were conducted.
- Review meetings of Circles were held every quarter, besides separate meetings held with rural Circles to focus on agriculture.
- A system of MoU was introduced whereby Branch Managers/ Circle Heads/HO Executives made a commitment to achieve certain minimum level of business growth and profit.
- The Planning Strategy was changed from trend-based growth to potential-based growth

8.7 Corporate Governance

Measures taken in respect of Corporate Governance included:

- Formation of various subcommittees of the Board viz. Audit Committee, Risk Management Committee, HRM Committee and Technology Committee to guide the bank and exercise control. Various Committees of GMs were also formed to help in the decision making process.
- Various policies such as Integrated Risk Management Policy, Investment Policy, ALM Policy, Placement and Promotion Policy, HRM Policy, Loan Policy and Compromise Policy for settlement of NPAs were formulated. These policies, procedures and manuals provided a clear sense of direction.
- Greater transparency was brought into day-to-day administration and, independence was given to field level executives in their functioning. Decentralisation, along with higher discretionary powers at field level helped in this direction.
- Discipline and team building were enhanced by motivation and skill upgradation through training with need for high ethical and moral standards emphasised.
- Planning and profit consciousness were inculcated.
- A comprehensive Risk Management System was put in place.
- The tenets of Fair Practices Code, and the implications thereof were imparted among the senior officers of the bank

8.8 Marketing

It was an environment where the Corporate customers had various options for funding their requirements, and the bank was not in a position to show a radical increase in advances to this sector. The internal environment was marked by people hesitating to take decisions due to the hard experience they had faced earlier. To tone up credit and at the same time motivate the staff to take lending decisions, tailor-made parameterised structured products were designed and officials were educated on how to market the product. It so happened that these products were received very well. In fact, the 'home loan product' of the bank created such an impact that other banks started offering the same product with revised terms to counter the competition posed by Indian Bank.

During this period the bank had chosen an aggressive yet novel way to fight competition. Select Circle Offices of the bank utilised the services of MBA students to contact customers, market the bank's products and to improve its image.

The students were given a two-week crash course on the product portfolio of the bank and were unleashed on the market place to sell the products. In the dog-eat-dog world of competition where margins constantly head southwards, an aggressive big push on the marketing front was a sin quo non for survival. These qualified and smart young people, the bank was convinced, were eminently suitable to sell these products convincingly in the market; the cost to the bank was minimal since it payed only commission to them.

This outsourcing methodology brought a beneficial fall-out to the bank and went a long way in transforming its "old boy" image. This was a very innovative step, the first of its kind in the industry. The students were also requested to give their suggestions for improving the services, and many of their suggestions, like improving the layout of the premises, weaknesses identified in the working of individual branches etc. were taken up for implementation. This scheme was successfully implemented from 2001 to 2003.

8.8.1 Power Account for Young Achievers

- A special account with multiple benefits for the youth—was launched to attract young clientele. The Cash Management

Service was revised to make it more attractive and competitive, and leading corporates having accounts with the bank were canvassed to utilise this service.

- Strategic alliances were entered into with HDFC Standard Life, and United India Insurance Company for distributing their products and earn additional income for the bank.
- Mass campaign was launched involving all staff members to market structured credit products and canvass for Low Cost Deposits. Such campaigns were organised on Sundays and holidays, and staff members willingly participated and marketed the products. Evening Counters were opened in specially identified market places and traders were persuaded to utilise the services of such counters. The services offered were Savings Bank/Current Accounts, Drafts/Remittances.
- Marketing Officers with proven track record were specially recruited. Apart from this, the bank's officers with marketing skills and aptitude were selected to form a separate cadre of 'Marketing Officer' in the bank. These officers were given sufficient training to handle marketing of all products of the bank.
- Round-the-clock Customer Care Centres were established at Chennai, Mumbai and Bangalore to redress the grievances of customers immediately.
- Tie-up arrangements were made with various business establishments in Chennai, Mumbai, Delhi and Bangalore and certain attractive concessions were given to Indian Bank ATM card users.
- As NRI customers require fast facility for inward remittance of funds, the bank entered into International Private Remittances Service Arrangement with the Union Bank of California, USA.

8.8.2 Technology Initiatives

- The technology initiatives of Indian Bank have been on par with other leading public sector banks. The bank procured Corporate licence and source code for the "BASIS" TBC (Total Branch Computerisation) software developed and implemented by ECIL (Electronic Corporation of India Ltd) a public sector undertaking. IBAS—Trade Finance Software of M/S Lasersoft was provided to all authorised branches and NRI branches for forex operations. From 1999–2000 onwards the 'Basis' software has been maintained by the bank in-house team which has added new modules to enable introduction of new products and services. Indian Bank joined the "SWADHAN - SPNS' network, in Mumbai for sharing the ATM infrastructure of other banks.

- The Bank became a Closed User Group (CUG) member of the Indian Financial Network (INFINET], established and maintained by the Institute for Development & Research in Banking Technology (IDRBT) at Hyderabad. The bank installed VSATs under INFINET network for ATM online operations and data transmission.
- With meticulous planning and action, the bank reported successful compliance of the Y2K (year 2000 problem].
- The problems encountered in the late 1990s resulted in restrictions in making additional investments in technology. As a part of the Restructuring Plan 2000–03 submitted to Government of India and RBI, inter alia, a Technology Upgradation Plan was also drawn up for three years—2000–01 to 2002–03—keeping in view the need for the bank to maintain a competitive edge in all spheres of banking. The projected action plan for each year was also drawn up covering the following broad heads viz., Computerisation, Networking and Communication, Software Development, ATMs, and Online ATM connectivity, Introduction of delivery channels, and Training.
- The bank availed MIDL (Modernisation and Infrastructure Development Loan) of USD 13.20 million equivalent to Rs 61.04 crore in the year 2001 from World Bank for meeting expenditure on the technology front for above purposes (The loan was repaid fully in May 2005).
- As on 31.3.2002, there were 501 branches brought under Computerisation, covering over 70% of the business and thereby complying with the directions of CVC. All 30 Circle Offices were computerised. Computerised branches and business coverage increased to 589, and 78% respectively as on 31.3.2003. Computerisation was being closely monitored

at HO through CO so that the deadline could be met. Over 400 non-computerised branches in Tamil Nadu and Pondicherry were given PCs for back office automation and communication purposes.

- Sixty-four ATMs were installed, of which 23 ATMs were interconnected for online ATM transactions. Online' ATMs were put up at the Chennai Airport and the Chennai Central Railway station.
- Over 90 branches were connected through Leased Line and VSAT. Additional 39 branches were networked during 2002–03. 670 Email connections were provided through service providers.
- The Head Office, all administrative offices and select 150 branches were given email connections for faster communication. A Corporate Intranet was created during Aug. 2000. Indian Bank was the first bank to create a Corporate Intranet.
- The bank migrated to Oracle based database for MIS and introduced Revised Reporting System (CIS/DIS).
- The bank formed a Special Task Force functioning at all Circle Offices to assist in total computerisation of the branches, providing necessary System Administration Training in advance for smooth changeover, and the entire TBC software in CD. This was essential to comply with CVC guidelines on computerisation of branches. A Revised Reporting System Cell was formed at Regional EDPs for implementation/stabilisation of the revised reporting system.
- Computerised labs and training infrastructure were created at IMAGE and the training centres at Chennai and Mumbai.
- Select branches in Trichy and Coimbatore had undertaken collection of taxes payable to the Corporation of that city through web-based application. This resulted in the bank getting fresh business connections, besides acting as a marketing tool.
- The bank successfully implemented Electronic Data Interchange (EDI) using in-house software in Chennai between its Harbour branch and Chennai Sea Customs and Port Trust, which provided commercial benefits to it. The

bank successfully implemented OLTAS (online tax accounting system) pilot project Phases I and II. The initiatives earned the bank both praise and recognition.

- The bank established its gateway at Chennai for implementation of Systemically Important Payment System (SIPS) applications of RBI. Negotiated Dealing System (NDS) was implemented, and implementation of the Centralised Funds Management System (CFMS) was taken-up. The bank also took up implementation of the Structured Financial Messaging System (SFMS).
- The bank established the Registration Authority (RA) Office under IDRBT CA and started issuing digital certificates.
- The 'MITR' ATM infrastructure consortium comprising Indian Bank, PNB, OBC, UTI Bank and Global Trust Bank was operationalised, providing online ATM access to over 1800 ATMs across the country to customers by use of single ATM card. Formation of another ATM-sharing consortium comprising Indian Bank, BOI, UBI, Syndicate Bank and United Bank of India under the logo 'CashTree' was underway.
- Detailed guidelines on Information Security were issued to all branches, controlling offices and audit set-ups through various manuals viz., "Manual on Project Total Branch Computerisation", Compendium of circulars issued by CPPD, "Manual on Computer Security and Computer Audit", "Manual on Cash Management Services", Handbook on ATM Operations. A Disaster Recovery Policy was also framed for implementation.
- The bank also brought out a handbook on "Do's & Don'ts" for computerised branches. The then Secretary, Department of Banking, Ministry of Finance found the booklet so effective and pertinent, that he directed the Indian Banks Association (IBA) to prepare an exhaustive manual for the banking industry. IBA formed a Working Group for this purpose under my Chairpersonship.
- "Preventive Vigilance Manual for Computerised Branches", prepared by Indian Bank on behalf of IBA was released by IBA in July 2002, and a presentation was also made to the Banking Secretary, Ministry of Finance. This served as a

tremendous morale booster to the Technology Department of the Indian Bank.

With the turnaround of the bank in 2002–03, technology implementation was also accelerated. The bank networked and moved over 500 branches to the Core Banking Solution in 2005–06, and another 519 branches in 2006–07. The Hon'ble Finance Minister, Shri P. Chidambaram inaugurated both the 500th branch at M G Road, Bangalore (on 24.3.2006), and the 1000th branch at Kalayarkoil, Sivagangai (on 17.3.2007). The Indian Bank thus marched ahead with a mission—taking banking technology to the common man.

➢ **Table 8.1** Key Performance Indicators for the Years 2000 To 2003

(Rupees in crore)

Key Parameters and Ratios	*2000–01*		*2001–02*		*2002–03*	
	Estimated	*Actuals*	*Estimated*	*Actuals*	*Estimated*	*Actuals*
Total Deposits	21224	21693	24054	24039	26825	27016
Gross Advances	11698	10843	11989	12183	13342	13153
Net Advances	9894	9434	10595	10908	11963	12275
Gross NPA	3203	2359	2274	2175	2190	1630
Net NPA	989	950	880	904	811	755
Operating Profit	20.58	61.59	93.84	307.15	286.86	590.25
Net Profit	–270.42	–274.00	–23.45	33.22	168.86	188.83
CD Ratio %	55.12	49.98	49.84	50.68	49.74	48.69
CRAR %	–10.97	–12.77	–10.43	1.70	9.10	10.85
Interest Income	2072.97	2106.49	2290.56	2293.93	2695.31	2531.91
Interest Expenditure	1638.06	1611.29	1785.49	1762.88	1973.38	1711.52
Net Interest Income	434.91	495.20	505.07	531.05	721.93	820.39

8.9 Building the Right Tempo

The adverse working results, and the bad media publicity resulted in the bank losing deposits besides bringing down the morale of the staff. The situation was so bad that to restore public confidence in it, the Government issued the following press release on Sept. 4, 1996.

Indian Bank's Liquidity Sound–Government and RBI Fully satisfied. Current Year's Performance Quite Satisfactory.

The high loss reflected in Indian Bank's balance sheet is due to full provision made for accounts classified as Non-Performing Assets, Finance Ministry sources said today. The performance of Indian Bank since April 1 this year has been quite satisfactory, the sources said, adding that "the recoveries made in those classified accounts will boost the Bank's performance in the current year".

> *The Bank's deposits increased by Rs 681 crore from R 11,750 crore (as on 1st April 1996) to Rs 12,431 crore (on 9th August 1996). The Government and RBI are fully satisfied that Indian Bank's liquidity continues to be sound," the sources added.*

There were difficulties in pursuing compromise proposals in respect of large NPA accounts under the purview of public Interest litigation pending in the Supreme Court. In addition, informal verification of compromise proposals by outside agencies caused much apprehension among the decision-making officials.

Even though the then CMD made it a point to communicate with the staff members through branch circulars and in-house magazines, the disciplinary actions initiated by the Top Management had a negative impact on the morale of other staff. The Top Management felt that any inaction on the discipline front could send wrong signals to the vast majority of the staff that wrong doers were not being taken to task.

All employees were passing through a period of uncertainty about their future because everything depended on the survival of the bank. They came to the bank everyday fearing bad news about its closure or amalgamation. As generally happens in such situations, every now and then they would hear some shocking bit of news through the grape-wine besides some sensational report or two in newspapers relating to the cases under investigation by CBI.

This atmosphere of fear and suspicion took its toll by way of lack of motivation and involvement of the staff in the bank's growth and development. This was one of the contributory causes for the bank's poor performance in the years 1996–2000.

8.10 Image Building and Handling Adverse Criticism

To restore the healthy, professional working environment in the bank and trigger better performance, several measures were initiated in 2000–2001 by the Top Management which included conduct of periodical staff meetings (by me and ED), visits to branches and, spreading the message of growth and development, regular positive publicity about the bank in the media etc. An in-depth analysis and review of the Regions was done frequently for creating competitive spirit among the Branches and Circle Offices.

Towards spreading the message of growth and development to all staff, an audio cassette containing my message to staff members was circulated to all the Regional Offices/Branches for propagation to the staff members.

Positive publicity, and improvement in the image of the bank resulted from the various press meets by me, and the wide coverage in the media, as well as customer meets conducted at various centres. I also held meetings with top executives of various Public Sector Undertakings and Corporates as well as a large number of industrialists in different parts of the country soliciting their support for the bank's participation in the funding of their projects and other non-fund based activities.

The various activities pursued by the Bank for image building and restoration of customer confidence included inauguration/launch of products and services by dignitaries.

- The inauguration of the ATMs by
- Dr Bimal Jalan then RBI Governor at Chennai Domestic Airport and Shri Devi Dayal, then Special Secretary (Banking), Government of India, at Ethiraj Salai, Chennai was well covered in the press. At the same time ATMs were also inaugurated in various parts of the country.

- Participation in public functions by me and other senior executives towards improving the bank's image. In addition, customer meets were conducted by the bank in major cities—largely attended by cross-section of clients who had questions to ask.
- Customer-savvy loan products introduced at frequent intervals targeting specific segments. Launching of Yuva Kisan Vidya Nidhi Scheme, a new loan product of the bank to agriculturists by the then, Hon'ble Minister for Rural Development at Singaperumalkoil and release of an audio cassette on "loan products to agriculturists—kisan bike, kisan card, other priority sector advances' for popularising these schemes in local languages in all regions were part of this effort.
- Hoardings displayed at premises of branches in Chennai City conveying a message of growth by the bank.
- Release of cassette regarding loan recovery at rural centres to boost recovery under the RBI schemes. These cassettes were developed by the staff of the bank.
- Beside regularly meeting officers, and staff in the main centers and the Head Office, I visited branches and held discussions with the managers and staff on the performance of the branch, in addition to addressing participant in training programmes.

8.11 Credit Management

By the time I assumed charge, many of the field level personnel had lost touch with the credit appraisal mechanism which is very vital to bank function. Immediate steps were thus taken for

- allocation of additional share of Food Credit of Rs 1000 crore by RBI.
- permitting the bank, as a special case, to lend 1/3 of the incremental increase in credit at sub-PLR for select borrowal accounts so as to be competitive in the market, as reduction in PLR across the board would adversely affect the bank's overall income.
- inducting the bank into the consortium for taking a share in the total fund requirements of Public Sector Undertakings,

and requesting them to avail limits in preference to other banks for their credit requirements.

It became necessary to infuse confidence in the field level personnel and bring them back to the mainstream of bank functioning, namely credit dispensation. The above steps served as effective supportive devices to enhance the credit portfolio, simultaneously making the officials realise that it was now for them to do their mite. Not only in expanding credit but also in credit monitoring as it plays an important role in preserving the quality of assets and avoiding slippage. The bank undertook a series of measures, including introduction of new products, guide-lines on dispensation and monitoring to achieve this objective. The fast track system for credit appraisal was strengthened through a system of joint appraisal and elimination of different tiers involved in the appraisal process.

If Managers took up the role of expanding credit, it was felt retail banking would play a dominant role. In tune with market/ industry trends, the bank started giving priority to Retail Loan Products. The real thrust to credit, and energizing of the field saw the advent of Home Loan Scheme in September 2000. A revised Home Loan Scheme for individuals in the form of 'Festival Offer' was introduced in October 2001, and the bank hoped to garner a sizeable market share through a combination of expeditious sanction and attractive terms. In fact, a CEO of a leading Housing Finance Company was heard commenting on the flight of several home loans from his organisation to Indian Bank! He insisted that the ED and I join him at dinner to discuss the issue which, for his company, was a major cause of concern. Such was the result of the enthusiasm displayed by Branch Managers in getting large numbers of home loan borrowers and takeover of home loan accounts from other institutions! This gave a great sense of achievement to them, as they had earlier experienced the anxiety of their accounts been taken away, for different reasons, by other banks. This was therefore a great opportunity which they were not willing to let go. There was a great sense of achievement and jubilation all round. In fact, this scheme of Indian Bank triggered a rate war in the financial market.

In tune with the market trends, the following structured products were introduced on competitive terms to meet the requirements of the target customers till September 2003. Each of these schemes, as events showed, was a runaway success, as it was marketed well to the respective target groups, enhanced in large measure by the high confidence level of our officials.

➢ **Table 8.2**

Product Name	*Launched in*
IB Clean Loan to Salaried Class	April 2000
IB Consumer Loan	July 2000
IB Vehicle Loan	July 2000
Home Loan	October 2000
Trade Finance	October 2000
Professionals' Special	June 2001
IB NSC Loan	May 2001
IB Pensioners' Loan	May 2001
Home Loan to NRIs	July 2001
Ind Smart	September 2001
IB Rent Encash	September 2003
Annapoorna & Arogya Scheme	March 2003

Of the above, Ind Smart, Annapoorna and Arogya Schemes were unique schemes developed by Indian Bank. The Annapoorna and Arogya schemes targeted mid-sized hotels/restaurants/bakeries/fast food outlets/motels/highway inns/kiosks/mess/canteens. Caterers of all kind—refreshment stalls in railway/bus stations, fast food centres in tourism/temple towns etc. were also covered under the scheme. A special thrust was given to degree/diploma holders in Hotel Management/Catering Technology for setting up mid-sized hotels/restaurants.

Under the Ind Smart Scheme, Class I Officers in Administrative Services viz. IAS, IPS, IRS etc were financed. The scheme was similar to the Salary Loan Scheme with add-on features such as free ATM Card, free remittance facilities etc. This was a huge success among the Bureaucracy in the country and gave our Branch Manager access to senior Governement officials, adding to their sense of self-esteem.

The special feature of the NSC Loan Scheme of the bank was that it was offered both as Term Loan and Overdraft facility to the public, which facilitated parking of surplus funds in the OD account resulting in reduction of interest amount and thereby the cost of borrowing by the customers.

Over a period of time the bank's exposure under the Structured Loan Schemes had grown significantly, contributing to considerable increase in its interest income.

The loan policy introduced in 2001 envisaged qualitative expansion in credit with profit, and enumerated strategies for the branches and regional offices to improve lending and monitoring of standard assets. The policy document also included the concept of Risk Management and Loan Administration.

Enthused by the success of credit expansion through a slew of retail products, the bank felt it necessary to empower the field level personnel, and a decision was taken to revise the discretionary powers—credit sanctioning powers, and credit related administrative powers. Launching of Trade Finance was one more significant step in improving the credit facility. The Trade Finance Scheme received good response from the market as it was structured and introduced after making a market survey and taking into account the requirement of the trading community. In fact this community, which had a long relationship with the bank in metro and semi-urban centres, had moved away from the bank. But with the steps taken, and also realizing that the bank was on its way to becoming a sound institution they returned.

To give focused attention to credit expansion, the branches were segregated into "corporate" and "credit-intensive". Thus, the expertise in handling credit was pooled and concentrated in certain branches so that the borrower was not made to suffer for want of knowledge and necessary powers on the part of the officials. Simultaneously, instances of officials taking decisions out of ignorance or without realizing the implication thereof were ruled out. The bank arranged Specialised Training Programmes, including on-the-job training at select branches to upgrade the skills of officials. Efforts were also made to improve the quality and quantity of credit.

With the expansion of credit, and introduction of new products, it became necessary to strengthen the monitoring mechanism by way of modified pre-release audit, stock inspection, scrutiny of feedback statement, policy on stock audit etc. A constant endeavour was made for improving the credit products and revising the policy guidelines, making them clear and precise, on several credit mechanisms.

8.12 Standard Assets Monitoring

Recognising the importance of containing the fresh incidence of NPAs, special focus was placed on the identification of standard assets which were under stress. A separate, independent department—Standard Assets Monitoring Cell was set up. Its functions included:

- Weekly monitoring of the balances/drawing limits/overdues/ excess in all the standard assets.
- Categorising all stressed assets under ABC categories depending upon the nature of overdues/irregularity, and the period of overdues, so that desired attention could be paid.
- Critical amounts were identified in each such account and efforts on war-footing were made to recover such amounts.
- Monitoring of such accounts was carried out at various levels i.e., up to Rs 1 lakh by Branch Managers, up to Rs 10 lakh by Circle Heads, and above Rs 10 lakh by the respective General Managers at the Head Office.
- A Standard Asset Monitoring Committee of General Managers with Executive Director as Chairman was constituted to review monthly the status of all these accounts to prevent slippage. This review exercise was carried out in great detail. Several other measures were initiated by the bank, such as entry level scoring model of appraisal, risk rating system, intensive credit marketing, appraisal, monitoring and management—each function being independent of the other.
- Monitoring of all the accounts with limits of Rs 2 crore and above, both fund and non-fund limits, on a monthly basis was made mandatory by calling for reports from the Credit Monitoring Officers who were specially deployed at the Branches and Circles.
- There was clear segmentation of credit portfolio into Corporate, Commercial, Retail, Personal and Rural Banking at respective branches in order to develop expertise in the specific portfolios, in each case linking pricing to the risk perception and rating of the account.
- Training was imparted to officers to handle large borrowal accounts in credit management by faculty drawn from reputed external institutions like the State Bank Staff Training College, Bankers' Training College, National Institute of

Bank Management and the Management Development Institute at Gurgaon, in addition to organising in-house workshops and on-the-job training at select Branches and Circle Offices.

With the above efforts, the credit administration of the bank showed quantitative and qualitative improvement, resulting in a sound credit portfolio and higher interest income.

8.13 Psychometric Approach to Human Resource Management (HRM)

At the bank a 360-degree assessment approach was adopted to look for branch managers/executives who could be fitted with the right jobs/kinds of position, given their core competence/strong points. This psychometric approach helped the bank to get the best person fit for a given job. When people get jobs in tune with their aptitude, they give their all. In such cases, the stress of the job is minimal and contributes to the positive attitude of the person concerned. In some cases, where certain senior persons were not readily available, executives from different banks were asked to join the senior team at HO in treasury, NPA management, monitoring of standard assets, and restructuring of accounts.

Using the psychometric approach to HRM, certain executives of the bank were relocated to get the best out of them by taking a holistic view of individual executives and their abilities to increase the productivity of those executives under them who were not contributing their best. At the same time care was taken to ensure that no one was victimised. As the bank offered a scheme for voluntary retirement, a talent crunch developed as some of the talented/skilled officers opted to leave the bank. In such a situation, it was felt that it was better to go in for best candidates within the organisation to fill the posts as it would ensure minimum attrition besides contributing to reduction in recruitment and training costs. In the case of some individuals, grievances related to their job made them to leave the organisation, and this forced the bank to adopt the psychometric approach in assessing and placing the executive in proper jobs in the bank.

8.13.1 Formation of HRD Committee

The Board of Directors at its meeting held on August 21, 2001 constituted a Committee of three directors viz. Shri P.V. Maiya, Shri P.V. Indiresan and Shri M.P. Radhakrishnan to suggest measures for formulating:

(a) a fair appraisal policy for the staff;

(b) a fair promotion policy, and

(c) a formal system of incentives for performance, and disincentives for non-performance.

The Committee had detailed discussions with General Manager (PHR) and other officials of Personnel Department, on the existing policies, practices, conventions, agreements with employees unions and officers' associations. A presentation by the Institute for Banking Personnel Selection (IBPS), Mumbai, on the scientific methods that could be adopted in the promotion process was arranged at the Head Office. Based on the foregoing, the Committee, inter alia, made the following suggestions:

- Abolition of review of appraisal reports of officers upto Scale III except in exceptional cases.
- Working out the details of the 180° methodology in the coming years, after consultation with IBPS, or other experts.
- Preparing a revised timeframe for submission of appraisal reports.
- Provide the officers promotion opportunities, preferably once a year or at least once in 12–18 months, rather than at uncertain intervals as had happened in the past.
- For promotion to senior level management, in addition to performance and competence, a reasonable and transparent assessment of potential of the candidates should be made. This measure would enable the bank to fill in very senior management position with younger people.
- Install a system for non-monetary incentives for out of the ordinary achievements and/or beyond the strict call of duty to send across the message that the bank recognises meritorious deeds.
- Introduce a scheme of sabbatical leave with pay for pursuing higher studies/specialised training at institutions of repute.

8.13.2 Enabling/Empowering Second Line Executives

Considering that the second level executives (viz. Asst Branch Managers, Accountants in branches and administrative offices) play an important role in internal control and in ensuring proper adherence to the laid down systems and procedures, it was felt that they required specialised training for improving their efficiency. These second line executives were supposed to step into the shoes of the branch/administrative head in their absence and take decisions effectively. This was also seen to be a process of succession planning.

Meetings were conducted at Circle Offices for the second level executives of the branches, and the need for a system of independent/direct reporting of any abnormal happenings to administrative offices directly by them was emphasised. This, apart from ensuring greater transparency, resulted in motivating and providing authority and responsibility to the second line executives for performance.

8.13.3 HRD/Staff Motivation

The following actions were initiated for motivating and facilitating the staff to regain their self-esteem:

- Business Review and Interface with Branch Managers by CMD at the Circles. Performance review of Circles/ELBs/VLBs at periodic intervals.
- Bringing about 'Change Management' among staff through address by CMD in the staff meetings at different Circles.
- Introduction of a system of incentives to branches for good performance, and award of shield to best performing Circles and branches.
- Meetings with Unions and Associations at periodic intervals, and sharing of views on the bank's position and performance with them, thereby involving them directly in its growth.
- For the first time the bank took up promotion of 200 clerks of less than 40 years of age with higher qualifications and aptitude based on merit. Promotions were also effected in the officer cadre across different scales after a gap of many years.

- A policy was framed for placement of officers in overseas branches.
- An Executive Committee was formed for selection of Managers.
- A decision was taken to engage ICRA for quantifying the requirement of staff.

8.13.4 Initiatives Taken to Tone Up Organisational Set Up

After joining the Bank, I had interactions with various sections/ tiers of the organisation, both in the field and in the administrative office, as well as with the staff union officers association representatives. I realised that certain modifications in the systems and procedures to erase the fear psychosis from the minds of staff, good HRD practices, and some incentives to the staff could do wonders. Hence, to create a healthy atmosphere the following initiatives were taken:

- The branches were segmented into Corporate, Commercial, Personal Banking and Rural Branches with effect from August 2000.
- The Branch Managers were given power to sanction leave to award staff.
- A sabbatical leave scheme was introduced in October 2000 to enable the staff to pursue higher studies, take up employment elsewhere, medical treatment etc.
- The SEED (Solace for Expired Employees' Dependents) Scheme to collect voluntary contribution from the Members to provide financial relief to bereaved family was introduced.
- A policy for periodical transfer of clerical staff was adopted.
- The Leave Fare Concession Scheme was restored to employees.
- A revised Staff Housing Loan Scheme was adopted.
- Three Circles viz. Hubli, Trivandrum and MP–Rajasthan were merged with neighbouring Circles.
- Officers of the bank so inclined were invited to apply for the post of Marketing Officers.
- 200 clerks of less than 40 years of age were inducted into the officer cadre.

- The rental ceiling for leased accommodation for officers was revised.
- Distance Learning facility was introduced in the Self-Development Programme for learning Hindi.
- Staff Meetings were held at the Branches as I considered them as the most appropriate channel for communicating organisational goals and corporate concerns, and also to discuss the strategies that could be adopted to translate such goals into performance. The meetings were also useful for analysing the performance of the Manager, to take corrective steps where needed, and to get the staff involved in the operations and growth of branch business. These meetings gave immense confidence to Branch Managers as they interacted directly with the CMD/ED and therefore came well prepared for the meetings.
- A fresh promotion policy was evolved for clerical staff to provide them growth opportunities.
- A Group Savings Linked Insurance Scheme was introduced for the Award Staff in arrangement with LIC.
- As the year 2002–03 was reckoned as the Year of HRD in the bank, it took several steps in regard to transparent management i.e., posting of right people for the right job at the right place, perfecting the Performance Appraisal System, enabling promotion from one cadre to another at regular intervals, Succession Planning/Career Path for staff, Team Building etc. some of which are highlighted below:
  - ★ Intensive training in branch management, Credit Management, Risk Management, vertical integration of all cadres of staff etc.
  - ★ Developing the second line officers in the branches as effective Managers of the future by giving them necessary inputs on management.
  - ★ Transfer of officers from administrative offices to branches, and vice versa, with a view to exposing them to all levels of management and operations.
  - ★ Periodical transfer of officers and clerical staff from one branch to another, and periodical job rotation to all staff, thereby giving them an opportunity to work and learn in all sections of the branch/office.

- ★ A cadre of Marketing Officers was created by inviting applications for the post from officers based on their performance in the training programmes.
- Scale promotions were given from Scale II to III, and Scale III to IV based on performance. Such promotions took place after six years.
- Special selection of officers was made for the posts of Managers by a panel of executives in the HO.
- A system to award shields to Circles and branches, based on their performance, was introduced.
- Managers who had performed well were invited to share their experience and achievements with the Board of Directors. This worked as a great motivator.
- Incentive were given to all staff members in the Branch Offices which had reached the terminal deposit targets (subject to achieving targets in regard to select parameters).
- Minutes of important meetings such as Review Meetings, Meetings of CMD with Executives at the HO etc. were circulated among Circle Heads for further circulation, to branches for briefing during monthly Staff Meetings.
- A Committee of Directors was constituted for studying and suggesting improvements in the HRD aspects.

After introduction of the above measures, the business growth, especially retail credit growth, was more than anticipated. Besides all the steps taken, it was noted that the enormously improved decision making capability of the staff and resulting confidence was the main cause for this growth.

It goes to prove that good HRD practices can influence financial and other performance indicators, by generating employee satisfaction which, in turn, leads to customer satisfaction.

8.14 Rationalisation of Branches

One of the problems that I noticed on joining the Bank was that it had too many branches concentrated in some select areas, especially in Tamil Nadu—The state had over 600 branches. I was informed that the problem got aggravated with the merger of the Bank of Thanjavur with the Indian Bank.

It was found, after the merger that in some areas there were more than one branch of Indian Bank within a very short distance, and these two/three branches were competing with each other, apart from competing with branches of other banks. The result was that in such areas, none of the branches of the bank was growing. The bank was wasting enormous manpower, rent, stationery etc. on these branches. Apart from this, there were also many branches which were stagnating in business for many years, or incurring loss continuously. And there were also branches located in some remote areas without much scope for improving their business.

Before commencement of the Restructuring Plan, the bank had 1421 branches comprising 510 rural (35%), 363 semi-urban (26%), 322 urban (22%), and 226 metropolitan branches (16%).

As per RBI directives, closure of loss-making branches in rural centres having a single commercial bank branch is not permitted. However, banks can close/merge loss-making branches in the rural centres served by more than one commercial bank branch (and also branches in semi-urban branches allocated within a service area village) with prior approval of respective District Consultative Committee (DCC) and RBI. Banks can close down their non-remunerative branches in urban and metropolitan centres (excluding SSI/SIB and Agricultural Development Branch) without prior approval of the RBI.

I made a study of such branches of the bank, discussed with the top management and decided that an attempt should be made to rationalise them by way of merger/closure/re-location. It was decided that the licences of metropolitan/urban branches proposed to be closed/merged should be used for opening branches in newly developing suburbs and colonies in towns having business potential. In the Restructuring Plan, it was projected that 65 branches, including loss incurring/overlapping metropolitan/urban branches, would be merged/closed/re-located during the Plan period.

It was also proposed to open 10 new branches during 2001–2002 and 2002–2003 based on business considerations, subject to the bank making net profit.

The one core net loss branch viz. Srinagar, had already been closed on 29.02.2000, and another branch viz. Gamparai, had been permitted by the Board to close. Hence, it was decided to take action in respect of the remaining 63 branches.

It was estimated that the closure/merger of these non-viable branches would result in an annual saving of nearly Rs 5 crore in expenditure, inclusive of recurring expenditure such as salary, rent, furnishing and lighting, taxes, insurance premia, repairs, maintenance, postages, telephone charges, etc.

The viability of the branches, both in terms of operations and cost, was to be given utmost attention and studied on a quarterly basis, while non-viable branches were to be rationalised.

Initially, there was resistance from Unions for merger/closure of branches. However, I convinced them that keeping such branches running was eating into the profit made by other branches and that closure of such unviable branches would not result in loss of jobs, but only help the Bank in its effort towards bringing about a turnaround.

There was also resistance in some rural areas against rationalisation because the rural folk consider having a bank branch in their village as a matter of prestige. However, meetings were convened in such villages to convince them that the bank could not run a branch which was not viable, and that too when the villages were already being served by branches of other banks.

Having convinced, to some extent the Unions and the general public, the bank took up the proposals with RBI for approval of merger of 17 branches at the first instance. This proposal was not considered favourably by RBI on the ground that the centres were served by a single commercial bank branch. However, RBI did consider the proposal for merger of 31 rural branches, and converting of 34 rural branches into Satellite Offices with reduced number of working days. RBI accorded approved rationalisation as quoted below:

> *"In view of the urgency of rationalisation of branches of your Bank, the decision regarding closure / merger of branches in rural and semi-urban centres may be taken by the Board of Directors of your Bank. However, it may be ensured that at such place where the Bank proposes to close down / merge its branches, there is invariably a branch of a commercial bank or Regional Rural Bank. As proposed by you, your bank may proceed with such closure / merger of branches without prior approval of DCC / DIF (State Government), or even Reserve Bank of India. Nevertheless, you should keep the District Authorities informed in the matter. Similarly, you may also advise us of the decisions taken by the Board, and the action taken thereon.*

As regards the proposal for approval of closure/merger of 17 rural branches, you will appreciate that it is not desirable to close branches in areas where only Primary Agricultural Cooperative Banks/Societies have their presence. Since the facilities provided by cooperative bodies are limited to the members of such cooperative bodies, the closure of the bank branch leaving the area entirely to cooperative bodies would result in denial of banking facilities to non-members of such cooperative bodies.

While we are agreeable to the merger of metropolitan branches at Hyderabad, Bangalore and Chennai, the proposals for new branches will have to be examined by us on a case-to-case basis having regard to the business potential in newer colonies/habitations in metropolitan areas, where new branches are proposed to be opened".

Having received consent from RBI for select closure/merger of branches, the bank went ahead with the task. Detailed accounting procedure to be followed at the time of merger of branches, both at the Merging Branch and the Receiving Branch, reporting to be made to Controlling Authority, the role of the Regional Office, issues involved in merger of branches under computerised environment etc. were communicated in detail.

The major achievement was merger of 12 rural branches in Tiruvannamalai District in Tamil Nadu on a single day viz. 20.01.2001 by suitably arranging police protection at all the centres for smooth and peaceful merger. There were numerous representations from the Hon'ble MLAs and MPs for continuance of functioning of the branches from the existing centres but when the rationale for such merger/conversion, was explained, they accepted the decision.

Further, there were PILs against merger of Palakollai and Maduranthakanallur branches in Cuddalore District, and also on conversion of the Venkatasamudram and Muduguri branches in Dharmapuri District and S S Kottai in Madurai District. A prayer for issue of stay was filed by the public in the First Division Bench of Madras High Court. Since all the procedural guidelines had been complied with, no stay was granted, and the branches were merged/converted on the stipulated dates.

Similarly, the bank merged 14 metropolitan, 19 urban and 21 semi-urban branches and reduced the number of branches by 119 across 11 States as against the projection of 65. Twelve unviable

Extension Counters were merged with their base branches and their staff re-deployed so as to reduce the establishment cost.

This rationalisation of branches resulted in an estimated annual saving of Rs 14.85 crore to the bank, apart from offering an opportunity to re-deploy staff among needy branches.

8.15 Indirect Merger and Opening of New Branches

Banks are permitted to shift the branches in semi-urban/urban and metropolitan centres within the same municipal ward of the centre without prior approval of RBI. They can also shift the branches outside the locality and municipal ward after ensuring that the existing locality has a commercial bank branch, with the prior approval of RBI.

Utilising the said provision, the bank shifted the two metropolitan branches in Hyderabad and Bangalore to a locality 7 km away from their existing location. The accounts of the existing customers of the branches were transferred to nearby branches (indirect merger and opening of new branch).

Chapter 9

Plan Implementation-II

9.1 Steps Towards Financial Inclusion

Reaching the Unreached

Indian Bank has carved out a name for itself among the comity of banks by excelling in lending to various categories classified as Priority Sector by the Regulator/Government of India. The bank's effort in "reaching the unreached" in the rural segment is really praiseworthy. It is a fact that the bank did not get the recognition it merits for the exemplary work accomplished by it in the rural areas. The committed work done by the Bank in the field of Priority Sector has however been very well recognised by the people. It was a rewarding experience for me to travel through the length and breadth of the country and interact with clients from different strata of society to understand the nuances of rural development better. The overwhelming response to our efforts only deepened our commitment to the cause of rural development.

Even during the difficult days of mid '90s, when the bank faced the problems of huge NPAs and the consequential financial impact on its balance sheet, image, liquidity etc., not many in the urban/semi urban and rural sector were rattled by the developments. Their loyalty to the bank was unwavering, and total. Many of the employees of the bank had firm conviction about development of the rural areas and did not perceive it as a directive imposed from the above. This qualitative aspect made all the difference. This commitment at all levels enabled the bank to excel in the quality of lending, and not be merely concerned with numbers prescribed by RBI. I enjoyed every step I put forward in the rural areas, and the positive response only enhanced my commitment. Therefore, I associated myself with various rural developmental projects piloted and innovated by the bank. My personal involvement encouraged the personnel down the line to focus more on rural development, the niche area that the bank carved out for itself consciously over a period of time.

At this point of time, I have to briefly recapitulate some of the innovations the bank has made in Priority Sector lending, an area other banks studiously avoided.

9.1.1 Group Lending

Not many are aware of the fact *that Group Lending was conceived for the first time in the banking industry of the country by Indian Bank*. A pilot project launched jointly by the Rome headquartered International Fund for Agriculture and Development (IFAD), Indian Bank and the Tamil Nadu Corporation for Development of Women in a place called Denkanikotta (not known outside the developing District of Dharmapuri in Tamil Nadu), in the late 80s, met with stupendous success which might not have been anticipated even by the academicians who fashioned the scheme.

9.1.2 Micro Finance

The formal financial sector, due to many reasons, ignored the drive of the poor people to help themselves through self-development, possibly because it is not only time-consuming but also has elaborate procedures and formalities to be gone through for such small value credit proposals. Besides, the general perception was that the poor were not creditworthy and hence, not bankable. Consequently, despite the exorbitant interest levied by rural money lenders, the poor depended heavily on them as delivery was instantaneous, and service available round-the-clock.

