TAMING CORONAVIRUS RAMPAGE

The banking sector needs all the help it can get now

AKM Zamir Uddin

Both the government and the central bank should take special care of the banking sector during the ongoing economic fallout given it as the heart of the economy, said Selim RF Hussain, managing director of Brac Bank.

All sectors will face trouble if banks fail to run their operations smoothly as they are dedicated to circulating money to every part of the society, he told The Daily Star in an interview recently.

Besides, banks will have to implement the lion's share of the stimulus packages worth more than Tk 100,000 crore announced by the government to help the affected industries.

The return on investment from the packages is only 2-2.5 per cent for banks, but the lenders have to bear 100 per cent credit risk.

This means banks will face difficulties if a portion of the stimulus funds disbursed by them turns into default loans.

"We have been requesting the Bangladesh Bank for years to introduce a credit guarantee scheme for the loans disbursed to small and medium enterprises."

Such a scheme is the need of the hour given the ongoing economic meltdown thanks to the cascading impact of the pandemic.

All types of customers are now rushing to banks for the stimulus funds, but there is no scope to entertain all of their requests, Hussain said.

Lenders will have to disburse the fund cautiously and keep in mind that the central bank will realise the money from them on time.

He went on to thank the central bank for taking a host of measures to inject liquidity into banks such that they can tackle the fallout of the pandemic.

Bringing down the cash reserve ratio and the policy rate has helped banks run their operations properly during the present crisis, said Hussain, who joined Brac Bank in November 2015 as its managing director after a stint at IDLC Finance in the same position.

He, however, fears that defaulted loans in the banking sector may increase in the days to come due to the pandemic-induced consequences across the board.

As of December last year, default loans in the banking sector amounted to Tk 94,313 crore, which is 9.32 per cent of the total loans.

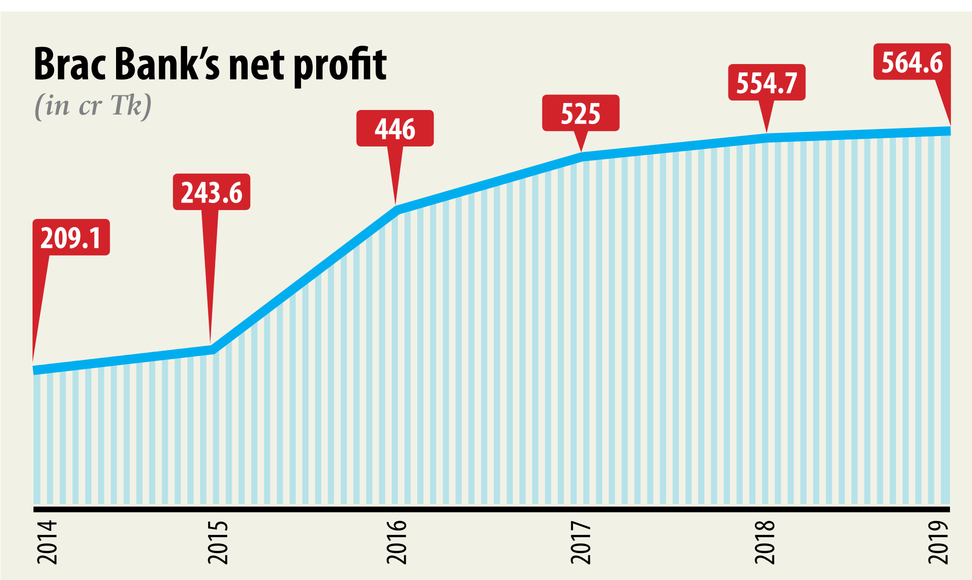
But Brac Bank's default loans are 3.56 per cent of its total loans of Tk 20,206 crore -- an indication of the lender's strong financial health.

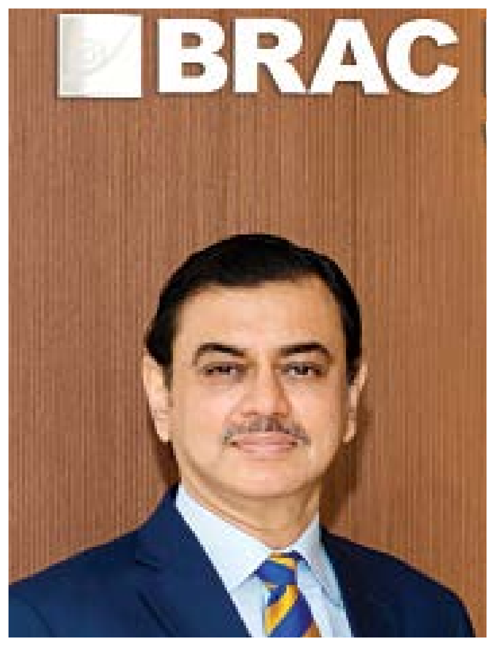
The bank has given a three-month moratorium to all of its SME and retail customers.

"Brac Bank is always giving special attention to the SME sector as this is one of the major growth drivers of the economy."

