



Quo Vadis – The Retail Hub Business of National Bank

There was a perceivable level of uneasiness and apprehension pervading the thirty odd Senior Managers of National Bank¹ (NB) participating at the Management Development Programme (MDP) at IIM Indore. The stimulus, that triggered this discomfiture amongst them, came from one of the course instructors, who made a passing inquiry into the adoption of IT strategies and its effects on the retail business of the bank. To that query, the participants clearly towed two lines and the class discussion gravitated from the effectiveness of the bank's IT strategy implementation towards the *rationale* of setting up the "Hub and Spoke" structure for retail banking business. A wide range of issues subsequently emerged centring round the aforementioned core issue. The issues spanned from subjective observations at the micro level to objective statements, supported by facts and figures, affecting the whole organisation.

While the discussion was lively, it was becoming increasingly apparent that there are several dimensions, worth exploring, that are affecting the operational effectiveness of the bank. While some of them are common in organisations under transformations², those pertaining specifically to the Hub and Spoke structure for retail business promised some unique perspectives. To begin with, why is it that inadvertently (or otherwise) an inquiry into IT process implementation got diverted towards a newly implemented structure (the retail Hub and Spoke) of the bank? Why is it that at least half of the representing senior managers felt that the same structure is affecting the effectiveness of the bank as a whole? If indeed it is affecting then how is it so? Controlling for the fact that the Retail Hub and Spoke structure is not a novelty in Indian context, then are the implementation issues something idiosyncratic to the bank? If indeed it is bank specific, then what internal factors either in terms of systems, structure, process, or people and culture, amongst other things, are impeding the adaptation of a time tested business model?³

To explore the above issues, it is deemed imperative to delve into the factors linked to the evolution and legacy of the bank as a national endeavour against colonial economic priorities.

Evolution and Legacy of the Bank

The Swadeshi Movement in India spawned many institutions of subsequent national repute, NB being one of them. The celebrated Lala Lajpat Rai at the instance of Rai Mul Raj of Arya Samaj, along with a few

Cases of Indian Institute of Management, Indore are prepared as a basis of class discussion. Cases are not designed to present illustrations of either correct or incorrect handling of administrative problems.

¹ To maintain the confidentiality of the organisation and its various stakeholders, the name and other distinguishing information are disguised

² We are assuming that National Bank is in the process of transformation from pre-liberalization era public sector bank to Net-Centric Bank with multiple channels of service deliverables

³ To seek an answer to the issues identified above, and with the caveat that newer issues may be identified in the process; an exploratory case study is undertaken. Cross sectional primary data was captured through in depth interview with the participating managers while longitudinal data was collected from secondary published sources. The 30 participants, all at the AGM rank, were deemed to be appropriate data sources as they are at the forefront of policy implementation of the bank with respect to the Retail Hub & Spoke structure.

selected friends, founded this bank in the year 1894 as an Indian Joint Stock Bank.

The fourteen original shareholders and the seven directors took a modest number of shares leaving the control of the bank to large and dispersed shareholding. The promoters contemplated on professionalism in management as opposed to profit appropriation by the promoters. In the initial years, the bank's focus was primarily into trade, financing and agricultural loans in the undivided Punjab state along with what constitutes the present western Uttar Pradesh. Consequently as a legacy, its stakeholders, both internal and external, were primarily drawn from the western part of the Indo-Gangetic Plain. Subsequently, it expanded along the whole length and breadth of the Indo-Gangetic plains and beyond with a focus on agricultural loans in the aforesaid region. A brief fact file on NB's subsequent progress is appended as **Exhibit 1**.

Economic Liberalisation and Competitive Pressures

The economic liberalisation and banking deregulations introduced new players from non-banking sectors into the banking industry. New private banks of Indian origin entered the industry with a portfolio of allied services backed by novel technological platforms. The Indian private banks imitated the retail boutique model, hitherto the user selling point of the foreign banks, and scaled it up. The rules of competition in the banking industry were changed from marginal adjustments in the interest rates, scale of operation and safe-banking norms as characterised by public sector banks to scale, scope and experience of services. The private banks focused on acquiring the corporate and High Net-worth Individual (HNI) clients of the nationalised banks and for a while were successful in having the same. The relaxation on upper limit of interest chargeable, interalia, also appeared to have favoured the non-nationalised Indian private banks.