It is in this backdrop that the financial experiment undertaken by Indian Bank was a runaway success as it galvanised the rural poor. The inspiring message emerging from the empirical evidence is that it is possible to lend profitably, and with very low arrears (overdues) to very poor people. Also that micro credit can be provided in a timely, sustainable manner without subsidisation, and the organisation can build up a qualitatively better credit portfolio at its retail outlets.

9.1.3 Self Help Groups (SHGs)

In the midst of apparent inadequacies of the formal financial system in catering to the needs of the rural poor (despite its phenomenal physical outreach), with the active support of reputed NGOs, an informal segment comprising small indigenous Self Help Groups (SHGs) started mobilizing savings and also lending the resources amongst their members. There is total transparency in their functioning, better monitoring of loans and, above all, better repayment culture. This group concept is definitely a silent revolution in the country. It has spread not only in the rural areas, but now in metros as well, *for which Indian Bank can very rightly claim credit*. This is because the Indian Bank evolved ground rules on its own as the concept was totally new and untested, and in its implementation legal impediments had to be encountered. The bank had to invest huge time and man-hours and innovate to evolve the documentation, procedures, etc. This system is now widely followed by the entire banking system in the country.

Group lending was an enigma to white collared bankers then, at least initially because a group of persons not registered, or a body not recognised by law cannot be financed by the bank. The bank's abundant faith in the rural, illiterate women, many of whom cannot afford even a square meal a day, was matchless. It paved the way for lending of money by the banks to Self Help Groups in the country on a scale not anticipated even by hard core optimists. The enthusiasm and euphoria among the rural folk, NGOs as well as the rural branch staff of the bank was without any parallel. It is something to be seen to be believed.

Indian Bank commenced lending to Self Help Groups in 1989, and this interesting and bold experiment attracted national and international practitioners of rural development programmes to the mud roads of developing districts of Dharmapuri, Cuddalore, Salem and Ramanathapuram. After three years of implementation of the project by Indian Bank, a formal circular was issued by the Regulator in 1992 setting a notional target of 500 SHGs to be financed by the entire banking system in the country during the year. Much water has flowed since then, and we have covered a large track. Today it is anybody's knowledge about the present state of affairs of micro credit financing by banks in the country. MNC Banks and first generation Private Sector Banks (which are a bit more profit-conscious) are also evincing keen interest and evolving derivatives/variants of the SHG model to suit their policy/approach. The concept of lending to groups is definitely an innovation by Indian Bank and its gift to the nation. The product has proved to be an effective tool in tackling the problem of absolute poverty in the rural areas.

At the end of the day, when I look back, I recall with pride and satisfaction every moment I spent with the SHGs. I encouraged them, acknowledged and praised their efforts, and provided not only monetary support but went a little beyond by organizing and putting in place linkages, both backward and forward. The bank had also consciously invested substantial man-hours and resources and taken bold initiatives in providing the linkages that the rural areas needed most.

Marketing of the products of SHGs on a sustained basis is one of the bottlenecks under the SHG programme. The bank had organised at its cost an exhibition of products made by SHGs at different urban centres and provided the much needed connectivity between the producers and consumers. This initiative enabled the SHGs to understand the content, requirement and preference of the urban consumers, besides establishing business linkages with the urban retailers. Encouraged by the success, the bank repeated such exhibition-cum-sale *melas* at different locations. One such unconventional *mela* was inaugurated by an unconventional person—no less a person than Dr. A. P. J. Abdul Kalam, at Chennai on 18.09.2001 when he was the Principal Scientific Advisor to Government of India. The entire expenses of SHGs for participating in the *mela* for a period of three days were met by the bank with a sense of pride and achievement. The groups not only made a handsome profit on their sales, but were also able to procure sizeable orders from wholesale dealers in Chennai. Many in the bank, from the top to the lowest level, were deeply attached to the SHG project.

Encouraged by the high degree of success, the bank repeated such exhibition-cum-loan melas at different centres, so as to provide access to SHGs to establish retail outlets in urban/metro areas. In the above backdrop, it is no surprise that the bank has maintained its Numero Uno position in the Micro Credit programme in the State of Tamil Nadu, and bagged the award of NABARD repeatedly. Some of the activities financed by the Bank under SHG programme are really bold, path-breaking and innovative. I feel that at least a few of them merit mention here as they are unique, and the attempts made are really bold.

9.1.4 Organic Farming

Two exclusive women SHGs of ST community in the Kolli hills of Namakkal District in Tamil Nadu were provided with a loan of Rs 2.50 lakh each for cultivation of pineapple in 20 acres under the organic farming programme. Organically grown pineapple was marketed through one of the NGOs at Mumbai, where the market for organic products existed, thus facilitating the SHGs to realise a better price for their produce by eliminating intermediaries.

9.1.5 Denkanikotta's Innovative Washerwomen

Under-employment or disguised employment in the rural areas is one of the causes for the poor income of the rural folk. Washer-women of Denkanikotta were no different and had work only for two hours a day, though they had the patronage of the bank and the NGO. In their search for livelihood, they approached factories at Hosur for contract for washing the uniforms of workers. They succeeded with Titan Watches. The bank sanctioned a loan of Rs 75,000 for purchasing a delivery van for transporting the clothes up and down. This enhanced their earning capacity to about Rs 35,000 per month. This is one of the excellent examples of the rural poor harnessing the available opportunities locally without migrating to urban centres looking for greener pastures.

9.1.6 SHGs as Tillers of Agricultural Land

One SHG of 14 women belonging to Scheduled Caste in Panamarathupatti Block of Salem District approached the bank to secure leasehold rights of 10 acres of temple land and, with its assistance got the rights. Till then it was the prerogative of the rich landlords of the village.

9.1.7 Eco-friendly Venture

The village of Kilagraharam near Villianur in the Union Territory of Puducherry was too small to attract transport operators for operating public conveyance. This caused hardship to the villagers, particularly school going children. The Thiruvalluvar SHG of the village was assisted by the bank to purchase an eco-friendly battery operated van, thanks to the innovative suggestion given by the Dr. M. S. Swaminathan Research Foundation. The vehicle is driven by women SHG members. The SGH now has not only provided the village with a transport facility but also earns a livelihood out of it.

9.1.8 Agricultural Labourers as Tractor Owners

Thirteen agricultural labourers of Ayodhyapatnam in Salem formed an SHG along with seven women belonging to marginal farmers' families. Their husbands were engaged in loading, unloading and transporting construction materials to builders in the town. They purchased a tractor, thanks to the loan given by Indian Bank, which provided employment as a driver to the husband of one of the members, besides substantial hiring charges to the Group. Thus, a group of landless women agricultural labourers became the proud owner of a tractor, which even a rich farmer finds difficult to maintain.

9.1.9 Social Impact of SHGs

The SHG movement has brought unbelievable and dramatic changes among the poor rural women, who were otherwise voiceless in their society till some time back. After their enrollment as SHG members and possibly due to constant interaction within the group and outside, the women gained enormous self-confidence, and were, as a group, bold enough to demand services from various Government departments. They took upon themselves various social causes like sanitation, drinking water supply, street lighting, adult education, eradication of arrack, child labour, female infanticide, etc., which would have taken the Government departments decades to accomplish. The degree of success they reached in this drive within a short time is unmatched. The otherwise male-shy rural women gained so much of courage and self-confidence due mainly to motivation derived from the Indian Bank's SGH scheme. Many of them are today running Panchayats, and even some the Municipal Corporations. No wonder that the then Prime Minister of our country honoured one such woman member of SHG and appreciated the exemplary work done by her among poor illiterate rural women.

The bank had to constantly think on the new innovative loan products to suit the needs of different segments of the society. Some of the loan products introduced by the bank are unconventional and have made huge impact. I wish to mention a few of them here.

9.1.10 Vidya Shobha Loan for Wards of SHG Members

Indian Bank took special care and interest in the welfare of SHG members and their families. Urban children have relatively better access to quality education when compared to rural children. Recognizing the fact that quality school education is akin to laying strong foundation for a building, the bank introduced a scheme to provide loans to SHG members for educating their children in high schools upto Plus Two. This enabled the SHG members to provide quality school education to their children, and further to secure admission in professional courses. This product was introduced by the bank in 2000–01 when not much thrust was being given on educational loans in the country.

9.1.11 Gramin Mahila Sowbhagya Scheme

Economic empowerment of women, particularly in the rural areas, is a cherished goal of any organisation engaged in rural development. Women who do not have a regular stream of income are not able to acquire household assets, and acquiring such assets remains a dream for many of them. The bank felt that enabling the rural women to acquire such assets could provide urban amenities in the rural areas in the long run. Hence, rural women were assisted for acquiring gas connections, stoves, mixies, grinders, refrigerators, etc. An increase in the number of such household appliances in the rural areas was expected to play a multiplier role by generating employment opportunities for technicians, electricians, etc., and make the rural areas vibrant. Asset creation in the name of women, is a small step towards their empowerment. Home makers in the rural areas were also relieved from the monotony of doing the household chores in the traditional way. The scheme naturally received overwhelming response in the rural areas.

9.1.12 IBSUM (Indian Bank's Specialised Unit for Micro Finance)

Encouraged by the success accomplished in the field of micro credit, the bank opened a special window at identified branches which focussed exclusively on SHGs. Besides providing credit, these units undertook a capacity building exercise for SHGs in coordination with the SHGs and NGOs by organizing exhibitions, taking SHGs on study tours for better exposure and gaining knowledge etc. The success of the experiment initially piloted at two branches in the Madurai District of Tamil Nadu encouraged the bank to extend the arrangement to 40 more centres rechristened as Micro Credit Kendras, who focussed on SHGs.

9.1.13 Micro Credit Branch

The above concept of IBSUM was developed further by the bank. *Indian Bank is the only bank in the country which has opened an exclusive branch at Chennai City for lending to Self Help Groups.* The ambience of the branch has been uniquely designed, with a provision to hold mini conference, library, catering, etc.

9.1.14 Junior SHGs

Expanding the coverage of Self Help Groups, the bank encouraged and facilitated children of SHG members to form SHGs among themselves so as to inculcate the habit of saving and self-help.

9.1.15 Acclaim from United Nations on SHG Implementation by Indian Bank

The United Nations Office for Project Service (UNOPS) commended the successful implementation of the International Fund for Agriculture Development project by Indian Bank along with other stake holders, and appreciated that the project induced activities, increased the confidence, self-respect and cohesiveness besides broadening the outlook on health, sanitation and social issues of the women folk of the rural areas.

9.1.16 SHG Project Evaluation by Agricultural Finance Corporation

The Agricultural Finance Corporation of India, which conducted terminal evaluation of the IFAD project, underlined the following as specific gains of the target groups:

9.1.17 Economic Impact

- 64% of the beneficiary families crossed the poverty line.
- Per capita income tripled in the income group of less than Rs 3,500, and doubled in other income brackets.
- 80% of the beneficiaries attained entrepreneur status.

9.1.18 Social Impact

- More than 70% of the women felt that their self-confidence had increased considerably, while 93% of the women gained control over income.
- 65%–70% of women felt like protesting against various abuses, and 55% acquired communication skills.

The bank had a 'think tank' which came up with brilliant ideas and innovative concepts in the area of social lending. I encouraged the team with some lead points so as to keep the Priority Sector wing of the bank vibrant. This culminated in the bank coming up with unconventional ideas and introducing path-breaking schemes which kept it always a step ahead of others.

Some of the major initiatives taken for enhancing the flow of credit to the Priority Sector in general, and agriculture in particular, are outlined in the following paragraphs.

9.1.19 Four-year Agricultural Credit Perspective Plan

Aside from lending to SHGs in rural areas, the bank focussed on other areas for improving the flow of credit. As early as 2003 it prepared a four-year Agricultural Credit Perspective Plan for doubling the agricultural credit before March 2007, coinciding with the bank's centenary year, instead of preparing annual plans which did not set any short term objective/goal. This was done by the bank on its own when there was no direction from either the Regulator or Government of India. The objective was to double the agricultural credit by enhancing the pace of lending and ensuring a growth rate of more than 30% every year.

9.1.20 Innovative Business Scouting in Rural Areas (Farm Graduates as Marketing Executives)

With a view to deepening its reach in the rural areas, the bank, during the Restructuring Plan, engaged unemployed agricultural graduates every year during the peak crop season for sensitizing farmers on the various schemes offered by it and marketing the loan products. These agriculture graduates were able to strike good rapport with the rural clientele, being familiar with their language and customs, and providing counseling to them on various subjects of topical importance, besides marketing. The farm graduates were deployed to organise month long farm credit bazaars—an intensive credit campaign during the main kharif and rabi seasons for sanction of loans on-the-spot to the farmers. This cost effective strategy is now being emulated by a few other banks as well.

9.1.21 Thrust for Agricultural Credit

The bank has been consistently focusing on agriculture and rural development. With a view to paying focussed attention to these two chosen areas, it categorised 16 out of 30 Circles as Rural Circles and exhorted them to focus on maximizing lending (both farm and non-farm) in the rural areas. Rolling shields were presented to Circles which excelled in the parameters set. Best performers were also invited to meet the Chairperson once in a year, and their services were appreciated/acknowledged in the gathering of colleagues. Recognition given to the performers in this way worked wonders in the organisation and kept the banks flag flying high for the excellent work done in the area of rural development.

9.1.22 Rural Credit Franchisee

Public sector banks had done a remarkable job as developmental bankers in the rural areas during the post-nationalisation period. Notwithstanding the unparelled work done, not more than half of the bankable public had access to the institutional credit mechanism in the country, due to a mosaic of factors like transaction cost, thinning margin for intermediation, small value etc. And the large number of credit proposals also had an impact on the cost of supervision, etc.

On the other side of the coin, rural borrowers needed credit in time, and in adequate quantity. For them the cost of borrowing was only secondary, as the agricultural operations are season–sensitive.

To quote an editorial in *Business Line* dated 27th June 2001:

It would be wishful thinking to expect the Banks to deliver Micro credit and Self Help Schemes. Though conceptually exciting, they only represent pockets of success in a field dominated by non-institutional financiers. The question academics have grappled with is whether it would make sense for Banks to co-opt the competitive, and refinance the non-institutional financiers' who can then be enabled or persuaded to lend at lower rates.

After a detailed in-house deliberation and wider consultation with field units, the bank prepared an approach paper on a path breaking scheme known as the **Rural Credit Franchisee** (RCF) with the following major objectives:

- Enhance access of rural poor to the bank's credit scheme through financial intermediaries.
- Ensure that credit is made available at reasonable interest rates by the franchisees to farmers.
- Improve the volume of credit flow in the rural/semi-urban areas.
- Reduce the cost of transaction.
- Minimise credit risk by externalizing permissible part of pre- and -post-sanction credit process.

Under the scheme, eligible institutions/firms/individuals engaged in lending to rural folk are provided with a line of credit which they would in turn use to finance farmers, artisans, agricultural labourers, SHGs, etc., at the rate of interest specified by the bank. This is subject to supervision by the bank for ensuring that the ultimate end users of credit are not exploited by the

RCF. It was expected that in course of time enhanced flow of credit in the rural segment would bring down the exorbitant rate of interest charged by the rural money lenders. As the supply would have improved substantially, it was intended to douse the usurious rate of interest charged by the conventional money lenders.

The bold scheme evoked lot of interest among those involved with Rural Development activities and the bank made a presentation on the concept, objective, achievement etc., at various fora like NIBM at their specific request as it generated lot of interest.

Today, the same concept is being deliberated/used by various institutions/organisations to meet the huge unsatisfied demand of the rural sector. The bank also had mega plans to develop the concept further as credit alone will not transform the rural areas. The identified RCFs, apart from playing the role of low cost, unconventional rural credit purveyors complementing the functions of banks/cooperatives, were expected to be developed ultimately as one-stop-shops wherein all inputs would be available. The scheme has more relevance today, as the rural scenario has not changed much, and the formal Rural Credit Finance Institutions will find it difficult to reach the last mile post in the rural areas due to obvious constraints like infrastructural bottlenecks, unfamiliarity of the terrain, different wavelength of the rural masses, urban bias of the personnel employed, profit consciousness of the lenders, etc. Such an approach alone can take banking to the rural segments in unreached corners where there is greater urgency and need for it.

To ensure inclusive growth by reaching the unreached in the rural areas, banks have to be imaginative and bold and encompass new initiatives. Today, more deliberations are taking place on involving traditional money lenders by the Rural Financial Institutions with which the bank experimented six years before. Banks in the country would do well to opt for a scheme akin to that of the RCF of Indian Bank in their endeavour to deepen the reach in the rural segments.

9.2 Rehabilitation of Overdue Borrowers Under Agri Sector

Farmers do promptly repay their dues and hence agriculture has one of the top loan repayment rates. In case they are not supported at times of financial crunch, they will be constrained to approach local money lenders who charge exhorbitant interest rates. Once the loan account is classified as NPA, the farmer may not be able to have access to the formal credit delivery institutions. Hence, a realistic and sympathetic approach is required while handling the farming community. Factoring in these ground level realities, the bank had introduced a new scheme called Rehabilitation of Overdue Agricultural Borrowers, aiming at helping the farmers who faced genuine liquidity problems and thus were not able to repay the loans.

Farmers who were not able to repay the loan due to genuine reasons, like death of a family member, loss of income, desease, pest attack, family function etc. were assisted under this scheme by rescheduling the debt, and providing additional short/medium term loans. The ability of the bank to appreciate the difficulties of farmers in distress and assist them in time is yet another example of the genuine concern the Indian Bank had for the farming community. This scheme was undertaken by the bank without any prompting or direction to do so.

9.3 Structured Loan Products under Agriculture

The rural clientele also need different loan products for meeting their credit requirement, like their counterparts in urban areas. Today, banks focus on retail loans due to better pricing, volume, distributed risk, minimum delinquency ratio, etc. However, in 2000 itself Indian Bank came out with a host of new structured loan products to meet the credit requirement of different segments of the rural society based exclusively on market surveys. The following merit mention:

9.3.1 Indian Bank Kisan Bike Scheme

Indian Bank was the first to design and introduce the product, namely the Kisan Bike Scheme under which credit support was provided to farmers for purchase of two-wheelers, which are used by them for transporting small quantities of farm inputs to the field, and agricultural produce to the market. The scheme was a runaway success. As mentioned by one of the District Collectors in Tamil Nadu, “the Bank has taken the farmers from Bullock carts to Bikes”. The scheme, launched on August 15, 2000 by Bank, is being replicated today by many other banks.

9.3.2 Agricultural Vendor Bike Scheme

To facilitate vendors in rural areas who are small time operators selling agricultural and allied products like milk, egg, vegetables, etc. the bank introduced an exclusive product under which loans were provided for purchase of two/three wheelers.

9.3.3 Artisan Credit Card Scheme

Vallalar Grama Bank, Cuddalore, one of the four Regional Rural Banks sponsored by Indian Bank was the first in the country to launch the scheme of Artisans Credit Card to provide credit facility to rural artisans. The bank chose two clusters engaged in wood carving at Kallakurichi in Villupuram district of Tamil Nadu and, in association with the Handicrafts Development Department of Government of India, launched an Artisan Credit Card Scheme to assist Rural Artisans. The scheme was launched on March 11, 2003 by the then Hon’ble Chief Minister of Puducherry.

9.3.4 Beyond Banking

The personnel of the rural branches of the bank identified themselves totally with the local populace. The bank participated actively in the process of providing infrastructural facilities in the rural areas—like drinking water facility, roads, bus shelter, library, etc.

The bank organised health camps, eye camps, animal health camps, blood donation camps, etc., regularly at various rural centres by involving voluntary organisations, or on its own. Such an involvement deepened the relationship with the rural clientele, and the rural populace always looked to the bank not only for credit but for total development of the area. Hence, Indian Bank always remained the common man’s bank.

9.3.5 Cash Award for Meritorious Children in the Rural Areas

During the restructuring period, the bank introduced a novel scheme of providing cash awards to meritorious students in all the 14 lead districts. The bank provides even today cash awards to top three rankers in the Plus Two exam, since it recognises that Plus Two is an important stepping stone for rural children to gain entry into professional courses. I take great pride to say that this particular scheme was also introduced during my tenure, which gives me immense satisfaction.

The Bank received the IBA Trophy for excellence in lending to agriculture from the Honourable Union Minister for Finance Shri Yashwant Sinha in 2002 Further, the coveted IBA trophy was won by Indian Bank for second time in succession in 2003, for lending to agriculture.

9.4 Recovery Management

There is no gainsaying the fact that the mind–boggling size of the Non-Performing Loans/Advances (NPAs) of the bank was the main cause of its steep deterioration in financial health. During the year 1995–96, the year in which the bank had posted shockingly high losses, the quantum of fresh NPAs had gone as high as Rs 1319 crore, forming almost one-fourth of the standard advances (25.94% of Rs 5083.00 crore of standard advances at the beginning of the year 1995–96). No wonder the bank incurred a net loss of Rs 1336.40 crore, and experienced the trauma of this financial catastrophe for years to come. This was a rude shock not only to the people within the organisation but every other stakeholder, be it the Customers Regulators or the Owners, particularly in the context of its past track record as the fastest growing bank in the first two decades after nationalisation when it had improved its ranking from 13 on the day of nationalisation to the 6th in 1992, in terms of Deposits during the period.

There were certain symptoms which manifested in the year 1993–94, though not very alarming, then in the form of a net loss of Rs 391 crore. This was perceived to be the impact of the newly introduced IRAC (Income Recognition and Asset Classification) norms in the banking industry. In truth, more was not seen in the situation then, perhaps because the Bank had made a marginal operating profit of Rs 75 crore, and net profit of Rs 14.26 crore during the year 1994–95, as per the published financial statements.

It does not need much insight to see that the bottom-line of the bank was impacted by the accretion or otherwise of Non-Performing Assets which undermined its profitability in two ways. First, by incapacitating it from booking the interest income on the advance accounts unless they were realised, and second by provisioning the need for making all the fresh NPAs as per IRAC norms under the category of substandard or doubtful accounts where, if direct slippage takes place, the quality of the advances is seen as poor. This was in addition to the enhanced provisioning required in case of existing NPAs due to efflux of time. More importantly, the third aspect which went unnoticed was the cost of funding of the accumulated losses resulting from increased incidence of NPAs. Consequently enhanced provisions had to be made.

9.5 NPAs—The Termites

NPAs do not manifest overnight. Most often they are likened to the termites which, when the quality of the wood/construction is poor and the necessary preventive measures are not taken up, are capable of causing serious damage from within, systemically, though slowly. In 1993, with a gross domestic NPA of Rs 1293 crore, the portfolio rose to Rs 3120 crore by the year 1999, which was at 40.71% of gross advances (domestic), the highest any bank in the country had ever registered at that point of time. In fact, it was as high as 44% to gross domestic advances in the year 1997. Naturally, such huge NPAs attracted large "loan loss provisioning" till the bank turned around to make net profit in 2002.

9.6 Factors Responsible for NPAs

In retrospect, the huge losses incurred by the bank were on account of the NPAs, which accumulated due to various factors. Though that factors have been discussed earlier, they bear emphasis as they formed the primary cause of the banks troubles. Broadly speaking, the major one was the entry level quality of these advances. The major causes were inadequate credit appraisal and excessive exposure to certain risky sectors like real estate, construction, film industry, hospitals, educational institutions, etc. whose cash flow could not be monitored. Added to this was the failure to valuate the securities properly while approving and disbursing of advances. The valuations of securities were not realistic; they were abnormally high. The property values *slumped subsequently due to general economic conditions* which further worsened the situation and, as such, the bank could neither recover the overdues nor contain the NPAs. In many cases, more so in the manufacturing sector, the stocks and receivables depleted and became obsolete, or had negligible value.

Due to sluggish economic conditions, some of the industries either slowed down production or incurred losses. Quite a few of them had sought the protection of the Board for Industrial and Financial Reconstruction (BIFR)/Appellate Authority for Industrial and Financial Reconstruction (AAIFR). The plant and machinery being very old, the non-functioning of these industrial units further depleted their valuations. All this had resulted in the bank making a provision as large as 77% of the gross NPAs. The recoverability and realisability of the securities in these NPA accounts was found too divergent from the valuations available in the bank's records. There was thus very low actual realisation on these securities compared to the approved engineer's valuations, what with market forces coming into play, more so when the securities were sold as those of a concern in distress, or through forced sale by a Public Sector Bank.

Inordinate delay in taking a decision on the final disposal of NPA accounts also resulted in further erosion of the asset value, particularly of stocks, equipment etc. The glaring deficiencies in the Credit Management and Monitoring System affecting the interests of the bank had naturally cast dark shadows of accountability on the officials within the organisation who had been a part, directly or indirectly, of the process of such lending. It is altogether a different matter how it had subsequently affected the morale of the employees, when accountability action was ag gressively pursued, and in some cases conducted by even the external investigating agencies.

9.6.1 Failing Legal System

To add fuel to the fire, there were certain other external factors which were also responsible for the cluttering of the NPAs. One was the legal system—none too cooperative and congenial to the recovery climate. Till the establishment of the Debt Recovery Tribunals under the enactment of The Recovery of Debts Due to Banks and Financial Institutions Act, 1993, the banks were at a loss as to how they should deal with the legal claims, or cases where suits had been filed and pending with the Courts for abnormally long periods—either waiting to get numbered, or even to get dates for hearings! The borrowers were clever enough to obtain continuous adjournments to frustrate the efforts of the bank to recover the dues. The cases referred to BIFR are other examples of the protracted rehabilitation process, and misuse of the SICA provision by defaulting borrowers.

9.6.2 Decision Making in the Bank

Yet another aspect that had created NPAs in the bank was the poor/delayed decision-making, bordering indecision on whether to rehabilitate, restructure, exit, go through negotiated settlements, or go for a write-off. Given the complexities of the situation—like focused staff accountability, external investigations and criminal proceedings—no decision was considered to be a good decision. The spectre of fear haunted officials at all levels in the bank.

In such a situation, bold and courageous leadership initiatives were required to be displayed by the top leadership which was not done. Had a select number of these viable units been provided with need-based life support funding, without bringing them to a grinding halt, many of the accounts might not have turned out to be NPAs. More so, the value of the assets so charged to the bank would not have deteriorated, and in the eventual negotiated settlement with such units, the bank would have gained more, much more.

As stated before, due to inadequate recovery initiatives and action, with passage of time, a large number of the NPAs had become what is referred to as “Hard Core”, needing enormous effort and relentless follow-up, and different strategies to resolve them in the subsequent years.

9.6.3 NPA Reduction Strategies

Having thoroughly understood the causes, and the need to urgently drawdown the level of NPAs of the Bank, a multifold attack on the NPAs was initiated, and the bank authorised to ensure that the turn around was brought about through aggressive recovery measures from 2000 onwards, with the recoveries touching a peak during 2001 and 2002.

- In cities like Chennai, Mumbai and Delhi where the incidence of NPA was high, specialised "Asset Recovery Management Branches" (ARMBs) were opened, and subsequently more such ARMBs were established in places like Kolkata, Hyderabad and Coimbatore. All the NPAs of Rs 25 lakh and above were transferred to these branches which were staffed with legal and experienced officers. Exclusive targets were given to these ARMBs, and their work was monitored on a weekly basis.
- To overcome the fear psychosis in individual officers and executives at the top management level attending to NPA resolution, a Committee of General Managers was formed who worked closely with the Settlement Advisory Committee consisting of Retired High Court Justice, and a very senior retired banker who vet all negotiated settlement proposals of Rs 10 lakh and above.
- The Committee concept was extended to Zonal/Regional/Branch levels in the year 2000 to infuse confidence and motivate the operational staff to take up negotiated settlement in all eligible cases in right earnest within a stipulated time schedule.
- Though the bank had formulated a Policy on Compromise Settlement of NPAs as early as 1995, the recovery work on NPAs was not so encouraging. Recovery of NPAs from 1996 till 1999 was far less than the accretion of fresh NPAs, and the bank was struggling to enhance the recovery level. Consequently, in 2000, the Recovery/Compromise Policy of the bank was modified to reflect a more pragmatic and practical approach, taking the spirit of the guidelines RBI of on negotiated settlements, Government of India's review directions, and the suggestions given by the IBA Committee on the NPAs in Banks (1998).

- ➤ This new policy, for the first time, dealt comprehensively with all aspects of the recovery, reduction, as well as arrest of the existing accounts from becoming NPAs, besides fortifying concerned officials at various tiers in the organisation with adequate discretionary powers. The subsequent successive improved recovery performance of the bank is a testimony to the success of the revised pragmatic and realistic policy guidelines put in place.
- ➤ The Reserve Bank had also given the banks on more than one occasion, the guidelines for a one-time settlement for small farmers and marginal farmers (2002), Small & Medium Enterprises' borrowers of sums upto Rs 10 crore (2005), negotiated settlement for borrowers with loans outstanding up to Rs 10 crore (2003), and Lok Adalats for very small accounts up to Rs 1 lakh (2006). The bank formed the guidelines and utilised the opportunity to better the recovery of bad loans, and clear its balance sheet of these menacing NPAs.
- ➤ Several other strategies followed by the bank and implemented in a very focused manner are given below:
  - ★ Formation of mobile recovery teams at all Regional/Circle Headquarters, and giving specific targets of recovery to them.
  - ★ Conducting recovery campaigns in branches or cluster of branches at regular intervals with assistance from controlling offices, depending on NPA levels prevalent. The bank's NPA position was highlighted here.
  - ★ Designating one senior officer for each of the NPA accounts of Rs 5 crore and above, and monitoring the recovery in these accounts by the concerned officers on a weekly basis.
  - ★ Entrusting all NPA accounts of Rs 1 crore and above, and upto Rs 5 crore in clusters to specified officers, and reviewing their performance regularly.
  - ★ The exposure under the above two categories of accounts itself constituted two thirds of the gross NPA. A special cell at Head Office called "Special Recovery Monitoring Cell" was constituted with very senior and experienced officers, and day-to-day monitoring of top 15 group accounts whose exposure was close to Rs 1000 crore, was entrusted to them.

- The Chairman and Managing Director, and the Executive Director reviewed all the suits filed against NPA accounts of Rs 1 crore and above every week, and gave suitable directions for enhancing recovery.
- Power Point presentations were made to the Board of Directors on the status of all the NPAs above Rs 5 crore and the recoveries made. Also, quarterly review of the recovery performance in each individual account of Rs 1 crore and above, was conducted by the Board.
- The General Manager in-charge of the Recovery Department was personally held responsible for monitoring the performance of all ARMBs and asked to report periodically to the Board on the improvements made.
- In the Chennai Circle, which had the distinction of harbouring large NPAs, a Committee of two General Managers and two Deputy General Managers held negotiations with all the NPA borrowers and approved OTS proposals on the spot. This action made it clear to every one that the bank was serious in the resolution of NPAs by providing quick decisions in deserving cases.
- A special review of loss assets was made by the Chairman and Managing Director, and the Board of Directors to take a final call on them.
- All executives above the rank of Assistant General Manager were deputed to various Circles to meet the NPA customers at their doorsteps, negotiate for settlement and recover the NPAs. This has been perceived as an excellent initiative whereby the momentum of NPA recovery was created in all the Circles, bringing home to all cadres the seriousness of the problem, and the intense efforts required to be put in on an ongoing basis.
- Stiff and ambitious recovery targets based on the recoverability assessed in each NPA account, irrespective of its size or Branch were given to all Zonal Managers/Regional Managers/Branch Managers, based on an analysis carried out by them.
- ABC analysis of all NPAs was done to assess the realizable value, with due weightage given to the location of the security marketability, possession, the time that would be taken, and the costs involved therefor. Based on this analysis, a

discounted cash flow was arrived at and, accordingly, one-time-settlements were negotiated with the objective of getting maximum recovery with minimum expenses in the shortest possible time frame. The Board of Directors were apprised of the status in these accounts at frequent intervals.

- Lok Adalats in respect of small NPAs, at Circle level, district level and cluster level were conducted with participation of local legal services authorities, and the accounts were settled then and there.
- Appropriate MIS was created with full details of individual NPA accounts. The proceedings of the Debt Recovery Tribunals in these accounts were obtained on-line, and the status was updated regularly.
- The Best Performing Officers engaged in recovery were recognised and suitable weightage was given in their Performance Appraisal/Performance Evaluation.
- To encourage healthy competition among Zonal Offices, Best Performance in NPA Recovery Shield was initiated in 2001–02.
- An important but cumbersome activity that was successfully executed was the strengthening of securities with persuasion of the borrowers and their legal advisors. This step enhanced the prospects of recovery, and facilitated taking of legal action like filing of suits/recovery applications, sale of properties, etc. There were several such instances of improvement in the securities effected due to which the bank was able to recover more than the expected amount. It is left to anybody's imagination about the courage and foresight the top management exhibited, unmindful of the risk involved in such exercises in the best interests of the bank.

The borrowers, more particularly in the rural and semi-urban areas, who were prompt in making repayments, were honoured to generate a congenial recovery climate. Due media coverage was also given to them.

- When RBI had come out with a one-time recovery policy, with a view to give wider publicity, the bank brought out audio cassettes prepared in-house by employees with folk songs and skits on recovery in the respective local languages targeting rural and semi-urban NPA customers. This novel measure helped the bank immensely.

- All the legal advisors/lawyers who were handling the suit-filed cases or recovery applications filed with DRTs, were called to the Head Office and Circle Offices and their performance was reviewed closely by the Chairman and Managing Director/Executive Director and the other senior executives to give a thrust towards early disposal of all legal claims of the bank. Wherever it was found that the existing advocates were not active or alert enough, young and dynamic advocates were engaged. In fact, the bank's Board had encouraged the engagement of a contingent of lawyers as is the practice abroad, like in the USA, and very senior Standing Counsels were engaged in selective Appeal matters.
- With the advent of Debt Recovery Tribunals, (DRT) all these cases were transferred to it. Though, in the initial stages there were teething problems like non-availability of suitable infrastructure, inadequate manpower, lack of familiarity with the new systems and procedures and the recovery mechanism, in the course of the next 3-4 years, the delivery of DRTs improved. More DRTs were also established to keep pace with the large number of recovery applications filed by banks.
- Indian Bank had taken initiative not only to provide reasonable infrastructure to the DRTs, but also to establish such tribunals in Tamil Nadu as a special case where it had huge NPAs and desired to take advantage of the new dispensation of legal remedies.
- Implementation of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2000 was undertaken through issue of recovery notices in all eligible accounts, and taking possession of the properties to create not only pressure on the recalcitrant borrowers, but also to send right signals to the market about its determination to recover its dues. The legal department of the bank had risen to the challenge in this matter. Some of the exciting experiences in the resolution of the NPAs of the bank were not only laden with risk, but were also novel challenges.
- In one of the cases, the proposed sale of a huge multistoried property of high value located right in the central business district of Chennai City, was given wide publicity by planning a colourful picture of the property and its surroundings conspicuously in leading newspapers. This advertisement not

only became a subject of public talk in the entire city and other places, but also brought the desired pressure on the borrowers (who had till then been avoiding settlement) to come around to the negotiation table.

- Yet another instance was when the bank organised the first take-over of a hotel property situated right on Mount Road, a main artery of the city, by deploying a private security force, police personnel, and legal officers under the team leadership of the General Manager (Recovery). This was the first enforcement of the SARFAESI Act, 2000 by any bank in this area and attracted attention throughout the country, and the bank's top management received several enquiries on how it was to be enforced.
- One more classic case of enforcing the provision of the SARFAESI Act was in respect of a very huge landed property, a well known address in a major metro used for motor car race events and motor sports. The bank had sealed the entire property and served notices on all the sponsors of the events to pay the amounts due to the bank. The publicity it generated had become the talk of the town as the trustees of the borrowing organisation were well known industrialists.

The bank had relentlessly pursued recovery from all the NPA borrowers, however big or influential they were, including some Political leaders. Notwithstanding the type of bad lending done earlier, several bold decisions were taken as they were needed at that time.

9.7 Role of the Board and CEO

The Board of the bank during this period was well constituted, having members with expertise and rich experience in diverse fields. It thus did not take much time to approve a revised compromise and recovery policy which facilitated the speedy recovery of the NPAs.

The board members made innovative suggestions like constituting a special contingent of lawyers to take up pending cases, special account-wise review of NPAs of Rs 5 crore etc. and above all, bold directions in respect of accounts considered as fraudent, and those suspected of willful default. They appreciated the individual efforts of the executives and staff in the recovery mechanism, made suggestions for clearing the Balance Sheet of the long-pending very small loan accounts opened under Government-sponsored schemes and lent positive support, to the General Manager and the entire recovery team of the bank.

The top management monitored NPA recovery on a daily basis NPA customers, besides initiating prompt legal action to make recoveries from indifferent and non-cooperative borrowers.

On almost daily basis I, along with the ED and General Manager met high value NPA customers and initiated negotiations for recovery so as to instil confidence, and give a sense of direction to the officials involved in the recovery process at different levels. It would not be out of place to mention that the negotiations and deliberations were often intense, sometimes so hot that a few of the recalcitrant borrowers would even react with threats—their body language saying it all—while the genuinely affected borrowers often had tears in their eyes as they pleaded their inability to pay off the entire dues. Whatever be the situation, we ensured that we came out with a better compromise offer always. This was the best part. Apart from the facts on record of individual cases, our keen observation, and to some extent patience during these deliberations, enabled us to clinch deal after deal ensuring at the same time that the bank's sacrifices were kept to the bare minimum.

The total Recovery of NPAs exercise was conducted so objectively and so transparently that the past was never blamed.

Equal stress was placed on containing fresh incidence of NPAs by identifying the standard assets that were under stress. A separate department—Standard Assets Monitoring Cell—was formed for monitoring of standard assets.

The strong credit appraisal and monitoring mechanism in the bank facilitated quick disposal of credit proposals at appropriate levels, leading to improved CD ratio and low incidence of fresh NPAs—down from 4.5% to less than 1% in a period of 5 years. The consequent increase in profitability and improvement of the bottom line and immense confidence generated as a result at various levels of decision-making proved worth the effort.

The entire process of NPA management in the bank traversed from a menacing, dreaded and arduous path to a manageable and comfortable portfolio, thanks to the planned and sustained efforts put in by the bank's staff and executives at every level. No wonder that this 'Turnaround' project is talked about today as a 'Case Study' in reputed management schools and an exceptional model in the entire banking industry in India and abroad. The work force of the bank had proved to be one among the best in the banking industry.

Moving ahead, the Bank never looked back. It improved on all the financial parameters in the subsequent years and grew to the stage of being acclaimed as a strong bank. Shri P. Chidambaram, Hon'ble Union Finance Minister: *"It is a proud day for me to return to a stronger, more vibrant and more profitable Bank"* (on his visit to the bank on 15.11.2005).

9.8 Overseas Operations

Singapore Operations

Indian Bank, Singapore is one of the oldest among the foreign banks operating in Singapore. Setting its foot in 1941, the bank has been a forerunner in handling the business emanating from the ethnic Indian community of Singapore, which then formed a part of Malaya. With the handling of offshore business emanating from neighbouring countries, besides domestic business, the Singapore branch had, over the years, become a focal point and an important centre for coordinating the bank's activities in the Far East.

The bank's traditional business in Singapore was that of financing trade, handled largely by people of Indian origin settled there. With a migrant labour population largely from southern India, engaged in construction and other infrastructure sectors, the bank had a business advantage in handling rupee remittance. It was a market leader among India-based banks, with the Indian Overseas Bank providing close competition with a similar market presence and network of branches in India. The Indian Bank, Singapore, with its status as a full licensed bank, was in a privileged position to handle virtually the entire spectrum of commercial banking operations, including retail, wholesale and corporate banking, in the local currency as well as in other convertible currencies such as USD, Sterling, Japanese Yen, Euro, etc. With its strategic presence in the central business district of Singapore, and housed in Bharat Building, the banks' own property co-owned with UCO Bank, the Indian Bank built up a decent customer base.