The lender started its journey in 2001 with the vision to provide banking solutions to the unbanked small and medium entrepreneurs.

Inspired by its parent organisation Brac, the largest non-governmental organisation in the world, the lender introduced small loans for the SME sector to particularly bring the grassroots entrepreneurs under the umbrella of formal banking services.





Selim RF Hussain

Approximately half of Brac Bank's lending portfolio is for the SMEs.

"We have already lowered different charges for all clients to give them breathing space from the ongoing crisis," Hussain said.

Depositors do not pay any charge or face any hassles if they cannot pay the instalment of pension and fixed deposit schemes during the ongoing crisis, he said, adding that deposit growth in Brac Bank was remarkable even during the shutdown.

Banks will have to preserve money to absorb shocks deriving from the probable upward trends of default loans, which will bolster their capital base as well.

Brac Bank, however, enjoys a robust capital adequacy ratio of 15.07 per cent, which is much more than the banking sector's average ratio of 11.57 per cent as of December last year.

Long-term plans should be taken to steer clear of a recession as the world took nearly 10 years to recover from the financial meltdown in 2007.

"This gives an indication that the ongoing crisis is not going away in less than 2-3 years."

But Hussain is sanguine that the economy will rebound in the shortest possible time as the pandemic in Bangladesh is not as severe as it is in Europe and North America.

"The Bangladeshi people are hardworking and much more resilient against shocks, while the economy has achieved tremendous growth in recent years, which is quite remarkable compared to the peer nations."

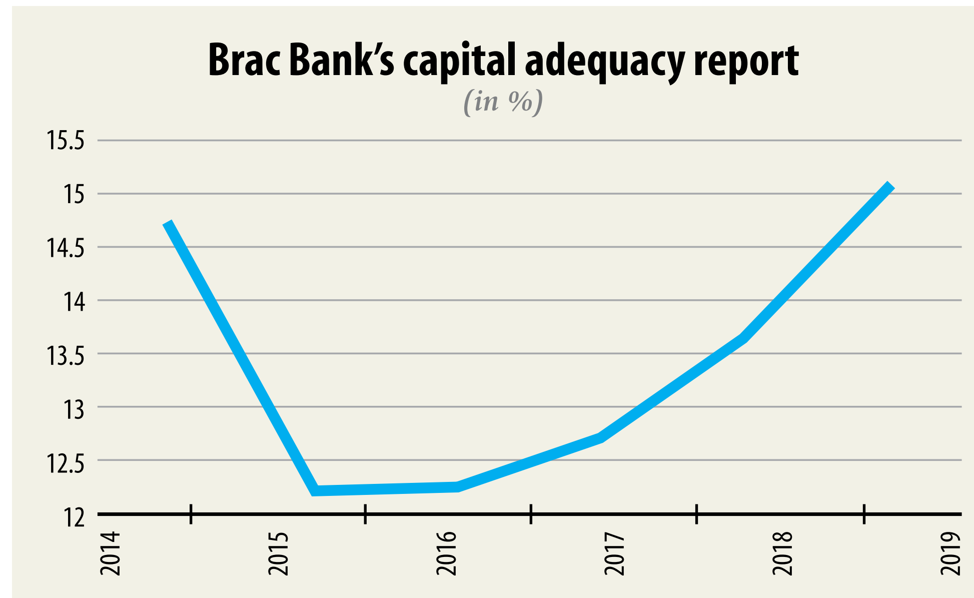
Hussain also said that banks should consider the health and safety issues of their employees seriously while running operations amid the pandemic. Or else, the lenders will face severe problems.

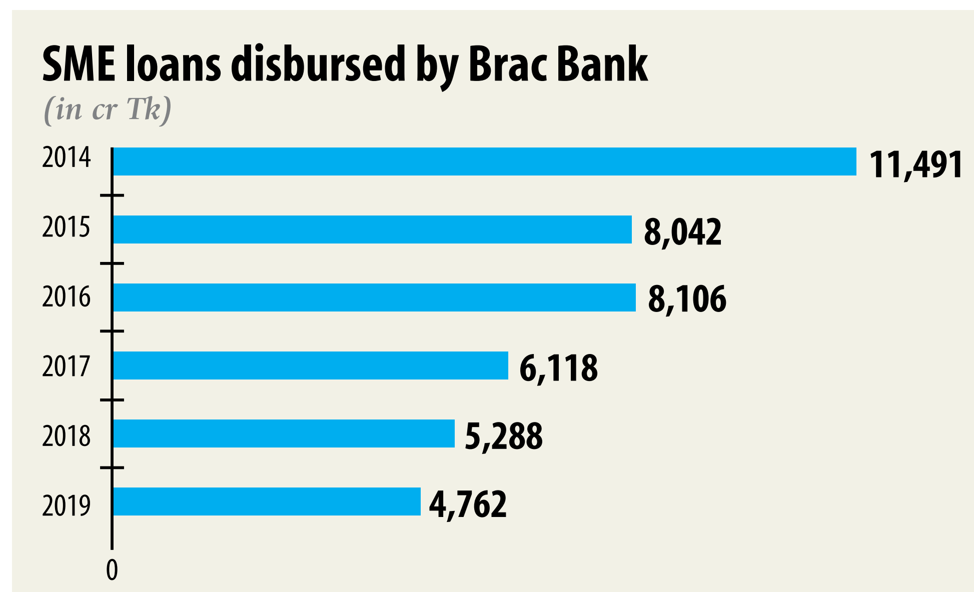
"When we had realised that the country would face the pandemic, we promptly took several initiatives to improve our digital banking and other operations."

