



Change

There is a lot going on behind the scenes at India's second-largest bank

In times of uncertainty bankers return to basics – shifting strategy from raising funds in the markets for onwards lending to retail low cost deposits from the public. Smaller Indian banks struggle to meet such targets, but it's a different ballgame at larger PSU banks altogether.

When Kasargot Ramachandra

Kamath, chairman and managing director, Punjab National Bank, kicked off a Savings Fund Campaign last month, it rushed his 57,000 employees to the field. Their target is 10 new savings account holders each, with minimum ₹1,000 at rural and ₹5,000 at urban branches.

On the first day of the launch Kamath added 30 accounts to the pool.

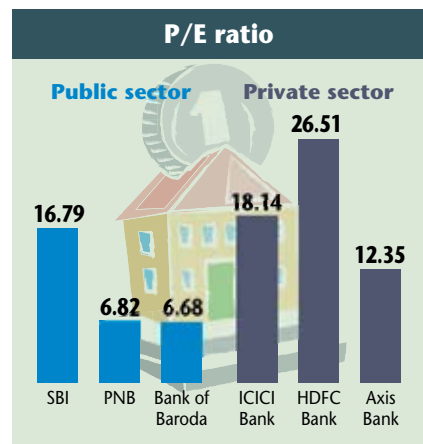
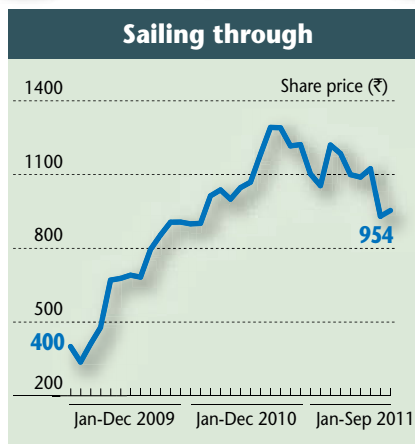
From Moradabad in Uttar Pradesh (an SME cluster developed by PNB) came another 3,200. It has been six weeks since the launch – the campaign ends on 30 September – and the number of accounts has crossed 1.1 million. Kamath still brings in 10 to 20 accounts with every trip he makes. "He has made it a point to ask," says executive director Usha Ananthasubramanian.



Agent

Kamath's scheme is not so much about raising funds. If, on average, employees bring in ₹5,000 per head, with 1.1 million accounts that is ₹550 crore. The campaign is, however, a cohesive mix between employee and customer. In times of increased competition and retiring employees, both are increasingly important.

Kamath was appointed at the helm of PNB in October 2009 after relinquishing his post as CMD of



As on September 2011



Rajesh Sethi: the strategy has changed



Usha Ananthasubramanian: banking on the brand

Allahabad Bank. Along with State Bank of India (SBI), both happen to be India's oldest banks – PNB was formed in 1894 and Allahabad Bank in 1865. At Allahabad, he was the first managing director to be roped in from the network – instead of from within ranks – in over 145 years.

And, yet, at age 55, Kamath is the youngest chairman and managing

director at any PSU bank. A product of Corporation Bank, where the first wave of technology in banking took off in public sector banks, Kamath launched CAPS, a collections and payments service. He was a zonal manager in Gujarat when the earthquake took place. He was also part of the team (along with Bank of Baroda's M.D. Mallya) that computerised

Corporation Bank for the first time. That apart, he has had a short stint as executive director at Bank of India in its centenary year.

When Kamath took over PNB, it had assets of ₹2,46,918 crore and posted a net profit of ₹3,090 crore in 2008-09. In two years assets have grown to

DEPOSITS

	₹ crore	Growth %
State Bank of India	9,33,933	16.14
Punjab National Bank	3,12,899	25.50
Bank of Baroda	3,05,439	26.60
Bank of India	2,98,886	30.08
Canara Bank	2,93,973	25.28
ICICI Bank	2,25,602	11.67
HDFC Bank	2,08,586	24.60
Union Bank of India	2,02,461	19.07
Axis Bank	1,89,238	33.93
IDBI Bank	1,80,486	7.65