After the publication of its balance sheet as of 31.3.1996 in India, reporting huge accumulated losses on account of NPAs, the regulatory authorities in Singapore started reviewing its overall financial health and soundness with reference to its financial capabilities to support the Singapore branch's operations whenever warranted. The matter reportedly figured in the discussions the then Chairman of the bank had with the regulatory authorities in Singapore in 1996. The assurance given by the Chairman on the possibilities of early capital infusion and subsequent recapitalisation to the extent of Rs 1850 crore, perhaps conveyed the efforts being taken to shore up capital adequacy and correct the imbalance. However, developments reflected by the bank's financial performance in the subsequent year, and continuance of gross capital inadequacy caused serious concern to the regulators, as I sensed from a meeting I had with them in November 2000.

In that meeting, the regulator's concern on the continued negative net worth of the bank was conveyed in no uncertain terms. It was made clear that as on the date of review, Indian Bank was perhaps the only foreign bank in Singapore, with a negative net worth. While banks from various other countries such as Indonesia, Thailand, Malaysia etc., which had then branches in Singapore, had issues at different levels on measuring up to the required capital adequacy considerations, they had shown continued progress in correcting such imbalance. That however was not the case with Indian Bank. Although infusion of further capital was reportedly under consideration for quite some time, nothing much, had happened in real terms to the satisfaction of the regulators. The Singapore authorities have a system of renewing licences of foreign bank branches on a yearly basis after due assessment. Discussions held with the regulators gave me enough hints that renewal of the branch's licence, falling due in March 2001, was not going to be an easy task, given the uncertainties on the capital adequacy front, and the delay in recapitalisation.

In the meanwhile the branch had conveyed to the regulatory authorities the steps taken by the bank at the macro level, including submission of a Restructuring Plan to the Government of India covering a period of three years, and its commitment to achieving the envisaged business and operational targets/parameters pending infusion of capital. Constitution of a high level committee by the Government of India to examine the case for restructuring of weak banks, including Indian Bank, and their recommendations for recapitalisation, were also conveyed to the Singapore Authorities. Significant improvements registered by the Singapore branch both in qualitative and quantitative terms were also highlighted. The branch also kept the High Commissioner in India for Singapore informed of the developments, with a request that he take it up at the appropriate level. While the positive measures taken by the bank and the improvements registered were taken note of and appreciated, the same did not lessen their concern on its capital inadequacy and the delay in recapitalisation.

The onus was put on the bank management to take it up with the owners and the regulators, so as to avoid withdrawal of its licence in Singapore. The Singapore regulators were aware of the fact that the bank, despite its financial handicap in terms of capital inadequacy, was wholly owned by the Government of India, and that the question of owners abdicating their moral responsibility to recapitalise it simply did not arise. However, they were perhaps placed in a piquant situation. It seems the Indian Bank was not the only bank, or the only India-based bank faced with issues arising out of Weak Bank status. A firm decision on a uniform footing for setting right the deficiency in all such cases was only a natural corollary, and may not be considered as unusual.

The necessity of Indian Bank, Singapore getting its licence renewed was given due weightage by the regulators in India. But expecting them to enter into a financial commitment to provide additional capital to the bank within a given time frame, was obviously not possible, considering the time required for getting parliamentary approvals for policy level decisions. Hence, this sensitive matter had to be very delicately handled. The understanding shown by both the regulators in handling this issue, was commendable.

Before renewing the licence, the Regulators wanted to be convinced that there would not be further delay in recapitalisation and that, if anything untoward happened in the meantime, the bank would have sufficient liquidity to meet the claims of all the depositors. It assessed this capability by scanning the asset portfolio, the quantum of liquid funds and other resources available, as well as the branch's ability to convert other assets into liquid funds within a short time frame. In addition, the bank was required to make up the estimated gap between liability arising out of possible repayment of unencumbered customer deposits and liquid assets available with it in Singapore for meeting such commitments through placement of deposits from its Head Office funds. Such placement of foreign currency deposits was required to be done at short notice. On compliance with this condition, approval was accorded in April 2001 for renewal of banking licence, subject to adherence to certain terms and conditions.

9.8.1 Implications of the Revised Working Arrangement for the Bank

(1) The cap on Customer Deposit levels automatically implied containment of growth of advances and the asset side of the balance sheet, though not explicitly stated.

(2) The branch had built up considerable goodwill among Indonesians of Indian origin who had been patronizing it both in India and in Singapore with significant deposits. With the closure of the bank's representative office in Indonesia in 1998, this business was handled by the Singapore office. The bank's inability to move up on the Customer Deposit scale, therefore impacted on its ability to maintain the relationship.

(3) Head Office had to make available large sums of foreign currency funds through its branches for re-placement with Indian Bank, Singapore, and this was tantamount to blocking of resources for an indefinite period. This resulted in significant opportunity loss for the bank's Head Office in regard to utilisation of such funds at home. There was however little choice.

(4) The Indian Bank, Singapore was required to place such funds sourced from the Head Office, as well as other surplus funds available with them, with designated banks in Singapore so as to meet the regulatory requirements of 100% unencumbered Customer Deposits. Coverage and the placement of such funds had obviously to be done at market acceptable

rates, which was very often quite below inter-bank offered rates, resulting in significant loss of deployment opportunities for the branch, on the fairly large sum of resources it handled.

(5) Renewal of licence for a period one year w.e.f. 31.3.01, was only a breather in the sense that it was only an interim arrangement, implying that renewal for further periods beyond 1.4.2002 would not be possible in the event recapitalisation of the bank did not materialise by then.

(6) In March 2002, the licence was renewed for one more year subject to the continuation of the interim arrangement.

(7) What is significant to be noted here is the fact that the Singapore Branch maintained consistent satisfactory progress in operations during 2003–07 and the licence was renewed for these respective years.

9.8.2 Importance of the Singapore Branch

Apart from the heritage factor of being one of the oldest among foreign banks operating in Singapore, the Indian Bank, Singapore represents a critical and significant market presence for banks outside the shores of India. As judged from market reach, visibility and connectivity with other money centres of the world, its presence in Singapore, particularly as a fully licensed branch provides a significant advantage for the parent bank in terms of providing comprehensive international standard banking services to clients in India and abroad. In terms of brand presence and popularity among a niche market segment, the bank had built for itself a pride of place, with strong goodwill, which offered substantial business potential. Judged from the Return on Capital deployed angle, the bank did not perhaps have an impressive record. But it did not take away the fact that it had substantial business potential in a growing market place which could bring in significant profits in the years to come. Moreover, the Branch licence in the full licence category has been a coveted jewel in the bank's possession. Its preciousness stems from the fact that the Singaporean authorities have quite some time back stopped issuing fresh licences to banks for setting up a branch, or upgrading to one under full licence category. This status is obviously a great advantage for existing market players, since there is no competition from new market players holding branch licence under similar category (till there is a reversal in policy, which seems unlikely). This is as much to say that the value of the branch's presence in Singapore has to be seen more in terms of the potential that it offers than by financial assessment of its NAV.

Indian Bank, Singapore had been a forerunner among India-based banks in Singapore in offering rupee remittance facility to Indians and Indian-origin Singaporeans. The migrant Indian population, largely hailing from South India, particularly Tamil Nadu, where the bank has a very significant and Lead Market presence in terms of geographical reach and network of branches, has been a factor to its advantage. The branch has been capitalizing on this factor to augment its fee-based income besides earning value–added goodwill for being in a position to provide remittance facility to a large number of customers, including small time labourers with a disposable income of less than thousand Singaporean dollars. The ability of the bank's branches in India to open Savings and Checking account facilities in rupees, termed as Non-Resident External Accounts, to enable them to utilise what is needed and save the rest as investment of a repatriable nature, has been a great advantage which the Branch has successfully tapped, for augmenting its remittance business and income.

9.9 Interaction with Diplomats, Customers and Staff

I visited Singapore on November 20, 2000. After visiting our branch and interacting with staff members besides making an overall assessment of its operations, I attended a luncheon meeting with the Forum of India-based Banks in Singapore. We discussed the overall market scenario following the Asian Currency Crisis that had engulfed Singapore and its neighbouring economies during 1997–1999. Given the fact that quite a good number of Non-Performing Assets (NPAs) had emerged from the Indian business community as an aftermath of the crisis, I advised the bankers to have increasing communication and transparency among them, without violating the secrecy norms. Such an approach, I thought, would preclude possibilities of any defaults in the common borrowal accounts.

During my meeting with his Excellency P.P. Shukla, High Commissioner for India in Singapore, I broadly indicated the turnaround strategies of our bank. The Singapore branch is into the 60th year of operations with a distinct market presence in this part of the region. I conveyed to the High Commissioner that there was good understanding and coordination between the India-based banks operating in Singapore, as I could make out from the Forum meeting. The High Commissioner said that he had always preferred to have his accounts with an Indian Bank wherever he functioned. The relationship factor is generally missing in foreign banks, although they are more sophisticated in their services. But, in Singapore, he was constrained into opening an account with a foreign bank for the reason that none of the India-based banks had facilities such as credit cards, ATM etc. I explained to him that in terms of the MAS regulations, only select International Banks with the Qualified Bank Status conferred upon them by virtue of their stature, capital adequacy, global assets, market presence, etc. in Singapore were granted the licence to offer such facilities. As such, presently none of the India-based banks would be able to meet the parameters. He suggested that India-based banks should also extend services such as credit card facility. I suggested that the Forum of India-based banks could examine the proposition.

The reception at the prestigious Raffles Hotel, witnessed one of the largest gatherings for a foreign bank at Singapore. The invitees comprised diplomats, representatives of International Banks, Association of Banks in Singapore, leading broking firms, Singapore–India Chamber of Commerce and Industry, Confederation of Indian Industry, Government of India organisations such as the Tourist Office, MMTC Limited, ONGC Limited etc. Professors from the National University of Singapore etc., Global agencies such as Standard and Poor's, Bloomberg etc., leading solicitors and audit firms, local media, dot.com companies, business/trading community and other India-based banks. The large attendance and response from dignitaries and valued clientele demonstrated the goodwill for our bank in Singapore.

The next morning, I was interviewed live by the CNA (Channel News Asia) in their breakfast hour transmission. Generally, I was asked questions on the progress of the Indian Economy and the financial sector in particular, given the economic liberalisation that was underway. After briefly outlining the overall progress, the country had made in respect of key economic indicators, I also threw considerable light on the prospects for overseas investors available in certain sunshine sectors of the economy. There was particularly a tremendous scope for both India and Singapore to develop a symbiotic relationship in regard to investment, technology and exports. The interview that lasted for around 25 minutes was extremely well received going by the feedback that reached me, thereafter.

In the afternoon, the Singapore Indian Chamber of Commerce and Industry had organised a meeting with members, who represent a cross section of the Indian business community in Singapore. In my address to the members, I broadly outlined the economic liberalisation taking place in India and particularly, the Banking Industry. I briefly indicated the on going restructuring programme of Indian Bank, including reduction of an administrative layer for speedier decision making. Dealing with the Asian Currency Crisis and its impact on Indian Business Community, I expressed concern over the fact that defaults of Indian traders were on the increase, and the problem had got compounded with the defaulters abruptly deserting the country, leaving the financing banks high and dry. In cases where such borrowers had availed facilities with more than one India-based bank, the enormity of the overall irregularity was indeed severe. Since the Chamber represented a large section of the Indian business community, I conveyed to them that they could play a constructive and meaningful role in educating the members on the ramifications of such financial aberrations, to assist the India-based banks in recovery, without compromising on the secrecy norms. The lively interactive session that followed my address was marked by a general appreciation of the role played by the Indian Bank in Singapore in supporting Indian businessmen.

I attended the NRI meet organised by our Singapore Branch at Westin Stamford Hotel, that evening. A gathering of around 100 NRIs attended the meeting the first of its kind organised by a bank in Singapore. Addressing the gathering, I conveyed my appreciation of the support and patronage extended by the NRI Community for the bank, even when the bank was subjected to consistent adverse media reporting. This only indicated the trust and confidence the NRI community had in the bank. I briefly outlined the present position of the bank as a whole and the ongoing restructuring programme in particular. I explained the various services and facilities provided to the NRI depositors at Indian branches. I mentioned that the Singapore branch would play a key role in NRI support services. There were suggestions that the branch should display current NRI deposit interest rates, automate the data on NRI customer base, so that it simplified the filling up of application forms. I stressed that the communication between the bank and the NRIs should improve, and that the attitude of the staff should be more service-oriented etc. Our exchange rates for Indian rupee remittances were found to be competitive and appreciated.

In response, I assured to look into the complaints and instruct the concerned branches suitably. There had been a dip in the morale of the staff members in the past, but things had started improving. I conveyed to the NRIs that travelling across the country, I met various levels of field level functionaries and interacted with the staff members at branches during when I observed that there was increasing awareness on the need to be competitive and to render good customer service. I individually met the guests, representing Singapore, Hong Kong, Malaysia etc., and interacted with them. Overall they were satisfied with the services rendered.

The next day, I was in Jakarta and called on important customers of the Bank. That evening, Gandhi Seva Loka (Bombay Merchants' Association) gave a civic reception, wherein there was a very large turnout. The cream of the Indian business community was present. I was received by the President of the Gandhi Seva Loka. who introduced me to the guests, including His Excellency M. Venkatraman, Ambassador of India for Indonesia. In his welcome address *The President,* recalled the association of Indian Bank, Singapore Branch with the Indian Business Community of Indonesia. He requested me to revive the Representative Office and increase the Bank's focus on business in Indonesia. Responding to him, I expressed my gratitude for the overwhelming sentiments of the Indian Business community for Indian Bank. I was introduced to the guests by the General Manager, and the

Relationship Officer for Indonesia. I assured the gathering that quarterly visits would be made by them alternatively, to stay in touch with our Indonesian depositors and offer highly personalised services.

Returning to Singapore, I addressed the staff of our Singapore Branch. I drove home the fact that Banking was essentially a service industry. The customer is the most important factor, in the scheme of things. In other words, Customer is the king. As such, staff members should maintain a high level of response, courtesy and strict discipline while dealing with customers. For effective customers service, an in-depth knowledge of related aspects of banking is very important. Mistakes are to be avoided as far as possible since they could damage the reputation of the bank. NRI customers should be treated with special care and concern. The branch should have periodical interactions with them to have their feedback on our services both in Singapore and India.

Our bank was passing through overall restructuring and reorganisation, in India. Efforts were being made to increase the income and reduce expenditure. The overall performance of the bank was being monitored every two weeks. The adverse publicity in India was a major reason for the customer concern over our bank. Though we had overcome the situation to a certain extent, the next three years would be very crucial. We should be prepared to make sacrifices. Let us work more and work better. Our bank should be the most preferred one for the customer. We had to improve the image of the bank towards such an objective. Self-introspection by everyone combined with sincerity and accountability to self is the only way to contribute to our Bank. We should never criticise another Bank to get business. We should try to earn it on our own merits.

What was gratifying to me was the fact that reportedly there was a considerable change in the attitude and perception of the Singapore branch staff members following the meeting I had with them.

Reckoning the challenges faced by the bank both in India and Singapore, the Singapore branch staff demonstrated greater zeal and commitment towards overall business growth of the branch and customer service. NRI remittance inflows to India through our Singapore branch started increasing making the branch the Number One bank in Singapore in regard to rupee remittances to India. Further, as at 31.03.2001, the branch recorded its highest ever operational surplus—equivalent to over Rs 50 crore—thereby substantially contributing to our global income. My visit to Singapore and Indonesia created tremendous goodwill for the bank.

Saturday remittance facility was introduced in the Singapore branch to reinforce customer goodwill for the bank, and further tap the large potential of the market in regard to rupee remittances to India. This met with considerable success, as it was appreciated by the Indian expatriate community in Singapore which had found it difficult to come to the Bank on working days for making rupee remittances.

9.10 Meeting with Officials of MAS

In a meeting with senior officials of MAS at Singapore in November 2001, I made a brief presentation on the progress made towards infusion of additional capital/recapitalisation of the bank, so as to be in conformity with BIS requirements. I also spoke about the Restructuring Plan and the bank's achievements on all parameters such as Deposit growth, NPA recovery, Income generation etc., up to September 2001. I stressed that since the bank had performed in keeping with the expectations of the Restructuring Plan, capital infusion would certainly be made by the Government of India. I also highlighted the qualitative progress made by the Singapore branch, during the last one year, and the efforts made to upgrade the Operations Manual and tone up the Risk Management Systems/Regulatory Compliance aspects. I took the opportunity to drive home the paint that while non-fulfilment of Capital Adequacy norms was undoubtedly a technical and regulatory requirement of prime importance, the bank's inner strength in terms of its history, track record and ownership status should be recognised. While appreciating the overall progress made by the Bank under the Restructuring Plan, the Singapore regulatory authorities wanted a clear and final picture on recapitalisation to be presented to them preferably by end December 2001, though the licence was technically valid up to 31.3.2002.

The recapitalisation of the bank by Government of India to the extent of Rs 1300 crore (which eventually took place in March 2002) was conveyed to the regulators to enable them to take note of it while renewing the licence for a further period w.e.f. 31.3.2002. A further infusion of capital to the tune of Rs 770 crore was made by the Government in February 2003, thereby enabling the bank to meet the required capital adequacy norm of 9%. The regulators were informed of the additional infusion of capital for their assessment of regulatory compliance by the bank.

With the attainment of capital adequacy by the bank through recapitalisation, and after review of the portfolio of nonperforming loans of the Singapore branch, with regulatory approvals in place and further recoveries effected, the Branch enabled to clean up the balance sheet and bring down the net NPA at its level to as low as 1% of Gross Customer Credit.

While the branch was pursuing with the regulators the matter of closing the Interim Agreement, I made a representation to the MAS in August 2003, drawing attention to the bank's improved financial performance with the attainment of Capital Adequacy ratio to a level of 10.85%. I requested MAS to lift the restrictions imposed on the bank in terms of operational functioning so as to enable the branch to focus on its growth, and return the surplus funds placed by the Head Office in it.

The relaxation made in the terms of the interim arrangement did eventually materialise in stages after due review and assessment of the performance of the bank and the branch. The message from the course of events is clear. It is easy to loose grip on a worthy possession such as a branch's presence in a developed money centre but extremely difficult to get it back in shape, unless the bank and the branch perform well.

9.11 THE COLOMBO BRANCH

The Colombo branch, Sri Lanka, was originally set up in 1937. It is one among the three India-based banks operating in the island. Over the years, the branch has played a key role in the trade between our two countries. In 1981, the bank set up a Foreign Currency Banking Unit at the Colombo branch. While the branch was essentially engaged in financially supporting the international trading activities of the island, the Foreign Currency Banking Unit financed projects in the free trade zone, as well as projects approved to raise foreign currency financing elsewhere in the island besides participating in Euro loans for third world countries, particularly India. During the ethnic disturbances in 1983, when one of the India-based banks in Colombo was razed to the ground our Colombo branch came out unscathed as it maintained a cosmopolitan image, with a good number of Sinhalese staff and customers.

The adverse media reporting on the financial irregularities of Indian Bank reached Sri Lanka as well, and the local authorities and customers got quite disturbed. As a part of the confidence building measures, I visited Colombo in 2003 and called on the Monitory Authority, namely the Central Bank of Sri Lanka, the Indian High Commissioner in Sri Lanka and major customers of the bank. I made an exhaustive presentation on the bank's turnaround initiative and the results achieved. The Central Bank of Sri Lanka and others were fully convinced that the bank was very much on a steady road to restoring normalcy. What impressed the island's Monitory Authority most was the efficacy of the recovery strategies that were in place in the face of our huge non-performing assets.

The morale of our Sri Lankan staff members was also very much affected by the adverse developments concerning the Bank. I met each of the staff members and also addressed them together which greatly reassused and motivated them towards better performance.

9.12 Subsidiaries

The Bank's three subsidiaries viz., Indbank Mutual Fund Ltd, Indbank Housing Limited, and Ind Bank Merchant Banking Services Ltd. (IBMBS), established during the period 1989–1991 were functioning profitably in the earlier years of their operation, but suffered because of accommodating the borrowers of the parent bank through placing of inter-corporate deposits with the borrower companies, instead of focussing on their core business.

IND Bank Mutual Fund (IBMF) which had launched many successful mutual fund schemes could not withstand the general economic conditions that prevailed at that time, coupled with the impact of the sizeable non-performing assets. This mutual fund subsidiary was hived off in 2001 as part of the Restructuring Plan, through a beneficial deal to the bank.

IND Bank Housing Ltd. (IBHL) placed a large number of Inter Corporate Deposits with various corporate bodies, mostly with the objective of credit reduction with Indian Bank. A majority of these corporate bodies were already customers of Indian Bank. Such deployment of funds was spread over 85 accounts for a substantial amount, of which IBHL was able to recover a major sum without much of a problem. However, IBHL still got stuck with 24 ICD accounts with NPA balance as on 31.03.1998. For the size of IBHL, the outstanding NPAs were huge and quite non-sustainable. Over a period of time recoveries were made. Because of the huge recovery, IBHL posted a net profit of Rs 25.21 crore as on 31.03.2007, bringing down the accumulated losses to Rs 66 crore from Rs 91 crore as on 31.03.2006.

IND Bank Merchant Banking Services Ltd (IBMBS) was established as a wholly owned subsidiary of Indian Bank, essentially engaged in capital market activities, management of off-shore funds, leasing/hire purchase activities and project financing. The performance and financials of the company were reasonably sound until such time it was forced to financially support borrowers whose requirements could not be accommodated by the bank as per norms. RBI directed the bank to bring down its credit portfolio. Consequently, it was required to bring down the Credit-Deposit Ratio and also not to extend fresh/additional credit to its clientele. As the subsidiaries were flush with funds, the bank requested them to extend financial support to its borrowers. The problem arose when some recalcitrant borrowers were assisted, as there accounts became NPAs with the subsidiary. In other words, RBIs instructions were flouted, and even undeserving borrowers were assisted by taking the route of the subsidiary—clearly an unethical practice.

This method of parking customers with the subsidiary was adversely commented upon by RBI which advised the bank to refrain from doing so.

When I took charge as CMD of the bank, there was tremendous pressure to hive off this subsidiary because its profits were dwindling and NPAs mounting. However, on the basis of an in depth study I saw a lot of promise in the operations of the company. I realised that it had landed into problems because of wrong handling and so took a decision to let it continue, simultaneously bringing in financial discipline, an effective recovery mechanism, and a new focus on fee-based income.

The IBMBs got stuck with 39 companies which owed a substantial amount as on 31.03.1996. Since then, it has been able to recover the dues from 34 of them till 31.03.2007 bringing the outstanding down considerably by end March 2007.

The decision of the top management not to hive off this company helped in many ways as detailed below:

1. As on 30.06.2007 the company became a totally loss-free and debt-free company. The profit of about Rs 9 crore as on 30.06.2007 was carried over to reserves. Today, the company is in a position to declare a dividend.
2. The market capitalisation of the company is around Rs 147 crore as against the face value of Rs 44.37 crore. The company's shares, which were quoting at about Rs 6–7 per share a year back touched a high of Rs 38 per share, raising the shareholders' valuation quite substantially.
3. The company is in an expansion and diversification mode. Its ninth branch opened in Hyderabad on 28.08.2007, and nine more branches are planned to be opened during the year 2007–08.
4. The company has already started managing quite a few public issues as Manager and Co-Lead Manager, and is now poised to move to greater heights.

Today this subsidiary is performing well with consistent profits, justifying the confidence I had reposed in its potential, even though its hiving off was stipulated as one of the conditions in the Restructuring Plan. This success story reinforces the wisdom of not acting in haste and critically assessing such issues before taking the final leap.

Chapter 10
Recapitalisation

It was a happy day when we received the communication from the Government of India recapitalising the bank with the final amount—an additional Rs 770 crore—making its net worth positive and enabled it to achieve the adequate CRAR. My colleagues and I were delighted that our dream of turning around the bank had at last been realised. A recapitulation of the efforts made for recapitalisation of the bank would be worthwhile here.

One of the imperatives at the time of the turnaround was recapitalisation by Government for bringing the net worth of the bank, to positive, and thereby enable it to adhere to the stipulated capital adequacy norms. The Bank, at regular intervals, apprised the Government of India and Reserve Bank, of its performance in respect of all key functional parameters as defined in the Restructuring Plan, and other developments and initiatives that were being undertaken for improving its performance.

10.1 Presentations on Performance

The implementation of the Restructuring Plan since June 2000 started yielding results gradually. There was growth in deposits, especially low cost deposits, and the credit started moving up. The staff fully cooperated in all initiatives and actions taken. The performance of the Circles was monitored on a monthly basis. Their deficiencies were noted and suggestions were given for improvement. This inspired them to achieve the goals and targets without fail.

This qualitative and quantitative improvement in the performance of the Bank had to be brought to the knowledge of the

Controller, Owner and the public at large. It was felt that good publicity of improved performance of the Bank would uplift the bank's image among the public, and also enthuse the staff to perform better.

The bank officials made periodical presentations to RBI, the Government of India, the bank's Unions and Associations. Presentations were also made to the Central Vigilance Commission, Central Bureau of Investigation, Parliamentarians, and the media during the three years it took to implement the Restructuring Plan.

Such presentations were also made to the Secretary (Financial Sector) and senior officials of the Parliamentary Committee, Chief Vigilance Commissioner, Delhi, Ministry of Finance, Deputy Governor RBI, Mumbai, Regional Director and senior officials of RBI, Chennai, and Unions and Associations.

The Government of India was reassured that its efforts to revive the Bank were bearing fruit and that it would be out of the woods on completion of the implementation of the Restructuring Plan. The improvements in its performance came handy to inform all concerned that the people who were bringing about the improvements were the same who had been working in it earlier.

The Parliament, which had accepted the proposal for recapitalisation of the bank, needed to be apprised of its improved performance and hence, presentations were made as and when the Parliamentary Committees visited the bank. They appreciated the progress made. These presentations helped to reassure them that their initial step of recapitalising the Bank to the extent of Rs 1300 crore in March 2002, was a right decision and that the remaining Rs 770 crore ought to be given to further strengthening it.

Regular presentations were also made to the Staff Unions and Associations to enthuse them, and to the media to make the turnaround public information. In all, as many as 50 to 60 presentations were made at various fora which enhanced the bank's image to a considerable extent.

10.2 Role of Unions and Associations

The bank apprised the unions and associations of the various aspects of the Restructuring Plan, and held detailed discussions on an ongoing basis and sought their cooperation and involvement in making the turnaround of the Bank a success as per the plan. The unions and associations were responsive and assured their cooperation and full support for the revival of the Bank.

This was further demonstrated by them by way of a 'joint appeal' signed by both management and the recognised employees union and officers association to all staff members, covering all aspects of the Restructuring Plan, and calling upon them to involve themselves in bringing the bank back to its glorious heights.

In the new millennium (2000–01) the position of Indian Bank also changed for the better, compared to its position in the year 1995–96 and onwards, and for the first time in the five years it came out with a gross profit.

The bank's recapitalisation was imperative in the context of compliance with regulatory requirements, and also continuance of its Singapore operations. It may be mentioned here that the Monetary Authority of Singapore (MAS) renewed the licence for the bank's Singapore operations for one year w.e.f. April 2001, subject to certain conditions, one of them being that the Bank should to be recapitalised within that year to be in line with the BIS Capital adequacy requirements. The bank required a recapitalisation support of Rs 2000 crore to enable it to achieve the minimum CRAR of 9% during 2001–02, subject to necessary adjustments to Risk-weighted Assets.

Government of India agreed to recapitalise, subject to the bank's commitments to the agreed benchmarks, along with a back-to-back MoU with the employees' unions and officers' associations.

The bank management, appreciative of the requirement of RBI and Government of India for recapitalisation, conducted a series of meetings with the leaders of various Officers' Associations and Employees' for a week, explaining the steps taken by the bank, and the necessity for it to sign the MoU. One of the clauses incorporated by Government of India for the first time therein read that they had to agree to give "Management a Free Hand". Both Unions and Associations found this clause highly objectionable and refused to sign. I spoke to the national leaders of the various Associations and Unions over phone, explaining to them the imperative need for signing of the MoU by the Associations and Unions to help the bank to turnaround and emerge as a strong bank. They in fact told me that I had already done many things not generally acceptable to Unions and Associations. Whatever it was, none of them doubted my sincerety of purpose.

March 9, 2002 is a Red Letter Day in the history of Indian Bank, and the Indian banking industry as well. It is on this day that an agreement, first of its kind, was signed between the Bank and its Officers' Associations, and Employees' Unions reading as follows:

"We the undersigned representatives of the Employees' Unions and Officers' Associations covering the entire workforce of Indian bank are aware that the Bank has submitted a comprehensive and committed Restructuring Plan 2000–2003 to the Ministry of Finance, Government of India for revival and consolidation of the bank.

The proposed recapitalisation is subject to the Bank Management entering into MoU with Government for achieving the targets under the revival plan, and the Unions and Associations representing the Employees and officers entering into a back-to-back the agreement with the Management for the same . . .

The Employees Unions and Officers Associations went on to assure full support, and gave a free hand to the management for implementation and achievement of various business parameters prescribed in the Restructuring Plan such as:

- Relocate, merge, close the branches based on the business potential and viability.
- Management reserves the right to decide the amount and time of release of arrears payable to the staff.
- Transfer and redeployment of staff as per the administrative and business requirements.

Customer service has been one of the most important aspects in the efforts toward turnaround. It was recognised that discipline, punctuality and positive work culture, devoid of restrictive practices at all times and at all levels was the basic need to render efficient and competitive customer service. Every effort was made by all to make the customer feel that the bank had been doing things better with a positive attitude and was eager to offer better products and services.

It was agreed that all employees and officers would pursue austerity measures and, with full involvement, contribute to the management's efforts towards curtailment/reduction of establishment expenses as under:

- Deferment of availing LFC up to 31.3.2003.
- Avoidance of air travel for attending training programmes.
- Use of train, and avoidance of air travel for all journeys wherever overnight train journey is possible.
- Overtime wages and closing allowances would not be claimed, and should not be paid under any other head of expenditure.
- Forgo 25% of the entertainment expenses admissible to various levels of officers.
- Forgo 15% of eligible reimbursement of fuel expenses, and to reduce the fuel expenses on vehicles provided to branches/executives by effecting 25% reduction in entitlement of personal use of the vehicles provided to officers/executives.
- Restrict subscription to newspapers to one financial, and one vernacular newspaper for branches, and only one newspaper to eligible officers.
- Executives not to use five star hotels. All executives/officers whenever required to use star hotel facilities, to avail the same by one star lower than the eligible levels.
- To make substantial reduction under the residual expenses, miscellaneous and local conveyance expenditure.
- To have restriction on foreign travel for attending training programmes.
- Each and every employee and officer should take interest and actively cooperate and involve in the efforts at the branch level for effecting maximum recovery in NPA accounts, and avoid slippage in standard accounts.

The management on its part recognised the efforts and involvement of all the staff members that had resulted in achievement of the business parameters under the Restructuring Plan. The management expressed utmost concern over the career aspirations and expectations of the employees and officers and assumed to make all efforts towards their proper placement and career growth. The bank assumed that it growth would continue with the existing welfare measures, and try to improve upon the same, depending upon the financial position, and keeping in view the guidelines in this regard.

The agreement entered was to be in force for two years from 9.3.2002. The Board, at its meeting held on 11.3.2002, placed on record its appreciation to the CMD/ED/Top management for their untiring efforts in signing the MoU with the unions and associations.

The Board commended ED and me and observed that but for the tenacity, endurance and patience shown by them and Top Management, signing of such a landmark MoU, which was the first of its kind in the Indian banking industry with unions and associations of the Bank, would not have been possible.

The Board also placed on record its appreciation for the maturity and understanding shown by the Unions and Associations in having entered into MoU with the Top Management of the Bank.

For the first time in the history of the bank, the work "pleasure" had been taken away from the Directors' report for the year ended 1934–94 due to the losses reported year after year. After passing through 8 miserable years finally the word "pleasure" came back to the Directors' report in 2001–02 which read "The Board of Directors of Indian Bank has ***Pleasure*** *in presenting the annual report of the bank . . . and with positive net worth and net profit: the Board of directors" looks ahead towards the future with zeal and enthusiasm for further consolidation and higher growth in the years to come"*

When you turnaround . . . you naturally look forward. *This was the caption of the annual report 2001–02.*

The Bank received the first tranche of recapitalisation of Rs 1300 crore in March 2002 and the second tranche of 770 crore in February 2003.

I presented the balance sheet for the year ending 31^{st} March 2003 at the meeting of the Board of Directors held on May 3, 2003.

The following are the highlights of the balance sheet for the year 2002–03:

- The Bank's business crossed Rs 40,000 crore
- Operating Profit was up by 92.17%, and Net Profit up by 468%
- The bank's networth was Rs 1287 crore
- CRAR reached 10.85%
- Net NPA ratio was down to 6.15%
- Return on Assets: 0.65%
- Business per employee was higher at Rs 174 lakh
- 78% of the business computerised.
- The bank was endowed with 22,000 committed staff

➢ **Table 10.1**

(Rs in crore)

	31.3.2000	31.3.01	31.3.02	31.3.03		Status
	Actuals	(Actuals)	(Actuals)	Target	Actuals	
1. Agg. Dep. (Growth %)	19114 (11.41)	21693 (13.49)	24039 (10.81)	26825 (11.52)	27016 (12..38)	✓
2. Advances (Net) (Growth %)	8203 (9.42)	9434 (15.01)	10908 (15.62)	11963 (12.91)	12275 (12.53)	✓
3. Investments (Growth %)	8691 (12.46)	10001 (11.10)	12408 (24.07)	14650 (15.94)	14839 (19.59)	✓
4. Gross NPAs (%)	3355 (32.77)	2359 (21.76)	2175 (17.85)	2190 (16.41)	1630 (12.39)	✓
5. Net NPAs (%)	1327 (16.18)	950 (10.07)	904 (8.28)	811 (6.78)	755 (6.15)	✓
6. Operating Profit	23.86	61.59	307.15	286.86	590.25	✓
7. Net Profit	–427.00	–274.00	33.22	168.00	188.83	✓

A comparison of the bank's performance during the 3 years of the Restructuring Plan—April 01, 2000 to March 31, 2003—vis-à-vis the 3 years prior to implementation of the RP—April 01, 1997 to March 31, 2000—revealed that the bank's performance under the Restructuring Plan had been quite remarkable compared to the performance as shown below:

➢ **Table 10.2**

(Rs in crore)

Domestic	Growth during 3 years prior to RP (A) April 97 to Mar. 2000	Growth during 3 years of RP (B) April 2000 to March 2003	Improvement (B-A)	
			Amount	%
1. Deposits	4814	8362	3548	73.70
SB	1411	2641	1230	87.17
2. Non-Food Credit	588	2728	2140	363.95
3. Investments	3382	6174	2792	82.55
4. NPA	–163	–1291	–1128	692.02

The Board gave a special appreciation to the fact that the Bank achieved these fantastic results when the economy had not been doing well and several industries were feeling cash crunch.

The Statutory Auditors expressed their views/suggestions on the balance sheet. The Bank thanked the continued good work of audit firms—M/s. Joseph and Rajaram, M/s. Chandra Gupta & Associates, M/s. Manian and Rao, M/s. Kumar Sharma & Co. It was observed that the Bank had been maintaining a very healthy relationship with the auditors and that any prudent banker looks upon the auditors as a guide. The regulator, RBI took immense care on the appointment of the auditors. Their roles were specified and greater weightage was given on their observations/ comments. I complimented the combined team work of all the branches and statutory auditors, the General Managers at Head Office, the Officers at HO: Accounts Department, the Circle Heads, the Branch Managers and all the supporting staff from the Bank side, for completing the audit process in time. The suggestions given by the auditors were implemented for rationalisation of the audit. With the software package the audit work was completed in record time. The auditors showed a lot of flexibility in their working time and this contributed to a great extent in completing the audit within the stipulated time.

Reserve Bank of India and Government of India, Ministry of Finance were thanked for providing the recapitalisation at a time when the country is passing through a fiscal deficit situation. The Bank was serious in its working and all staff members realised their responsibilities in bringing out the results on time.

Shri P K Joseph, senior partner of M/s. Joseph & Rajaram, representing all the auditors congratulated the CMD and Executive Director and said that but for the excellent leadership, this turnaround would not have been possible. Mr. Joseph added that the firm had four years of satisfied working with Indian Bank and they are proud to be associated with the turnaround process of the Bank. The auditor told the Board that the Bank had taken all the suggestions put forth by them and most of them were implemented. Mr. Joseph appreciated the excellent working results and gave the suggestion that the Bank could expand their credit portfolio in comparison to investment in the ensuing year. He appreciated the excellent work done by the executives at Head Office, Accounts Department, He also thanked the members of the Audit Committee, Shri Ram Muivah, Shri S. Karuppasamy, Shri Ashok Gupta, Shri P.V. Maiya and the Executive Director for their valuable guidance. Continuing with the suggestions, Shri Gupta of M/s. Chandra Gupta & Associates told the Board that all the staff members at the branch level and Circle level rose to the occasion and whatever information sought was made available. He also informed the Board that there was considerable improvement in the House Keeping and Internal Control System and the Top Management in the Bank deserved praise for the same.

Shri Gupta conveyed his appreciation on the working of the staff at branch/Circles/HO, which proved that people were not lagging behind and the Bank was having a cohesive team that could accept any challenge competitive banking environment. He also appreciated that the Bank had accepted the suggestions regarding conducting Seminar/Workshop at various centres and auditors also could play their part in addressing the staff. Shri Prem Karra, partner of M/s. Karra & Co. gave a suggestion that the Bank could concentrate on mobilising NRI deposits during the coming years, as NRIs may have preference to keep the money in Indian rupees considering the strength of the rupee. Prof. Indiresan, thanked the auditors for the brief report and expressed deep gratitude to them for their guidance. He said that the Board was proud of good work done by the staff. Mr. Indiresan appreciated the management for presenting *a conservative balance sheet*, showing the sense of concern to be careful and cautious with long term view in mind. He congratulated CMD and ED for the leadership and thanked the auditors.

Shri Maiya narrated the two year experience he had as a Board of Director of the Bank. He informed that the Bank achieved a spectacular transformation, which was not anticipated two years ago. The Government adopted a carrot and stick policy for recapitalisation also by stipulating definite monthly targets under Restructuring Plan. The Bank achieved all the parameters under the Restructuring Plan on a month to month basis. He also referred to the CII recommendation (which was withdrawn within 3 days) for the closure of the Bank which if implemented would have had very telling effect in the financial sector. Shri Maiya informed the Board and the auditors that the CMD took over the charge of the Bank when the morale of the 26000 workforce was at the lowest ebb. The challenge CMD took for restructuring of the head and heart of the people was unmatched in the Indian Banking history and it was a remarkable tribute to leadership. Indian Bank had a sincere staff and they could be converted into a workforce committed to pursue prosperity. The leadership counted a lot as one sees difference between Indian Bank and other PSUs in similar state of affairs. He added that the Executive Director of the Bank Shri.M B N Rao and the rest of the management really put up hard work. The synergy of working of the CMD and ED provided the team effort at the top and constant training/ guidance to the down the line staff changed the attitude of the people. The field level staff hitherto hesitant started exercising their discretionary powers. He also added that the branch auditors and Statutory Auditors had been partners to the progress and their suggestions were taken in the right spirit and suitable changes were made. Observing that the future holds great promise Mr.Maiya again wished the management best of luck and thanked the auditors for the good work.