Reconfiguration and Diversification

Faced with enhanced competition NB contemplated on a four-pronged strategy to counter competition. The strategy consisted of (i) centralisation of the back office, (ii) a Hub and Spoke set up for the retail (non trader) business, (iii) setting up an integrated risk management system and (iv) followed by restructuring the four tier system to three tier system (Please refer **Exhibit 2**). As explained by one of the attending executives, these steps were planned to reconfigure the bank and to closely emulate the business model of private banks with an intention of out-scaling them in operational aspects. In the whole exercise, technology played the pivotal role in implementing the bank's aforesaid strategy.

Technology enabled Expansion

Having identified technology as the primary differentiator of the private competitors, in terms of value added services, NB endeavoured at 100% "Branch Computerisation". NB implemented the Core Banking Solution (CBS) with the help of Infosys and introducing the facility of "Anytime Anywhere" banking available to more the 2000 rural branches across the country. The CBS platform also enabled diversification and economies of scope such as enabling customers to access a variety of services like Internet banking, booking tickets, bill payments and so on. It also built up a network of 2150 Automated Teller Machines (ATMs) across the country, which is the largest nationalised bank network apart from the State Bank of India (SBI).

The technology platform facilitated NB's policy imperative towards inclusive growth into the Indo-Gangetic belt. It has launched a drive for biometric smart card based technology (with the help of BC/BF) for the "financial inclusion of the last mile customer". Its partner, BC/BF, shall address the outreach issues while technology is expected to provide cost effective and transparent services. This initiative is intended to facilitate marginal groups like vegetable vendors, construction workers, rickshaw pullers and the like.

Technology Induced Business Reconfiguration

Enabled by technology, NB reconfigured its business into Personal Banking, Social Banking, Business Sector Banking (SME and Trade Financing) and Corporate Banking. Albeit it has not, as yet, entered the insurance sector like its peers SBI or ICICI Bank, however it is into the retail home loan and car loan businesses to obtain a share of that rapidly increasing business pie. Initially, the loan processing and disbursement formalities were performed at the respective branches. However, as pointed out by one of the senior managers:

...the apparent boom in the housing loan business got us carried away. It was not only us who suffered, rather it was an industry wide phenomenon. The same house was sold and resold umpteen numbers of times. With the best of interest of the bank in our mind, we could not sieve out the fake from the real. With pressures to meet the targets set above, the concerned officials were fully worked out. One out of hundred loans that were disbursed might have gone wrong. However, at the aggregate level that was a large number ...

NB's net NPA in relative terms registered an increase of 3.86% in 2008 over 2007 before reducing by a significant 64.98% in 2009. Some of the financial figures and ratios of the bank are provided in **Exhibit 3**.

While technology was used to harness economies of scale and scope, its usage towards streamlining the existing work processes were not in place. To eliminate such structural inconsistencies and to minimise the recurring incidences of irregularities in the retail segment, the then Chairman of NB, Dr. C. K. Chatterjee⁴, took a decision to implement the "Hub and Spoke" structure for disbursement of retail loans.

The Retail Hub and Spoke Structure

The Retail Hub of NB was created to centralise and standardise the loan processing and disbursement activity. The retail Hub and Spoke structure at NB has its reflections in a similar structure adopted by the State Bank of India to deal with its retail lending business.

The Traditional Lending Process

Prior to the implementation of the Hub and Spoke structure, the local branches on a demand-pull basis processed loans. Prospective loan seekers would come to the local branches to apply for a loan. The branch's front desk would collect the loan application form and other supporting documents; make the initial scrutiny and processing and forward the same to the officers.

The branch's sanctioning authority would perform the second level scrutiny, check the aspirant's collaterals and call for any additional details as it deemed fit. The sanctioning authority could, at his convenience, make necessary field visits or verify the genuineness of the loan claim through an independent agency, the charges of which were to be borne by the applicant. After fully satisfying himself, about the genuineness of the case, the sanctioning authority would approve the loan, depending inter alia, on the paying capacity of the aspirant. This arrangement worked under conditions of moderate demand and with a workforce dedicated to its designated routines.

The Hub and Spoke Lending Process

The Hub and Spoke arrangement adopted by NB is intended to cater to two interrelated objectives namely as (i) a dedicated structure to match the expanding retail banking segment and (ii) encourage expansion in the aforementioned segment without jeopardising the bank's safety norms. Under the new arrangement, the individual branches would employ marketing teams to acquire customers seeking loans.

⁴ Identity is disguised to maintain confidentiality.

The marketing team would obtain the requisite documents and information from the loan aspirants, for personal verification, and forward the same to the Hub for processing.