ADVANCES

	₹ crore	Growth %
State Bank of India	7,56,719	19.75
Punjab National Bank	2,42,107	29.75
Bank of Baroda	2,28,676	30.65
ICICI Bank	2,16,366	19.40
Bank of India	2,13,096	26.47
Canara Bank	2,12,467	25.47
HDFC Bank	1,59,983	27.14
IDBI Bank	1,57,098	13.67
Union Bank of India	1,50,986	26.54
Axis Bank	1,42,408	36.48

TOTAL ASSETS

	₹ crore	Growth %
State Bank of India	12,23,736	16.17
ICICI Bank	4,06,234	11.79
Punjab National Bank	3,78,325	27.54
Bank of Baroda	3,58,397	28.77
Bank of India	3,51,173	27.71
Canara Bank	3,36,079	26.95
HDFC Bank	2,77,353	24.68
IDBI Bank	2,53,377	8.48
Axis Bank	2,42,713	34.36
Union Bank of India	2,35,984	20.92

Tables provided by Care Ratings



V. Ram Mohan: building risk models

₹3,78,325 crore while net profit has increased to ₹4,433 crore. Net profit would have been higher, if not for provisions towards pension mandated by the RBI. While ₹552 crore has been provided during 2010-11, another ₹2,206 crore will be amortised over the next four years.

Today PNB is the second-largest Indian bank by total business, and at 5,200 branches (and an equal number of ATMs) has the second largest network of branches in the country after SBI. While it is perceived to be a banker to north India, where it has 1,500 branches (Punjab has about 500) and commands a higher level of loyalty, PNB's larger network is pan India – with nearly 900 branches in eastern India, about 450 in the south (boosted by the acquisition of Nedungadi Bank in Kerala) and an-

NET PROFIT		
	₹ crore	Growth %
State Bank of India	8,265	-9.83
ICICI Bank	5,151	27.98
Punjab National Bank	4,434	13.52
Bank of Baroda	4,242	38.69
Canara Bank	4,026	33.27
HDFC Bank	3,926	33.16
Axis Bank	3,388	34.76
Bank of India	2,489	42.95
Union Bank of India	2,082	0.34
Standard Chartered	2,059	-3.20

other 300 in the west.

More than 60 per cent of the branches are located in semi-urban and rural India. These are places from where PNB derives its stable current and savings deposit base from – at over 38 per cent of total deposits.

The bank from Anarkali Street

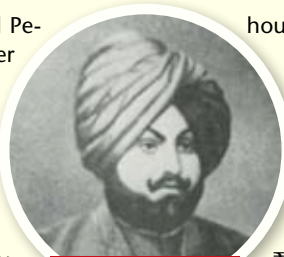
There is no sign of Punjab National Bank at Anarkali Street, Lahore, today. Not a banner or advertisement, not even a signpost. It was on this street that PNB was established in 1895, with a paid up capital of ₹41,500. The manager's salary was fixed at ₹150 per month, and eight staff – including an accountant, a treasurer, clerk and a *daftari* – carried home in all ₹170 per month.

Unlike SBI, which has British history, or Allahabad Bank, which was a joint stock bank, Punjab National Bank was the result of a long cherished idea of an Indian national bank. Rai Mul Raj of the Arya Samaj persuaded Lala Bulaki Ram Shastri (who designed the cheque form) and Sardar Dyal Singh Majithia, who became the first chairman of the board of directors.

Prakash Tandon documents the progress of Punjab National Bank in his book *Banking Century*. By 1904 PNB had already expanded

into Karachi and Peshawar, and later Rawalpindi. In the same year it ventured out into Delhi, and opened its first branches in distant Bombay. In one of its best years of business, 1905, the board – which included Lala Lajpat Rai – met 58 times. While generous to the staff, board members accepted no payment. By 1913, PNB had expanded into Jammu and Patiala, and later to Peshawar and Shimla.

PNB thrived because it launched in Punjab when there were no banking facilities in the state. It had maintained a track record of regular dividends, and strong growth – despite the financial crisis in 1913. It was admitted to the clearing house of Calcutta (then dominated by British businesses and banks) only in 1926 – even though it was a member of the clearing



Sardar Dyal Singh Majithia

house of Lahore.

It did face crises too, especially during the war in 1931, when deposits fell from ₹537 lakh to ₹403 lakh. And on 20 June 1947, it transferred its head office from Lahore to Connaught Place, New Delhi. The head office moved seven times, until finally settling at the current premises at Bhikaji Cama Place.