Shri Ram Muivah congratulated CMD and ED and the entire team and also thanked the auditors for their good work. Shri Karuppasamy, RBI Director said that the entire credit goes to the Chairperson and Managing Director to turnaround a massive Bank like Indian Bank. CMD concentrated on HRD and could make a team, which produced the excellent results. He added that the Bank could have shown more profit but purely on the organisational interest, the CMD *even understated personal performance and provided a conservative and cautious balance sheet.* He said that the Bank would do well in the coming years.

Shri Muthukrishnan wished CMD and ED the very best in the coming year and thanked the auditors for the good work done. Shri Satpute congratulated the Chairperson and ED who were instrumental in effecting the turnaround process within a short span of time. Shri Ashok Gupta said that he was very happy to note that the Bank which started making profits in the previous year had become a strong bank in one year. The biggest change was in the mindset of the staff more than the financial turnaround. The Bank had an excellent management and the internal control systems were very good and all credit should go to the top management. Mr. Gupta thanked the auditors for their efforts and contributions.

Vision 2010—Communication With Staff Members on Receipt of Recapitalisaiton

Dear Colleagues:

Recapitalisation of Rs 770 crore – Our Bank achieves CRAR norm.

With the infusion of second tranche of recapitalisation of Rs 770 crore by the Government on 7.2.2003, our Bank has achieved the Capital to Risk Weighted Assets Ratio (CRAR) norm (presently 9%), after a long gap of 8 years. A sense of achievement is in the air. It is a moment of joy for all of us in the Bank now, the Bank is placed on a level playing field. Congratulations to each and every one of you.

We should all think in retrospect as to how this has become possible. This has not happened by any miracle. We were determined to become strong and by planned and committed work put in, we could achieve the goal set. We are extremely thankful to the Government, and the RBI for their support in recapitalising the Bank. The recapitalisation of the Bank has enhanced the image of the staff at all levels, and has further improved the confidence level among the staff. We should now be much more humble and should respond to customers' demands with greater concern, as they stood by us in our difficult times, and also they are very important for our future growth and, above all, they are aware that the amount of recapitalisation has come from public money, and hence, the need to be very courteous, understanding in dealing with them, and to timely respond to their requirements.

The infusion of capital by the Government has cast tremendous responsibility on each one of us. The Government has made it clear that this is the last time that any capital is being provided to the Bank. Therefore, it is now our responsibility to gear up ourselves to improve our profitability, and generate adequate profit to contribute to capital fund, and also to, in time, service the capital that would be required to be mobilised from the market. The Bank has to build up, in future, capital required for the Risk Weighted Assets, on its own. Needless to mention here that our working results will have to be attractive enough, for adequate market response to our capital/bond issues when we decide to go to the market. We should, therefore, keep carefully and continuously watching profit generation, level of NPAs/Provisioning, accretion of quality asset, etc.

The competition in the banking industry is becoming intense day by day. Apart from competing with each other, banks are facing aggressive competition from Post Offices, Mutual Funds, Stock Markets, Financial Institutions, NBFCs etc. Deregulation of interest rates has increased immensely the intensity of competition. We have to learn to be aggressive to compete with other players in the market. To be aggressive and successful in the market, we have to strengthen our organisational effectiveness and decision making process which should be quick, but not hasty, taking into consideration all important aspects. The speed with which we take decisions is vital and we can outbeat others only if we are able tot take decision in time. There should also be greater transparency at all levels, with the required understanding and cohesion between various tiers in the organisation. Within the tiers, the focus of the operating staff should always be on business development, Bank's growth and prosperity.

In order to facilitate quick decision making, it has been decided at the HO that any routine letters received from Circle Office/Branch seeking clarifications and approvals from HO will be replied to within 48 hours of receipt of queries and there will be no room for sending reminders by Circles/ Branches. As regards credit/premises and other proposals which require sanction, the decision of HO (after obtaining all clarifications) shall be communicated within 10 days. Circles and branches should also follow similar trend for disposing of letters/proposals at their level, for 'REMINDERS Culture' is bad for a growing organisation.

Dr. Bimal Jalan, Governor, Reserve Bank of India, while delivering a key note address on Feb. 14, 2003 has observed that "Globalisation means more opportunities with more trade, more production…Low productivity, laziness and lack of accountability have affected the country from becoming a major player in the global economy. The lesson is that we can no longer be complacent". What the Governor has observed for the country's economy applies equally to our Bank as well. We should improve our overall productivity.

We should not be complacent with the infusion of the required capital. We should prove to the Government, Reserve Bank, every one of our customers and public/media that the Bank is capable of achieving much higher growth given the right climate and level playing field. When we develop the passion for attaining excellence in the tasks assigned to us, we will neither get tired nor get deterred by any obstacle in the performance of the job. We should cultivate the habit of accomplishing the task assigned to us, and not giving excuses for the same. We should rear 'POSITIVE THINKING' and transform the same into 'RIGHT ACTION' which should become a 'HABIT' and later on our 'CHARACTER' and, which would decide finally our 'DESTINY' and, in turn, that of our greater organisation. We should always be positive to changes and welcome them as a process of growth and development.

Our immediate goal is to ensure achieving all the targets set under the Restructuring Plan for March 2003. We are now turning a fresh leaf towards strengthening our Bank and at this point of time, the expectation all around is quite high, and rightly so. We have to act with greater responsibility with a vision to scale new heights. A Long Range Plan for the next seven years named "Vision 2010" is in the advanced stage of preparation, and which will provide the necessary road map for the future. The team of staff in our Bank is capable of achieving their goal, and we look forward to every member of staff in the Bank to forge ahead for a prosperous future for the Bank and its People.

10.3 Since My Leaving

Recalling the recapitalisation efforts I communicated with the staff the imperative need to sustain the momentum towards "vision 2010"—the vision has been fulfilled in the later years. As turnaround laid the firm foundation for future growth.

I demitted office on 21.11.2003 on my appointment as Chairperson of NABARD. Shri M.B.N. Rao took over as Chairman and Managing Director from 04.12.2003. I am happy that the mantle fell on Shri M.B.N. Rao as he was with me throughout the Restructuring Plan period, initially as General Manger and subsequently as Executive Director of the Bank. Since all important decisions were taken by me in consultation with Sri Rao and other senior executives, even after my leaving the organisation the same process continued and Indian Bank grew from strength to strength.

It celebrated its 100th year on 15th August 2007. The bank had come out with a very successful IPO, which was over-subscribed several times. The idea and the initial spade work for the IPO was also initiated during the turnaround period.

It is a remarkable turnaround for the bank from the struggle which was aggravated by the remarks of important trade bodies which vehemently advocated its closure. There was a time when people were very apprehensive about the bank celebrating its Centenary. The strong foundation laid by the then management and the hard work and belief of the entire work force on its turnaround belied such apprehensions. Today, the bank is recognised as one of the well-run public sector banks.

The Bank declared 30% dividend for 2006–07. The investing public has huge confidence in the bank which can be gauged from the fact that its share, which was issued at Rs 91, was being traded at around Rs 200 at the time of writing this book.

Some of the qualitative and quantitative improvement in the working since my leaving the bank are as under:

➢ **Table 10.3** Key Performance Indicators 2003–04 to 2004–07

(Rupees in crore)

Key Parameters and Ratios	*2003–04*	*2004–05*	*2005–06*	*2006–07*
Total Deposits	30444	34808	40806	47091
Gross Advances	14935	18881	22977	29502
Gross NPA	1192	748	669	546
Net NPA	383	247	177	102
Operating Profit	802.46	958.07	893.65	1358.59
Net Profit	405.75	408.49	504.48	759.77
CD Ratio %	49.06	54.24	56.31	62.65
CRAR %	12.82	14.14	13.19	14.14
Interest Income	2666.92	2870.66	3364.52	4284.65
Interest Expenditure	1549.86	1567.01	1854.34	2412.61
Net Interest Income	1117.06	1303.65	1510.18	1872.04

- Indian Bank is now a household name, more particularly in Tamil Nadu and rest of South India, and has been rated continuously for the last 4 years as the Number One Service Brand among all South-based service brands by AC Nielsen-ORG Marg.
- The concept of Retail Lending introduced by me in the bank has become very popular, and the bank has designed and launched several new retail products targeting specific groups. The bank has also established Retail Banking Segment Centres at important cities to improve the quality of advances, besides offering quicker delivery of credit.
- The bank received the Government of India Award for Excellence in Agricultural Lending during 2003–04. It was presented by the then Finance Minister.
- The bank was awarded the first prize by NABARD for linking maximum number of SHGs to credit in Tamil Nadu during the years 2001–02, 2002–03 and 2003–04.
- In October 2004, a remittance centre was opened at Serangoon Road area of Singapore exclusively for handling remittance and money changing business.

- On the approval of Government of India, the bank netted off the accumulated loss of Rs 3830.14 crore against the capital of Rs 4573.96 crore, and the balance of Rs 743.82 crore was carried over.
- The bank was adjudged the best organisation for its 'MANAGERIAL EXCELLENCE' in the Services Sector (for 2005–06) by the Madras Management Association.
- The bank established Retail Banking Segment Centres at Chennai, Delhi, Kolkata, Mumbai, Ahmedabad, Bangalore, Coimbatore, Hyderabad and Madurai.
- The bank raised 364 days transferable syndicated term loan of USD 100 million through Foreign Currency Banking Unit, Colombo, lead arranged by Raiffeisen Zentral Bank Austria's, Singapore branch. Nine international banks participated in the syndication.
- The bank launched Global Credit Cards—Global Gold and Global Classic—on Jan. 30, 2006.
- The bank also launched the Bharat Credit Card for the common man—a product for the lower income group.
- The bank started selling gold coins under the IB Swarnamudra scheme from March 24, 2006.
- In association with Life Insurance Corporation of India and United India Insurance Co Ltd, the bank launched a bouquet of Life Insurance and Personal Accident Insurance products for all account holders.
- The bank set up a Bancassurance Service Centre to co-ordinate with various insurance companies for marketing life and non-life insurance business.
- The bank also tied up with M/s PNB Principal Financial Planners (P) Ltd for marketing mutual fund products.
- Priority Sector Credit crossed the Rs 10,000 crore mark.
- Pursuant to the policy decision announced by RBI, the bank launched the National Pilot Project for Financial Inclusion (NPPFI) in the Union Territory of Pudicherry, on 30th Dec 2005 envisaging availability of basic banking 'no-frills' account. Mangalam village is the first village in the country where the entire population was brought under the ambit of banking services.
- An agreement with SIDBI was signed for co-financing projects under SME, service and infrastructure projects.

- Agreements were signed with SIDBI and NABARD for availing credit-linked capital subsidies for technology upgradation under the Credit Linked Capital Subsidy Scheme, and the Credit Linked Capital Subsidy–Technology Upgradation Fund Scheme for Small Scale Industries and Textile Industries.
- In 2006, for the first time after 13 years, Indian Bank paid a dividend of Rs 101 crore to the Government of India.
- The turnaround was complete with its recent IPO through book building process, in February 2007. The very fact that the issue was oversubscribed more than 32 times reflects the immense faith of the investors, customers and well-wishers in Indian Bank.
- In a record time of 816 days, the bank brought 1000 branches of its network under Core Banking Solution. The 1000th CBS branch with an online Voice Guided Biometric ATM (the first of its kind in the country) was inaugurated by Shri P. Chidambaram, Union Minister of Finance, Government of India, at Kalayarkoil, Sivagangai District in Tamil Nadu on 17 March 2007.
- The bank launched unembossed signature-based debit cards and smart cards under Financial Inclusion, and also introduced online doorstep banking services.
- The bank as of today stands tall in the banking industry, with business of over Rs 80,000 crore, a branch network of 1478 serving over 19 million customers with a dedicated workforce of around 21000 employees.
- All of its three subsidiaries have turned around and started making profit.
- The gross business of the bank almost doubled-from Rs 40,169 crore as of end March 2003 to Rs 76,149 crore as of end March 2007 and now poised to cross 1 lakh crore.
- Gross and Net NPAs as percentage of Gross and Net Advances at 12.39% and 6.15% at end March 2003 declined to 1.85% and 0.35% by end March 2007.
- Operating and Net Profit improved from Rs 590.25 crore and Rs 188.83 crore for 2002–03 to Rs 1358.59 crore and Rs 759.77 crore for 2006–07.
- Return on Assets improved from 0.65% for 2002–03 to 1.46% for 2006–07.

- The bank opened a CBS Branch with online ATM facility in the heart of Dharavi, Mumbai and launched a financial inclusion project in September 2006.
- The bank has become tech savvy with over 96% of its business covered through more than 1200 CBS branches by end August 2007.
- The bank has entered into a MoU with Oriental Bank of Commerce and Corporation Bank to face challenges of consolidation, convergence and competition without sacrificing their legal identity to harness economies of scale.

Performance Indicators—1997–2007

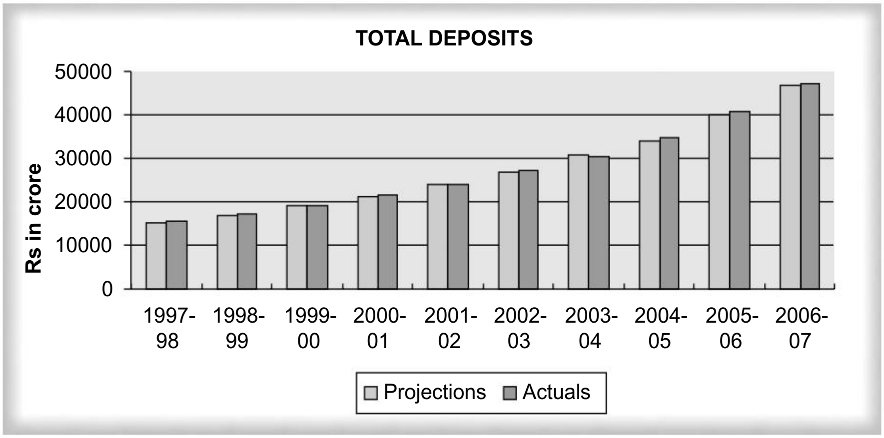

Fig. 10.1

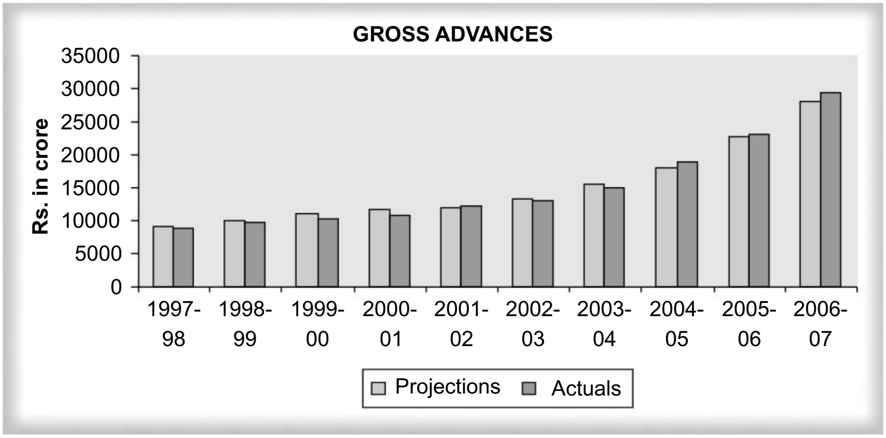

Fig. 10.2

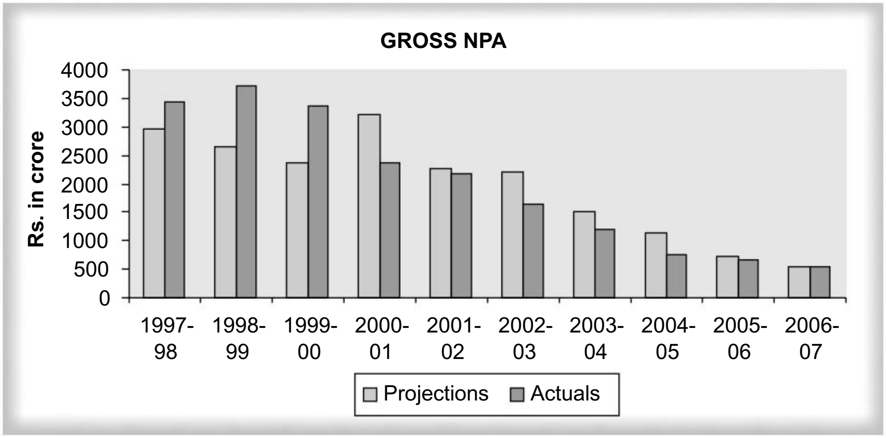

Fig. 10.3

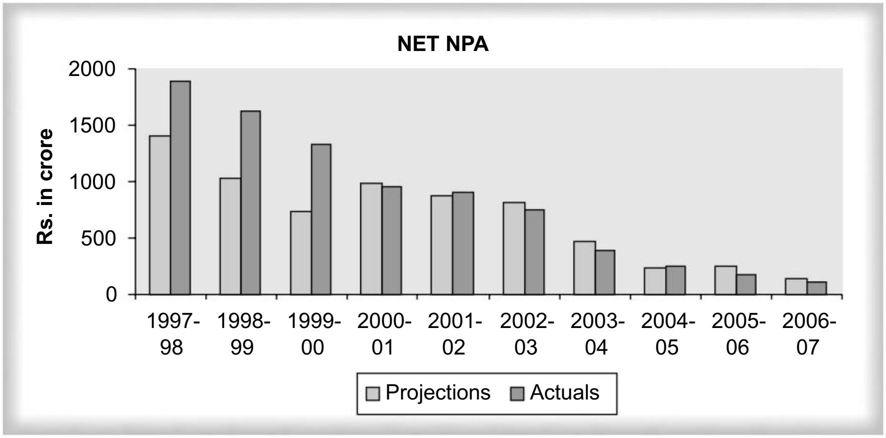

Fig. 10.4

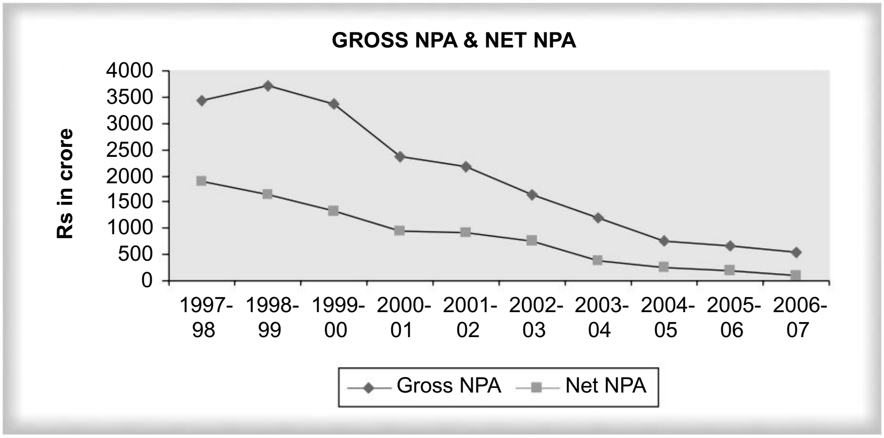

Fig. 10.5

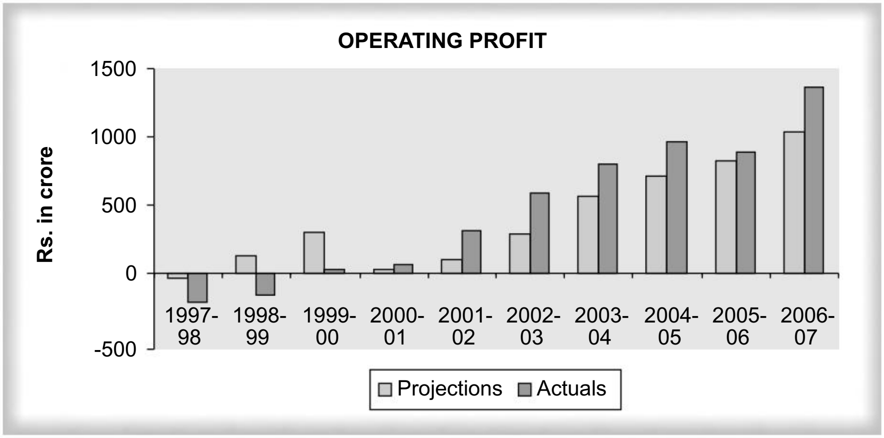

Fig. 10.6

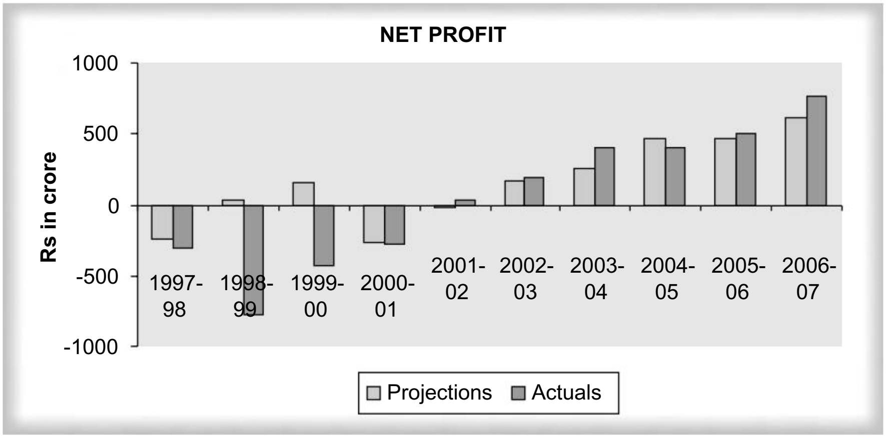

Fig. 10.7

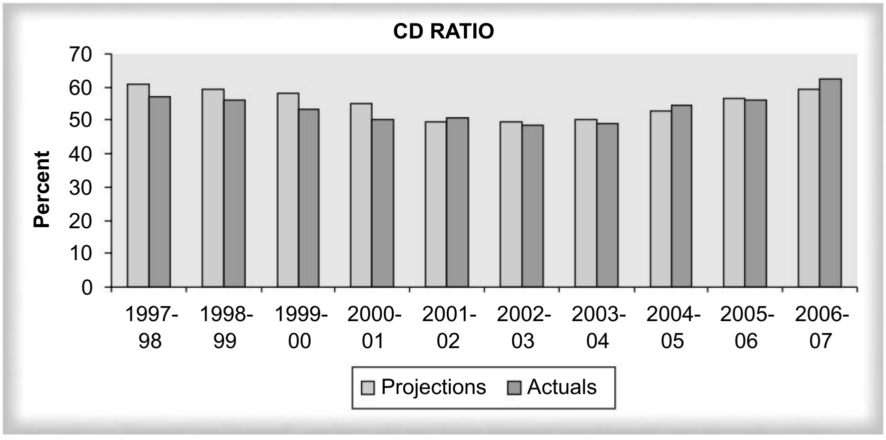

Fig. 10.8

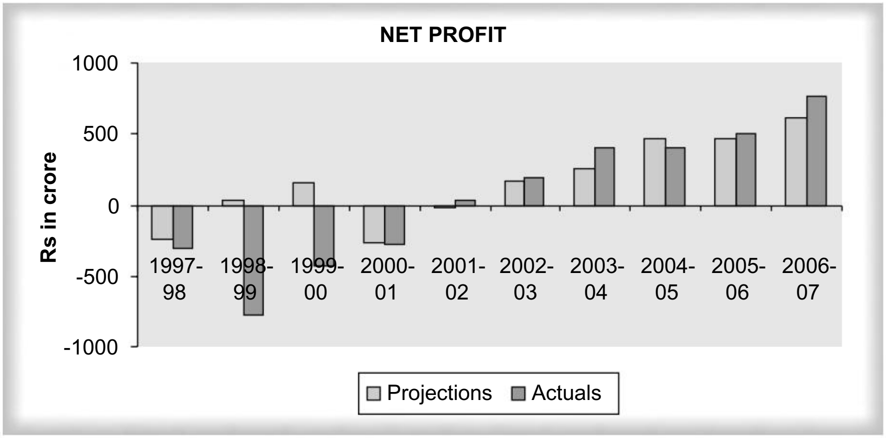

Fig. 10.9

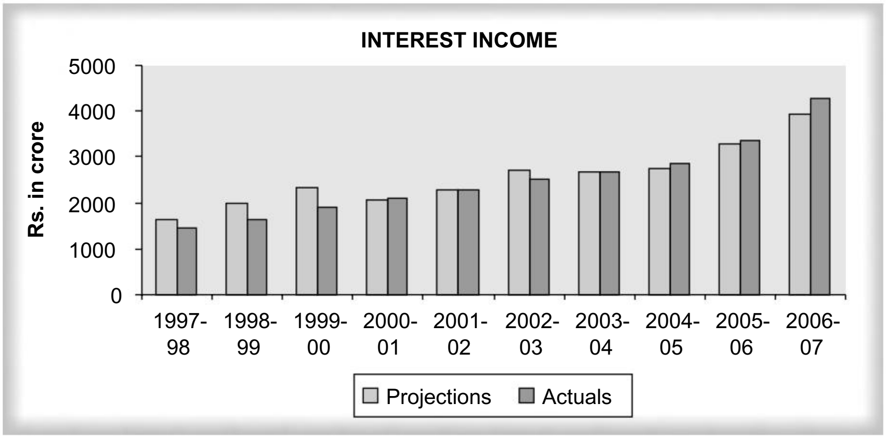

Fig. 10.10

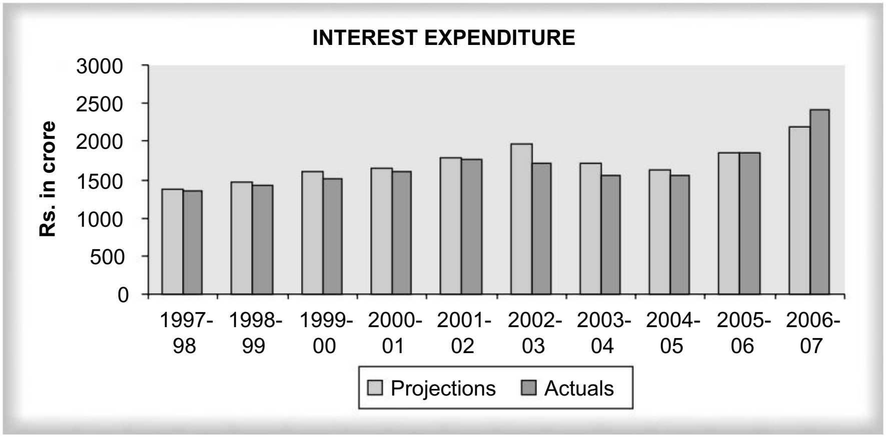

Fig. 10.11

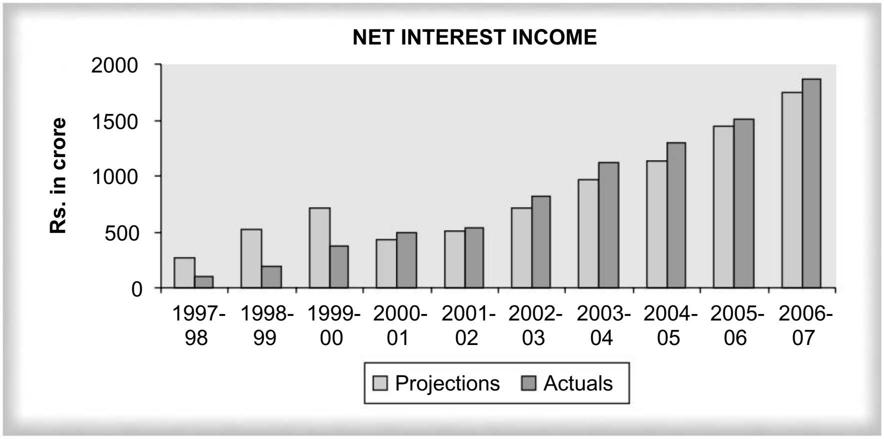

Fig. 10.12

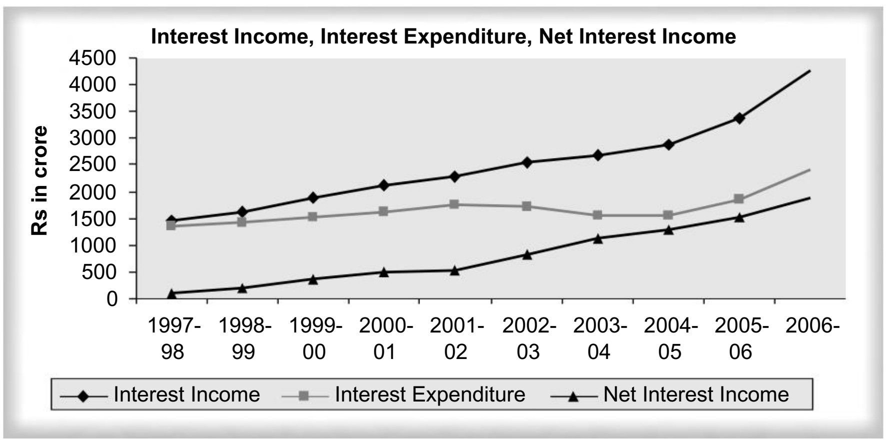

Fig. 10.13

The Distinct Improvement in the working of the Bank during the 3-year Restructuring Period April 2000–March 2003 as compared to the earlier immediate 3-year period April 1997–March 1999 is evident from the following 5 slides indicating the Quantum and Percentage Growth in various parameters and Key Viability Ratios.

1. Deposits including Savings Bank.
2. Credit (Non-Food).
3. Investments.
4. Reduction of NPA.
5. Total income including interest and non-interest income.
6. Expenditure.
7. Operating Profit.
8. CRAR.

9. Return on Assests.
10. Operating Profit to Total Working Funds.
11. Net Interest Margin.
12. Cost Income Ratio.
13. Ratio of staff cost to NII and all income.

A commendable performance under the Restructuring Plan Comparison of the Bank's performance

During the 3 years of the Restructuring Plan (RP) (April 1, 2000 to March 31, 2003)

vis-à-vis

During the immediate 3 years prior to implementation of the RP (April 1, 1997 to March 31, 2000)

- **The Bank's performance under the Restructuring Plan has been quite gratifying. This is evident from the fact that the Bank during this period, has improved its performance significantly in all the key parameters as compared to the performance in these parameters during the immediate 3-year period prior to the commencement of the plan.**
- It is to be noted that this performance was made possible by the same set of staff in the Bank, as there was no recruitment for the past several years and 3295 staff were relieved under the VRS in the first half of 2001.

A Comparison of the Bank's performance—Business Growth

Domestic (INR Billion)	Growth during 3 years prior to RP (A) Apr. 97 to Mar. 2000	Growth during 3 years of RP (B) Apr. 2000 to Mar. 03	Improvement (B-A)	
			Amount	%
1. Deposits	48.14	83.62	35.48	74
Saving Bank	14.11	26.41	12.3	87
2. Credit (Non-food)	5.88	27.28	21.4	364
3. Investments	33.82	61.74	27.92	83
4. Reduction in NPA	1.63	12.91	11.28	692

A comparison of the Bank's performance—working Results

Global position INR Billion	Growth during 3 years prior to RP (A) Apr. 97 to Mar. 2000	Growth during 3 years of RP (B) Apr. 2000 - Mar. 2003	Improvement (B-A)	
			Amount	%
Total Income	56.60	82.69	26.09	46
Interest	49.88	69.26	19.38	39
Non-interest	6.71	13.43	6.72	100
Expenditure	60.08	73.10	13.02	22
Operating profit	–3.49	9.59	13.08	

Key Viability Ratios

Sl. No.	Ratio	1999-2000	2000-2001	2001-2002	2002-2003
1	CRAR (Capital+Reserves)/Risk Weighted Assets X 100	–11.64	–13.60	1.70	10.85
2	Return on Assets (Net Profit/Average Assets) X 100	–2.14	–1.25	0.13	0.65
3	Operating profit to total working funds	0.11	0.25	1.14	1.93
4	Net Interest Margin (Net interest Income/Average interest earning Assets X 100)	1.87	2.24	2.20	2.95

Key Viability Ratios

Sl. No.	Ratio	1999-2000	2000-2001	2001-2002	2002-2003
5	Cost income ratio (Non-interest expenses/(Net interest income + Non-interest income) × 100	96.36	92.35	70.27	56.13
6	Ratio of staff cost to NII + all other income	75.32	73.68	54.51	42.82

Chapter 11

The Art and Science of Turnaround

Around two years after I left the Indian Bank and was holding charge as Chairman of NABARD, I chanced to read an article by Rosabeth Moss Kanter, Chair Professor, Business Administration at the, globally recognized Harvard Business Leadership School titled' "The Art and Science of Turnaround Leadership". Dated Aug. 2003. A very interesting and informative article expressed in very simple, but effective language.

On going through the article and the examples given therein, I almost identified myself with the respective CEOs who had ventured through the arduous task of bringing in an effective Turnaround in their respective organisations and the problems faced by them and the strategies evolved by them. I was able to see very many similarities with what I had experienced in the process of ushering in a Turnaround in the Indian Bank.

I have consciously kept this portion towards the concluding part of this book so that the reader can appreciate the different strategies implemented in the restructuring and turnaround of the Indian Bank, and relate them to those of the "Turnaround CEOs" of the organisations cited by professor Kauter, and also her views this regard. Extracts from that article are reproduced below:

- *When companies turn around, it usually means the management has taken the right decisions in terms of financial engineering and strategy. But one change that often goes unnoticed is how CEOs work to restore the confidence of employees in themselves and the people around them. Turnarounds are when leadership matters most.*

- *Organisational pathologies—secrecy, blame, isolation, avoidance, passivity, and feeling of helplessness—arise during a difficult time for the company and reinforce one another in such a way that the company enters a kind of death spiral. Reversing that downward trend requires deliberate effort by the CEO to address each of the pathologies.*
- *After an initial blow the company's fortunes, people begin pointing fingers and deriding colleagues in other parts of the business. The resulting tensions curtail collaboration and degenerate quickly into turf protection. Increasing levels of isolation throughout the company then engender secrecy. Once they are no longer acting in concert, people find themselves less able to effect change, and eventually many come to believe they are helpless. Passivity sets in. Finally, the ultimate pathology of troubled companies takes hold: collective denial. As in the fabled village where the emperor showed of his new clothes, people unwittingly collude. Rather than volunteer an opinion that no one else seems to share, people engage in collective pretence to ignore what they individually know. It's a phenomenon known to psychologists as pluralistic ignorance.*
- *In the end, the only way a CEO can reverse a corporate decline is to change the momentum and empower people anew, replacing secrecy and denial with dialogue, blame and scorn with respect, avoidance and turf protection with collaboration, and passivity and helplessness with initiative.*
- *Nelson Mandela, the first democratically elected President of South Africa, and who turned around his country said that he wanted to avoid punishing anyone for past mistakes and build mutual respect among colleagues. "You've got to create some space to make a mistake or two" he said, "We are but a collection of human beings".*
- *Turnaround leaders know that problem-solving requires collaboration across departments and divisions—and not just because innovation often come from these joint projects. Changing the company's dynamics requires collective commitments to new courses of action lest local decisions, taken in isolation, undermine that change.*
- *Despite the common psychological dynamics at work in all the turnaround situations I've witnessed, we should remember*

that leading a corporate turnaround isn't a one-size-fits-all process. It requires that CEOs pay attentions to the specifics of a company's problems and that the leaders bring their own preferred approaches to the task.

- *Yet, despite differences in strategies and tactics, all turnaround leaders share the overarching task of restoring confidence through empowerment—replacing denial with dialogue, blame with respect, isolation with collaboration, and helplessness with opportunities for initiative.*

Each leader must manage the tricky task of creating a winner's attitude in people, even before the victories. And that means performing a series of balancing acts. Troubled organisations are generally in financial distress, and cutting expenses is a characteristic turnaround move. But how this is done has a big impact on whether the turnaround is a temporary fix or a path to sustainability. To pull a company out of a death spiral, the CEO needs to encourage people to take initiative and feel that they can make a difference.

(*Source—Confidence*: *How Winning Streaks and Losing Streaks Begin and End* by Rosabeth Moss Kanter, New York: Crown. Reproduced with permission)

Demeanour of a Chief Executive

The demeanour of a chief executive is an essential ingredient at all times, particularly when implementing any strategic plan. While in the process of implementing the turnaround plan, I tried to make even a modest achievement look like a big achievement and an occasion for rejoicing. This was essentially done to dispel their prevailing sense of gloom and make people around feel happy to experience a sense of achievement and convey the same upbeat mood across the organisation. This went a long way in creating a positive and conducive environment. The staff members had earlier suffered considerable humiliation due to the overall atmosphere, both internal and external.

It was not that I was always 'nice' to my colleagues. There were times when I had to be very firm when certain branch managers, circle heads or executives did not perform well/did not deliver the desired results, or showed lack of preparedness for meetings and did not act in a responsible manner. I invariably displayed a sense of urgency which finally led to an early turnaround. In my dealings with the staff, branch managers, executives, regulators and the owner, I tried to convey this singular sense of urgency. I have always maintained that the Controlling Office should function with the spirit of control "as meant in the term 'quality control'". The essential role of the Controlling Office/Head Office is to facilitate the business growth of a circle office/branch office in the spirit of accountability. The responses of the Controlling Office should be quick, and the directions given must have clarity. As such, I encouraged the staff members wherever things were showing improvement. On two occasions, I remember, all the staff members of the Head Office were asked to assemble on the sixth floor immediately after the declaration of annual financial results, and I praised the entire staff in all corners of the country for the good work done. Similarly, when the unions/associations were deliberating upon signing an agreement for commitment to the Restructuring Plan and giving 'a free hand' to the management, a meeting of staff members was convened at the H.O. sixth floor to convey that the process of turnaround would be derailed if the agreement was not signed. There was a misplaced apprehension about the agreement which was being signed for the first time in the banking industry. I assured the office bearers of all Indian Bank's unions and associations that 'a free hand' would not result in any adverse consequences or misuse of authority and that the management would continue to be balanced and level-headed. This helped in creating a congenial atmosphere for work, and the apprehensions of the staff members were dispelled.

We often find that some CEOs raise their voice when they deal with their subordinates. Raising of the voice reflects a sense of one's personal insecurity resulting from a "feeling of certain internal inadequacies". A pronounced lack of self-confidence manifests itself in such an abnormal behavior on the part of the CEOs. A CEO need not demonstrate his position in an organisation to his subordinate staff all the time. It is ubiquitous knowledge that he is the Chief. There is a misconception that one is effective when the voice is raised. In fact, one can be even more effective, using a normal tone and making a point with facts and adequate reasoning, as he/she has complete control of what is being said. There is a win-win situation both for the individual and the organisation. A raised voice silences the other person and he fails to 'think' with clarity, and is unable to convey the complete reasoning he has in mind. Further, the person who raises his voice loses proportionate energy and composure; focusing thereon. The entire energy also results in diversion of attention from the main issue. In the process, both lose reasoning power and resort to decisions which are not the best ones. In fact, raising the voice or showing authority can only result in a momentary compliance and a simulated obedience but not a sustained higher level of performance. Staff members get demotivated in the process, go into their shell and stop thinking about the problems or challenges on hand and thus their involvement with the organisation suffers. No one wins in the process and the Biggest Loser is the organisation.

Ironically, we often find such CEOs complaining that nobody else is thinking about the problems or applying his/her mind in the organisation apart from him. Highly motivated CEOs can do wonders to the morale of the entire team/workforce while demotivators can destroy the organisation in the long run. 'I' specialists are not required today and those who believe in the term 'we' are the ones capable of achieving results. This is an universal phenomenon in the growth of an organisation, and which makes a difference in the performance of organisations.