The dealing personnel at the Hub will scrutinise the documents for completeness in all respect and run the preliminary RBL score check. If additional information is required then the same is intimated back to the Spoke and the marketing team of the Spoke shall collect the same from the client and forward it to the Hub. If verification yields the aspirant ineligible, then the Appraising Officer at the Hub shall intimate the Sanctioning Authority for formal rejection and the same is intimated to the concerned branch.

If however, the scrutiny yields positive results, then the Appraising Officer shall enter the loan aspirant's data to processing software to get the evaluation score on credit worthiness. Thereafter, the Appraising Officer shall call on the two referees of the applicant to establish credentials. This process is followed by initiation of procedure for sanction letter and call for collaterals and property documents which the spoke shall collect and forward to hub. The hub shall verify the legalities of the document and the valuation of the property. If it finds irregularity, then the application is rejected and a letter is issued to concerned branches. If the application is found correct in all aspects, then the Appraising Officer shall put up the note for sanction and send the same to the Spoke and the customer. The Spoke, on obtaining the clearance, proceeds with the disbursement of the loan. A process flow diagram of the entire transaction is presented in **Exhibit 4**.

Another activity that happens parallel to the above is the generation of a reference number that is captured in the integrated risk management system, for future tracking of the customer's account. All transactions related to that account will be captured and the same is added to the bank's database for future references of the customer's credit worthiness.

Logic of the Process

While the new Hub and Spoke arrangement of loan disbursement is iterative, necessitating continuous and sometimes-unsuccessful engagement between the Hub and the Spoke, never the less, its utility is acknowledged by many a senior manager. Justifying the necessity of the Hub and Spoke model that significantly reduced the NPA in the current year 2009 over the past two years, a senior manager also added that the system:

... shields the concerned loan sanctioning and disbursing manager against allegations of irregularities and malpractice. Also by removing the loan sanctioning authority from direct contact with the proposed customer, undue influence on the sanctioning authority could be averted, thereby bringing objectivity in decision-making process ...

Another senior manager opined that:

...the private and the foreign banks continued to have the share of the corporate and HNI clients as they operate at a level of flexibility, which we cannot. We, being government banks are bound by more compliances than our private competitors. Thus the preferred avenue of growth has become the retail segment. This implies more of mass business than class business. We are dealing with numbers – large numbers. And we are short of right staffs. We cannot outsource like ICICI and therefore our managers are stressed out. Therefore, the retail Hub was a welcome change for the overloaded bank officials who, over and above their standard jobs, were required to increase their risk exposures in retail business...

Also, a centralised hub, as stated earlier, would facilitate the collation and centralisation of customer information. This was deemed necessary in the wake of the changing role of the customer, especially in the HNI segment, who demands a cache of services from the bank and is liable to attrition. A centralised database will not only help in customising solutions, but also check the credit worthiness of the customer.

To this end, access to the centralised database was made available at the branch level for ease of

operation and verifications.

The Problem Within

The establishment of the retail Hub model in NB appear to have created stress within the system. For one, the managers are divided on the utility of such a model, given the legacy of the bank. Secondly, as a corollary to the aforesaid phenomenon, the executive cadre of the bank has become a divided lot over the question of technology-based centralisation vs. decision delegation based on human judgement and relational capital. The following appear to corroborate the above phenomena:

Credit Shyness

Some of the managers at the branch level have allegations over the credit shyness of the dealing personnel at the Retail Hubs. They allege that the inability of the Hub to process and sanction loans is resulting in the attrition of valuable customers. This problem magnifies when the customer seeking loans has institutional connections and the bank has relations with that institution. Treating such a customer against objective parameters at the Hub, severely compromises relationship banking and consequently affects the bank's brands.

Against this allegation, the other side vociferously claim that their entire career could be ruined by a single bad loan, if they are to entertain requests from their branch level peers. They cite instances when the retirement benefits of the bank executive were withheld against pending enquiry into alleged irregularities. One of the executives stated:

... our credit rating is used by customers to obtain loans from other banks. The market holds us in such high esteem. How can I compromise with such a high standard and why at all shall I do so ...

Leadership Change

Some of the managers cited at the change in leadership as one of the key reasons for the problem in Retail Hub Business. The then Chairman of NB, Dr. C. K. Chatterjee took the initiative of the Retail Hub. However, following his posting as the Deputy Governor of the Regulators, the post of Chairman (at the time of writing the case in August, 2009) is lying vacant and a firm decision on the Retail Hub is missing. Several Managers opined:

... our present Executive Director is trying his best for the bank, however, he has his own limitations. After all, he is the first amongst equals. Also, we don't know whether the new CMD will commit himself to the deeds of his predecessor. Suppose, he prefers otherwise, then a large segment, who are in favour of the Hub, may be in trouble ...