As the biggest bank in north-west India, PNB was most affected by Partition. Its branches in Pakistan had to resist lending against the wishes of local RBI authorities who insisted on liberal practices. Refugees had started to live by cashing deposits. Applications for transfer began to avalanche after 15 August, in branches working with depleted staff. Of a network of 175 branches, more than 30 per cent of business was

linked to north-west India.

In January 1950, the Paktang government requisitioned the premises of the bank in Lahore. By 1951, Bharat Bank (which also had a large exposure to Pakistan) was merged into PNB. In August 1960, the bank saw a small run on its branches in Delhi. To quell rumours, its offices remained open through late hours on a Saturday and also on the following Sunday.

Around 1961 the bank faced threat of a takeover from Ashok Kumar Jain, from the Times of India group. Prodding by the government led to the resignations of Ashok Kumar Jain and Shital Prasad Jain from its board. By November 1967, the government's social agenda had gained pace. The Indian Banks' Association called all its members for an urgent meeting in the boardroom of Bank of India, to consider the implementation "of social control measures regarding banks". At the end of 75 years of operations, PNB was nationalised.

♦ R.M.R.



Kamath with wife Pushpa

Punjab itself accounts for roughly 9 per cent of deposits and advances.

But while PNB has had a portfolio of technology-led products for some time, and a large customer base to cater to, usage remained low. "Perceptions needed to change," says Kamath. His most publicised initiative since taking over has been PNB's technology highway – six fresh products including mobile banking, remittances, point of sale terminals, and travel and pre-paid cards – launched at one go. Some of these existed earlier, but even PNB's employees were unfamiliar with them. "Replies at the counter have changed from 'we don't have it' to 'yes we do'," says executive director, Rakesh Sethi.

For Kamath, however, boosting employee morale was his first priority, because in many ways PNB has traditionally been led from the top. There was Rashid Jilani's decade-long term during the 1990s, when assets grew slow, clean and safe – but Jilani also put all promotions on hold for seven long years. S.S. Kohli took over from Jilani in 2000 and corrected much of that. A multi-tasker, he oversaw the takeover of Nedungadi Bank in Kerala when it crumbled under a stockmarket scam.

Kohli's term was followed by S.C. Gupta's two-year stint, during which time recovering NPAs (non-performing assets) caused by the takeover became paramount. But successor K.C. Chakraborty closed the deal. Accused of being loud, unappreciative and abusive – written and verbal – he undoubtedly cleaned up PNB's books while at its helm. When Chakraborty left PNB in 2009, to become deputy governor at the RBI, net non-performing assets to advances were down to 0.17 per cent. But in all that change, the employee felt left out.

Kamath's term has turned out to be the balance that everyone within PNB hoped for. In a mammoth task, about 7,000 promotions have been cleared over the last three months. An open document, available on the bank's intranet, lists out career graphs and transfer policies. There's no shortcut to success, or escaping a transfer, if the



S.P. Singh: retail is a thrust area

document has a structure on paper. "It tells the employee what to deliver and what to expect in return. And the timeframe within which a promotion can be achieved," says Sushma Bali, head of human resources.

There's PNB Samadhan, where employees can represent their grievances directly to the CMD. In another initiative, about 400 officers have been identified in a 20:20 programme to be groomed for senior management roles – as long as they retire post 2020.

More than 4,000 employees were recruited last year, largely to replace the base that retired and this year another 9,000 will enter the system. Meanwhile business per employee has risen 26 per cent to ₹10.2 crore last year, and profit per employee is up 14.23 per cent at ₹8.4 lakh.

With employee grievances under check, Kamath moved to phase two. Most public sector banks have a clear line of reporting in a four-tier setup – branch heads report to circle heads, who in turn report to a regional head.



Rajinder Mahajan: wholesale specialisation

The regional head then reports to a zonal head, which finally gets back to the CMD's office. This structure, however, has limitations in an era of quick decision making.

While at Allahabad Bank, Kamath introduced a line of field general managers. It's a concept he has now brought to PNB. For one, the zonal manager rank has been done away with. Circles themselves have been rationalised to accommodate 10 field GMs.