11.1 Falling in Line Syndrome

What had happened in Indian Bank leading to its financial woes is nothing uncommon or unique to such institutions. Even today it must be happening, perhaps to a much lesser degree, in other banks/financial institutions across the world. Particularly in the Indian context, such a situation is easily explainable. Respecting elders is very much an essential ingredient in our traditional family culture. It is said that one should pay reverence to *Mata**, *Pita**, *Guru** and *Deva**. In the present-day circumstances, the Boss is also placed among them. Perhaps he is viewed on par with the Guru. Thus, his words are virtually law in an organisation and generally the employees vie with one another to demonstrate their loyalty and commitment to their Boss. He or she is omnipotent in the organisation, and is almost infallible. This is very much true of some of our public sector banks which have remained, over the years, CMD-centric. The corporate attitude of a public

**Mata* denotes 'Mother', *Pita* denotes 'Father', *Guru* denotes 'Teacher', *Deva* denotes 'God'.

sector bank emanates from the personal attitude of its CMD, in the context of his leadership perspective. This may not be necessarily applicable to private sector banks, or for that matter any private sector operator in the industry. This is likely to continue till public sector banks encourage infusion of fresh talent and modern young minds into their management team in a large way, and also give them the latitude to voice their views on important issues in the functioning of the banks.

Earlier generations were trained to merely answer questions, ensuring political correctness. The modern generation questions the answers and seeks wisdom. Unless such an attitude is encouraged, the future would merely be an extension of the past, through the present. Wherever there is dissent, supported by facts and reasoning, it has to be encouraged. But, it has not been happening so far. Dissent is usually misconstrued as disrespect. This is Indian psyche which has withstood centuries. It is high time it gained a new shape so that we could turn our back on the turnaround stories in the banking sector as there would be no need to learn further lessons. After all, taking the case of Indian Bank, it was merely a “falling in line syndrome”, with the executives and the staff down the line complying with the dictates of their respective higher authorities, without thinking about the consequences. It was not only corruption or immorality or any malafide intention which led to the situation in which the bank was placed. It was rather a varying degree of “intellectual dishonesty”, betraying the interests of the organisation to please the higher authorities.

I recall a special three-day programme organized by Bank of India in 1992–93 for newly promoted DGMs at IIM, Bangalore on ‘Change in Mindset’. The objective of the programme was that these DGMs, about to be the future top management, needed to be groomed to enable them to face the severe competition in the industry, which was likely to occur due to opening up of the economy. I was one of the DGMs. In the pre-lunch session on the last day, one of the distinguished IIM faculty spoke at length on the mental preparedness for facing challenges of competition and growth and summed up by saying that one had to have ‘like-minded’ people working together so that decision-making would be smooth, as a knife into butter. In a lighter vein every one of us started thinking as to who could be the “like-minded” persons in the group, whom each of us would like to have with us.

In the post-lunch session, another equally revered and distinguished professor, while raising similar concerns, said in the same manner that you should have people 'who can differ' with you so that best possible decisions could be taken. There was an apparent look of confusion among us as was betrayed by our body language, which was noticed by our learned professor. He turned around and asked us the reason for the same. One of the participants stood up and narrated what the previous profe-ssor had said, including the view for selecting 'like-minded' people. The professor gave a meaningful smile and responded that the earlier professor was right, and that he was also right—it was for each one of us to decide which way to take. This advice spoke volumes—indicating profound depth needed for dissenting not for argument's sake but when supported with logic and reasoning.

With people developing independent thinking and, in turn, a sense of self-righteousness, there will never be a question of such "falling-in-line". On the contrary, even the Boss would be sounded when he is on the wrong. There cannot be a better input for an ideal corporate governance of the bank.

11.1.1 Making Turnarounds Work

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An extract from a meaningful article in Indian Management January, 2006 by Shri Abhishek Roy Chowdhury on restructuring wherein, the approach of Indian Bank is highlighted:

Corporate restructuring has been a common practice of the CEOs around the world over the last decade or so. A number of external and internal factors have compelled many companies to modify their strategies, reshuffle management and reshape the organisational structures. In all these cases, whether it was an Indian company or a foreign one, the objective behind the restructuring activities was either to accelerate growth, or to trigger a turnaround, or even both.

In India, after the commencement of liberalisation in 1991, restructuring became a popular term. As a part of the new economic policies by the Government, industrial licensing was eliminated and import duties were pulled down. Under the new business environment, every company started their process of restructuring through mergers and acquisitions, consolidation in power and telecom sectors, divestitures, joint ventures and strategic alliances; in order to build shareholders' confidence in the company by creating shareholders' wealth.

However, when restructuring strategies have been adopted with an objective to turnaround, they have been easy to plan, but difficult to implement. Many established companies, when faced with problems, adopted various strategies to bring them back on track.

When to Turnaround

At times, a company may face an adverse business environment, for example, political unrest, unfavourable government policies, a slowly growing market, decline in market share due to entry of competitors, a change in customer preferences or demand saturation. Apart from these external factors, there can be internal issues too that can generate the need for a turnaround, such as incompetent management, huge debt burden, stressed relations between labour union and management, too many employees, an unsuccessful merger, an obsolete product-mix, persistent losses, too many loss-making business units, a law suit against the company, massive pension liabilities, outdated and cost ineffective production process, or a wrong strategy taken up in the past.

How to Turnaround

Though different companies have adopted different strategies to turnaround, all their moves can be narrowed down to three specific turnaround initiatives. There are instances when the CEOs have asked for suggestions from consultants. This approach is fruitful only when the management team is competent enough, and, either has enough cash, or a back-up financial support is available. Availability of an experienced consultant is also a decisive factor for attempting this kind of a method.

Management Reshuffle

Turnaround approaches often include reorganising the management structure of a company. Though there is no pre-determined way, managerial reorganisation generally starts with replacement of unsuccessful management by a new team by hiring successful professionals to fill up the responsible positions in important departments like marketing, finance and HR. Also, there are examples of unique practice by the CEOs to restructure a management team. Recently, Paul Otellini, a management graduate from the University of California, was designated as the CEO of Intel corporation. In January 2006, he designed a restructuring plan for Intel to bring more focus on customer preferences. His restructuring plan involved a "two-in-a-box" leadership style. According to this exceptional management structure, every business unit was to remain under the control of two leaders.

Role swapping was also a part of Otellini's plan for reorganising Intel. In this uncommon practice, tasks were exchanged among the top executives in order to develop diverse skills. He believed by swapping the roles, the managers would gain varied experiences about dissimilar jobs, which would make them capable of helping each other in the time of crisis. The responsibilities of the leaders were changed. For example, the head of the communication group of Intel was assigned the task of managing the mobility group, along with the former vice president and general managers of Intel's mobile platforms group.

Strategic Readjustment

Strategic readjustment has been a mammoth task for CEOs attempting a turnaround. It results in a split up of a company into a number of business units or groups, with specific assignments for each. This method is opted for many reasons. A common reason is, small business units are easy to control than controlling a large company. Besides, each business group becomes capable of targeting a particular market segment with a particular product category, for which the unit possesses specialised people.

Ranjana Kumar terminated the four tier structure of the Indian Bank, which included zones, regions, headquarters and branches. Following that, branches were divided, to focus on five distinct target markets—corporate, commercial, personal and rural services. Each of the units of the branches were given the responsibility to grant advances to different target/market customers.

Technological Innovation

Poor innovation may lead to extinction of a company. To survive, the need for technological innovation in order to develop a new product, has been proved inevitable, time and again. An innovation in a product by a company may cause worry for others. To stay in the game, mere application of knowledge may not be sufficient. Late entry in a product category is always disadvantageous than the early innovators. Sometimes, a company even suspends the manufacturing process of a product and focuses on a new product to gain early movers' advantage.

Implications

All the successful turnaround stories in the past broadly depict two types of approaches. Some strategies were aggressive, portraying the attitude of the risk taker. Workers were fired, and new professionals brought in, business units were sold-out, outdated machines were replaced overnight, the product-mix was altered, and marketing activities were tightened—all with an aim to fight back. However, some of the approaches did not bring immediate results. Lay-offs are believed to have a negative impact on the minds of the existing workers. Also, the incoming workers take time to reach a comfort level in a new environment, to produce improved results. In addition, divestments always damage the reputation of a company, revealing either a poor financial health, or the disability of the management.

The other type of turnaround approach is a gentle one, with a long-term goal. Few steps are followed to implement these strategies. Firstly, the problems are assessed to understand the internal cause. It is important to find out whether the root of the crisis is in the people of the organisation, in its HR policies, in the production process, in marketing strategies, or in the finance department.

Secondly, depending on the type of crisis, it is decided whether an organisational restructuring, a portfolio restructuring or a financial restructuring is needed. Sometimes an organisation may need the combination of the three. The next step is to find out whether the organisation is ready for restructuring. Also, the risks associated with any type of restructuring should be recognised. Lastly, the implementation of the strategies is the most crucial part of any turnaround.

Any wrong assessment of the crisis, and wrong choice of strategies may lead to a massive failure. In most of the cases the second approach is on bringing in a behavioural change and a change in the organisational culture in the long run . . . *which is what happened in Indian Bank*.

11.1.2 Beyond Responsibility and Accountability

[Reproduced with permission

Excerpts from an article by Bert Paterson, Managing Director, Aviva Life Insurance Co India Pvt. Ltd]

To lead an organisation, a leader needs to be a combination of team builder, coach, mentor, delegator, decision maker, consensus builder, a taskmaster and a role model. He/she also needs to be well-equipped with the right skill sets and attitude—in short, the leader must always set the standards in terms of acceptable behaviour. He must demonstrate the values of the organisation at all times.

Not surprisingly, the attributes listed above are not always inbuilt, but can be learnt over time and, depending on exposure to the right environment, training and experience, garnered over the years.

11.1.3 Delegation

In addition, a leader is answerable to more people and thus accountability becomes even more crucial.

Micromanagement then not only becomes a daunting task, but an impossible one. So, then, how does one manage the change from being responsible to being accountable?

As one gets accountable for the performance of the business, it is time to firmly and fairly give responsibility to others. It becomes essential to build a team which is well equipped to meet the challenge, and which also shares the vision of the leader.

The team is expected to deliver the desired results with or without close monitoring. The key here is to eliminate the "How to deliver aspect" and to encourage the team to develop decision making abilities. Further, the system should have an element of flexibility, which would prove advantageous in achieving the set goals.

The leader thus moves away from the role of a doer to a director and an influencer. It is essential for the leader to make his team realise the fact that it is impossible to meet the business goals without their efforts.

The following issues emerge from the above.

1. Transparency and corporate governance assume greater importance in the financial sector (especially banking) as the major stakeholders are the depositors of the bank. And this important aspect should not be compromised.
2. Basel's study on bank failures in world wide economies, among various factors, highlights Management Weaknesses as being a *significant contributory factor* in nearly all cases of bank failures. The impact is so profound, that even where asset impairment has been properly quantified, they do not fully capture qualitative problems caused by poor management.
3. Basel II norms require banks to provide weightage to "operational risk" i.e. all internal systems and procedures to be in place. In his position as Chairman and Managing Director, a CMD is meant to be the "Custodian of Best Practices for the Bank". When the custodian himself not just overlooks but deviously encourages blatant flouting of such good practices, it is bound to lead to a dilution of banking values, leading to the weakening of the bank's foundation.
4. Such wrong practices cannot flourish without the active encouragement of those in authority.
5. Unfortunately, in a hierarchical system, the fear and vulnerability of being on the 'wrong side' of the boss is real, particularly if it is perceived that the boss has the right connections to the appointing authority.
6. It is imperative to ask then, who can "checkmate" a wayward leader from indulging in wrongful acts by manipulating systems and procedures—all by orders and directions given orally and unauthenticated—in such a way that when things are found out eventually, a whole of others could be fixed. The originator escapes at worst with minor bruises.

   The answer to this poser truly is the Board of Directors which has the responsibility for the overall superintendence of the bank, and the regulatory authority in the main.
7. The industry has sufficient experience of such type of harmful management styles/practices which have cost the institution

dearly. The wrong systems/trends established, leading to a sense of constant uncertainty, fear, mental suffering among a large section of the workforce, has ultimately left a deep dent on the health of the institution. Consequently, such institutions have taken a very long time and untiring efforts to recover.

8. With the experience so gained, such happenings should not be allowed to recur. We certainly need to act to set an example so as to ensure that in future the institution in particular, and the banking industry in general is not held to ransom.
9. It is intriguing, therefore, to note the following comments made by Mr. R.P. Singh, CMD, Punjab & Sind Bank in a communication to the Secretary (Banking) on March 30, 2007, and which has been published in the *Indian Express* dated May 6, 2007:

"The Bank has suffered in the past due to reckless lending because of political interference and an obliging management, which resulted in accumulation of highest NPAs in the industry. If the Government wants this Bank to survive, the Bank should have Directors who are not only professionals, but also men of integrity and not connected with local politics."

Nonetheless, we cannot afford to be pessimistic if public institutions are to be safeguarded from the rapaciousness of a few, but run them in the true interest of the country. It is the health of institutions—public or private which provides the strongest bulwark in a democracy. We certainly need to act to ensure that in future the banking industry is not a hostage to malpractices of those at the helm of affairs, and to constantly seek to get a truly professional Board

This book is written not so much to state how revival of the Indian Bank has the classicality of experiences of institutions elsewhere, as brought out in the study of "The Art and Science of Turnaround Leadership" by Rosabeth Moss Kanter, but to caution those who matter that if we do not mend our ways in regard to corporate governance, history may repeat. Eternal vigilance is the price of health of our banks.

11.2 Communication

In an institution which is beleaguered and trying to come out of the woods, the role played by CEOs is very significant in terms of their leadership qualities, and ability to communicate with different tiers in the organisation to restore the confidence in themselves and all the people working for the turnaround. One alternative open is not to give undue publicity to past issues as this will only make things worse. Therefore, the most important task for turnaround leaders is to keep the communication channels wide open at different levels of the tiers starting from the top management itself. It may be of interest to note that turnaround leaders do not single out those who may be responsible for the bad condition in which the institution is placed, as such people will be isolated in the process of turnaround. Hence, it is wise to involve all in the turnaround process, as, they collaborate in bringing about turnaround of the organisation.

Staff members should rely on one another to be accountable. If everything is discussed openly there is no room for internal politics or making complaints about one another privately. Problem-solving requires collaboration among different departments in Head Office, Head Office and Zonal/Regional Offices, Zonal/Regional offices and branches. In order to successfully turnaround an organisation, there is need for commitment among all staff members and ensuring percolation of ideas of the top management even to the last cadre.

Towards this end, I convened a meetings of all Executives of the Head Office and Chennai Zonal Office on the first Monday of every month, where important events that took place during the previous month were discussed threadbare, minutes of the meeting circulated to all participants and also to Zonal/Regional Offices which, in turn, was communicated to branches and also discussed during the staff meetings at branches. Normally, in these meetings, I would first give an elaborate account of what I did during the previous month, the names of clients/dignitaries met by me, the circles that I visited, the staff meetings conducted by me, the feedback that I got from staff and customers during my interaction with them, the important news items which appeared in newspapers regarding banking, new projects coming up in different States, important persons to be contacted for getting business, practices adopted by other banks for canvassing new business, strategies to be adopted by the bank etc. depending on the relevance for that day's meeting. I would then throw the meeting open to the executives present to come out with their suggestions/opinions/strategies to improve the qualitative and quantitative performance of the bank. Each one of the executives present at the meeting was encouraged to come out with his suggestions. *Even if some points mentioned by some of the executives were very trivial, I never interrupted midway or discouraged them. If I had done that, others would have shied away from giving their opinion, thereby many important suggestions would not have come up for discussion. As I encouraged them to speak, many executives did a lot of home work to come out with good suggestions.* These were incorporated in the minutes. The minutes of the meeting was circulated for follow up action at different levels down the hierarchy.

As Chairperson, I was keenly looking forward to the first Monday of every month as I was getting new ideas from different executives who had sufficient exposure in the field and the participants were also excited to express their suggestions in the presence of CMD, ED and other top executives of the bank. I also got feedback from administrative offices and branches that they were also eagerly awaiting the minutes of the Monday Meeting which contained the strategies for improving the functioning of the bank, and the direction in which it was proceeding. On the whole, the Monday Meetings proved to be very rewarding and a good forum for exchanging ideas and planning the future course of action. Hence, each staff member would know the goings on in the institution.

Communication is thus an integral part of any effective management. It becomes all the more important during the turnaround strategy, absence of which can lead to several problems in the organisation. Keeping this aspect in mind, I kept several channels of communications open to the staff, executives, unions and associations, customers, regulatory authorities and the government.

I cite some of the communications which I had with the staff of the bank:

I urged every one in the organisation to introspect on his/her strengths, identify weaknesses and earnestly endeavour to improve himself/herself to become an effective leader in the light of various leadership qualities mentioned in these communications.

1. In the New Year Message for 2001, the mood of the bank was summarized in our slogan. “Poised for higher growth, Work more and work better”. I appealed to the staff to shrug off

negative thoughts and resolve to fine-tune our performance as we stepped into the promise-filled tomorrow. The bank could turn a new leaf with an operating profit of Rs 24 crore, a positive achievement after a gap of 4 years. Though this feat was appreciable, there was no room for complacency as we had still to go a long way to put the bank on an even keel. Even though we are categorized as a weak bank today . . . OUR PEOPLE ARE NOT WEAK . . . which please remember. Our workforce is second to none when it comes to skills, dedication and the will to achieve.

2. In Indian Bank, celebration of Independence Day is more than just Independence Day as it is the foundation day of the bank. On Independence Day in 2001, the staff was exhorted to work with the same missionary zeal with which the country got independence.

   I stated in the communication that once a mission is understood, achieving the target becomes simple and easy. To achieve the target, a lot of energy is required and this energy should be channelised in a constructive way.

   Memories of the past and the anxieties of the future should not haunt us and we must concentrate on the present, to plan for the future. Past is history, but the future belongs to us. We will do it, we have to do it and we are capable of doing it.

   In my entire stay in Indian Bank, I never referred to what happened in the past nor blamed anyone for the state of affairs but concentrated fully on building the future. In order to convey this, I mentioned the same in my message as follows:

   Our bank is like a family and there should be no criticism amongst us but only mutual support. It is to be considered that the difficulties experienced so far provide a lesson for the future. People have matured enough not to repeat the mistakes of the past. Our institution is more sinned against then sinning. We have to vindicate our stand by our impressive performance. This is not an ordinary task but then, this is not an ordinary institution.

   Many of us are prepared to shed sweat and blood for the organisation. When we do our duty effectively, there has to be *sacrifice, in that sacrifice there is a great deal of pleasure and happiness for we are carrying out the constructive activity of strengthening our institution. Children in the family, on seeing the commitment, dedication and sacrifice of their parents will imbibe such good qualities which will help them in future.*

Let us take a pledge, that every one of us would monitor our own performance objectively on a daily basis. Sincerity and commitment are the need of the hour, otherwise we will be fooling ourselves.

Please remember that the present cross section of the staff working in this great institution will go down in the annals of the Indian banking industry as those who effectively contributed to the rebuilding our beloved bank.

3. Further on the issue of recapitalisation of Indian Bank, I conveyed in detail Duties and Responsibilities to all the staff members in March, 2002. In order to avail the recapitalisation support, the bank was required to sign an MOU with the Government, in certain specific matters which had a bearing on the viability of the bank. This had become necessary because the Government had to assure itself that the turnaround of the bank was on a sustainable basis.

   The performance of the bank on earlier occasions after receipt of initial doses of recap, was not up to the desired levels. The Government had severe constraints of funds and in fact had to provide the assistance in spite of huge fiscal deficit. Several other financial institutions and banks had been seeking recapitalisation assistance. I reminded them that the Government was answerable to Parliament and the people of India for providing recapitalisation (which was from the tax payers' funds), to our Institution in preference to several developmental/social welfare programmes.

   Under the circumstances, I stressed that the bank was accountable to the Government for performance under the Restructuring Plan which would be monitored on a monthly basis by both the Reserve Bank of India and the Government of India, as they wanted to ensure steady and stable growth. The Government stipulated that the MoU referred earlier should be supported by a back-to-back agreement signed by all the employees' unions and officers' associations. This was required to carry forward the restructuring programme to its logical conclusion, that is, successful and permanent turnaround of the bank, without any let up or slip back at any stage.

I also informed the staff that after due deliberations, the unions and associations had signed the required agreement on 9.3.2002. The unions and associations displayed maturity and responsibility by understanding the situation in which the bank was placed and the crucial need for recapitalisation without further loss of time. After referring to various aspects business, I specially emphasized that customer service should be exemplary, and the bank should become the MOST PREFERRED BANK.

Further, I also conveyed that we can hope to receive the second tranche of recapitalisation only after successfully achieving the milestones of the first phase. Only after receiving the second instalment of about Rs 770 crore, I said, the bank would achieve the required Capital Adequacy Ratio, as per the RBI guidelines, lack of which had been a major impediment in garnering several business opportunities, both domestic and international. I made it clear that the conditions stipulated by the Government, and the agreement signed with the unions and associations were entirely in the interest of the institution and for its very survival and continuance. I explained that it might appear that we were making certain sacrifices now, but these were absolutely essential for securing our future in this great institution, which might otherwise be uncertain and tumultuous.

At the cost of repetition, I further reminded that this was the last chance to strengthen and revive our bank. There would not be another chance. We were confident that our team was capable of overcoming all hurdles and obstacles and prove to the nation, in general, and to the Government and RBI, in particular, that we were worthy of the confidence reposed, and the support extended to us by them.

4. The historic moment in the annals of the bank was when it registered a Net Profit after a gap of 8 long years during which we had to weather many a storm. It gave a tremendous sense of satisfaction that all our strategies, efforts sacrifices

had borne fruit and the bank had registered a Net Profit of Rs 33.22 crore during the financial year 2001–2002. We had reached all targets set under the Restructuring Plan. In fact, we had achieved net profit ahead of the schedule.

In my communication dated 23rd May, 2002, I placed on record my deep sense of appreciation to one and all and exhorted them to continue in the same vein to improve our performance.

I mentioned that the figures in the balance sheet would spoke louder than words. We could feel happy in that moment of achievement, rightly so, as all of us had put our hearts and souls together to record this success. The patience, perseverance, commitment and determination displayed by the rank and the file had been duly rewarded. We rejoiced and cherished that golden moment.

We had been pursuing with the Government the question of release of the 2nd tranche of recapitalisation of Rs 770 crore which could enable the bank to achieve necessary CRAR. However, it was taking a long time. The Government and RBI were on the other hand closely watching our performance, to ensure that the progress would be sustainable.

In a message for the New Year 2003, I conveyed to the staff that there was no room for complacency. The competition was intensifying every day and fresher challenges were being thrown at us. The order of the day was “Survival of the Fittest”. “If we have to be winners in this highly competitive environment, we should put in that extra effort that differentiates us from the rest”.

As it is said “Winners do what they are supposed to – and then some more”. It is like going the extra mile. I exhorted the staff to resolve to EXCEL over not only others, but also our own performance that would be the cutting edge in the present scenario, and which was the need of the hour. We had the talent, skill and commitment to perform better. But what we needed to further focus on was the total application of these three qualities to achieve our goals. I had the following quote laminated and presented to Senior Executives at Head Office and to all the Circle Heads to be kept on their office tables.

> Every morning in Africa, a gazelle wakes up,
> it knows it must run faster than the fastest lion or it will be killed.
> Every morning a lion wakes up,
> it knows it must outrun the slowest gazelle or it will starve to death.
> It does not matter if you are a lion or a gazelle when the Sun comes up, you'd better be running".

The above quote not only inspired the officials but served as a constant reminder that the spirit underlying the same should be finished.

5. The Banker of the Year award for the year 2002 was presented to me on June, 12, 2003 by *Business Standard*, a leading financial daily. While communicating to the colleagues, I mentioned that over the last two years, the bank had responded admirably to the demands of the turnaround strategy in spite of the fact that it was dubbed as a "weak" bank not long ago, and that many experts had written off the bank, predicting merger or closure as the only option left. To quote Shri TN Ninan, Chief Editor, Business Standard,

   "even Business Standard *had once suggested that the bank, at the height of its crisis, should be wound up and was a completely lost case. Now, we are delighted to honour its Chairperson who is responsible for the turnaround of the bank".*

   But then, the bank rose like a phoenix, performing above all expectations and silencing all critics. Right from the drafting of the Restructuring Plan and performing according to the plan, the bank had proved that it had enormous talent and was second to none when it came to commitment and hardwork.

   I mentioned on the occasion that we should deem it as a reward for the sincere, energetic and enthusiastic TEAM of our bank who had spared no efforts to bring it back from the brink. While accepting the Award, I spoke as under:

   "Working as Chairperson of Indian Bank has been the most challenging of my assignments and this has been a lot of learning for me. The first learning is that it is not right for a person to underestimate the capacity of any organisation or its people, when they go through difficult times and, before passing any judgement, there should be proper verification and analysis of details/facts.

The second point is that given an environment conducive to growth, people will perform and respond positively.

Thirdly, that in a life span (graph) of any individual or an organisation there will always be ups and downs, and these setbacks/reverses do create a negative feeling/feeling of despondency among the workforce, especially when they have seen brighter days. If they are then taught to cope with these reversals, the rewards are sure to come, though they may take time.

Finally, in the above process, unknowingly, the quality of resilience develops among the workforce, a very important quality which is a prerequisite for success.

This in brief, Ladies and Gentlemen, is the turnaround story of Indian Bank. I am accepting the Award in all humility, and on behalf of my 22000 re-energized workforce".

It was decided that a communication of this award should be sent to all the important customers of the bank, and also to the staff members along with the text of my acceptance speech on the occasion.

6. I always believe that people can do wonders, if their energy is channelised and focused on to a given task. Tomorrows are made by people. This message I had been sharing with the staff and others time and again. In August 2003, there was a report on the demise of Shri Henning Holck Larsen, Chairman Emeritus, Larsen & Toubro Ltd. at the age of 96, after a brief illness. He was indeed a great man and there are certain striking aspects about him which I shared with all of the executives, and which can certainly be emulated to bring in not only success but, equally important, a "good name" for the bank. Some of the quotes are as under:

Mr. Henning Holck Larsen was unique. He did not teach. He touched and transformed. He did not instruct. He inspired (by his own conduct and disposition). He helped people to discover within themselves, the strength to find the path way to the stars. "A true visionary, his mind embraced the future and his world knew no boundaries. A world where professional excellence was infused with grace, wit and good cheer".

Once when asked what he would define as the single most important ingredient of his success as industrialist, in a developing country, Sir. Larsen replied "if you want to belong to a country which becomes a nation, you have to keep the economy growing by creating jobs, and you can only do that by investing in tomorrow and tomorrow is made by people". He went on to say: "it is our ability to anticipate the future, and react accordingly, that will determine our success".

7. As the bank was registering progress on all fronts, there was a possibility that it might become a victim of positive tidings and euphoria. In view of this, I had to put a word of caution at several times, lest the bank lost focus. The most important aspect of business in general, and banking in particular is marketing. Marketing is a mantra for success. Therefore, I emphasised that each and every one of the staff had a role to play in marketing.

   In this communication, I covered several aspect of marketing, such as, See at least 6-8 people daily, Selling is not telling, Attend to details, Delegate, People buy people, Educate yourself properly, Time Management, Wake up to achieve what you want, Elephants don't bite—mosquitoes do, Desire and enthusiasm. In this communication I also narrated a small story as follows which had tremendous influence on the staff who were reeling under the "weak bank" psychology.

   "Recently, I happened to see a news item about Mr. Gideon Du Plesses, the highest earning insurance agent in the world with an annual commission of over Rs 7.00 crore. And he is a high school drop out. He has proved that with the right attitude, one can work wonders no matter what one's qualifications are. He has shared his mantras for success, which I felt would be quite useful to all of us to follow in our marketing efforts."

   Communication addressed to Branch Managers on May 18, 2002 after presenting an extremely satisfying performance for the year 2001–02.

   I am addressing this letter to you to share with you directly the happy news that the performance of the Bank during the year 2001–02 has been extremely satisfying. Based on the quick figures received from all the Circles, I observe that the bank has comfortably surpassed the targets under the

Restructuring Plan. This, I should say, is a stupendous performance by all of us. While every staff member in the bank should rightfully take credit for this remarkable performance, I agree that the efforts put by you as a Branch Manager need a special mention.

As a Branch Manager, you occupy a very special place in the functioning of the bank. All the policies, objectives, directives etc of the Head Office get implemented by you. You sell all the products that the Head Office designs. The performance of the bank to a large extent is the sum total of the performance of all the Branch Managers.

Ever since, I took over the reins of the bank about a couple of years back, I have been stating very clearly that the prospects of the bank are undeniably interwoven with the strengths of the Branch Manager. If the Branch Manager is positive, strong and good at his job, the bank is certain to embark on irreversible turnaround track. By your performance you have proved me right. It has been my endeavour to strengthen your hands, to empower you, and to give you all possible operational freedom.

While quite a few initiatives have already been taken in this regard, I intend to further speed up the process for strengthening your position. While the organisational hierarchy must be respected, I desire that you should not hesitate to seek from the Circle Office and Head Office the sort of support you need to further the business interest of the bank. I observe that many a time people give up their own ideas if faced with slightest resistance. You must not do so. If the idea is good and if you firmly believe in the idea, and that it is in the best interest of the organisation/institution you should pursue the idea relentlessly. I personally consider that it is my duty to ensure that the front line staff are fully equipped and that their requirements for business growth are met with.

I thought I would share with you a few lessons I found interesting and instructive and hope you find them useful too.

Lesson No.1: *Dare to Dream*

All of us must learn to dream. The founding fathers of this great institution dared to dream of starting a "Swadeshi Bank". Post-nationalisation, the first Chairman, Shri G Lakshminarayanan dared to dream of making the bank a truly "Indian" Bank, meaning that its impact be felt in every nook and corner of our great country. As carriers of the baton passed on to us, we should continue to dream.

Today all we have with us is a dream. A dream of rebuilding a great organisation. It is that dream, and the insatiable urge to realise the dream that should prevent us from being overwhelmed by the enormity of the task before us. It requires courage to keep dreaming. I do agree that one must have specific strategies to execute dreams. And, of course, one must slog to transform dreams into reality. But dreams come first. As of March 31, 2001 and March 31, 2002, we, as a team achieved the targets under the re-structuring plan. Thanks to the gesture of Government of India, our networth is positive and CRAR is positive.

We should now have a dream of becoming one of the top 10 banks in the country. You and your team at the Branch and Circle office and we at Head Office, together can do it.

Lesson No. 2: *Never lose your zest and curiosity*

All the available knowledge in the world is accelerating at a phenomenal rate. The whole world's codified knowledge base (all documented information in library books and electronic files) doubled every 30 years in the early 20th century. By the 1970s, the world's knowledge base doubled every seven years. Information researchers predict that by the year 2010, the world's codified knowledge will double every 11 hours. "Remaining on top of what you need to know", will become one of the greatest challenges.

The natural zest and curiosity for learning is one of the greatest drivers for keeping oneself updated on knowledge. A child's curiosity is insatiable because every new object is a thing of wonder and mystery. The same zest is needed for us to keep learning new things. Spend at least ten hours every week on reading. If you do not do that, you will find yourself quickly outdated, nay rusted, because, it is only when the mental faculties are applied, do they become sharper, and 'age' has nothing to do with this.

Lesson No. 3: *Always strive for excellence*

There is a tremendous difference between being good and being excellent in whatever you do. The complacency induced by the erstwhile protected markets has no place in a competitive economy of today. In the world of tomorrow, just 'being good' is not 'good enough'. One of the greatest advantages of opening up of the Banking Sector is that it has brought in completely different standards.

Excellence is a moving target. One has to constantly raise the bar. While our bank enjoys a good 'Brand Image', even today we know that we are dissatisfied with several things, which we are not doing right in the area of customer satisfaction. Let us think and set these things right. In the process, do remember to accept the need to change in the stride, for it is a positive trait. Doing something "excellently" has its own intrinsic joy.

Lesson No. 4: *Build self-confidence*

Self-confidence comes from a positive attitude even in most adverse situations. Self-confident people assume responsibility for their mistakes, and share credit with their team members. They are able to distinguish between what is in their control and what is not. They do not waste their energies on trivial issues and events that are beyond their control, and hence they can take setbacks in their stride. Remember that no one can make you feel inferior without your consent. Realise the strengths in you and build them up. Simultaneously, put in efforts to overcome weaknesses. These two have to be focussed upon on an ongoing basis.

Lesson No. 5: *Learn to work in teams*

The challenges ahead are so complex that no individual will be able to face them alone. Unless you build a strong network of people with complimentary skills, you will be restricted by your own limitations. The vast network of our bank has brought in people of different origin, different upbringing and different cultures together and that is why we are part of the "Indian Bank Team". Ability to become an integral part of a cross-cultural team will be a must for your success. Learn to enjoy it.

Lesson No. 6: *Learn to plan*

The most fundamental aspect of any business is proper planning. It must be remembered that planning has become an important pre-requisite even in our personal life as we have to factor in many aspects in our day-to-day life. It is more so in the case of business, as there is no scope for *drifting away from the set action plans*. If you "fail to plan today", you are "planning to fail". Planning therefore, is not a casual exercise but a meticulous effort with a *set goal in mind which must be achieved*. You must also have alternatives in place, so that achievement of the goal is assured, and is in time.

Lesson No. 7: *Learn to share*

Willingness to share ideas and information freely should prevail in an organisation. This will bring new ideas, approaches, skills and talents to the organisation, and satisfaction to the people within, paving way for growth. Open and transparent management involves regular exchange of information between the leader and team members, and sharing information has a positive effect on the performance. Information is likened to the lifeblood of an organisation, and communication is the main artery. By trusting the staff, and by being transparent and honest with them and by leading by example, you, as a Branch Manager will be able to inspire them to perform better. Remember, a leader at whatever level he operates, is being watched all the time to such an extent that an effective leader emerges as a role model for the members of the team to emulate.

Lesson No. 8: *Take care of yourself*

The stress that a Branch Manager faces today in his or her career, is enormous. Along with mental alertness, physical fitness will also assume a great importance in your life. You must develop your own mechanism for dealing with stress. A daily workout goes a long way in releasing the pressure and building up energy. You will need lots of energy to deal with the challenges.

Lesson No. 9: *Never accommodate indiscipline*

The long-term sustainability of any organisation depends heavily on the level of discipline in the organisation. History is replete with cases where highly profitable organisations have had to fold-up because of the indiscipline in the organisation. Similarly, a number of organisations which went through lean periods, could come out of the problems due to the commitment and grit of its disciplined workforce.

One hesitation, I observe in this regard is that, many of us take "discipline" in a negative connotation. We all have a feeling that people do not like to be disciplined. We all must remember that we are not in popularity contest. Let not your goodness become your weakness. For that matter, the popularity that we might get by being tolerant to indiscipline would be one of the most short-lived ones. I want to share with you that it is my experience that the subordinates respect the boss who is disciplined himself and enforces discipline in the organisation, rather than the boss who does not enforce discipline.

To enforce discipline in your work situation, you must first discipline yourself.

Lesson No. 10: *Perseverance*

Not withstanding the goal/target to be achieved, you must persevere, for that is being realistic. Keep at it and you will succeed, no matter how hopeless the issue seems at times. In the last decade, you have gone through many difficult times. But we have found that if we remain true to what we believe in, and work with commitment, we can surmount every obstacle that comes in the way. If you pursue your goal with the zeal of a bulldog after a bone, nothing under the Milky Way can stop you.

I recently read this very touching story on perseverance.

An eight-year-old child heard her parents talking about her little brother. All she knew was that he was very sick and they had no money left. They were moving to a smaller house because they could not afford to stay in the present house after paying the doctor's bills. Only a very costly surgery could save him now, and there was no one to loan them the money. When she heard daddy say to her tearful mother with whispered desperation, 'Only a miracle can save him now', the child went to her bedroom and pulled a glass jar from its hiding place in the closet. She poured all the change out on the floor and counted it carefully. Clutching the precious jar tightly, she slipped out the back door and made her *way six blocks to the local drug store. She took a quarter from her jar and placed it on the glass counter.*

"And what do you want?" asked the pharmacist.

"It's for my little brother," the girl answered back. "He's really, really sick and I want to buy a miracle"

"I beg your pardon:" said the pharmacist.

"His name is Andrew and he has something bad growing inside his head and my daddy says only a miracle can save him. So how much does a miracle cost?"

"We don't sell miracles here, child. I'm sorry," the pharmacist said, smiling sadly at the little girl.

"Listen, I have the money to pay for it. If it isn't enough, I can try and get some more. Just tell me how much it costs." Said the girl.

In the shop was a well-dressed customer. He stooped down and asked the little girl, "What kind of a miracle does your brother need?"

"I don't know," she replied with her eyes welling up. "He's really sick and mom says he needs an operation. But my daddy can't pay for it, so I have brought my savings."

"How much do you have?" asked the man.

"One dollar and eleven cents, but I can try and get some more", she answered, barely audible.

"Well, what a coincidence," smiled the man. "A dollar and eleven cents. The exact price of a miracle for little brothers." He took her money in one hand and held her hand with the other. He said, "Take me to where you live. I want to see your brother and meet your parents. Let's see if I have the kind of miracle you need."

That well-dressed man was Dr Carlton Armstrong, a surgeon, specialising in neurosurgery. The operation was completed without charge and it wasn't long before Andrew was home again and doing well.

"That surgery," her mom whispered, "was a real miracle. I wonder how much it would have cost?"

The little girl smiled. She knew exactly how much the miracle cost... one dollar and eleven cents… plus the faith of a little child.

The moral here is the belief that with right effort put in miracles do happen.

Lesson No. 11: *Never let success go to your head*

No matter what we achieve, it is important to remember that we owe this success to many factors and people around us. This will not only help us in keeping our sense of modesty and humility intact, but also help us to retain our sense of proportion and balance. The moment we allow success to build a feeling of arrogance, we become vulnerable to making incorrect judgements.

Let me illustrate this with another story.

A lady in faded dress and her husband, dressed in a threadbare suit, walked in without an appointment into the office of the president of the most prestigious educational institution in America. The secretary frowned at them and said " He will be busy all day"

"We will wait," said the couple quietly.

The secretary ignored them for hours hoping they would go away. But they did not. Finally, the secretary decided to disturb the president, hoping they would go away quickly once they met him. The president took one look at the faded dresses and glared sternly at them.

The lady said, "Our son studied here and he was very happy. A year ago, he was killed in an accident. My husband and I would like to erect a memorial for him on the campus".

The president was not touched. He was shocked. "Madam, we cannot put up a statue for every student of ours who died. This place would look like a cemetery."

"Oh, no," the lady explained quickly, "we don't want to erect a statue. We thought we would give a building to you."

"A building?" exclaimed the president, looking at their worn out clothes. "Do you have any idea how much a building costs? Our buildings cost close to ten million dollars!"

The lady was silent. The president was pleased and thought this would get rid of them. The lady looked at her husband. "If that is what it costs to start a university, why don't we start our own?"

Her husband nodded. Mr. and Mrs. Leland Stanford walked away, travelling to Palo Alto, California, where they established the university as a memorial to their son, bearing their name—the Stanford University. The story goes that this is how Stanford University began.

This University ranks among the top 10 Universities in the world today.

The growth of any organisation lies in maximising the customer's satisfaction. Ten commandments of customer service will serve as a useful tool to the branches in reaching that goal. It is our endeavour that all staff members would make effort to improve customer services and thereby increase our business in greater measure.

11.2.1 Time Management

Time, and management of time are of crucial importance in a successfull turnaround story. At times we wondered whether the turnaround might be a long, long process. Therefore, I decided to communicate a few tips to the various tiers of the organisation on Time Management.

Communication addressed to all executives on October 30, 2003 about the need to manage the available time to remain ahead in the race.

With the world becoming highly competitive every day and newer and tougher challenges unfolding, there is an urgent need to exploit our potential to the maximum extent to remain ahead in the race. Apart from efficiently managing various resources like men, material, finance, etc. we have to manage our time in the best possible manner to get the results and a sense of satisfaction at the end of the day. *Time management is as important as communication and other skills*.