Inappropriate Follow-up Actions

During a brain storming session on Strategies to Improve Market Shares of NB, one of the managers brought out an insight from the bank. It concerns the lack of follow up actions to each strategy that the bank has formulated and implemented in the short run. He stated,

...we started the Gold Coin Scheme with such fanfare. We made such tall claims and projections. What happened next? Did we follow it up...

Incentives and Rewards

The bank executives have a strong opinion against the current Incentives and Punishment System practiced at the bank. Several Managers very strongly voiced the following concerns:

...I am supposed to sanction loans and that too on a large scale. If I decline the loan application, my peers scream foul and if by any chance that loan goes bad, I am finished. If I am punishable, then why can't I be rewarded on a yearly basis, if none of my judgements go wrong? The bank makes money; my branch peer gets his share while doing routine work – why not me? This skewed system forces us to save our skins first at the cost of the bank...

No Respite from Paper Work

Contending on the issue of credit shyness at the Retail Hub, one of the executives stated:

... although we are at par in technology with say ICICI Bank, yet private banks do not stress on “Hard Copy”. Our first quarter goes on generating reports of all kinds. These are compulsory items for compliance. Therefore, effectively we have 9 months to do our job. We may have bought the technology, but people's mindsets have not changed. We still prefer hard copy to soft copy...

In a brain storming session, one of the executives reflects back on a junior P.O. of NB who left the organisation to join ICICI Bank. In an informal conversation with the aforesaid junior, that executive learnt that one of the primary differentiators in the operating culture of the two banks lies in the realisation of the potentials of technology. The junior P.O. does not apparently spend the first quarter generating reports.

Inappropriate Staff

An almost universal feeling prevalent in the executives at the branch level pertains to the quality of manpower at the Hub. One of the more vocal senior managers preferred to call the posting at the Hub as “Punishment Posting for the Delinquent”. Another supported by saying:

...it is for those people that the need for the Hub was felt. Otherwise, everything was working fine...

There was somehow, consensus with the sentiment on the inappropriateness of the quality of manpower, when another executive stated:

...when the plan for the Hub was floated and the manpower requisition was called for, we did not send our right hands. After all no manager would prefer to lose his reputation by being the unwitting donor. So those people whom we felt were dispensable, were sent from each branch. This is an open secret...

Yet another manager brought out another aspect of the posting at the Retail Hub. It concerns the age of the population and their ability to learn and adapt to changes quickly. That manager mentioned:

...we did not have fresh recruitments for quite some time. The average age of the people is between forty and fifty. In a public sector, we learnt our trade by writing into the ledger. If you expose such a population to computers and networks, it will take some time at least before they can overcome the fear of the unknown and then work efficiently. The Bank does provide good training – but there is a difference between a training which is a one shot exercise and continuous honing of skills without making a mistake. Here, making a mistake can cost you your hard earned retirement benefits. We need young men for the Hub. We need to recruit...

Art versus Science

Some of the managers, posted in the branches, resented the loss of thrill associated with a successful transaction. They felt that the intensive investigation associated with each retail transaction was no less exciting than a thriller. And the fact, that the good man does not always win, rendered the game even more exciting. As one manager put it,

... agreed, the process depended on subjective decision-making which was not full proof; also there were risks involved which could ruin careers with commensurate loss to the bank. But then, that was what we are supposed to do. Else, how are we different from any Tom, Dick and Harry...

The Cultural Dimension

One of the executives, over an informal discussion with the case writer, brought out a cultural dimension to the problems of the Hub. NB for a long time had a legacy association with the North Western Part of India. Consequently, most of the top management cadre, for a while, had been from that particular region. Regional culture appears to have dominated the process of doing the banking business at NB till such time, as the trend was changed.

The trigger for change was the succession of a Chairman who did not belong to the aforesaid region. It was during the tenure of this chairman, Dr. C. K. Chatterjee, that technology based banking solutions were increasingly used as a response to enhanced private competition. Implementing the Retail Hub was his decision as stated above. The aforesaid executive played the devil's advocate by exclaiming:

...it is NB's legacy culture that is killing the Retail Hub – no other reasons...