Each field GM is a senior officer who has assistant and deputy general managers under him. He travels 10-15 days a month, has a staff of 10,

and has direct access to the CMD's office. For larger loans, feedback is received on the first Saturday of the month. The field GM brings in business, while the head office provides solutions and strategy. While sourcing of business is left to the field GM, documentation is handled by a separate department. Can this strategy work, since it has been tried

NET NPA TO NETWORTH

	Ratio
Standard Chartered	1.01
HDFC Bank	1.17
Axis Bank	2.16
Citibank	3.29
Bank of Baroda	3.77
Indian Bank	4.17
Andhra Bank	4.22
ICICI Bank	4.37
Corporation Bank	5.66
Central Bank Of India	7.79
Punjab National Bank	9.48

COST TO INCOME RATIO

	Ratio	Growth %
IDBI Bank	35.16	-5.02
OBC	36.84	-4.21
Indian Bank	36.92	-1.73
Corporation Bank	38.41	1.42
SB Hyderabad	39.48	3.10
Bank of Baroda	39.87	-3.70
Standard Chartered	40.12	4.17
Punjab National Bank	41.27	1.88
Andhra Bank	41.40	-1.32
Canara Bank	41.98	1.25

CREDIT DEPOSIT RATIO

	Ratio	Growth %
ICICI Bank	0.96	0.06
IDBI Bank	0.87	0.05
Standard Chartered	0.84	-0.02
State Bank of India	0.81	0.02
Syndicate Bank	0.79	0.01
Andhra Bank	0.78	0.05
Punjab National Bank	0.77	0.03
Indian Overseas Bank	0.77	0.06
HDFC Bank	0.77	0.02
Axis Bank	0.75	0.01

CAPITAL ADEQUACY RATIO

	Ratio	Growth %
ICICI Bank	19.50	0.10
Citibank	17.31	-0.83
HDFC Bank	16.22	-1.22
Canara Bank	15.38	1.95
Indian Overseas Bank	14.55	-0.23
Bank of Baroda	14.52	0.16
Andhra Bank	14.38	0.45
SB Hyderabad	14.25	-0.65
OBC	14.23	1.69
Corporation Bank	14.11	-1.26
Punjab National Bank	12.42	-1.74

PROFIT PER EMPLOYEE

	₹ crore	Growth %
Citibank	28.61	56.2
Standard Chartered	26.36	0.2
Axis Bank	14.35	23
IDBI Bank	11.93	41
Corporation Bank	10.92	15
Bank of Baroda	10.59	35
ICICI Bank	10.00	11
Canara Bank	9.76	33
OBC	9.04	22
Andhra Bank	8.99	23
Punjab National Bank	8.35	14

in Indian banking in the past and met with less favourable results? Kamath says he has full faith in it. And it has contributed to the high growth rate in assets over the past few years at PNB.

PNB has traditionally had a larger wholesale lending book than retail. With a high net worth, it has had no problems meeting RBI's prescribed single and group borrower exposure norms. Its largest loans include ₹2,000 crore to Nabha Power (of total debt ₹6,000 crore), another ₹1,150 crore to the Videocon group, the Rohtal Road project (₹1,080 crore) and ₹1,500 crore to ABG Cement two years ago. Advances are still made from 22 risk models developed in-house by the bank, unlike several competitors who use models developed by rating agencies.

Over 100 deals were syndicated by the bank last year. The only one that has turned sour is ₹2,600 crore lent as a consortium to Zoom Developers. PNB has an exposure of ₹400 crore with Zoom. But it was consor-



S.K. Dubey and Bhupinder Singh: a unique international strategy

tium leader and did not syndicate the deal. Unlike a syndication, where due diligence is conducted by the lead bank that sells down the loan, in a consortium decisions are taken by a core committee of bankers.

With industrial growth slowing down and consumer demand steady, the focus has shifted to retail. Several ATMs have been reassigned to locations where footfalls from PNB customers are the highest. Turning this model upside down has made it profitable. Meanwhile, point of sale terminals have increased to about 2,800 from just 261 last year. The number of credit cards has touched 86,000, with assets of ₹209 crore.

To keep up with competition, at urban branches Kamath has launched a 'Customer Lounge' where premium customers are serviced by relationship officers. Going a step ahead, for current account customers he has started door step banking – where cash is picked from the client's doorstep. While customer complaints are still high, this is also partly because the business is growing rapidly.

