



Bankers are applying greater due diligence in their transactions which is good for the financial sector.

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Q How has the banking industry performed in the year 2012?

A Performance of many commercial banks in 2011 was characterized by both capital market operation and core banking business. But the scenario was different in 2012 when there was no literal gain from capital market. Due to lower volume of capital market operation commercial banks have generated most of their profit from core banking operation. Increase in total core banking business obviously testifies that we have been able to successfully tackle numerous obstacles like political instability, stricter regulatory requirements like new classification guideline and downgrading of good number clients plus global economic recession etc. Thus our banking industry, by way of facilitating business and commerce has played a vital part in achieving GDP growth rate at 6.21 percent in FY 2011-12 when globally the rate in 2012 is estimated at 3.3 percent.

Q Was cost of fund a major concern in the year 2012?

A Obviously it was a major concern in 2012. Throughout the year cost of fund continued to increase putting an adverse effect on net interest margin. There was a ceiling on lending rates which had to be strictly adhered to by the commercial banks and deposit rates had to be adjusted accordingly. In the previous year, most of the banks had to face serious liquidity crisis and many of them had to offer highest deposit rates for procuring deposit to meet their requirement for fund. Thus the competition for deposit mobilization had certainly caused the cost of fund to rise quite significantly for many of the banks. Increase in rate of return of government instruments also put pressure on commercial banks' fund management.

Q There has been a new imposition for the banks that they can invest only 25 percent of their equity capital in the stock market. How do you perceive this rule? What will be/has been the impact of this rule?

A This new rule is being planned. If it is implemented, it will be good for the stability of commercial banks in the long run. Banks will be more focused on core business rather than getting involved in riskier investment in volatile capital market.

If commercial banks opt for investing in stock market, they may do so through their subsidiaries.

Q The liquidity position has improved radically in the economy. What has been the impact of this on the banking industry? Will this improved liquidity sustain in 2013?

A Liquidity position has not changed radically but it has eased off to some extent. Over the year 2012, remittance inflow had increased steadily and it reached the highest ever 14.17 billion USD mark. At the same time increase in export and decrease in import had contributed to improvement in liquidity and foreign exchange reserve. Excess liquidity with less investment will increase cost of doing business for the banks resulting in adverse pressure on profit.

Improved liquidity is expected to sustain in 2013 but its utilization by banks is subject to improvement of infrastructure, power supply, political stability and global economy. It is also mentionable here that a substantial part of excess liquidity is in the form of government bonds and is not in real circulation.

Q There has been a recent large default in a state-owned bank (Hall-Mark scandal). How do you think it has affected the entire banking discipline? Will the effect be lagging in the year 2013?

A Large default cases in state owned banks already have an infectious effect in banking industry. Private commercial banks had to curtail its LBP business due to lack of confidence among the banks. Affected banks are uncertain whether the defaulted amounts are going to be realized soon or not. There is a possibility that every affected bank will have to make provision for the respective shares of defaulted amounts. Besides, it was difficult for commercial banks to expand LDBP business due to stricter rules from Bangladesh Bank.

Q The Bangladesh Bank has recently issued provisioning against loans and accounts. Do you think the banks will be able to come up with clean balance sheet in 2013? Or the effects will linger up to 2013?

A Classification, provisioning and regularization of loan are continuous processes. The situation may not improve immediately. Most of the large loan clients are struggling to maintain good repayment behavior. Most of them have the intention to remain regular but many of them are not able to get expected business due to both local and global adversities. But it is a matter of hope for us that our production sector, especially garments sector, are getting newer markets at competitive price. If we are able to cash in on those opportunities, our industries will be able to do a lot better than the previous year although there is a possibility that political turmoil will stand in the way of making usual progress. With all these factors banks may take some more time to come up with clean balance sheet.

Q The prices of the banks' stocks are recently surging up. What dynamics may have contributed to this?

A The reason for surging up of bank's stock price is definitely their praiseworthy performance. In the context of our country's economy, banking sector has performed better than other sectors. This is mainly due to the more prudent and progressive system they are operating under. Main credit goes to Bangladesh Bank and other government agencies for their timely guidelines and interventions. Although there were some scandals (Hallmark) in the banking sector, the overall performance distinguished them as being able to make most balanced performers. As a result, demand for banks' stock is more than others which consequently caused its price to surge up.

Q Do you think the banks need a better electronic platform for their delivery? Do you think that banks are ready to implement BASEL III from 2013 onwards?

A Many initiatives have already been taken by Bangladesh Bank for strengthening the platform of electronic banking. Some revolutionary steps like introduction of National Payment Gateway, Mobile Banking, establishment of Automated Clearing House and Bangladesh Electronic fund Transfer Network has quickened the pace of economic and banking activities. Introduction of software like 'goAML', under the leadership of Bangladesh Bank, is expected to expedite our endeavor for preventing money laundering and is going to make financial transactions more transparent and accountable.

It is really satisfactory news that as on 30 September 2012, our banks have been able to raise capital up to 10.85 percent against the requirement of 10 percent. Bangladesh Bank along with commercial banks is in the process of technological and logistic up-gradation. The performance and progress already made by our banking industry reflects its commitment towards implementing global standard in banking operation. I strongly believe that we are ready for implementing Basel III, but it should be in phases.

Q Where do you see the banking sector in 2013? Are you expecting any sort of regulations from the regulatory body in the upcoming year?

A Bangladesh has achieved "Sovereign Credit Rating" from S&P and Moody's and maintained the same level of the previous year which is indicative of good governance in financial sector and satisfactory compliance of regulatory requirements by the financial institutions. Bangladesh bank has been able to successfully maintain international standards in issuing and implementing risk management and stress testing guideline, conducting supervisory activities and in its effort to make financial institutions comply strictly with regulatory requirements. All these have contributed to steady performance by the banks which has already been appraised globally. Moreover, we are ready to start implementing Basel III in the coming year. So, our readiness in this regard suggests we have necessary expertise for facing upcoming challenges in 2013. We hope that we will reach a better position in terms of improved electronic platform for banking operation, quicker services, more transparent banking activities and regulatory system.

Introduction and implementation of regulations is a continuous process. Banking industry of Bangladesh, led by Bangladesh Bank, is constantly in the process of upgrading itself to cope with upcoming challenges. As such, necessary regulations may be forthcoming from the regulators. Capping on investment in stock market to 25 percent of equity capital by commercial banks may be one of them.

Q 2013 is an election year bringing along some political instability. How do you think will this impact the banking industry?

A Banking industry in Bangladesh has shown a lot of resilience since the start of global economic recession. It has also absorbed many shocks including political ones in previous years. As seen in the past, election years has mostly been volatile resulting sluggish trend in trade and commerce. As such, 2013 is not expected to be an exception to the above phenomenon. Political instability inevitably will hamper overall economic activities including banking business if the political parties do not come into consensus in the near future.

Interview is taken by Md. Ashaduzzaman Riadh and Tanzina Ahmed Choudhury. All views and opinions expressed here are solely of the interviewed persons and neither represent the views of LankaBangla Securities Ltd. nor those of any of its associated institutions.

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