Nature has given all of us the same amount of time – i.e., 24 hours per day. While some accomplish a lot during this period, several others find themselves in a bind and end up with more pending matters than when they started the day. What differentiates the winner and the 'also-ran' is the time management skill which can make or mar a person's career. Bad time management can cause undue stress to the individual, and tell upon the efficiency of the organisation also.

I share with you some of the important time management techniques, which I read recently.

Be Time Conscious

This is very important as people often tend not to value time. Time is equated to precious things like Gold. Not only time lost is unproductive work and cannot be recouped but also the consequential loss of business or profit is immeasurable. As a behavioural science expert says, "You must think carefully before you spend your time—as if you are on your last 10 rupee note in the world".

Do Time Audit

Maintain a log book of all your activities for a week and you will soon know how much time you have wasted on non-essential tasks. Eliminate the time wasters and settle down to essential and productive tasks alone.

Set Goals

It is important to set goals for accomplishment of tasks—whether it is professional or personal. You would have found out by experience that unless there is a deadline things will not be accomplished in time. You must have both short term and long term goals and also devise suitable action plans to achieve them. Goals can be set even in spheres like family, education and leisure. These would help you organize your holidays and spare time better.

Planning and Time Estimation

First prepare a "To Do" list. You could begin with a weekly list of all the tasks to be done, and then break it up into a daily schedule with probable time required to complete each task. If the tasks are larger, they could be broken into small components so that they could be completed in a phased manner. Unless there is definite list and plan, the progress would not be optimal. Also, there should be contingency plans to fall back upon when a task is extended beyond the estimated time or completed ahead of schedule.

Prioritize Your Tasks

It is not enough if the tasks are listed out. They must be prioritized as to "Important" and "Urgent". This would give a fair idea of what has to be completed in a day and what could be delegated etc. Even here, as you go along, things could be re-prioritized based on other pressures that could develop during the course of the day.

Keep Focused

Although multi-tasking is the buzzword today, handling several tasks at the same time, and leaving them all unfinished at the end of the day would reflect very poorly on the individual's efficiency. It is better to do one job at a time and not to allow any distraction to ruin the progress. E-Mails and Phone Calls could be potential distractors, especially the latter. Avoiding all calls is not the solution either. Becoming unapproachable would have other ramifications. One has to strike a right balance and avoid or postpone attending 'time-killer' calls.

Meetings

Often personal meetings or committee meetings tend to drag beyond the requisite time. It is to be ensured that the discussions are purposeful and to the point. In short, they should be highly professional and clinical.

Procrastination

The biggest obstacle to effective time management is procrastination. Kill the procrastination habit as it will boomerang on you. Take a decision and dispose of matters then and there, if sufficient data is available.

11.3 Communication Through Audio Cassette

(*Audio cassette distributed to employees in 2001*)

I hit upon a novel communication technique to spread my message across thousands of employees across the country. Through a pre-recorded 30 minute audio cassette, I conveyed the steps taken to tide over the problems, and the bright future ahead for the Bank. I stressed the need for change of mindset and a professional approach to customer service. I give below the transcription of my talk to staff members:

My Dear Colleagues

A very good day to all of you.

During the last seven months that I have been in the bank, I have been traveling to regions, visiting branches and having interactions with the branch managers, and meeting the entire staff in the staff meetings. I have met many of you and told you about the steps which the bank is taking to strengthen itself in the times to come. But there are many more staff members I have yet to meet and this would take some more time. That is why I thought I should address all of you through this audio cassette and tell you about the steps that we have taken, the progress we have made, and what we have to do in the future. Also, the great responsibility which has fallen on all of us in the future months and years to come.

As you are all aware, the bank was put on a restructuring programme which was for a three-year period commencing June 2000. As part of the restructuring programme, we were directed to merge branches, to de-layer Zonal Offices, and be able to improve upon the income of the bank so as to make it a strong institution. The bank, as you are aware, has made losses over a period of time. As a result of the losses, its capital was eroded and the net worth became negative. As a result of the steps which we have taken in the last couple of months, the bank has improved upon its performance. As you are aware, by removing the Zonal Offices, the bank is now functioning as a three-tier structure. The idea of this is, apart from reducing the expenditure, the basic theme of bringing a three tier structure was to make decision-making a much more prompt and efficient exercise. We have seen in the last four to five months that a new set-up has been created. Our regional managers are much "more focused", are having "much more hands-on experience" and, as a result of this, the branches and the regions have been definitely improving upon their performance.

The merger of branches was mainly for dealing with branches which were not doing very well or were in those areas where, within a short proximity, we had more than one or two branches. So, this was considered an effective exercise to make the bank a compact and professionally run institution. Apart from this, we also introduced a number of structured schemes, structured loan schemes for vehicle loans, for housing loans, for consumer loans, salary advance and in the rural areas the Kisan Bike Scheme which has become so very popular. Recently, during the middle of November, we introduced the Trade Finance Scheme. As you know the Indian Bank has had a very old relationship with the trader community in the country, and all these schemes, thanks to the good work put in by the branches, have been doing extremely well.

I would like to tell you certain figures which will show you that the bank has certainly improved in its deposits and advances and the income earned and, above all, "the image" it now has among its clientele. The deposits during April 1999 to December 1999 i.e. three quarters, increased by Rs 874 crore whereas the deposits between April 2000 to December 2000 increased by Rs 1150 crore. What I am trying to tell you is that the increment over 1999 in the year 2000 for these three quarters period was Rs 276 crore, which is not a small amount. In the structured schemes, the bank has been able to increase the advances portfolio by an amount of Rs 260 crore. I am talking about structured schemes of consumer loans, vehicle loans, housing loans, and trade finance. The net amount has gone up by Rs 260 crore. This also includes the Kisan Bike Scheme.

As far as the income is concerned, and this is an important yardstick to measure our performance, during the three quarters April 1999 to December 1999 it increased by Rs 1563 crore, whereas the income from April 2000 to December 2000 increased by Rs 1729 crore. Therefore, the net increase during 2000 over that of 1999 was Rs 165 crore, which is certainly an exceptionally good performance!

Apart from this, the most important area which concerns all of us is the NPA recovery and, under this, the recovery made between April 1999 to December 1999 was an amount of Rs 215 crore whereas the recovery made between April 2000 and December 2000 is a sum of Rs 315 crore. So, the net increase during 2000 over 1999 is a sum of Rs 100 crore, and this is very creditable, particularly because we did not have the DRT functioning in Chennai. As you know, Chennai has a very large NPA for historical reasons. But, without that also, this recovery has done well. I am also very happy to inform you that the number of deposit accounts during April to December, 2000 for three quarters has increased by over two lakh, and the number of advances accounts mainly in these new structured schemes, have increased by 58,000. And the most important point is that, after a period of nearly five years, the last half year i.e. as of September 2000, we have made a gross operational profit of Rs 18.38 crore.

So, overall, you can make out by this that the performance is good. And apart from the figure, what is perhaps the most important development is the morale of the staff—of the officers, of the senior officers, of regional managers which has definitely improved substantially. The idea of the branch managers' meetings, the regional managers' meetings, our address to the staff whenever we visit the region, is to create this morale, is to tell you that the bank had problems in the past, Yes, we had problems, but today, we are looking at the future in a very bright way, not merely saying so, but doing things which will result in 'better business' in 'better customer image' for the bank.

We are looking at the future in a very optimistic way and if you see, in the last couple of months, there has not been a single negative publicity about the bank. People are looking at the bank and, as I have been saying, everybody is very eager to see how would this bank come out of the problems. The restructuring plans say that we would be making a net profit by March 2002. That is still some time away, but time is going fast, we have already completed almost 9 to 10 months from the time when we started on the structuring programme.

Now, if you see the banking industry today, you would see that competition in the industry is becoming very very severe. And this competition is only going to go up in the degree of severity in the times to come. We have competition not only from nationalised banks like ours, we have competition from foreign banks, we have competition from private sector banks who are now trying to see whether they can improve their share in the market of business they have. We all are aware of the recent two mergers which have been announced between ICICI and the Bank of Madurai, as also the very recent one between UTI and the Global Trust Bank. Now, when I am telling you about these things, and I think I have discussed with couple of regions on this matter when I visited them, the idea is not that we need get worried. We need not get anxious, we need not lose our night sleep on such matters. These things will continue to happen in the future. We have to now see that we strengthen ourselves, gear up ourselves, be able to be well-equipped to face this competition which, as I have said and I will repeat, will only increase in the times to come. But we have to plan accordingly.

Yes, our services have been good. Our services have definitely been good because, as we know, despite having problems in the past, the customers' loyalty to Indian Bank is something which is really very very appreciated. The customers held on to us in our difficult times, and to these customers, we owe much much more. More than anything else when I talk of competition, please understand that the customer today has a choice as to which bank he would like to go to. As I have repeatedly said in the past also, that the grandfather may have started his business with Indian Bank 30 years or 40 years ago. The father would have continued. The son also would continue. But we are never sure about the grandson who now comes in and says, which bank is giving me which kind of services, efficiency in services, the manner in which we treat our customers, whether we are having knowledge of the subject we deal with, how we are able to respond to the query of the customers, and to respond to him with both efficiency, and within the specific time frame.

All these factors will determine whether the customers would like to continue with us in times to come. As I have already said, and I will repeat, that if the bank opposite you, near you, around you is going to be issuing the draft at 4 O' clock in the evening, you would also have to do the same. There is no choice. We have no choice today. We have to see that we also fulfill the requirements which the market and the customers today demand, and not only demand, they are getting it with a lot of grace from other banks and other institutions which are our competitors today. No longer is this a time when we can see our watch and work. We will have to do so till the customers want us to do so. Because a customer is so important, and this importance cannot be diluted at any point of time, and especially for a bank like us which is still being called a 'weak bank' a 'loss-making bank', which has to come up, and which is to take much greater strides than any other bank, which has been doing well. So, for us, the gap to be covered is much more and, therefore, the additional effort.

I have been watching all of you, many of you. As I have been saying in the past that I have worked in two other large banks, and this is my third bank and let me tell you, I honestly feel that this bank has got in its rank and file exceptionally good people working, efficient, committed, knowledgeable, dedicated, hard working people and this is what perhaps increases my confidence when I talk to Government of India or Reserve Bank of India saying that this bank definitely has a future, and in time will come out of the present problem. But, merely talking will not do. We will have to deliver. We would necessarily have to, through our actions, show that we are responsible, we are people capable of taking greater responsibility in life, and we would certainly stand up to the test of time. As you are aware, talks are on with the Government of India, and the Reserve Bank India, and the Special Committee which has been appointed with regard to the bank for getting further recapitalisation to strengthen its capital, to bring back its Capital Adequacy Ratio to the required norm. These talks are in an advanced stage now and, hopefully, we would be getting recapitalised. Now, this brings a greater responsibility on all of us. This is a very very sacred matter. An issue of sanctity. After all, the Government cannot just pay us like that. There is lot of accountability on all of us to measure up to the required performance. This amount, as Recapitalisation, is the tax payers, hard-earned money which is being given to us. So, please understand the responsibility.

It has been very gracious on the part of Government of India and the Reserve Bank of India to agree to the fact that Indian Bank will not be closed. Indian Bank will be strengthened. But who is going to do this. It is people within the bank who have to make the bank stronger. *You cannot expect anybody coming from outside and saying "let's make the bank strong".* It is the people, right from the man who stands at the door, the armed guard, the subordinate staff, the counter staff, the people behind the counter, the middle level officers, the senior officers, the branch managers, controlling officers. Each person has a tremendous amount of responsibility. The most important thing is that we all have to work as a team.

There will be differences as there are differences even in the family. Today, your son may not pursue the same course in academics which you would like him to do. Your daughter may not agree to marry the person you would have selected for her. Yet, she may be right. And he may also be right. Times are changing. World is changing and we all have to learn to change. We have to change our mindset. And this word 'mindset' has been used over and over again. What does it mean. To change the mindset means to change the way you are thinking. Think for a moment what I am saying. It is the need of the hour. A person who goes with the change is the person who will be a successful person, and the person who tries to come in the way of change, will not only be miserable himself but also make everybody around him miserable. We have to go with the times, we have to learn to take the change in its stride.

We have to preserve the great motto of this bank. For a moment, if we were to go back 95 years, and if at all the people who started the bank, if they were to come in front of us today and we were to have dialogue with them, I am sure they would say the same thing. Because they were the people who started this very great institution with their great foresight. And that is why it is named Indian Bank. It is the bank 'for the Indians' in the country. Have you ever heard of a more scintillating name than Indian Bank? It almost, the name itself, encompasses the entire length and breadth of the country, and that is why our peers in the past named it the Indian Bank. They wanted it to remain alive and healthy until the country remained alive and healthy. This bank is therefore synchronized with the country itself. I am talking to you from the bottom of my heart. And each word that I am talking is the word I have deliberated upon, and then only I am sharing it with you.

The customer service has become a very very important part of our daily routine. We have been talking of the word 'customer service' for a long time. But we really need to understand that, are we really taking care of the customers? Yes, we have improved upon our computerisation. As you know that by 31st of January, we would have computerized over 60% of the total transactions of the bank. And, by the end of February, around 70% of the total banking transactions would be computerized as per the norms of the CVC. Now, computerisation is very important. Towards the end of this year, we will also be talking of networking. Which will make things, make decision-making faster, and make us more compatible, and a very progressive institution.

We have been opening a number of ATMs. We have opened 47 ATMs so far and a number of them are offsite. Our Card Base with ATM has improved considerably and we hope that by the end of this year, we would be having 29 to 30 ATMs. So, to that extent, we have been doing well. We have been talking about ourselves. We have been talking progressively about ourselves, each time we have something positive to share.

Despite computerisation, you have to understand that customers in India still expect, and rightly so, a proper response when they come to the branch. Not only a smile. Smile is important, but smile is not everything. Knowledge of the subject is important. I have been repeatedly saying that each and every staff member must know about the new schemes, the structured schemes, loan schemes. It is very simple. It is not difficult. The staff must know, must apprise themselves of the schemes so that they can answer, and with confidence and responsibility. Please understand, no longer can we utter any casual comments at any point of time. Let us be careful when we speak—speak to each other or speak to the customers. Our tone should be measured. Any kind of irresponsible talk can hit the bank in a very adverse way, something which we can ill afford at this point of time. At this point, I should also like to reiterate the importance of discipline within the organisation. The importance of discipline in a branch, in a regional office, in Head Office, and this discipline brings along with it certain factors of punctuality, of self discipline, of regularity in attendance, of proper acceptable behavior pattern within the organisation, and also when we deal with the customers.

The controlling offices, both Head Office and regional offices, will have to have an attitude of not only monitoring the work of branches, but also to support them whenever they need such support. So, the entire process of discipline encompasses several factors which we will have to improve, and which we will have to strengthen.

The bank in its other measures has also introduced the VRS, the Voluntary Retirement Scheme. Under this Scheme, we have relieved as many as 1300 of our staff as on 31st December, and the remaining of staff who are eligible as per the scheme would be relieved in the next two months in a phased manner. We wish our staff who have left us, and who will be leaving us, the very best in their future. They are very very important for us because they would be continuing to be customers of our bank. Very important customers. We would look at them as our ambassadors in various cities that they are, speaking about us and therefore they are very very special to all of us. Now, to those who have decided to continue with us, the bank is for them. For the bank, they are very very special. They would be properly taken care of. As I said in the beginning, the morale of the staff has gone up.

The bank would certainly try to see that the work environment is made much more healthy, made much more professional than it was, and this has to further improve over a period of time. Yes, I do agree, there would be some pressure of work. We would be taking up promotions very soon. Promotions at all levels, starting from clerical to officers, and among the various scales within the officers cadre, promotions will be taken up and this promotion policy would henceforth be made a regular affair. It would not be taken up after a very long period of time as has happened in the past. It would be done at regular intervals, as per the need, and as per competence of the people. The competence has to be analysed and judgement has to be done in the right and objective way. And when I said that the work would increase after the VRS what I would like to draw your attention to is that work has not killed anybody. Work has never resulted in causing any kind of physical or mental illness. It is the environment in which you work which causes problems. And when the bank is promising a healthy and professional environment, conducive to growth, I think there should not be any problem.

In fact, I was yesterday attending a discourse by Swami Parthasarthy on Chapter Seven of ' Bhagwat Gita' and he made a mention that a successful person, to remain successful in his area of business or job, whatever it may be, must be a very very busy man, must well use the time at his disposal. It is a busy man who can still afford to be happy. A busy man who works with a particular target in mind. What I would like to tell you here is that the single pointed programme, the single agenda, the single target for all of us has to be the progress and well-being of the bank in the times to come. When we make this as the target, I do not think any kind of obstacle can come in the way. All bottlenecks would be smoothened out and we will see that we really make ourselves well-equipped to face this challenge which we have before us.

Another measure which the bank has taken up to further strengthen the competence of our workforce is the training mechanism. The training mechanism is already in place in the bank. But now, we have tried to give greater accent on training our people in areas of credit management, credit appraisals. And in the times to come, what we would like to do, perhaps in the bank as a whole, would be to keep about 35 to 40 of our large branches which may be called Corporate Branches, who would be handling large credit, and these branches would have necessary infrastructure in terms of trained and experienced personnel to handle large advances.

The other advances would have merely the structured schemes, personal loan schemes which are relatively simple and which can be handled by each one of us. And hence, there should not be any reason for anybody to worry or be afraid as to who would be able to manage in the respective branches. So, therefore, we would be working in a much more organized way. And when I was talking about the training, it is not only for the officers and staff, it is there for the award staff, for clerical staff. We are specially giving training to the subordinate-staff in the area of customer service. They would also be required to handle small doubts which the customers would have, some clarifications as regard to where is the particular desk that the customer would have to go to. In fact, the other day, when I visited a branch in Chennai, a local branch, and the customer wanted to know how to fill up a particular form, I saw the sub-staff in a very sincere way helping the customer to fill up the form. This was indeed a very good sight to witness and that is what is customer service, how to talk to customers, how to be polite, how to bring about the culture of the bank. We are looking at customer service, customer interaction, in a very professional way at all levels, in the branch, at the regional office, in the Head Office. We are looking at the customers interaction in such a way that it becomes more relationship-oriented. We are looking at the customers in times to come who could say that dealing with the Indian Bank is certainly "an experience of its own", a novel experience which the customers would like to repeat in times to come.

So, my dear colleagues, I have spoken to you at length. I have spoken to you the thoughts which have come in my mind and which I thought very important to share with you, and which I thought should be brought to your attention as early as possible, and that is why this audio cassette? Please listen to this carefully. A lot has been talked of a lot remains to be talked about, but remember this year when the calender was to be printed, you know this year we have sent the calenders in December itself. I believe that it is the first time this has happened. The caption which we gave on the calender is "Poised for Higher Growth", that means that the 'position' has already been taken, that is why we said. 'poised'. The position has already been taken. Now, we need to grow and grow more, that is why we have set this motto for all of us. And, as you know I have shared this with you at the branch managers meeting, at staff meetings, the motto that we have to 'work more' and we have to 'work better' —that means not only the quantity of work, but the quality of work too. The quality has to improve. Each of us, whatever work we are doing. Let us add value to it. Let us ourselves experience the difference in the manner in which we are working. I am very certain and confident that with this idea in mind, to "work more" to "work better", to see that we serve the client whenever he wants us to serve, let us take care of all these things. With this, there is every reason why we can look forward to the future with a greater degree of optimism, to make our great institution–Indian Bank—a stronger, and a more vibrant institution of which all of us should be so very proud of.

Chapter 12

Lessons from the Turnaround

The Indian Bank managed one of the most significant turnarounds in performance in the history of banking in India. With a negative capital adequacy of nearly 13%, the bank was considered one of the weakest banks in the year 2000, when I took over. It turned around successfully, achieving all the targets set under the Restructuring Plan, including bringing the gross NPAs down substantially in less than two years.

The Indian approach to restructuring has traditionally been recapitalisation by the Government. In this case, however, the Government decided to try a new approach, imposing conditions for the disbursement of funds. For the first time in banking history an MoU was signed in which, among other things, the unions and associations agreed to give the management a free hand, and funds to be disbursed only after a profit was shown. This ensured sustainability of operations coupled with accountability (which put pressure on the bank to perform) along with strategic decisions like merger of branches and de-layering. Innovative HR practices contributed to the success of the Restructuring Plan. The important lessons that emerged from the experience are: the need to involve and empower public sector employees, and the importance of putting in place systems processes that enable informed and quick decision-making.

What are the lessons for the industry from such a turnaround in the face of tremendous competition? What were the challenges faced by the bank, and what were the strategies that made this feat possible? I give below excerpts from the discussion I had with Prof. Ashok Thampy of Indian Institute of Management, Bangalore which throws light on the issues involved. The interview appeared in the "*IIMB Management Review*", March 2004 issue.

A discussion between Prof. Ashok Thampy of—with Ranjana Kumar CMD, Indian Bank on the Turnaround of the Bank (Published in *IIMB Review*) March 2004.

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Professor Ashok Thampy (AT): *The turnaround of the Indian Bank has created a lot of interest, particularly since it is a public sector bank, where the issues are very different from those of a bank in the private sector. What were the major challenges that you faced when you took over as the CMD of the bank?*

Ranjana Kumar (RK): *The Indian Bank was at that time considered one of the weakest banks. It had made losses consecutively for a period of eight years, and had a very high NPA, much higher than the industry average. The post of Chairman had also been lying vacant for quite some time. As a result of all this, the morale of the workforce was very low. But, on the positive side, this was a 93-year old bank with a good and loyal clientele which had been operating successfully right up to the late 80s.*

At the time I joined the bank, the Management Advisory Group, at the behest of the RBI and the Government, had done an extensive study of the bank and submitted a report, which was published in March 2000. The Group consisted of four eminent people: Deepak Parekh, Chairman, HDFC; S. D. Kulkarni, the former MD and CEO of Larsen & Toubro; Ram K. Gupta, MD, State Bank of Patiala; and Dilip Choksi, a well-known chartered accountant in Mumbai. That was also the time when there was severe adverse publicity from a CII report on the bank. I was offered the job of Chairman and Managing Director in May 2000, and after attending a couple of meetings with Government and the RBI, I joined in June.

According to the report, the bank had received recapitalisation of a sum of Rs 2400 crore (24bn) already—around Rs 600 crore (6 bn) in the late 80s and early 90s, Rs 1700 crore (17bn) in 1998, and 100 crore (1bn) in 1999. Despite this, the continuous losses had totally eroded the net worth. When I took over, the bank had a negative capital adequacy of nearly 13%. So, we had a negative net worth in addition to the losses.

The most important factor that we had to take cognizance of was that from 1996 to 1999, the bank had totally frozen credit because, in the years prior to this, there had been substantial indiscriminate lending. Now the bank had swung round to the other extreme and totally stopped lending. If anything had to be done, it had to come all the way to the headquarters at Chennai. This led to the bank losing market share as well as good customers who were risk shy, but would have stayed with us if we had met their needs.

In addition, the bank had asked the CBI to investigate a lot of cases and there was a fear psychosis within the organisation. Consequently, within the bank, the decision-making ability and the risk taking ability were completely crippled. HRD was tremendously neglected. For over six years there had been no fresh recruitment and even internal promotions had been delayed except for some of the top ranks. (In fact, I finally gave some promotions this year, after a gap of eight years). One of my immediate concerns was the culture of the organisation. I believe in an organizational culture where assertiveness is strongly encouraged. Hierarchy and seniority can be respected, but people must have individual opinions based on logic and reason, and stand by them.

So, this was the situation in which I came to the bank: losses, weak governance, non-compliance with statutory requirements, negative net worth, negative capital adequacy and low morale. I could not be blind to the situation, but I was also looking at the fact that this was an institution with over 1500 branches, including two foreign branches at Singapore and Colombo, and 26000 employees, including 9000 Officers. So, I joined with a sense of optimism, and as a result, the mood in the bank was upbeat.

AT: *What were your immediate priorities when you took over as CMD?*

RK: My first task was to come out with a clear cut, detailed and comprehensive restructuring plan covering a period of three years. In particular, it was to focus on the average aggregate growth of deposits, advances and investments, reduction of non-performing assets (NPAs) in terms of gross NPAs and net NPAs, and increasing the gross profit and net profit. These seven major items on the agenda were to help the bank create a budget showing a month-to-month improvement in these various areas—basically growth in deposits and advances—which would lead to other internal factors like income (interest and non-interest or treasury) and expenditure. It was a very detailed exercise, which also went into the internal administrative changes, policies and procedures, because, when such restructuring is done, it is important to focus on all areas and bring about all the necessary changes simultaneously. We decided to adopt a two-pronged approach: simultaneously increasing the income, and reducing the expenditure.

I called for a meeting of my top management—the general managers—whom I found to be responsive and competent people. Without wasting time on post mortems, we did a detailed diagnosis. Once we had identified the problems, one of the first things we undertook was the merger of branches. We didn't need such a big network, and many of the branches were unviable. In the first two years of the restructuring plan we merged as many as 119 branches all over the country, which is a tremendous exercise, especially in the public sector. It was a very scientifically done exercise, based on a clear performance analysis, and adequate notice was given to the public. Our aim was to portray to the public at large that the entity that comes out of a merger is a stronger entity in terms of locational, technological, product and client advantage. So, the merger was never viewed as a 'negative happening'. There was not a single complaint received about inconvenience to a customer, and we did not lose any business because of any merger.

Of course we needed the cooperation of the unions and associations. In such a situation, a lot depends on how clearly you communicate the reasons that necessitate the exercise, and the steps to be taken. Everyone has to understand that every step taken is based solely on the interests of the organisation. Once they saw the logic, the mergers went off very smoothly.

The second important change I brought about, almost immediately after I took charge, was de-layering. Like most banks, we had a four-tier structure: head office, zonal office, regional office and branch. We decided to cut this down to a three-tier structure by doing away with the twelve zonal offices. The regional offices were renamed circle offices. We created 30 circles. Some of these already existed as regional offices. In some cases they had to be created; in some, two regions were merged; and in the case of Chennai, we bifurcated the existing regional office into two because we had a large network in Tamil Nadu. (Tamil Nadu is one of our main States—almost 45% of our branch network is here.)

Basically, the idea was to make the branches and circle offices stronger, decision-making quicker, cut down costs and use our manpower in a more constructive way. We were the first bank to do this exercise and now many banks have followed suit. We also went for a VRS, by which we reduced the employee strength by 3200, including 2000 officers.

There was some apprehension in the beginning about whether these adiministrative changes would really work, because the regional managers were used to a different kind of authority and felt totally vulnerable post de-layering. So, we decided to simultaneously bring in systems and procedures. One necessary change we brought in was the segmentation of branches. At that time, all branches were doing all kinds of work. In the RBI's annual financial inspection reports on the bank, of the recurring adverse comments was one on the poor quality of credit appraisal, especially commercial credit of over Rs 1 crore (10mn). Earlier, such credit appraisal work was being done by almost 400 branches in the larger cities and metros. Ten of these branches were designated corporate branches to handle credit of Rs 25 crore (250mn) and above. All the credit intensive branches are now manned by officers who understand credit and have practical/operational experience.

AT: *Do these credit officers receive any specialised training?*

RK: Yes, we give special training in terms of theoretical and practical knowledge, and in terms of work experience in handling credit. Training programmes in Credit Management are conducted at SBI's Apex College. Credit requires specialised knowledge of the industry to which you are lending, and the needs of the customer to enable an accurate assessment of the risk involved. We also set up a Credit Monitoring and Review Department (CMRD) to independently monitor the department that looks into loan sanctioning or approvals. The CMRD monitors not only the accounts which have not been doing well (sub-standard assets, doubtful assets and loss assets), but also standard assets, which are credit accounts operating within the sanctioned terms, complying with all the requirements and delivering the goods. We felt that with the volatility of the market, and the pace of changes taking place, standard assets could also be a vulnerable category and needed to be monitored. Today, we have a separate department for risk management headed by a general manager.

AT: *What were the initiatives taken for increasing the interest income of the bank?*

RK: Another immediate change I brought about was to resume financing. So, we came out with some simple, attractive structured products—consumer loans, personal loans and vehicle loans. The bank advertised in the newspapers (after a period of seven years) promising loans within 48 hours. Since these were simple consumer loans, they were very easy to approve and service. We started with a few select cities, and then gradually extended it across the country. We wanted to show that this was a bank that was coming alive. These structured products did us a lot of good. According to the figures for September 2003, we had 8,18,000 accounts in just these three products, which focused on the retail side of the business (we had specialised branches for the other business). In terms of the amount, Rs 41 crore (41bn) were disbursed as loans, including housing loans. We decided to adopt a very aggressive strategy on housing loans and, in fact, the *Economic Times* in December 2001 put us almost on par with the State Bank of India in terms of aggressive marketing of housing loans. These new products helped us to get momentum on the asset side, brought activity into the bank, and helped position us as a vibrant bank.

AT: *The private sector banks are very aggressive on the marketing side. Did the initiatives to increase the loan portfolio involve actively going out and getting customers?*

RK: At one time we only had walk-in customers. The average age of our staff was around 46 years. There had been no fresh recruitment for a long time, and in the situation I have detailed, how can you expect strong marketing?

Once we were well into the restructuring, however, we did a mass campaign on Sundays and holidays; more than 5000 staff members across the country took part in this exercise, going from door to door to inform people that we were back in business and working even on a holiday, and to get feedback from customers. This was part of our strategy to excel in service to customers, and helped the bank with business acquisition, getting publicity, improving its image, and involving the staff.

From mid–2001 we have also been taking on MBA students on summer training for three months or so, and this has helped us a lot in the marketing area. These students are young, smart, energetic and eager to learn. Once they understood the practical problems and the situation of the bank, we attached each of them to a branch, with the circle heads reviewing their performance. They became our spokesmen in the market and brought in a lot of new business. We have gained many valuable insights from these interns, including the fact that we weren't doing enough to attract younger customers. So, around the end 2002, we came out with a special scheme for youth, called the 'power account for young achievers', and we gave them a lot of sops to open an account. This was inaugurated with a lot of fanfare and made news.

I think this is the first time a nationalised bank has used such novel methods (hiring of MBA students) which fulfilled a mutual need. Their CVs also gained value with this experience in a bank in the restructuring mode. This year we have also started taking students of agricultural colleges as summer trainees to further improve on agricultural credit. It's a novel method, and it's working well.

AT: *Is the agriculture sector a significant part of your loan portfolio?*

RK: Yes, for the last three years, we have been one of the few banks achieving all the statutory requirements for lending to the agriculture sector. A lot of work has been done in the rural areas, and we are planning to have separate rural branches. We also received an award for the best performance in agriculture among nationlised banks.

AT: *What internal processes were adopted to help manage the successful turnaround of the bank?*

RK: We reviewed all our internal systems, and we made our own policies on industry-specific loans lending policy, etc. Being such an old bank, we had a lot of exposure to core sectors like steel, cement, textile, sugar and auto industries. These were the industries that went into a little rough weather, and are now looking up.

An important change was introduction of monthly meetings of the top management committee, headed by the Chairman, and The Executive Director. In these meetings we discuss all developments since the loan norms are very clear: up to Rs 50000 it's a fixed rate of 9%. The public sector is asking for loans at 6.5–7%. Housing loans interest rates have come down from 11–11.5% to 8.5%.

In 2001, we had one more crisis on our hands—the Singapore Monetary Authority was talking of closing our branch there. The Singapore branch does mainly trade finance, and we have a large line of credit. Singapore is a very important neighbour today in terms of business, and the closing of the branch would have affected not only the bank but also the country's image because this is a long-term relationship. We have been operating there for 65 years, and we had a full-fledged licence, which is not available today to other banks in Singapore. Nor is the licence transferable or saleable. Fortunately, we averted the crisis by transferring some funds from here to reach a comfort level.

Though we are coming out of a difficult situation, and are showing a consistent improvement, it is not easy—the revenues on our existing portfolio are coming down, and this is putting us under pressure. True, the deposit rates have been coming down too, but not as much as this. So I asked myself, do we really need a big balance sheet? The most important thing as I see it today is your income, and its effect on net profit. So, net income depends upon the quality of your advances, because it is no use increasing your lending if the quality of advances is not maintained. That's why we have given so much importance to continuous monitoring of credit, risk management, and management of the standard assets.

In terms of provisioning norms we have to decide on our policy. And with the delinquency period being reduced from 180 to 90 days from April 2004, we have to take decisions quickly and efficiently. In the future, for a banker to remain alive in the industry, I think speed in decision making is going to be all important. That means you have to have the data that you need to take a decision—the balance sheet, the operations in the accounts, the various ratios, the industrial climate of a particulars industry—whether and when you need to reduce your exposure to this industry etc. And you need to take that decision when the account is still a standard asset, and not when it is becoming an NPA. That means you should have the ability 'to look around corners'. I'm talking of the industry at this point, not only Indian Bank. That's what we are working on now, building up the necessary processes. It can't be done overnight.

AT: *Coming back to the issue of restructuring. The Indian approach has been recapitalisation—and the MoU is a recent improvisation. Other countries have tried out various things like* *classifying them as good and bad banks, or selling off the NPAs to restructure. What in your opinion is the best way to deal with the problem of weak banks?*

RK: We have been talking of the Asset Reconstruction Corporation (ARC), but it hasn't really taken off in this country. But I think the Government's approach to recapitalisation with conditions, is a good thing. After all, it is the hard earned money of the tax payers, and there has to be accountability.

Now, as part of the restructuring plan, I was to get Rs 2100 crore (21bn) from the Government in the course of the year 2000—this had been decided and approved in the restructuring plan. But the Government decided—and, I think, rightly so—that it wanted proper accountability because it had already doled out so much money earlier, and nothing had come out of it. So, the Government watched our performance and we reported to it every quarter; and it was only 22 months after the restructuring began, in March 2002, that the Government handed over the first instalment of Rs 1300 crore (13bn). That's when our net worth became positive. As per the restructuring plan, our first net profit was to come in the year 2002—net profit after eight years, but that was because of interest cost. I must emphasise again that I think that was a very good strategy on the part of the Government—to tie up the amount (recapitalisation) with our performance. It was like a Sword of Damocles hanging over our heads, and we had no option but to perform.

AT: *A major contributor to the huge losses suffered by Indian Bank were high NPAs. You have been able to bring down the gross NPAs form Rs 2578 crore (25.78 bn) in 2001–02 to Rs 1630 crore (16.30 bn) in 2002–03. What was your strategy for bringing down gross NPAs? How useful were programmes such as one-time settlement schemes and corporate debt restructuring in effecting recovery and bringing down NPAs?*

RK: I started the restructuring plan with 17% net NPA, and today we are at 6.15% net. So, there has been substantial recovery. We have a very pragmatic compromise policy, but we have also been very aggressive on the recovery front, including conducting almost 3000 camps all over the country. On the RBI one-time settlement scheme, Indian Bank topped in dept recovery. We have also done a lot of work on need-based restructuring of accounts, rehabilitating overdue borrowers, helping in restructuring of sick units, and so on. Of course this is subject to the viability of the unit, its future prospects and of course the track record of the promoters. So, we may give additional credit, a reduction in rate of interest, or stagger payments, depending on the need of the unit at that time.

If you compare the performance of the bank three years prior to the restructuring plan (from 1997 to 2000) with its growth during the Plan, you will find that the cumulative growth percentage shows a marked improvement in all areas. There have been improvements in savings bank deposits, lending, interest income, non-interest income, and even reduction in NPAs.

As of March 2003, our business mix was Rs 40,000 crore (400bn). Out of this, Rs 10,800 crore (108bn) have come in these three years. That means, one quarter of the business as it exists today came in these last three years. The savings bank deposits growth, as I mentioned, is linked with the structured products, and is one way of understanding the basic acceptance of a bank by the customer. The continuous increase in this segment has been a very positive factor.

AT: *In this restructuring, your head count went down but, at the same time, per employee revenues went up. How did you bring about this efficiency? Did IT play a role in this?*

RK: Yes, definitely. At this point 78% of our business is computerised.

AT: *The income statements of Indian Bank reveal that there has been a sharp increase in interest income as well as fee income in the last two years. What was your strategy to achieve this? What was the contribution of the treasury to this growth?*

RK: The specific strategy was to open evening counters in certain specific branches just for savings bank, current accounts and demand drafts. Demand drafts are remittances, and that is specifically fee income. Secondly, we are bringing in the cash management system (early clearance of cheques, which is being done by some of the foreign banks) with the help of technology. We started this about eight months ago and are in the process of refining it. We also plan to expand our current accounts. Other than that, we are looking at letters of credit and guarantees.

Treasury income did contribute to this, but no more than in the case of any other bank. What we did basically was to take advantage of the falling interest rate regime while very aggressively taking a proper view of the market movement. So, net appreciation was about Rs 1200 crore (12bn) in these three years, and there was some depreciation because of the subsidiaries. We had three subsidiaries—mutual funds, housing and merchant banking—which became a drag on the bank. Earlier, when the accounts became NPAs in the bank, they started lending through the subsidiaries. We managed to sell the mutual fund subsidiary, in a very good deal, but housing and merchant banking we will be taking up ourselves. We are just watching it for some time and trying to recover what we can.

AT: *What were the major human resource challenges at IB? What measures did you adopt to ensure the cooperation of the unions, which would have been vital for any restructuring to succeed?*

RK: As I mentioned earlier, when the Government said that they were going to recapitalise the bank, they were very insistent on accountability. We had to sign an MoU, and at that time we were ready to agree to anything because we were frantic to get this amount, and we were confident. The unions and associations had to sign the MoU too, because it included clauses like not availing of leave fare concession for some time, travelling in a lower class and so on. The unions also had to agree to give the management a free hand—for the first time in the history of the banking industry. You can imagine their reaction. But the Government was firm. The tussle went on for almost ten days. Finally, after I assured them that I would not turn into a Chengiz Khan overnight, they agreed to sign.

AT: *This must have been rather unusual for our country!*

RK: I have not talked much about it, because in such a situation, a person in a position of responsibility has to be discreet. Anyway, they signed this MoU but I tried to be fair to our people. One thing that came up in my preliminary discussion with them was that though the revision of salaries had taken place sometime in the late 1990s, they had still not received their revised wages. I felt they must receive the revised wages, but the payment of the arrears could be linked with performance. So, part of the arrears (about 20%) was paid to them in 2001, 40% after we made the first net profit (after we declared the results, and after they signed the MoU), and the final 40% was paid last year at Diwali. So, there was a strong performance incentive, and the unions and associations were also happy that we kept our promises to them.

AT: *What are the systems, practices and performance incentives that you have introduced in Indian Bank to bring about greater accountability?*

RK: Being a public sector bank, we are somewhat constrained in terms of incentives. But we have introduced a system of recognizing good performance. For example, we call the branch managers of the two best branches from each circle to make a presentation before the Board, and they are awarded certificates. That is a tremendous incentive.

I believe that involving people is the most important thing, including letting them have a say in the kind of work they would like to do. Of course, not all postings can be through choice, but we have started making job cards for officers now. When a vacancy arises that requires some specialised knowledge, we identify the officers who have the qualifications and the experience, and then we ask those who are interested to apply. We also make it clear that every department is doing important work. The traditional way of looking at the audit department, for instance, has been as a parking place for those who are not good in the field. But audit is not only about fault-finding, it is also a very important and constructive exercise, because it is correction of things to come, and so it needs to be done by talented people.

It is also very important to give credit where it is due. An innovative approach we took was to base the promotions of clerical staff to the officers' cadre on merit rather than on seniority—and we have got about 200 very bright young officers who have undergone training and are doing exceedingly well.