To boost marketshare in retail, he has started 73 exclusive 'retail asset' branches. While all other branches accept deposits and focus on 'resource mobilisation', these 73 neither ac-

cept deposits nor do they do regular branch banking business. They also do not cater to corporate customers. "By concentrating on specific risk models, the idea is to cater with improved customer service," says chief risk officer, V. Ram Mohan.

Retail is a focus area. In housing loans, PNB offers loans with a tenure of up to 25 years. For customers who buy into buildings under construction, it offers an 18 month moratorium with no equated monthly instalments. It also offers loans against pension. PNB's marketshare in housing loans has crossed 3 per cent, auto loans (1.4 per cent), and education loans (5 per cent). "This will continue as our thrust area," says Kamath.

To help small and medium businesses (SMEs) cope with a rising interest rate environment, there is a 20 per cent reduction in processing fee for online applications. While the card rate for loans upto ₹25 lakh is around base rate plus 3 per cent – micro, small and medium businesses with high credit rating are offered a 75 basis point concession on the card rate. PNB has developed 55 SME clusters across the country this far.

Such concessions are necessary, for

TIER I

	Ratio	Growth %
Citibank	16.49	-0.78
ICICI Bank	13.2	-0.80
HDFC Bank	12.23	-1.03
OBC	11.21	1.93
Indian Bank	11.02	-0.11
Canara Bank	10.87	2.33
Bank of Baroda	9.99	0.79
Andhra Bank	9.68	1.50
Axis Bank	9.41	-1.77
Syndicate Bank	9.31	1.07
Punjab National Bank	8.44	-0.67

YIELD ON ADVANCES

	Ratio	Growth %
HDFC Bank	10.56	-0.21
Andhra Bank	10.49	0.19
Indian Bank	10.33	0.12
Allahabad Bank	10.02	0.20
SB Hyderabad	10.01	0.28
OBC	9.98	0.02
Punjab National Bank	9.85	0.07
Standard Chartered	9.75	-0.81
Central Bank Of India	9.57	0.51
UCO Bank	9.37	-0.03



Ajay Mishra: building technology



Sushma Bali: a 20:20 plan for leaders



B.P. Sharma: concessions for MSMEs

in a slowing economy the NPA issue is back to the fore. Net NPAs at PNB have risen from 0.53 to 0.85 per cent this year. Gross NPAs are higher at 1.79 per cent. Kamath has set an upper limit of 2 per cent gross NPAs until when there is ample scope for growth.

In areas hit hardest by the slowdown, Kamath has launched 'Rin Mukti Sivims' which loosely translates into 'free yourself of debt camps'. Two such camps were organised across India over the last two months, and at least 15 more are underway. A camp held in Bhiwani in Haryana was attended by over a thousand people, and got 985 cases solved in a single shot. Another 991 cases were solved in Kurukshetra. Unresolved cases are taken to Lok Adalats, and in extreme situations it is left to recovery agencies which operate on a commission basis.

The next phase at PNB will be marked with specialisation. About 10 urban branches have come up for corporate customers that bring in business above ₹25

crore. Another 14 mid corporate branches have been dedicated to mid and corporate customers, for advances between ₹5 crore and ₹25 crore. There are also a few branches specialised for international business.

That's another area where PNB hopes to leave a mark; it is a late entrant on the international scene despite being 117 years old. A London branch mooted in 1946 was not opened till 1978 (and that too closed in 1986). More overseas branches were mooted in the 1950s – in Mandalay, New York, Nepal, Singapore, Malaysia, the Port of Spain and Hong Kong – and while permission for Hong Kong came through, it too never took off. The only overseas branch, in Rangoon, was taken over by the People's Bank in 1962.

The reason for not going overseas is partly led by PNB's focus on being India-centric, but also because of history (*see box*: The bank from Anarkali Street). PNB was formed in Lahore, but shifted base to Delhi post Partition.

More than 50 branches in West Punjab, which was half its network back then, became part of Pakistan – and had to be shut down.

Its overseas strategy is now unique. It is the only Indian bank in Kabul, Afghanistan – an operation run largely by hiring locals. In the middle of the financial crisis, exactly when the Middle East was hit hard – and Dubai in particular – PNB stepped in with a branch in the Dubai International Finance Centre. It is also the only Indian bank in Kazakhstan, having acquired that country's JSC Dana Bank when it turned loss making.

