

# Chapter XVIII

## Competing in the Age of Information Technology in a Developing Economy: Experiences in an Indian Bank

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### **EXECUTIVE SUMMARY**

*This case describes how banking in India has changed after developments in information technology in the last decade. The new private and foreign banks, which are strong in technology, are giving tough competition to old public sector banks. Private banks have pioneered Internet banking, phone banking, anywhere banking, mobile banking, debit cards, automatic teller machines (ATMs), and retail banking in urban India. This case is about the VN Bank, a public sector bank that has to formulate its strategy in order to compete in this new environment. The case also explores the opportunity and challenges for the bank in rural India and makes readers think about how information technology can help the bank in building a strong position in the rural markets. The findings of the case study also can be generalized across*

*other developing countries, where domestic companies are facing tough competition from foreign and private players.*

## ORGANIZATION BACKGROUND

Veerat National (VN) Bank was founded on November 14, 1939, by the family of Anupam Chandra under the name Veerat National Banking Company Ltd. It became a Public Ltd. Company in December 1944, and subsequently, the name was changed to Veerat National Bank Ltd. In July 1969 VN Bank Ltd., along with 13 other major banks, was nationalized and is currently a Public Sector Bank (PSB) constituted under the Banking Companies (Acquisition & Transfer of Undertakings) Act of 1970 (see Appendix I to understand the Banking History in India). The bank's comparative performance over the last three years is shown in Table 1. The income statements over the last two years are shown in Table 2. The interest income of the bank amounted to \$158 million for the year 2003-2004 compared to \$151 million for the year 2002-2003, showing a marginal rise of 2.08%. The amount of interest expended also has declined by 5.06%. The non-interest income of the bank has registered an impressive growth of 41.28%, thereby reaching a level of \$167 million for the year 2003-2004 compared to \$116 million for the year 2002-2003. VN Bank has a network of 1,368 branches in the country and has 12,461 employees. The number of branches statewide is given in Appendix II.

*Table 1. Veerat National Bank yearly comparative performance*

Particulars \$ Mn	2001-02	2002-03	2003-04
Number of Branches	1368	1368	1368
Number of Computerized Branches	809	1034	1106
Reserves and Surplus (\$ Mn)	165.6	175.2	193.56
Capital Adequacy Ratio (%)	7.64	6.02	9.48
Deposits (\$ Mn)	4094.64	4397.64	4893.12
% Increase	5.36	7.4	11.27
Advances Net (\$ Mn)	2006.16	2249.64	2509.92
% Increase	7.4	12.14	11.57
Investment (\$ Mn)	2059.68	2289.36	2605.56
% Increase	12.2	11.14	13.81
Operating Profit (\$ Mn)	89.4	131.64	189.5
Net Profit/Loss (\$ Mn)	0	30.5	61.5
Total Staff (No.)	12,840	12,664	12,416
Per Employee Business (\$ Mn)	0.5	0.54	0.6
Per Branch Business (\$ Mn)	4.5	4.8	5.8

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