Empowerment and accountability need to go hand-in-hand with sharing of credit. Earlier, branch managers were not empowered to take decisions like sanctioning loans and sanctioning leave to the staff. When we changed that, they were at first hesitant, but now they are happy to take responsibility and have grown in confidence.

AT: *In public sector banks, the term of the CMD is usually just two or three years, and therefore continuity in the management is often lost. For a transformation or a new strategy to be implemented and sustained, and for the results to come in, it takes at least two to three years at the minimum. What are your views on this?*

RK: I totally agree with you on that. It should be three years at a minimum. Not only that, I think we should have processes for succession planning, so that the next man is initiated into the running of the bank. That is what we are planning in our bank. Continuity is important, but it is also important to adapt and change when necessary. New ideas keep an organisation healthy. However, the basic thing is to keep in mind the interest of the organisation, and bring about changes which can gel with the existing arrangement. For Indian Bank, I could not have suddenly turned ultra modern because this was a bank which had a certain traditional image, and I had to respect that. Changes have to be made, but not changes that uproot the entire edifice, unless of course something is drastically wrong, and it has to be remedied.

AT: *There is lot of talk today about corporate governance and the role of the Board. What role did the Board play in this restructuring*?

RK: The Board has played a formidable role, I would say. To start with, we had a truncated Board, but now we have some very eminent members—one was the Chairman of the State Bank of India and one was MD of the State Bank and earlier of ICICI Bank. Then we have a former Director, as well as the present one, of IIT Madras, a prominent advocate, and a chartered accountant, and even one member from the CBI. This is a very responsible and constructive Board which is essential for any bank, and even more so in a bank which is going through restructuring.

One of the important things a Board has to ensure is the health of the organisation, and for this we need total transparency. The Indian Bank, for instance, actually declared a profit of Rs 300 crore (3bn) one year, when there was no profit! Subsequently, a lot of provisions were made against such practices. In any good book-keeping system, you cannot hide anything. Ultimately it will all come out, specially with the regulatory norms being what they are. Unless you have transparency, you cannot equip yourself to face reality. As I said, monitoring of standard assets is very important, along with timely action.

One of the problems in the public sector banks was that the decision- making process was tardy—you filed a case, and it went on for years. Their legal portfolios are huge. Although things have improved in recent years, I feel in many cases the best option may be an out-of-court settlement. And this has to be done when the asset has still got some value. For example, take a manufacturing concern. If you do not settle early, the machines that have been charged to the Bank may become obsolete and it will be impossible to find buyers. So, it is important to take decisions in time and salvage what you can.

AT: *In my discussions with other bankers, one of the issues that has been coming up on a regular basis is hesitancy to take decisions because you are answerable to so many other agencies like the Auditor General, the CVC and the CBI. What are your observations?*

RK: That is true to some extent, but the cost of not taking a decision is huge. Today, the Government has on the one hand brought the Securitisation Act, and on the other, it is talking about lender liability. If you are not properly prepared, your NPAs will shoot up and then what do you do? The solution is to make decisions based on a proper study of all the circumstances and the alternatives you have, and write down all the details and the logic for taking the decision. So, you have to have a system that enables quick and informed decision-making. Of course, for every ten decisions you take, two may go wrong but what happens if you have not taken the eight that were right? Of course, you need a lot of mental toughness to defend your decision. I think every bank should have some training programmes that help employees develop mental strength. Today, unfortunately, we do not have a system for making people accountable for not taking decisions. It is not easy running a public sector enterprise, but that is part of the job. No system is going to tolerate non-performers.

AT: *In your experience with Indian Bank, what are the important lessons you have learnt?*

RK: One important lesson, as I said in the beginning, is that it is necessary to encourage assertiveness in your people, and the ability to take decisions. In Indian Bank, unfortunately, a lot of the decisions were made at the top, and people just went along with them. Often, they did not know what they were doing because they had no specialised knowledge. Nationalised banks do have a lot of respect for hierarchy, and the Chairman of the bank is a very formidable person. In such a scenario, it is very important to be transparent, fair and send out clear messages.

Training is very important. We have such a lot of talent in our nationalised banks, but can any of them claim that they have been able to harness even 70% of the potential of their workforce? I do not think so. In fact, a lot of performers today in private banks are those who have gone from the nationalised banks. So, we need to make our environment conducive to growth. That is what we are doing in Indian Bank. All this helps develop a greater degree of resilience, which is very important today.

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Interview for Business Standard Banking Annual, Nov. 2002

Text of interview by Tamal Bandopadhay of Business Standard on the occasion of award of BS Finance Professional of the Year 2002 where he mentioned that "Indian Bank Chairperson Ranjana Kumar has ushered in sweeping changes at the Chennai-based bank" and "The woman who brought a bank into the black again"

Q. *What is the key of your success?*

Ans. A lot of hard work. Every bank has a soul which can't be destroyed when you are rebuilding the structure. A lot of planning had gone into reviving Indian Bank.

Q. *Why did the bank do badly?*

Ans. The bank never had any clear cut strategy; it had no direction for business development, no credit appraisal system. Then, it was overexposed to sectors such as the film and steel industries, and educational institutions. It lacked professionalism; there was no promotion policy. People at the helm, like Regional Managers and Branch Managers, were never given a chance to express themselves.

Q. *Have you faced stumbling blocks?*

Ans. Some employees were resisting change but we persuaded them that whatever we were doing was in the best interest of the organisation. I must say that the mindset (of employees) had changed.

Q. *Is the worst over for Indian Bank.*

Ans. It will take another two years to be totally out of the woods. We have put in place a pattern of things to be followed; policies and the direction have been laid down clearly. The consciousness about profit is in everybody's mind.

Q. *To what extent should the government get the credit for this?*

Ans. The Government must be given credit as it has pumped in money, which is very important. Both the Government as well as the Reserve Bank of India did vet the restructuring plan and add value to it. We have been achieving the plan for the last two and a half years. That's why the recapitalisation fund came to us.

You must also give credit to the management. It did the planning, motivated people, laid down internal rules and regulations, rationalised the staff force and the branch network. Today, we watch our performance very closely; we take stock of the situation every month. We monitor the performance of every circle weekly.

Q. *Where do you see the bank in the next five years?*

Ans. We will continue to grow. In 2004, we should go for an initial public offer. In five years, the bank's business should cross Rs 50,000 crore from today's Rs 38,000 crore.

Q. *By being a woman, do you enjoy some advantages in this field.*

Ans. There is no advantage or disadvantage in being a woman. What is important is how committed you are. As a chief executive, you are the most watched person. What matters is performance, not gender. I have never been conscious of being a woman at the work place.

Q. *You charm your way....*

Ans. No, I don't charm my way. But if I am charming, I can't help that. I am very very persuasive.

Q. *Would you like to continue at Indian Bank or look for other assignments?*

Ans. I have three years to retire and I am open to other responsibilities.

The Woman who Brought a Bank into the Black again

On a November afternoon this year in Chennai, 60 branch managers of Indian Bank had the honour of joining their board members for lunch. This was unheard of. At Indian Bank, the hierarchical divide had been very visible. But Indian Bank's first non-south Indian chairperson, Ranjana Kumar, 57, was bent on erasing barriers at the bank.

Kumar, who moved to Indian Bank two-and-a-half years ago from Canara Bank where she had been executive director, has wrought many changes in the bank. She has leveraged the strengths of the Chennai-based bank by bringing in Professionalism and Transparency. Kumar has helped empower the bank's 23,000 odd employees, so raising Staff Morale.

She's ushered in other changes too. After a freeze on credit expansion in the late 1990s, the bank is today selling home loans and other structured loan products. What's more, the 95-year-old bank's employees talk about making a profit, a word that had disappeared from the lexicon at its 1,386 branches since 1995-96, when Indian Bank made a Rs. 1,336.40 crore loss and wiped out its net worth.

Indian Bank clocked a Rs. 33.22 crore net profit in fiscal 2002 after an eight-year hiatus in which net losses piled up to Rs. 4,180.99 crore.

So it's hardly surprising that the *Business Standard* Finance Professional of the year Award goes to Kumar.

To be sure, Indian Bank's meager profit would not have been possible had the bank not raised its trading profit from Rs. 60 crore to Rs. 226 crore. But that's true of other banks as well. The combined trading profit of 19 nationalised banks jumped 300-fold from Rs. 1,690 crore in fiscal year 2001 to Rs. 4,965 crore in 2002, while net profit grew from Rs. 2,095 crore to Rs. 4,852 crore.

Spare a moment to look closer at Indian Bank's numbers. Apart from the net profit of Rs. 33.22 crore, the bank made an operating profit of Rs. 307.15 crore, up from Rs. 61.59 crore in the previous year. Nor is this a flash in the pan. In the first half of 2002-2003, the bank made a net profit of Rs. 72 crore and an operating profit of Rs. 198.66 crore. What's more, the bank's gross non-performing assets (NPA) have come down from 40.72 percent in March 1999 to 16.90 per cent in March 2002 and 16.10 per cent in September. Similarly, the net NPA has shrunk from 24.37 percent in March 1999 to 8.54 percent in March 2002 and 7.81 per cent in September.

"Every bank has a soul which can't be destroyed"

A lot of this is attributed to Kumar, who took over as chairperson of the bank in June 2000, after signing a memorandum of understanding (MOU) with the finance ministry committing the bank to "performance". She then extracted a commitment from the bank's trade unions that they would not interfere in operations.

In her 30-months tenure, she has also compressed organisational layers at the bank by abolishing zones and regions. The bank had a four-tier structure (the other two tiers are headquarters and branches). She's also introduced circles. She merged 100 branches, introduced a voluntary retirement scheme (3,295 employees) and segmented the branches to handle different kinds of advances.

As a part of the restructuring exercise, the bank has already hived off Indbank Mutual Fund to Tata Mutual Fund, and is in the process of merging Indbank Housing Ltd. with itself. Indbank Merchant Banking Ltd. too will be hived off soon.

Kumar also sent over 100 Indian Bank Officers to the State Bank of India for training in credit appraisal and employed management students to sell the bank's products, for the first time in its history.

Equally significantly, Kumar has overhauled the bank's culture. The minutes of the monthly meeting of senior executives are now circulated among all employees. Its 1,386 branch managers know the five key parameters of the bank's business—the cost of deposits, the cost of advances, the net spread (the difference between the cost of deposits and advances), total income and expenditure—at any given point of time. Employees who earlier abhorred transfer orders are now all smiles—the management is drawing up a list of Officers to be promoted.

Still, the worst is not quite over for the bank. It will take at least two years for it to come out of the woods, as she admits. Its capital adequacy ratio is less than two percent against the required nine percent. This despite last year's Rs. 1,300 crore government handout in the form of a recapitalisation bond. The bank needs another Rs. 770 crore.

Kumar has clearly resuscitated Indian Bank. A senior Reserve Bank of India official says admiringly: "She's done a good job." But her task is not quite finished. Her efforts at Indian Bank have attracted quite some attention. Her future efforts at the bank will be watched even more closely—not bad going for a Kashmiri Indian Air Force Officer's daughter who became a Kathak dancer and banker and married a Hyderabad-based north Indian businessman.

Finally I would like to conclude with a quote from an Anonymous "Devotees Confession":

Take the Opportunity

I asked for strength and
God gave me difficulties to make strong.
I asked for wisdom and
God gave me problems to solve.
I asked for Courage and
God gave me dangers to overcome.
I asked for love and
God gave me troubled people to help.
I asked for favours and
God gave me opportunities.
I received nothing I wanted.
I received everything I needed.

Appendix A

Views of Some Directors

The Directors on the Board of Indian Bank were men of eminence who had a close insight into the functioning of the bank during the crucial phase of the turnaround, and their considered views were sought at every stage of the implementation of the Restructuring Plan. Their views on the bank's turnaround should be of interest.

Shri G.P. Muniappan, RBI Nominee on the Board, and subsequently the Deputy Governor, RBI

It was heartening to note that within a short span of less than three years, the Bank had registered a turn around under your leadership. In particular, I would like to place on record the phenomenal growth registered by the bank in regard to deposits (41.34%) during the tenure of your stewardship, while your strategies to recover the NPAs and containing fresh accretion to NPAs stock are noteworthy.

We note the new heights reached by the bank by adopting a wholesome approach through your executive cadre on various issues such as reorganisation of the management and the front office structures, re-skilling and redeployment of the bank's personnel, rationalisation of branch network, implementation of IT-driven systems and processes, and re-orienting the customer service delivery systems through a new paradigm (viz. targeting the prospective customers rather than merely servicing the existing clientele). Not surprisingly, therefore, the bank could function and progress on the lines of the road map laid out by the Government of India for its restructuring.

Your bank has indeed exceeded almost all the targets fixed by the Government under the re-structuring plan. In quantitative terms, the bank had registered a net profit of Rs 33.22 crore for the year ended March 31, 2002 (after six continuous years of losses) which grew by an impressive rate of 468% to Rs 188.83 crore as on March 31, 2003. This is certainly something commendable.

Shri P.V. Maiya, a doyen in the banking industry and Ex-Director, Indian Bank

The concept of differentiating between war-time generals and peace-time generals holds good here as well, and the Group is of the considered opinion that the CMD in a weak bank has to be in the nature of a war-time general possessing skills and attitude helpful in restructuring of an organisation". *(Report of the Working Group on Restructuring Weak Public Sector banks—popularly known as M.S.Verma Committee, published by the Reserve Bank of India, October 1999, pages 113–14)*

1. By way of preface, I may mention that I have adopted substantially a first person style of narration, not out of immodesty but it seemed artificial to use third person style. I, as also other Directors, were proud to be involved during the period of successful restructuring of the Indian Bank, spearheaded by Smt Ranjana Kumar. Let us not be reticent to record that few parallels exist to the revival of this bank. It is a story worth telling the world.
2. Smt. Ranjana Kumar telephoned me in the last week of June, 2000 conveying to me the news that she was going over to Indian Bank as Chairman & Managing Director in the following couple of days. Although she had already accepted the appointment, she asked me for the sake of courtesy as to what I thought of it. Before I could recover from the surprise caused by the message, she added that her husband and his friends thought that she had acted on impulse. For a split second, I felt like endorsing their view but held back for I instinctively knew she was different and unusual.
3. On a personal note, I must mention that I had first met her in 1989 when I was General Manager in the State bank of India, Bangalore. She came as Regional Manager of Bank of India, Bangalore. Within a month or so, the banking circle as also the market came to know about her dynamism. Since those days, we have been in touch off and on; she is particular

about maintaining contacts. Much later, I think in 1995 or so, she came to see me in ICICI Bank which I was heading, on a holiday from her New York assignment. I had heard that even in New York, where she headed the Bank of India office, she made waves. Some of the foreign banks admired the progressiveness of Indian banking hierarchy which picked a lady as the CEO of Bank of India, New York!

*(P.V. Maiya was the Director of the Bank from 2001 to 2004)

4. Smt. Ranjana Kumar soon climbed the ladder of promotions in her bank, and before long she was selected by the Govt of India as the Executive Director of Canara Bank, with its headquarters in Bangalore. The posts of Executive Director [ED] and Chairman & Managing Director [CMD] are coveted ones. The process of selection is rigorous and competition is severe; seniority of the candidate is only one of the criteria among a host of others. Incidentally, this selection process is not on all fours with that applicable to IAS cadre where the promotion system is essentially driven by seniority in service.
5. In the conversation referred to above, I asked Smt. Ranjana Kumar as to why did not the GoI appoint her as CMD of Canara Bank itself, for she had held the joint charge of both the posts of Ed and CMD for over a year with distinction. She was well settled and was admired both within and outside the bank, except for the defaulting borrowers. During her tenure, she got an order of attachment of a house in Juhu Tara [Mumbai] belonging to a leading film star to recover bank's bad debt.
6. In fact, newspapers had reported a few days earlier that she was being appointed as CMD of Corporation Bank. I had then thought that, if she were not given the CMD post of Canara Bank, Corporation Bank was the next best choice. Indian Bank was nowhere in the reckoning, *unless she chose to ask for it. Perhaps she did*. I had known from friends that the GoI had tapped a retired Managing Director of the State Bank of India and a couple of IAS officials to head the Indian Bank with assurance of its full backing but apparently they did not see much hope for the Bank to stake their reputation.
7. Smt. Ranjana Kumar was quite clear in her mind that she needed a Board of Directors consisting of professionals and

she told me having already mentioned this to the officials of the Banking Division, Govt of India who were favorably inclined. She requested me to join the Board and wanted me to send my resume. As I had known her immense capacity to work through any difficult problems, I had no hesitation in accepting the offer, subject of course to the GoI approving my name. I was aware that the Banking Division gets many recommendations from politicians for their candidates being appointed on the Boards of the Banks.

8. On the 27th March, 2001 the GoI Gazette Notification was out with six of us being nominated as non-official Directors of the Board of Directors of India. The two official Directors representing GoI and the Reserve Bank of India, who were a part of the earlier truncated Board, continued. With the CMD and the E.D. as other members, the Board was full except for a Chartered Accountant member. A year later, Shri. Ashok Gupta, a Chartered Accountant joined the Board. This was a significant milestone, for the Bank did not have a full strength Board for nearly two years and the truncated Board which functioned did not have any independent Director. In parenthesis, it may be mentioned that Verma Committee [1999] cited above commented in several places in their report on the need for a full Board with well-qualified professionals as directors to guide the affairs of the weak banks in particular.
9. The GoI and the Banking Division deserve to be praised for nominating a distinguished Board of Directors, namely; (1) C.R. Muthukrishnan, Prof. IIT, (2) M.P. Radhakrishanan, Retd. Chairman, SBI (3) P.V. Maiya, Ex-chairman, ICICI Bank, (4) P.V. Indiresan, Former Director, IIT, Madras and Padma Bhushan, (5) M.D. Sharma, Retd IPS, (6) S.N. Satpute, Advocate and (7) Ashok Gupta, Chartered Accountant.

The three years we spent together in the Board and the Committee Meetings, and the exchange of views, the depth of deliberations, presentment of original solutions, occasional subtle humour and the stories we shared,—indeed a number of off the record remarks made to lighten the proceedings etc. are memorable. However, more deeply etched in our memory are the extraordinary courage, commitment, single minded focus on the challenge of reviving the Bank and the undying optimism exuded by the CMD at all times. Smt. Ranjana Kumar is, to quote Napoleon, "*A Leader is a Dealer in Hope*".

10. Let me take the liberty of briefly profiling my colleagues on the Board. Prof Muthukrishnan possessed razor sharp mind and an eye for precision. Radhakrishnan had a fund of unmatched experience which he profusely drew on in the deliberations, Prof. Indiresan had the unusual vision; he always looked at the larger picture, used his store of knowledge for bringing up original solutions. No wonder he has been a prolific writer on Vision 2020 [Business Line, since 1999]. Sharma, because of his service in the police dept, retained his skeptical nature which gave sometimes a different insight, but not always conducive to commercial banking decision process. Satpute had useful suggestions to speed up legal cases and judging the performance of lawyers retained by the Bank. D.K. Thyagi was a refreshingly different kind of bureaucrat with original broad perspective; he appreciated the commercial nature of banking and was willing to dare to be helpful to the Bank in the Government of India referrals. S. Karuppasamy, the RBI nominee, maintained the Regulator's reticence but was always helpful in seeing through proposals which required RBI's approval. Ashok Gupta was an amiable professional with skill in dealing with his tribe who audited the Bank. Without undue modesty, I brought on the table my unique experience of working in the State Bank of India [32 years] and setting up and heading the new generation private sector bank, ICICI Bank [1994-1998].
11. As the team of high powered independent Directors [non-official part-time, so called in official parlance] came on board, the CMD must have wondered how to manage them. But then it is said that, "Great managers are not looking for people who are easy to manage". In the event, Smt. Ranjana Kumar was a more than a match to the task, she proved to be an expert in relationship management and reconciling sharply differing views, and in the end got the best out of the team for the benefit of the Indian Bank. She was [is] pleasant by nature, but on one occasion, lit into one of the Directors who made a sniding remark. She could not be faulted for *she loved her Bank to let go ridicule.*

In the first two decades after nationalisation of banks in 1969, a few banks, under political pressure, resorted to fudging their accounts to show profit to prove the success of nationalisation. By the end of 1980s, it became well nigh impossible to continue to hide the truth. The 1988 Capital Accord adopted by Basel Committee on Banking Supervision was the first international effort to strengthen the soundness and stability of the international banking system. The RBI, as also all the major central banks of the world, accepted the Basel-I recommendations. Following this, the RBI launched a programme of reforms of the banking system in 1991/92. The country's own precarious economic and the foreign exchange crisis of 1991 triggered the agenda of the first phase of economic reforms which added urgency to the financial sector reforms.

The banking sector reforms covered adoption of prudential norms based on Basel-I prescription of capital adequacy, income recognition, asset classification and provisioning for non-performing assets (NPAs). The RBI directed the banks to clean up their Balance Sheets. At once, the true and fair view of the balance sheets of the banks came out ringing. "Till the adoption of the prudential norms, twenty six out of the twenty seven public sector banks were reporting profits. In the first post-reform year, i.e., 1992–93, the profitability of the PSBs as a group turned negative with as many as twelve nationalised banks reporting net losses" [Verma Committee report, Para 3.5]. The NPAs as at 1993 amounted to a staggering Rs 39253 crore which only got worse in the following few years. It must be said to the credit of the RBI that it did not panic when the truth tumbled out but went about the job of resuscitating the financial sector systematically over the following three/ four years. The Government, realising the gravity of the situation, as the owner of the three weak banks, namely, Indian Bank, UCO Bank and the United Bank of India, infused large amounts as capital for their survival. However, repeated recapitalisation in the 1990s did not improve the condition of these banks as fresh bad debts kept surfacing.

The position of Indian Bank was the worst. Despite a capital infusion of Rs 1850 crore by way of recapitalisation bonds issued by the Government in 1997–98, the Bank had a capital adequacy ratio of *minus* 8.94% in 1998–99 as against the required ratio of 8%. The gross NPAs amounted to Rs 3709 crore; it crossed this figure a year later. The operating losses, ignoring the benefit of interest on recapitalisation bonds, was nearly Rs 400 crore. Profits disclosed in some of the previous years were suspect at least for the reason of inadequate provision. Going back further, from 1988 to 1996 it was a case of recklessness in lending, the debilitating effect of which spread like cancer to all the areas of operations of the Bank. The RBI's attempts at reining in the CMD received lukewarm support as was evident from Government's action of giving repeated extensions of three months to the incumbent CMD.

The Verma Committee which went into these matters of all the three weak banks has some very pithy comments to make even as it made *comprehensive recommendations* without mincing words. It charged that hard options have been avoided and the steps taken till then were half way measures in gradual pace so as to remain afloat. "Comprehensive restructuring could succeed, but it will involve firm and decisive actions in exercise of hard options. There will have to be a clear commitment from the owner—the Government. The Government, management of the banks, and the employees unions must agree upon every important condition of the proposed restructuring programme before it is begun" [8.11, ibid].

One comment made by the sub-group under the Verma Committee to study the Indian Bank is stunning, "There is a general perception in the Bank that top management is *not* very keen to effect recovery". The general public has had a perception that much of the sickness in banks and financial institutions like IFCI, IDBI was attributable to the bad borrowers who were influential where it mattered. Legally, it was difficult to label them as willful defaulters, and remedies through our legal system could turn out to be, as physicists would say, finite but endless. The RBI, therefore, adopted a pragmatic approach of permitting banks to go in for compromise settlements of bad debts. This had an element of moral hazard but the revival of the financial sector as a whole to robustness brooked no delay.

Clearly the Indian Bank faced a Herculean task for revival. The approach had to be not just recovery of bad loans but multi-dimensional. The CMD, during whose tenure much damage to the Bank was allegedly caused, had been finally ejected in 1996. The next three/four years saw much effort was made in arresting the deterioration, handing over bad debt cases to Central Bureau of Investigations [CBI], unleashing of disciplinary action against staff etc. However, constant rumours of merger of the bank with another bank, forcible adoption of narrow banking, retrenchment of staff beyond certain age. etc. just rendered the situation bleak and uncertain. By the way, one of the Dy. Governors of the RBI was an ardent advocate of narrow banking as a solution to the problems of weak banks. Narrow banking in effect eliminates the role of banking altogether. The Federal Reserve Chairman, Alan Greenspan had this to say in another context, "A perfectly safe bank, holding a portfolio of Treasury bills, is not doing the economy or its shareholders any good".

Verma Committee observed, "Prolonged slowdown in business, adverse comparison with stronger banks and high NPAs have affected the morale and motivation of employees at all levels. This, and the fear of accountability for bad loans have almost killed every initiative for doing fresh business" [4.25]. The Committee dismissed, after due examination, desperate remedies, and instead strongly advocated comprehensive re-structuring: Operational, Organisational and Financial, and also systemic, as needed for the sector as a whole. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 [SARFAESI] was one substantial systemic measure which helped banks.

Now a few thoughts on the role and responsibility of Directors. This has, in recent years, assumed great significance as a part of corporate governance edicts. The importance of corporate governance got highlighted in the wake of several scandals involving large corporates, leading accounting firms etc. Sir Adrian Cadbury [UK] headed a committee on "The financial aspects of corporate governance-1992" [Cadbury committee]. The Committee recommended a number of measures about the composition of Board Directors including induction of Independent Directors, appointment of Chief Executive, Committees of the Board for specific functions like audit, compensation, code of conduct for directors, accountability to shareholders etc. Likewise, major reforms in the management of companies and disclosure standards were brought forth through the Sarbanes-Oxley Act in 2002 in the US in response to the corporate and accounting scandals involving big names. At home, SEBI has amended extensively Clause 49 of the Listing Agreement executed with the stock exchanges by listed entities which now contain stipulations on the composition of the

Boards, the number of independent directors, audit committees, code of conduct for the directors etc. These are relevant as more than half the number of public sector banks are now listed, and they will need to raise additional equity from the market to meet internationally accepted standards of capital adequacy as per Basel II report. Also, as companies and banks become larger, ownership gets dispersed, and the managements de facto come to control the affairs of the organisations. Diligent oversight by the Board of Directors is perhaps the only effective means to ensure that the organisations achieve their objectives within the framework of law and public policy.

The Government of India had issued detailed "Guidelines on the role and functions of Non-official Directors on the Board of Nationalised Banks" in 1989, and also issued a statement of Do's and Don'ts. The Guidelines are fairly exhaustive. They explain the legal aspects of the Director's role (including that he is a public servant covered under the Indian Penal Code), the broad policies of the government in regard to deposit mobilisation, sectoral credit allocation, recruitment of SCs and STs, compliances with the laws of the land and directives of the RBI, disclosure of conflict of interest in any proposal the bank is considering etc. They also briefly touch on the role of the Chairman and Managing Director in running the bank and in relation to the Board etc.

The Guidelines remain substantially valid and relevant, but there is need for re-visiting them in the light of experience gained, the change in ownership pattern of a number of PSBs, increasingly articulated call for greater autonomy, the stresses generated by the globalisation of the economy to conform to international standards of risk management, operational safeguards, anti-terrorist measures including Know Your Customer (KYC) norms etc. Indian banks—public or private—cannot remain insulated from international benchmarking.

In revising the Guidelines, some unique features of the banks, whether owned by Government of India or by private sector, need to be kept in view. In parenthesis, I may mention that E. Gerald Corrigan, President, Federal Reserve Bank of Minneapolis started a high level debate with an essay on, "Are Banks Special" in 1982. The debate has continued over these years and to this day, with distinguished central bankers, economists etc. offering their comments in various forums in the context of rapid changes in banking and technology adoption to deliver services, blurring of the lines of business conducted by banks and other commercial entities.

What makes banks special? First, the banks are highly leveraged institutions in that owners' equity is far too small compared to the "equity" of the depositors (general public). Second, banks are vulnerable to shocks which may arise from non-performing assets, frauds, bad management, just rumors which could cause a run etc. In such eventualities, even if one bank is initially distressed, the panic will spread to the entire system soon—even beyond national boundaries. Third, though depositors are protected by deposit insurance to a limited extent, government ownership of banks wholly or substantially, throws upon it a burden beyond what may be the legal limit on its obligations. Fourth, and in general, the health of banks not only matters to the shareholders, but also to the citizens, (tax payers) who ultimately bear the burden of a bail out.

Public trust and confidence in the banking system almost wholly devolve on the Government and the Central Bank. Because of the factors mentioned earlier, banks are subject to rigorous internal and external controls, monitoring and supervision, higher standards of disclosures and transparency. All these become effective only if the Board of Directors, the Audit and other Committees are alert, competent and not consist of just uncritical 'yes men'. *Ipso facto*, it is a serious responsibility of the appointing authority to ensure men of character and competence only are appointed as Directors and of course, as the CMDs and the EDs.

Coming back to the Indian Bank, the three years following the exit of the CMD, to whom much of the damage to the Bank was ascribed, saw serious efforts at ensuring survival of the Bank and implementing a Strategic Revival Plan, one element of which included infusion of capital of Rs 1850 crore by the Government on India in 1997/98. Much of the discovery proceedings of what went wrong neared completion, remedial actions by legal route or by compromise settlements were put in place and punitive action against the staff was initiated. These measures helped bring some stability to the chaotic inheritance. *But two serious consequences of these measures emerged: slow down in business which called for, in the words of Verma Committee, "re-introduction of credit culture" and, low staff morale.* A couple of years earlier, I had published an article, "Wanted Bankers, Not Zombies"

(*Business Line*, 30–09–1996) in which I commented, "One wonders whether there is anyway the banks could make credit decisions if they are stalked everyday by investigators and inspectors. This country needs bankers, not Zombies". The employees in several instances virtually practiced 'work-to-rule', not as a coercive tool adopted by trade unions but as an abundant caution in handling any transaction, especially the ones which related to loan portfolio. They silently resented the fact that for the deviate conduct of the ex-CMD and a few others, they were being persecuted. They felt hurt that the Bank reneged on wage agreement, withdrew/ curtailed some entitlements like leave fare facility, house rent allowance etc. Imposition of such collective punishment was not known in public sector undertakings. Fear of reprisal, real or perceived, cannot be conducive to decision making in any organisation, especially in banks which deal with money and, ipso facto, become easy targets for allegations. The Strategic Revival Plan thus did not produce the desired impact according to Investment Informationa nd Credit Rating Agency, which was closely associated with the sub-group (Verma Committee) in the study of Indian Bank. ICRA also did a separate study for the Bank on customer segmentation soon after.

Following the Verma Committee recommendations, and in consultation with the RBI, the Government of India came to fully comprehend that the three weak banks needed to be rescued and revived in a comprehensive manner. Probably cautioned by the not-so-successful experience of a forced merger of New Bank of India with Punjab National Bank some years earlier, Government of India firmly ruled out any merger of any of the weak banks with any other. That was important, as a major disconcerting uncertainty of the future of the banks was put an end to. Next, it took steps to appoint suitable CMDs and the Boards of Directors consisting of a fair number of professionals.

Insofar as Indian Bank was concerned, the Government of India was pleased that Smt. Ranjana Kumar was more than willing to take up the challenge. She took charge as the CMD of the Indian Bank in the last week of June 2000. After studying the condition of the Bank in quick time, she plunged into a series of actions. I gathered that, while almost everyone's attention was on NPAs, legal suits, myriad enquiries and investigations, she realised that without carrying the employees along in the restructuring plan, the mission would abort. Hence, she launched a series of discussions with senior officials, spoke to a large number of employees in batches in different locations, went on a whirlwind tour of major offices—indeed every opportunity was availed of to interact with the staff at all levels. Her communications were clear that what went wrong was behind us, but what *we together* could do now would make the difference to the Bank. These messages were as inspiring as sincere and, before long, the employees saw in her a genuine and accessible leader. She touched the right chord of loyalty, which the employees had for their bank. In her scheme of priorities, communication with the employees was the nurturing agent for improving their morale and participation.

As mentioned earlier in paragraph 12, on the 27^{th} March 2001, six of us were nominated as Directors on the Board of Indian Bank. Two days later the first meeting of the newly constituted Board was called in Chennai in the Head Office of the Indian Bank. Most of us were new to the CMD and other senior officials and we were new to each other as well. After a brief introduction, Smt. Ranjana Kumar addressed us for about half an hour. It was a command performance both for the contents and the clarity of the communication.

Over the next two and half years, in each meeting, before the formal agenda was taken up for discussion, the CMD briefed the Board about all the major developments which took place subsequent to the previous meeting—about business growth, the recoveries effected and the problems (legal and non-legal) faced by the Bank's recovery officials, new products released, progress achieved and setbacks experienced in the implementation of the Restructuring Plan, her discussions with the Government of India and the RBI, customers and other people whom she met, the branches visited etc. They provided a bird's eye view of the progress of the bank. This tradition was kept up by her worthy successor, Shri M.B.N. Rao who took charge in November 2003. I need to emphasise that in all our interactions, the CMD or for that matter any other official, never indulged in a blame game for the debacle of the Bank. Problem analysis fully focused on remedial measures, and not on distribution of blame.

The Chairperson and the ED made the presentation of most of the agenda items in the first one or two meetings, provided clarifications/answers, some of which necessarily involved explanation of banking practices and the laws. All in all, it was enlightening to the Directors. For two of us who had banking experience, it was revealing that the standard of the notes presented were quite exhaustive, which was indicative of the proficiency at senior levels of management. Although some General Managers were present, initially they were not actively involved in the deliberations. A couple of meetings later, the CMD asked the General Managers to present their proposals to the Board. The Board welcomed this practice as that was the right way to groom the higher levels of management to own responsibility—particularly in the context of a critical observation of Verma Committee that fear of staff accountability *killed* initiative for fresh business [Para 21 above]. This was a subtle way of encouraging the functionaries that the Board would back them up in all honestly and diligently made proposals. Good leadership encourages everyone's evolution, it is said.

The CMD, perhaps in the meeting held in July 2001, made a detailed presentation of the Restructuring Plan submitted to the Government of India. She was assisted by the ED and the heads of departments. The plan was comprehensive as it included action in respect of all balance sheet items—deposit and loan growth, core deposit concept, introduction of many new and structured products, mass marketing strategies, cost of operation, staff cost and other costs and, ways of pruning them down, recovery of bad loans, steps taken to prevent further deterioration in the loan portfolio, investment and treasury operations, profit estimates, interest spread, provisioning for bad loans , audit and inspection of branches and efficiency ratings of the branches, closure/merger of unviable branches, downsizing the administrative structure to three levels from the prevailing four, progress in CBI cases, voluntary retirement scheme for staff, training and skill development programmes, computerisation of operations, revamping the scheme of delegation of powers etc. and, what to do with the Singapore branch which was tottering, and the Monetary Authority of Singapore which was sending dire warnings. The list of areas calling for active intervention was staggering and it needed strong belief to see light at the end of the tunnel. "The rarest courage is the courage of thought" it is said.

We were told that the entire exercise of restructuring involved branch managers and circle heads on what they could achieve with extra efforts and zeal required to pulling the Bank out of the existing condition. The first round with branch managers was followed by intensive deliberations with all the circle heads over three days of meetings presided over by the CMD/ED. The goals were mutually accepted to ensure high degree of commitment which was spread to the branches in similar interactions by the circle heads. The participative deliberations enabled stretching of the goals. In the context of what needed to be done for the Bank, there emerged general acceptance of the stretched goals. The mood was clearly upbeat. A reflection of the top management's concern for staff involvement could be seen in the Annual Reports of 2000 to 2003; what used to be commented under the head 'staff position' till then came to be elaborated with two additional sub-paragraphs, titled 'Motivation' and 'Upgradation of Skills'. These are not empty gestures but clear signs of transformation being wrought within the Bank.

The Board had a meeting every month as the agenda was heavy. The discussions used to be informative, and the Directors participated unhesitatingly to bring to bear their experiences on the subjects. It was truly an independent Board, and not rarely, it had something to say about the Government of India and the RBI's stance on particular matters, but left it to the CMD to convey its views and sort out the issues. The quarter end meetings used to be more interesting as the performance of the Bank, the financial statements, and a thorough review of the Restructuring Plan 2000–2003 were submitted for intensive discussions. To me, by any standard, these reports were educative in terms of depth of analysis, transparency and reliability. Each quarterly review thus gave us the confidence that the Bank was regaining its health, and the Board would be a witness to a dream becoming a reality before long.

The Board had mainly three Committees: Management, Credit and Audit Committee. The first two committees had one independent director as a member by rotation once in six months, while the official directors and the CMD and ED were permanent members. The independent director's contribution to the proceedings tended to be limited, given the six months tenure. However, the Audit Committee was required by the RBI to be headed by an independent director with a chartered accountant's qualification. The other members were the two official directors and the ED. In the absence of a chartered accountant member on the Board for a year or so (till Shri Ashok Gupta was appointed), the CMD requested me to take up the responsibility, which I gladly did from June 2001. I had the privilege of being the Chairman of the Audit Committee for 18 months or so, when I handed over the charge to Ashok Gupta.

Prior to me, Shri D.K. Tyagi had headed the Audit Committee pending constitution of the full board. He had extended the scope of work to include some review of the performance of circles by turn. I found it to be a useful convention to follow, though purists could object. We held meetings in many centres to which we called all the nearby circle heads and some branch managers. Apart from the normal duties of the audit committees, which included house keeping and accounting efficiency, inspection ratings (these were thoroughly recast by us and the names of poorly rated branches were circulated) as prescribed by the RBI, we took the opportunity to interact with the participants to gain better understanding of the bank at the grass roots levels, suggest several ways of improvement based on our experience gained in different centres and motivate them towards achieving the bank's goals. We took care that our interactions did not impinge on the normal administrative procedures and hierarchical sensitivities. At the end of my term, we gave over 350 suggestions to the Bank. Later, the Bank confirmed having accepted fully or partly the majority of our suggestions and implemented them. This was a very satisfying job which gave us an assurance that the commitment of the employees was strong.

As the Bank's journey back to health is covered well in other chapters, I would like to highlight the fact that it moved from a net loss of Rs 427 crore in 2000 to a net profit of Rs 183 crore in record time. *There are no parallels to this.* Government of India infused capital of Rs 2070 crore, in two installments of Rs 1300 crore in March 2002, and Rs 770 crore in February 2003 as part of the restructuring plan. Before the second installment was released, the bank had to get the commitment of half a dozen employees unions on a number of performance parameters, and they were not easily forthcoming without an assurance on meeting many of their demands. Both the Government of India and the employees unions were firm in their stand, and the CMD was at her wits end to resolve the issue. We later learnt that as the deadline for release of money by Government of India was fast approaching, and as the last ditch negotiations with the unions were not going on smoothly, Smt. Ranjana Kumar, the CMD did the unthinkable of walking out of the meeting—an exercise which the trade unions normally resort to. That had a salutary effect. By next morning the memorandum of commitment was signed, the Board likewise passed the requisite resolutions, and by late evening the Government of India released the capital.

I thought of briefly narrating here from memory a few events/ episodes which were a part of the deliberations in the Board meetings.

- The Bank introduced a number of structured products, aggressively lent to self-help groups with micro finance which became legendary, but the master stroke was reserved for the housing loan segment. In October 2001, the CMD announced a reduction in interest rate by 1% on housing loans during the festival season. It created a flutter in the market, and surprised even the aggressive private banks. The Bank added to its loan portfolio significantly.
- One large consortium advance was granted by 23 banks to SPIC which needed to be rehabilitated, but the decision was getting delayed with each bank singing a different tune. The CMD got into the picture, talked to all other CMDS of banks and the RBI, and got everyone to approve a consensual plan of action. This was achieved in record time because of the CMD's intervention.
- The CMD convinced the CBI that a large number of references of officials made by the bank earlier did not involve mala-fide acts and gross negligence, and hence it was not necessary to continue with such cases. Over 75 cases were allowed to be withdrawn which made an impact on the employees morale, and the staff were happy with the CMD's ability to fight for just and fair dispensation.
- The CMD took a lot of interest in the training of staff. The entire system was changed. One significant addition was the study of the Bank's balance sheet, and the genesis and growth of non-performing assets, and the preventive procedures and actions needed to reduce recurrence. It was gratifying to see that the trainees responded well to this NPA-awareness content in the syllabus. The CMD herself addressed the trainees many times. One such motivating address was to the Class IV employees who were promoted as clerks. She ensured that every word was translated into Tamil so that

they understood their role and responsibility, and developed self- confidence to meet the challenge of higher responsibility. This was perhaps the first time ever that the CMD addressed the peons promoted to the next grade.