Way Ahead

NB's Retail Hub, aimed at efficiency and effectiveness, appear to have been beset with problems, some of which are highlighted above. There are fortunately some executives who are sympathetic to both the sides and have adopted a conciliatory gesture. They feel that inappropriate role definition lies at the root of the problem. Therefore they feel that:

... instead of patrolling the border, lets share the responsibility. Let the branches (Spoke) also take a call and recommend based on their field experience, instead of simply forwarding the document. Therefore, due weightage should be given to subjective perspectives of the Spoke and a procedure driven objectively arrived in view of the Hub personnel. Collective wisdom through consensus should decide the final outcome on sanction and disbursal of retail loans.

But regarding the internal structure of the bank, the question remains, could such a consensus be arrived at in the first place? Secondly, if the branch recommends and the Hub rejects, will it precipitate higher order disunity within the organisation? Thirdly, what protection mechanism will NB require to guard subordinate personnel from superiors who will construe aforesaid routine procedures as infringements on hierarchical privileges?

Complementing the internal issues, some key issues regarding the bank's competitive environment remain unresolved. If facts and figures suggest a decrease in NPA, then at what percentage of rejection of applications had the decrease in NPA been achieved? How much have NB's competitors gained from this rejection of applications? Last but not the least, given that the Hub cannot recommend applicants, then how much loss of customer relationship has the front desk and by extension, the bank, accumulated at the aggregate level?

Exhibit 1: Some quick facts on NB

National Bank (NB) is one of the largest Commercial Bank of India including the public sector and private banks operating in the country.

It has 4668 branches with 238 extension counters and 3 overseas offices, with an AUM: Capital Base equal to 0.67 and Capital base of around Rs. Three Hundred Thousand Crores spread over the country with 38 million customers.

The bank has a 39% share in the low cost deposits and a net profit of over Rupees Three Thousand Crores (2008-09).

Its capital adequacy ratio for Tier I & Tier II capital is pegged at 8.98% and 5.05% with Gross & Net NPA at 1.77% and 0.17% respectively which is lower than the average for nationalised banks in India.

Its priority sector credit to Adjusted Net Bank Credit (ANBC) is at 41.53% and agricultural credit to ANBC is at 19.72% that is higher than national goals of 40% and 18% respectively.

Source: Adopted from the Bank's Website

Exhibit 2: Structural Changes at NB

ORIGINAL STRUCTURE OF NB	
TIER – 1	HEAD OFFICE
TIER – 2	ZONAL OFFICE
TIER – 3	REGIONAL OFFICE
TIER – 4	BRANCHES
RESTRUCTURED NB ⁵ (Yr. 2009)	
TIER – 1	HEAD OFFICE
TIER – 2	CIRCLE OFFICES (58 nos.)
TIER – 3	BRANCHES (4668 nos.)

Source: Adopted from the Bank's Website

⁵ Data obtained from published sources.

Exhibit 3: Decadal Financial Ratios

	Mar 09	Mar 08	Mar 07	Mar 06	Mar 05	Mar 04	Mar 03	Mar 02	Mar 01	Mar 00
Percentage of Net to Gross NPA	9.53	22.71	21.40	6.70	3.19	9.61	30.66	43.72	54.08	61.32
% of Net Non-Performing Assets to Net Advance	0.17	0.64	0.76	0.29	0.20	0.98	3.86	5.32	6.74	8.52
Capital Adequacy Ratio (%)	12.59	12.96	12.29	11.95	14.78	13.10	12.02	10.70	10.24	10.31
Tier I Capital (%)	8.05	8.52	8.93	10.06	8.87	7.01	7.11	6.34	6.84	10.31
Tier II Capital (%)	4.54	4.44	3.36	1.89	5.91	6.09	4.91	4.36	3.40	0.00
Interest Income % Average Working Fund	8.70	8.01	7.49	7.28	7.04	8.12	9.27	9.50	9.84	10.12
Non Interest Income % Average Working Fund	1.31	1.12	1.15	0.94	1.39	1.95	1.55	1.40	1.31	1.43
Operating Profit % Average Working Fund	2.59	2.25	2.41	2.18	2.25	3.26	2.87	2.11	1.59	1.61
Return on Assets (%)	1.39	1.15	1.03	1.09	1.17	1.08	0.98	0.77	0.73	0.75
Business Per Employee (Rs. Cr)	6.55	5.05	4.07	3.31	2.77	2.28	1.96	1.68	1.42	1.06
Profit Per Employee (Rs. Cr)	0.06	0.04	0.03	0.02	0.02	0.02	0.01	0.01	0.01	0.63

Source: Adopted from the Bank's Annual Report available from Public Domain

Exhibit 4: Retail Lending – Hub and Spoke Model Work Flow