JSC Dana has since been renamed PNB Kazakhstan, and plans are on to operationalise its five branches. Along the borders in Bhutan is Druk PNB with three branches (more will open this year), and Everest Bank in Nepal, in which PNB holds a 20 per cent stake. It also has a representative office in Norway and another in Shanghai, both of which are under review for branch licenses. It is also looking at Sydney, Singapore, Maldives and the SAARC region closely.

Despite being mostly in out-of-the-norm places – it has applied for a licence in Vancouver, Canada, and has seven branches in the UK – all,

GROSS NPA	
	Ratio
Corporation Bank	0.91
Indian Bank	0.98
HDFC Bank	1.05
Axis Bank	1.11
Bank of Baroda	1.36
Andhra Bank	1.38
Canara Bank	1.45
Allahabad Bank	1.74
IDBI Bank	1.76
SB Hyderabad	1.76
Punjab National Bank	1.79

The bank today

Boosting fee-based income has taken centrestage at Punjab National Bank. New para banking services like gold coins and cash management services are expected to boost fee income considerably going forward.

An e-payment system for collection of taxes was made live in the states of Bihar, Maharashtra, Himachal Pradesh, Chhattisgarh, Delhi and Odisha. E-stamping of documents has been made available in Karnataka, Gujarat, Delhi, Maharashtra and Assam. Provisions for direct tax payments through the ATM network is also underway.

Among its subsidiaries, the insurance venture with Principal of the UK did not take off. Principal has known expertise in asset management, and that venture with PNB still remains.

To partially exit its arrangement with Principal, PNB sold its stake in PNB Financial Planners last year, which restricted the bank from selling other mutual fund products. With no non-compete clause, the bank is now free to offer its custom-

ers a wide range of mutual fund products.

In insurance, PNB had a choice: to get a brownfield venture going, follow the corporate agency route or start a fresh joint venture. So it invited proposals to see this through – and 26 companies applied, from India and overseas.

PNB finally zeroed in on Metlife for a 30 per cent stake, which already had a running operation. With

a net worth of ₹950 crore, Metlife is well capitalised and won't need capital infusion in the near future. Moreover, its diversified shareholding structure gives PNB a foothold in the entity. With PNB's large distribution network, it has enhanced Metlife's targets significantly.

PNB also has a subsidiary, PNB Housing Finance, which is a joint venture with private sector player DestiMoney. It posted total assets of ₹3,500 crore for March 2010-11, against a net profit of ₹69.3 crore. There is PNB Gilts, a

star performer which was brought back into the PNB fold in 2009, when plans to sell it did not fructify. There's India Factoring and Finance Solutions, a joint venture with Fimbank, Malta, which has a focus on factoring products for SMEs.

There are also six regional rural banks that are sponsored by PNB, across six states with a network of 1,483 branches. With a core banking solution rolled out across all branches, new products can now be delivered to the rural doorstep.



including the one in Kabul, are profitable. Some are based in mineral and oil rich locations. Others, like Kazakhstan, are in areas linked to defence procurement and related business. PNB's strategy is led by existing and evolving potential in these places.

While the strategy has also been to follow the customer, in places with a substantial NRI and PIO popula-

RETURN ON NET WORTH

	Ratio
SB Hyderabad	24.35
Bank of Baroda	23.50
Andhra Bank	23.24
Canara Bank	23.20
Punjab National Bank	22.60
Corporation Bank	22.20
Axis Bank	19.34
Indian Bank	19.27
Allahabad Bank	18.65
Union Bank of India	17.96

tion like the UK, the core business has remained trade finance. Lending in Dubai and Hong Kong is mostly buyer's credit (which contributes to 83 per cent of total advances overseas). "This will be the first year that we shift focus from buyer's credit to term loans, to improve net interest margins from our overseas

branches," says Kamath.

Kamath has set the ball rolling.

In his free time he listens to classical music – instrumental and Hindustani. He wants to take PNB's total business from ₹5,55,000 crore to ₹7,00,000 crore by March 2012. It's a high target, but he is on track.

Growth needs capital, and at 12.42 per cent his capital adequacy ratio is just about comfortable. Sooner than later he will have to tap the market to raise funds – and the estimated amount goes upto ₹11,000 crore. In a high interest rate environment locking into 10-year money is not going to be easy. "The timing will have to be right," he says.

♦ RYAN MAXIM RODRIGUES