- The Government of India asked the bank to withhold the revision of pay agreed to with the all bank employees' unions, under a general agreement with the Indian Banks' Association. The Bank was permitted by the Government of India to sign the agreement. The Bank even made provisions for the revision in pay in the accounts, but the Government of India did not permit the release which became a bone of contention and caused resentment. In a similar situation in a private sector company, the directors could be jailed under the labour laws of the country. The Board took a categorical stand that the Government of India's stand was illegal. The issue was settled a little later.
- The Singapore branch by itself was doing reasonably well, but the Monetary Authority of Singapore [MAS], looking at the global balance sheet of the bank, were uncomfortable in allowing unfettered operations the Bank sought to get some comfort from the RBI and the Government of India regarding its recapitalisation, and the timeframe within which it would be done. Much effort had been taken by the CMD to save this branch. In passing, it may be mentioned that MAS is one of the strictest central banks in the world, thanks to the unstinted support given by the Singapore government. It is well known that the Bank of Credit & Commerce International Bank was refused a banking licence by MAS despite several attempts and recommendations, one of which was from Harold Wilson. Lee Kuan Yew, the first Prime Minister, and the founding father of Singapore writes in his memoirs, "From the Third World to the First" about the BCCI episode in which he stood by the MAS that, "Singapore escaped unscathed because we refused to compromise standards".
- The Singapore branch was directed to complete overhaul of the computer system and given a deadline for carrying out its order. Old habits die hard and the department in the Bank's head office went about this matter in the usual leisurely process and submitted a proposal to the Board for an *in principle* approval to incur an expenditure of $2 million.

The fear complex ingrained in the officers for spending large amounts without subjecting it to attrition was in full display. The Board did not see any point in granting in-principle approval. Instead, it permitted the expenditure and suggested a senior official from the Bank's computer department could, along with some in the branch, decide on the details and implement the change within the prescribed time. This type of one-shot approval was new at the bank. Indeed, I might add that during a recent personal visit to the branch, I was pleased to know it had received encomiums from the Regulator.

- The Board frequently asked why at all some items needed to come to it for approval or information and it was told that they were referred because of RBI/Government of India instruction. One such interesting case was when the Bank submitted a detailed proposal to spend about Rs 50 lakh on urgently required repairs of flats allotted to officials in Mumbai. It had taken over a year for the Bank to get an approval in principle from the RBI subject of course to the Board's approval which thereafter could be confirmed by the RBI. We asked who would be responsible if the building collapsed in the meantime! In another instance, the CMD had asked for a change of a 12-year-old Ambassador car which was beyond repair. Since some other CMDs too had asked for new cars, a policy had to be framed, one ingredient of which was: what do bureaucrats in similar rank get? At long last, someone speeded up the process and his boss contributed his mite by putting a monetary ceiling of Rs 8 lakh for the new cars. Our CMD finally got a better car in place of the rickety 'Ambassador'.

Smt. Ranjana Kumar deserved several recognitions and citations which she received both during her tenure in the Indian Bank and later. *The Economist* [London] wrote a column on her. The *Business Standard* conferred on her the Best Banker award in 2004. Ninan, the Editor, spoke on the occasion that he himself had editorially commented that the Indian Bank had no hope, but he was proved wrong, thanks to Smt. Ranjana Kumar. She was guided by the tenet, "The price of power is responsibility for the public good" (Winthrop W. Aldrich).

Let me conclude by quoting from Stephen R. Covey's book, "Principle Centered Leadership, Chapter 28, titled "Transforming a Swamp into an Oasis": *"I am personally convinced that one person can be a change catalyst, a ' transformer', in any situation, any organisation. Such an individual is yeast that can leaven an entire loaf. It requires vision, initiative, patience, respect, persistence, courage, and faith to be a transforming leader"*.

The story of the revival of the Indian Bank is not complete without acknowledging the contributions made by M.B.N. Rao both as ED and CMD, and his successor, K.C. Chakrabarty, who took the Bank public in the beginning of 2007 for the maiden issue at a premium.

Indian Bank—The Magic of Turnaround

Shri Ashok Gupta, a Leading Chartered Accountant and Ex Director of the Bank

It was 22nd May 2002, when I went to Chennai to attend the Board meeting of Indian Bank for the first time after my nomination to it. I was excited but, at the same time, a fear was hovering in my mind. It was because, Indian Bank, as I knew from newspapers and people, was in a very bad shape. It's net worth was negative and it was in losses continuously for many years. People had written off this bank. A feeling was emerging in some quarters to dump it. The general perception was that it was next to impossible to revive Indian Bank because of its very critical financial position.

Joining the Board of such a bank was nothing great. Rather it was like inviting trouble for myself according to some people. Anyhow, I was into it. I came to know later that the bank had whopping NPAs of about Rs 4000 crore out of which about Rs 1100 crore were hard core; virtually loss assets. The net worth of the bank as on 01.04.2001 was negative to the extent of about Rs 1000 crore—without taking into account a stock of contingent liabilities.

A negative net worth of Rs 1000 crore meant that the bank was annually incurring an expenditure of Rs 50 crore (taking cost of funds at a very realistic and nominal rate of 5% p.a.—without any administrative cost padded on to it). Against this, there were no assets and therefore no income; which simply meant the bank was annually incurring a clear loss of Rs 50 crore because of negative net worth. To achieve a breakeven, the bank had to collect funds at a cost, which in such circumstances is generally higher than the usual cost. Using these funds, the bank was required to earn first to offset the cost of these funds itself, plus Rs 50 crore to cover cost of negative net worth.

On top of it, when the bank was in such a bad shape, good customers were keeping away. Business opportunities became very limited and available ones were not good at all. Only rejected opportunities come in the way of such banks. With this background, having a shadow of fear about bad working of bank was obvious for me.

Carrying this feeling I reached the Board Room. The meeting had already started. It was the earliest in the morning I could reach from Delhi. Smt. Ranjana Kumar, the Chairperson welcomed me. I was feeling embarrassed—a lady of such a high stature welcoming me. All members of the Board were there. It was a galaxy of knowledgeable people whom I had joined. By the time, I completed my tenure in the Board, I could feel that I had learnt good lessons of management in a visual manner on-the-job. It was a great experience in my life.

The annual results of the bank for the financial year 2001–2002 were the centre of discussion at the Board meeting, and the next day i.e. on 23.05.2002, the accounts for the year were adopted and signed by the Board members and auditors. The bank had come out with a profit of more than Rs 33 crore. This profit had come after eight long years of losses. By any standard it was a great achievement. Just unbelievable! The bank's officials could not believe it. The bank's senior officials could not hold their sentiments and came to the Board Room with a large garland, which was presented to the Chairperson, Smt. Ranjana Kumar. The feelings of these people were quite visible. They had no words to utter. They were totally overwhelmed—they did not know what to say to their Benefactor Chairperson.

The enthusiasm of the employees of Indian Bank was worth watching. People had found their lost treasure. A dream had come true. Lusterless faces of employees became blissful with shine and glow. The bank staff adorned themselves in their finest dresses. It was gaiety all around the bank. The feelings of the employees who had virtually no hopes, were riding high. Next day's newspapers carried the story of profit of Indian Bank in bold letters. The bank had unbelievably turned around. It became a matter of study for a sizable section of people concerned with the industry. The bank thereafter gathered further strength and consolidated its position. The profit rose steadily thereafter. Other players in the industry (who were in competition with Indian Bank) started taking the bank very seriously, and started strategizing themselves against its moves and working. The Indian Bank had not only turned around, but had poised itself to take a big leap.

People came to know of the success of Indian Bank. It was due to well-guided and definitely directed efforts. It was not an accidental happening. The controlled and directed efforts had pulled up the bank. It was a conscious effort. The foundation of this effort was the Restructuring Plan 2000–03 of the bank, which was developed in-house, without involving any outside consultant. The target of net profit was achieved one year in advance. The targets set in the plan were achieved on quarter-to-quarter basis. Good governance and strict monitoring saw that the results were moving definitely as planned, in the right direction.

Now people started analyzing the factors which contributed or could be attributed to this success. No doubt many external factors contributed to make the situation conducive for growth like, lowering of interest rates, steady growth in the core sectors of the economy, buoyancy in the stock market. These factors were well captured by the team of the bank and used very aptly to turn the table the bank's way.

It was a team effort. Various persons had various perception of success with their own reasons to support the same. The general feeling was that it is the team effort which had pulled the bank out of the woods. There is a saying in Hindi—*"Akela chana bhadd nahin phod sakta"*—The essence is, a single man cannot achieve big targets. He has to have a team for this. True. A person well associated with the bank told me that this very team was there when the bank was taking a turn in the wrong direction.

Now, the same team with a different captain had made the bank take a turn in 'Right Direction'. So, the change is the captain—none else. It is Smt. Ranjana Kumar. It reminds me of a story of a war incidence. Troops had completely run out of ammunition and did not know how to stop the advancing enemy. The captain asked to fill sand/earth in the cannons and fire. The result was that the whole atmosphere became thickly dusty, nothing was visible. The enemy got frightened and was not able to assess how powerful the ammunition was which had raised the dust so high and dense. The enemy was forced to go back. This is what an able captain can do.

After a lot of brainstorming and talking to various people of the bank, it came to my notice that earlier the workforce of the bank had very negative and dampened feeling towards work. Nobody was ready to do work or take decisions. The earlier years' experience was frightening. A wrong decision would be looked at with suspicion. This feeling did not allow the bank staff to work.

Here I am reminded of a saying *"Mann ke haare haar hai, mann ke jeete jeet"*. It is your own feeling i.e. 'Mindset' which makes you lose or win! Smt. Ranjana Kumar changed the mindset of the bank's workforce. She put life back in them. Stood solid by the employees of the bank. Supported their decisions. Made them believe to work is to grow. Made them realise that it is they only. They, who can pull the bank up by working in the right direction.

The spirit and attitude of the entire workforce was changed. The changed spirit worked and brought the results. One lady with a strong determination changed the complexion of the whole bank. Smt. Ranjana Kumar's perspective is clearly visible in her article titled: "Building Organisational Effectiveness through Sound Human Resource Management (HRM), which was published in IBA Bulletin of March 2002. Her ideology in this regard can be understood from the following excerpts from her article:

"Sound HRM practices would usher in an enabling work environment that will improve employee morale, commitment and productivity. The commitment and motivation built through good HRM practices will have a multiplier effect on the conversion of human capital to organisational capital."

She went on to add that,

"Today's market situation, apart from skill development, calls for change in the mindset, attitude and behaviour of the employees:

Her ultimate conclusion was:

"....the success depends on how the management is able to make its human resource committed to the goals of the organisation."

All these things made me strongly believe that the captain of the team led it very well and put life back into them and converted them into an excellent workforce. Various incidents in the Board Room brought out the qualities of this captain. Some of these are:

- The Board meetings always commenced in time and were professionally conducted.
- She never allowed, knowingly, anything which did not advance the bank's objective and its well being.
- She resisted any pressure which was not in bank's interest.
- Table Agenda, if any, was discussed in detail.
- She made it a point to listen to each member of the Board patiently and attentively, and responded to their queries.
- She, as I saw her, was a very good guide with a supporting attitude.
- She always stood by the actions of her subordinates which were done with a bonafide intent.
- She did not allow any subordinate to do anything which was against the grain of the mission of the bank to surge ahead.
- Board meetings ensured active participation of all members, and always resulted in a new learning for us.

The Chairperson, projected herself as being very much part of the institution and assumed responsibility thereof at all times.

I bow my head to such a success story of the bank, its team, and above all the captain of the team, which worked like a strong thread and brought together the scattered precious pearls to make a beautiful necklace i.e. the 'Indian Bank'.

Appendix B

FACE VALUE/INDIA'S TURN ROUND QUEEN

(Reproduced with permission. Interview in The Economist, *London, Nov. 29, 2003)*

Ranjana Kumar shows that you can succeed in India even if you are not in Information Technology

"Nine decades of trust", boasts Indian Bank's slogan. Well, may be eight. The proud state-owned institution, headquartered in Chennai (formerly Madras), slumped in the 1990s. In 1999, a "management advisory group", appointed by India's central bank, noted that Indian Bank's "accumulated losses exceed its capital and reserves". It was, in short, bust. The bank groaned under mountains of bad loans, many of them made for political or corrupt motives. Its workers were ageing, risk-averse and demoralised, their unions strong and change-resistant.

For all the recent excitement about India's fast-growing Information Technology sector, much of the country's economy has remained mired in its bad old ways. Indian Bank suffered an acute case of a disease that afflicts many public sector banks (which together control three-quarters of banking assets) – bad loans. These make up less than 10% of total bank lending in India's official figures, but may actually be double that, according to estimates published in June by Crisil, a private credit rating agency. That is still far below levels seen in China, or in South East Asia after its slump. But there are serious concerns about the ability of India's banking system to deliver credit efficiently to an economy expected to grow by at least 7% this year.

"The most crucial aspect" in turning Indian Bank around concluded the advisory group, would be to find the right new boss. They lighted on Ranjana Kumar, who had been running another state-owned bank, Canara, after a long career at a third, Bank of India. She was the second new broom asked to clear up the mess at Indian Bank. Her predecessors, installed in 1995, had made things worse. Two measures in particular back-fired; a freeze on new credit, to stem the flood of bad lending; and the reference of several loans to India's criminal prosecution and anti-corruption bodies. As a result, good borrowers were turned away, and the bank's loan portfolio continued to worsen. Staff, meanwhile, became gripped, in Mrs. Kumar's words, by a "fear psychosis". This was unfair, since "not everybody was a crook".

Her remarkable success in bringing Indian Bank back into profit has turned her into an award winning celebrity of the Indian finance scene, feted for her turn-round expertise. Among her many good qualities are limitless energy, great persuasive power and, above all, common sense.

By 1999, 44% of the bank's loans were "non-performing", a worse ratio than at any other Indian bank. Its lending rates were high, driving away yet more customers, and 18.5 billion rupees ($430 m) of new Government capital had been swallowed up. Its employees, whose ages averaged 47, were shy of taking risks and swiftly forgetting how to. Public sector companies were prohibited from doing business with the bank because of its feeble balance sheet. For similar reasons, in 2001, Indian Bank was threatened by the local regulator with a humiliating expulsion from Singapore, one of its two overseas bases.

On taking the job in June 2000, Mrs. Kumar negotiated with the Government for yet another recapitalisation. This time, however, disbursement of the first slice was delayed for 22 months and made conditional on the bank's performance. On the strength of this, Mrs. Kumar reached a written understanding with the unions about a three-year restructuring plan.

She then proceeded to simplify management structure, to merge 119 of more than 1400 branches all over India, and to shed 3000 of the bank's 25000 staff under voluntary redundancy schemes. No one was sacked. She also set about trying to get some of the bank's money back from its delinquent debtors. A 'securitisation' act passed by India's Parliament last year was intended to make it easier for banks to foreclose and seize assets. Indian Bank, for example, has issued 700 notices under the act, and taken over 12 properties. But bankers say the impact of the legislation has so far been disappointing. As the law now stands, bizarrely, banks cannot sell assets without the borrower's permission. Its main impact has been psychological.

Mrs. Kumar also went on an aggressive drive to attract new customers. To infuse a bit of youthful vigour into the bank, 300 freshly graduated MBAs are employed for three months in the summer. Several hundred younger staff have been recruited or promoted from clerical grades.

The Recovery Ward

These days, Indian Bank seems almost a picture of health. Non-performing assets are down to 12% of gross advances. Some 800,000 new customers have been added. In the six months ending September, it turned an operating profit of 2.6 billion rupees. A stockmarket listing is planned by early 2005.

By then, Mrs. Kumar will be well advanced in her next rescue mission, at the National Bank for Agricultural and Rural Development, a troubled Government refinancing institution. She seems to enjoy the limelight. But not everybody thinks her undoubted talents were best deployed at Indian Bank. Perhaps, she would have been better used turning around other parts of the economy. India's banking sector really needed a more radical solution. India has 27 state-owned banks offering similar products. Even Mrs. Kumar acknowledges the need for consolidation. Moreover, banking competition is distorted by the guarantee which even loss-making state banks enjoy. In 2001, for example, Indian Bank's average cost of deposits was only 7.5% per year, below that of most private banks.

In its 1999 report, the management advisory group pondered three options for Indian Bank: closure, merger and rehabilitation. But closure, it said, "for obvious reasons", did not merit consideration. Nor, in its debilitated state, did merger with a healthier institution. That left the search for a saviour. Mrs. Kumar turned out to be exactly the right candidate. But that does not mean rehabilitation was the right choice.

Trouble Shooter Rides to Indian Bank's Rescue

(Interview in Financial Times, London, September 5, 2003—Khozem Merchant talks to the woman who pulled the troubled bank back from the brink)

Ranjana Kumar was not the first choice to head Indian Bank, but she was the first to accept the job of fixing one of India's worst banks. "The other bankers just ran for the door. I saw the job as risky but a challenge", says Mrs. Kumar, India's highest ranking female commercial banker.

Indian Bank's large non-performing assets (NPA) and nefarious past had defeated her predecessors. But Mrs. Kumar had earned a reputation as a trouble shooter, and with nearly four decades of experience in public sector banking, she was familiar with risk. This year she won a Banker of the Year Award at a ceremony at which Arun Shourie, disinvestment minister, described her turnaround of Indian Bank as "remarkable". Such transformations were rare, he told an audience of bankers.

Indian Bank is a microcosm of the Indian banking sector. Non-performing assets are large and have impeded wider balance sheet restructuring. Serious substandard debt had been caused by so called "political lending", a form of priority lending to favoured clients that bypassed normal credit analysis. That largely explains how Indian Bank was laid bare. Loans turned bad as business conditions weakened hitting the 96 year old bank hard because of its exposure to old economy stalwarts in steel, cement and textiles. The net ratio of bad loans to lending rose to a giddy 21.67 per cent in 1999. The bank stopped all lending activity for three years from 1996. Market share shrank and, amid police scrutiny of a cheating management, a mood of fear prevailed.

This was what greeted Mrs. Kumar at Indian Bank's water front headquarters in the eastern city of Chennai (formerly Madras). "when a bank is weak and sick, staff also feel weak and sick. One of the remarkable things about our turnaround is that it was achieved with only four new recruits". They were all in risk management and recovery of bad debt, which says much about Indian Bank's woes.

Her strategy was similar to many others rolled out at state banks, where NPAs are understated, according to observers. She cut branches (by 199 to 1386); staff numbers were reduced by 3200 to 2222 by voluntary retirement; net NPAs fell to 6.15 per cent; risk management mechanisms were installed; and managers were re-educated in assessing credit risk and allowed to sanction loans after a long freeze. "This did a lot for the confidence of my boys", she says.

In 2002, Indian Bank reported its first net profit in eight years—Rs 330 m ($7.1 m), rising to Rs 1.89 bn in the year to end

March. One measure of retail confidence in the bank was large inflow into savings accounts. Advertising resumed after seven years. A thrust was made to ride the consumer-financing wave with simple loans and promises of efficient services.

Tarjani Vakil, the first female MD of India's Export-Import Bank, says more Mrs. Kumars could emerge with the widening of opportunities in banking. "She seems to have brought change without much friction", says Mrs. Vakil. That may be, Mrs. Kumar says, because she sought "utter clarity with all parties, from the central bank, managers and unions."

The turnaround earned Indian Bank a government recapitalisation worth Rs 20 bn in two tranches, which helped the bank achieve its capital adequacy provisioning. "It was a way of saying 'well done'. She says. But the capital injection came with strings. Under the central bank's new tough stand with public sector banks' management, Mrs. Kumar was forced to sign a pact taking responsibility for her policies. She agreed, but only in return for a freer hand. "The regulator agreed with difficulty. We were also able to deliver corresponding pledges from unions".

A public listing is planned for next year, just before the bank's centenary.

Observers say Mrs. Kumar's operations expertise—technology and other back office processes—lies at the heart of her success. These practical skills helped her make a mark at two earlier banks. At Bank of India, where she spent 33 years, Mrs. Kumar rose to become a notable mender. She ended up on Wall Street where Bank of India was mired in bad property debts arising from expatriate Indians' jump into the motel trade, timed perfectly to hit a slowing economy. She successfully challenged a fine imposed by US regulators for an earlier management's tax irregularities.

Later, at Canara Bank, another state institution, she did "exceedingly well" she says, in a job that focused on reaching settlements with other state-owned banks after a massive bond market scandal in 1992.

But there is another asset. She appears to have dealt diplomatically with unions and banking conservatism. Mrs. Kumar is a woman in an Indian man's world. Having achieved "my numbers", this high-born Kashmiri may be forgiven for undiplomatic references… to male colleagues as "my boys".

Appendix C

Report of the Management Advisory Group Indian Bank

Indian Bank, one of the public sector banks, has turned sick and its net-worth has been completely wiped off, its cumulative losses far exceeding its capital and reserves. The Bank was studied, interalia, by M. S. Verma Committee, whose recommendations have since been published. In October 1999, it also constituted a Management Advisory Group under the Chairmanship of Shri Deepak Parekh for suggesting corrective action for improvement in the Bank's performance. The three members of the Group are:

Mr S D Kulkarni, Former M.D. & CEO—Larsen & Toubro Ltd.

Mr Ram K Gupta, Former M.D. & CEO—State Bank of Patiala

Mr Dilip Choksi, Chartered Accountant

The terms of reference of the MAG are as per Annexure.

During the past three months, the group members have interacted with the Bank's top management, members of its Board of Directors, statutory auditors, leaders of staff unions/associations, besides their erstwhile consultants – ICRA Advisory Services. The Group also met Mr. S P Talwar – Dy. Governor of RBI. Mr. M. S. Verma – Former Chairman – State Bank of India and Mr S Rajagopal, former CMD of the Bank. Based on these interactions and the information provided by the Bank management, the group has come to certain conclusions which are detailed below.

Position as at March 31, 1999

1. The Bank's accumulated losses exceed its capital and reserves. In the year 1998–99 the bank incurred a huge loss of Rs 778 crore after provisions and contingencies of Rs 530 crore for NPAs. The operating loss for the year was Rs 163 crore. Had it not been for an income of Rs 160 crore from the Recapitalisation Bonds, the operating loss would have been higher at Rs 323 crore.
2. The Bank has massive NPAs of Rs 3558 crore, representing 44% of its advances, the highest in the Banking system and far above the national average. In the past three years, the additions to the NPAs have been Rs 1087 crore while the recoveries have been Rs 585 crore, resulting in a net addition of about Rs 500 crore. This is the most critical problem area for the Bank.
3. The Bank has a negative Capital Adequacy Ratio of 8% in spite of the Government of India having in the past injected Rs 1850 crore by way of recapitalisation, in two installments.
4. There has been a very negligible credit growth in the recent years, with an adverse impact on income generation.
5. As a combined result of various factors, the yield on advances is very low and has been dropping continuously.
6. The ratio of cost to income at nearly 120 is very high as compare to the median of the PSU banks at around 80. The net interest income of the Bank does not even cover its staff costs.
7. The Bank has a relatively high PLR, resulting in prime accounts being driven away to look for other sources of funds.
8. On the positive side, the Bank enjoys a good Brand Equity and is able to attract deposits, in spite of the adverse publicity in recent times. This may be partly because of the feeling that being a PSU Bank, the security of deposits was assured. Rising deposits, without their proper deployment makes matters worse for the Bank.
9. The Bank also has a good infrastructure and a wide network of branches in the south.

The Group carefully considered the three possible options under the circumstances viz. (a) closure, (b) merger with some other bank and (c) revival. For obvious reasons, the option of closure did not merit consideration. Under the present state of the bank, its merger with some other bank does not seem possible, although this option could be explored after the bank is put back on its feet. In fact, quite a few mergers in the banking system may be inevitable in the years to come. The Group has, therefore proceeded on the premise that ways need to be found to revive the Bank, although it is going to be an uphill task, given the rut in which the Bank has fallen because of neglect, mismanagement and total absence of accountability, over the years. As stated earlier, the bank enjoys good brand equity and has adequate infrastructure. These positive aspects need to be leveraged to pull the Bank out of the morass.

Non-Performing Assets

The large NPAs (44% of advances) are a serious drag on the current operations of the Bank. They result in very low yield on advances. As stated earlier, nearly Rs 500 crore have been added to NPAs in the past three years. Hopefully, there will be no further major additions. Vigorous efforts need to be made to collect these advances by setting up separate cells in each zone, with close monitoring from the HQ. This subject must receive serious attention from the top management of the Bank. In this process it will be inevitable to arrive at many compromises, for which necessary authority will have to be delegated to the lower levels. Because of certain investigations in the past, the decision making in the Bank has been a casualty and it is important to restore the morale and confidence of the officials. Simultaneously, the proposal to set up an Asset Reconstruction Company (ARC) needs to be pursued without loss of time. The transfer of a large portion of NPAs, say those of large value aggregating Rs 1600 crore, to an ARC will enable the Bank management to concentrate its attention of the other aspects of revival.

Subsidiary Companies

The Bank has floated three subsidiary companies—Indbank Housing, Indbank AMC, and Indbank Merchant Banking. It has invested an aggregate amount of Rs 129 crore in these and other joint ventures, besides lending liberal support to them by way of loans and advances. These subsidiaries have also raised public deposits. All the three subsidiaries are however saddled with large losses, caused mostly by blocked group advances, inter-corporate placements and high operational expenses. The Bank is not in a position to fund losses and spare time and skills to improve the operations of these companies.

In the case of the MF, one assured return scheme has already landed the Bank in meeting the MF's obligation under the scheme and one more scheme with indicative returns is presently under dispute with SEBI. In the case of some of the other schemes the NAV is below par. Obviously the Bank did not have any expertise to manage the MF. It is recommended that the Bank should get out of this activity at the earliest.

In the case of the housing company, whereas the retail portfolio of about Rs 125 crore is by and large good, out of the ICDs and project loans, over Rs 50 crore may be bad and may involve large write off. We recommend that the retail portfolio be disposed off. This may yield some profit to the Bank because of the good clientele involved. Thereafter this activity should be closed down.

The Merchant Banking company has a number of bad accounts. This activity is just an extension of the Bank and we see no justification or advantage in continuing with it.

On the whole, therefore, the Bank has landed itself in more problems with these subsidiaries and it would be best to dispose them off and realise the maximum possible value by entering into negotiated deals. The net result may end up with sizeable losses.

Foreign Branches

The Bank has two foreign branches—one at Singapore and the other in Colombo. Singapore has been a larger operation, with resources of nearly S$ 600 million as on 31-3-1999. The branch is also suffering from the same malady of high NPAs (over 40%). The branch is not able to meet the local capital adequacy norms. The branch has not remitted any profit to HO since 1983. On the other hand the HO remitted S$ 30 million by way of Subvension Fund in 1991. The Colombo operation is very small and does not merit any discussion. It really does not make much sense for this bank, which is already saddles with so many problems at home, to carry on an overseas operation of almost a solitary branch, which also does not contribute commensurate profits. Our recommendation is that the Bank should close down its overseas operations. We understand that the Singapore branch has, besides goodwill, some valuable real estate which may fetch good price. It will be necessary to make a proper valuation of the net assets of the branch for further action.

Generating Resources from Within

In the present blocked resource position of the Bank, efforts need to be made to generate/free some resources from internal sources and not just look to Government of India as owners, to provide all the succour. The Bank has considerable sunk investments in the form of office/residential premises, guest-houses, training centres etc. With rationalisation of operations, some of these can be sold to generate cash. Prima facie there is scope for doing so. This suggestion may, however, meet with resistance on the familiar ground of “selling family silver”, but in our view it is not unusual to resort to such measures when one is in as dire a state as the Bank presently is. The Bank management will have to carry out a detailed exercise to identify the properties that can be sold, without hurting the operations of the Bank. Care will also have to be exercised to ensure that the funds so generated are used for meeting specific non-recurring productive expenditure on VRS or technology upgradation and not for operating losses.

Rationalisation of Branch Network

The Bank has a network of about 1500 branches, concentrated mainly in the south. There is scope to rationalise this network by merging some branches and closing down a few, particularly those which may not be viable or are only marginally profitable. This will not only help reduce costs but also release some valuable properties that may have a much higher opportunity cost. Here again the Bank management or an expert outside agency will have to carry out a proper study. The possibility of selling of some of the metro branches to fetch handsome funds can also be explored.

Operational Improvements

Revenue augmentation is the key requirement for meeting costs. The bank has lost sizeable income on account of nearly 44% of advances turning non-performing. Further, the present yield on performing advances is difficult to be improved, even maintained, as the Bank's prime rate and spreads are on the higher side. It is thus essential that the Bank generates no/low interest funds and pursues non-fund business more aggressively, refines cash holdings/bank balances in India and in nostro accounts overseas and optimises treasury operations.

The Bank will need to install systems for risk management, funds management, assets-liability management, etc. The erstwhile accent on large value advances to select business groups needs immediate review and could be replaced by lower risk, higher reward advances to individuals, professionals, small and medium enterprises, etc. We believe that the bank has the necessary infrastructure and branch network to effect such a shift of emphasis.

Cost Reduction

The Bank is saddled with a high cost structure, which cannot be sustained by current business levels. There is a need to reduce substantially, the manpower cost which would call for reduction in manpower by about 20% to 25% through voluntary retirement scheme and by rolling back the retirement age to 58. We also suggest suspension of the facility of leave encashment, except on retirement, until the Bank turns the corner. There could be several areas that can yield saving in costs as for example:

(a) Retiring high cost deposits, namely, "Preferential Deposits" and restructuring interest rates to mobilise low cost deposits.
(b) Replacing outside concurrent auditors by drawing on surplus officers.
(c) Reviewing expenses on rentals by optimizing deployment of premises.
(d) Withdrawal of interest free loans advances.
(e) Reduction in overheads and travel expenses, particularly making air travel need-based rather than cadre-based.

Who in turn report to General Managers at the Head Office. The present day management structure needs to be flatter and more responsive to customers. Efforts need to be made to reshape the structure to eliminate at least one tier in the hierarchy. As the Bank has a large body of 17 General Managers, a more effective development could be to spare 10 GMs to head each of the zonal offices and the others at Head Office to head identified key functions. The arrangement will improve delegation and effective functioning of zonal offices, three of which are already headed by GMs. The DGMs thereby relieved could be gainfully deployed in Assets Management (NPAs) Task Force to give it due urgency and thrust. The Head office could thus shed operational control and look after corporate matters viz. Finance and investments, credit, personnel and HRD, Planning and Development, Inspection & Audit, etc.

Top Management

The Starting point in a turnaround is the competence, will and determination of the top management team. We understand that the present CMD is due to retire in March 2000. The urgent task before the Board/Government of India is to select a New CMD who should possess missionary zeal, conviction, courage and foresight/experience to carry through the challenging task. He should be charged with the responsibility of turning around at all costs and vested with adequate discretion/maneuverability to choose his ED and couple of GMs so as to make a more rounded/ cohesive team. He should also have a term of preferably five years, but in any case not less than three years.

Support from Government of India

In the past Government of India has pumped in over Rs 1800 crore to recapitalise the Bank. For want of necessary follow up measures, this infusion has failed to stem the downhill journey of the Bank. Hopefully, the meager lending of the past few years may not give rise to any major NPAs and the industrial revival may in fact facilitate recovery of some of older NPAs.

The revival proposal will not, however, be workable without appropriate support from Government of India. We have identified a few broad sources for the Bank to arise some resources on its own. In the absence of adequate data and detailed studies, we are unable to make an estimate of the amount of funds that can be so generated. However, it is clear that this will still leave a large gap for the Bank to meet the CAR requirements. ICRA advisory Services have recently estimated the recapitalisation requirement to be Rs 2500 crore which we have not been able to verify but given our others suggestions and some relaxation by RBI, it should be possible to narrow it substantially. A VRS scheme to reduce the staff strength by 20% to 25% would also need substantial additional funds. A meaningful revival plan would inevitably require further recapitalisation assistance. Without such assistance, any revival effort will be a futile exercise.

In conclusion, we would like to reiterate that the Bank is in a dire state. It is unfortunate that things have been allowed to deteriorate to this extent. Even after recapitalising in the past, there was lack of effective follow up action. The revival of the Bank at this stage is going to be a *Herculean task*.

Our recommendations must be seen as a total package. However, the most crucial aspect of the turnaround will be finding a right person with requisite zeal and credential, to head the Bank and giving him adequate freedom to choose his top management team, from within or from outside, consistent with public sector discipline as far as possible.

The patient is in the ICU, in a highly critical condition. The diagnosis is fairly clear. What is needed is multiple surgeries and massive blood transfusion. There is no time to lose.

Appendix D

Central Bank of Sri Lanka
30, Janadhipathi Mawatha
Colombo 1, Sri Lanka.

A. S. Jayawardena
The Governor

13th August, 2003

Dr Bimal Jalan
Governor
Reserve Bank of India

Dear Governor Jalan

I thought I might tell you about the invaluable help we received from Mrs Ranjana Kumar, Chairperson and Managing Director of the Indian Bank on a recent visit to Colombo.

After hearing several quarters that Madam Kumar had a story to tell about how she restructured the state owned Indian Bank from continuous loss making to a financially viable and strong situation, we invited her to share her experience with the local banking community and the general public. She gave a public lecture on how the restructuring was done, which was extremely well received by a record audience. Next day, she spoke to senior bank managers on how to manage non-performing assets, based on her experience, again to a very large audience. Most of the bankers whom I met subsequently were full of praise for her presentation. In fact, the Chairman of the People's Bank, which is now in the process of restructuring, enquired whether she could come back for a longer visit to assist the bank.

She hit the headlines in our newspapers with her candid comments and has started a serious debate whether privatisation is the only solution for weak public sector banks.

Altogether, we have had a very articulate banker who stimulated intelligent discussion on a major issue in the country. I would like to place on record our deep appreciation for her contribution.

With best regards,

Yours sincerely

Appendix E

Commendations

Given below are a few excerpts from commendations and press reports

The experience of how Indian Bank succeeded in recovering from difficult times is indeed an experience not only for Indian Bank but for the banking system in the country. At this point, I would like to recall the discussion I had with the former Chairperson of Indian Bank, Smt. Ranjana Kumar who gave me her experience in transforming Indian Bank to its present status. She remembers with a sense of pride, warmth and gratitude the team work of the entire Indian Bank family in making this turnaround possible.

—Dr. A.P.J. Abdul Kalam, President of India, Sept. 04, 2006

I am very happy to read about the progress made by the Indian Bank under your distinguished leadership.

—Dr. Manmohan Singh, the then Leader of Opposition (Rajya Sabha) April, 30 2002

I am happy to say that amongst the public sector banks, your bank, Indian Bank glitters like a gem. I remember those Chairmen who served this Bank during the most difficult times.

—P. Chidambaram, Union Minister of Finance, Government of India, Sept. 04, 2007

I am indeed very happy to know the considerable progress achieved by the Indian Bank under your leadership. I am glad that the budget has provided for the recapitalisation of the Indian Bank. I wish you the very best in your endeavours to restructure the Indian Bank.

—Dr. C Rangarajan, Governor, Raj Bhawan, Hyderabad, May 3, 2002

I am happy to learn about the progress made by the bank under your leadership, and that the bank has achieved the target set under the restructuring plan.

—Bimal Jalan, Governor, RBI, April 9, 2001

I am delighted to hear from several quarters about your dynamic leadership, and the way you have been successfully motivating the officers and staff of Indian Bank. I would like to add my support to your ventures and your leadership.

Y.V. Reddy, Dy. Governor, RBI, Mumbai, Feb 16, 2001

I thank you very much for your kind letter enclosing a copy of your interview in Channel CNBC. I had seen the original interview where you brought out the phenomenal progress you have been able to achieve within such a short period, with great lucidity of expression and clarity of analysis. You came to the Indian Bank at the right time, and you have achieved almost the impossible task of transforming a mood of doom into one of hope and cheer. I pray for your continued professional success and personal happiness.

—MP, Chairman M. S. Swaminathan Research Foundation May, 2002

The bank's performance has registered improvement in almost every important aspect of its operations, and what is more encouraging is that the improvements seem quite sustained. All this is, in no small measure, due to your personal leadership.

—M. S. Verma, Chairman Telecom Regulatory Authority of India, May 29, 2001

The prophets of doom, who had predicted and demanded closure of the bank have been given a befitting rebuff by the management and employees of the bank by their single minded devotion, dedication and hard work in bringing the bank to its present position....The very fact that the bank is in the public sector, has been one of the most important factors in this turnaround of the bank.

—Tarakeshwar Chakraborti, AIBEA
General Office, May 28, 2002

May 2001 become a landmark in Indian Bank's history. Your ardent mission of rehabilitating the bank has already begun, showing commendable progress.

G. Lakshminarayanan, Ex. CMD of Indian Bank
Dec. 3, 2000

Looking back, Ranjana Kumar comments, "I believe that proper handling can make things work". When she joined the bank she says "morale was low as was self-esteem". She plunged herself into restructuring the organisation—merging branches, delayering, strengthening the weaknesses in the system. It involved, "planning, executing and reviewing, and realizing the strength from within". She says, "Coupled with all this was a lot of hard work…We just kept taking steps…I knew we could do it".

Ranjana's hands-on interaction with the employees was one of the major factors that helped in motivating the staff, and in turning around the bank's performance. Human resource development seems to be one of her key strengths. We ask her whether it's instinctive or cultivated. She smiles and says, "It has to be instinctive. But it has also been cultivated over the years—you realise you have people with drive, talent, enthusiasm and the ability to work hard. Instinct comes into play where you empathise and see things from others points of view". She strongly believes that "harnessing talent from within should be the objective of every organisation—trying to find the right person for the right job". She feels this would offer an environment conducive to growth. Another secret of her success in bringing out the best in her employees is her dictum. "As a boss, you need to be open and transparent. There has to be logic behind the way you behave. You also need to be accessible. I like meeting people and talking to people; you learn a lot from people".

She declares, "If you are a sincere person, you will be sincere at your work and you will be sincere at home. You have to enjoy what you are doing". She says, "You need to really conserve your energy. By complaining, you lose energy. Be positive in your outlook". She firmly believes that, "In life you should be grateful to people. Life has taught me that gratitude is very important". She also advocates, "Take life as it comes. Whatever it is, you will get the energy and the drive. Thank God and be positive".

***The Economic Times*, Nov. 20, 2003**

Super-Banker

"It is a punishment posting", they said "she is just a woman and she can't pull it off".

Three years ago, these were some of the responses that the news of Ranjana Kumar's appointment as Chairman and Managing Director of the Chennai-based Indian Bank evoked. Once a star in India's banking firmament, a combination of imprudent asset management, political interference and plain old-fashioned corruption had turned the bank into an ongoing advertisement for banking reform.

Kumar had earlier worked in Bank of India and Canara Bank. But nothing could have prepared her for the Indian Bank assignment, although the lady herself downplays the magnitude of the challenge.

"In good times the halo around the organisation hides everything bad within; and in bad times, the halo hides everything good;" she explains "I spent my time and energy convincing employees of their inherent strengths". Like all good leaders, she makes it sound so simple.

But Kumar, who believes that the large workforce of public sector banks is an advantage—"if this force is channelled properly, each worker to his or her abilities, the private sector would be left way behind" she says.

***Business Today*, Nov. 23, 2003**

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