The lender's foreign trade is now running in full swing, riding on its strong digital platform.

Besides, 85 per cent of its total branches of 187 were kept open by way of digital support, which helped widen the lender's business during the countrywide shutdown, which was lifted on June 1.

Brac Bank has taken a set of measures to stand beside the people during the crisis, Hussain said.





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Textile millers moving away from Indian cotton

Refayet Ullah Mirdha

Import of cotton from India, once the main sourcing destination for Bangladesh's textile millers, dipped further last year as locals are increasingly moving to suppliers in North and West African countries to cut reliance on the neighbouring country.

In 2019, 18 per cent of the cotton imported by Bangladesh came from the neighbouring country, according to data from the Bangladesh Textile Mills Association (BTMA). A year earlier, it was 26 per cent.

Last year, Bangladesh, the largest importer of cotton in the world, met 41 per cent of its requirement for the white fibre from East and West African countries.

The local spinners and importers have been diversifying sourcing -- and cutting reliance on India -- mainly for a price advantage, followed by quality shipment.

"Quality shipment means quality, timely shipment and commitment," said Mehdi Ali, president of the Bangladesh Cotton Association, adding that contamination is a big problem in Indian cotton.

The low quality of the Indian cotton is the main reason behind the falling imports from the neighbouring country, said Monsoor Ahmed, secretary of the BTMA.

A section of Indian cotton traders also doesn't maintain timely shipment and deliver the right quantity as per agreements, he said.

For example, it is written in the letters of credit that there maybe 3 to 4 per cent less cotton than the amount agreed upon when the imported fibre is weighed in Bangladesh.

But in many cases, it is 10 to 15 per cent less, he said.

"The concentration of moisture in Indian cotton is higher and this makes it difficult to store them in the warehouses for a long time."

Sometimes, according to Mansur, Indian exporters stop supplying without any notice.

As a result, more than $8 billion worth primary textile sector in Bangladesh has to suffer a lot. Such uncertainties emerged several times in the past, he said.

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Daraz to invest Tk 500cr to build logistics infrastructure

Star Business Report

Chinese e-commerce giant Alibaba's subsidiary Daraz has announced plans to invest Tk 500 crore by 2021 in Bangladesh to set up logistics infrastructure and hubs that would help expand its footprint to all 64 districts.

The announcement comes at a time when the novel coronavirus pandemic is prompting shoppers to go online more than ever for all sorts of items, ranging from groceries to medicine.

However, e-commerce platforms have been struggling to cope up with the swelling number of orders because of a lack of infrastructure, ill-preparedness, scant manpower and inadequate supplies.

The majority of the investment will be made on developing logistics infrastructure, including a 200,000-square-feet warehouse, a 1,50,000-square-feet fully automated sorting centre and more than 150 hubs. It already has over 60 hubs across the country.

A portion would go towards the creation of entrepreneurs or e-commerce merchants through different projects. The platform is already running some projects such as Nandini, which aims to create female e-commerce entrepreneurs.

Moreover, it is also planning to offer home delivery of groceries and other products through its own logistics service, DEX or Daraz Express, which employs 3,000 people, in 13 new districts by June.

Amidst the ongoing pandemic, Daraz has launched four platforms -- D-Mart alongside D-Fresh for groceries, Daraz First Games for gaming and Dpharma for medicine.

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2010-2019: a meaningful decade for digital financial service evolution

Jakirul Islam

It is undeniable that the effort put in by the government, the Bangladesh Bank and private sector players have contributed to innovations in digital financial service (DFS) and its penetration in the country.

Key DFS players include bKash, Bank Asia, Nagad, Dutch-Bangla Bank (for mobile financial service through Rocket and agent banking), and SureCash (a fintech platform that facilitates mobile financial services through multiple partner banks).

The BB has been reasonably deft in formulating various policies as per the market demand, while the private sector players have been aggressive in promoting innovations through partnerships across the industry.

DFS initiatives, such as the government's focus on government-to-person (G2P) payment, the rise of e-commerce, fintechs and public-private partnerships around the DFS business model helped Bangladesh go the extra mile for digital financial inclusion.

This article outlines the evolution of DFS in Bangladesh through the lens of policy and industry partnerships by dividing the decade (2010-2019) into three phases:

PHASE 1 (2010-2013)

During 2010 to 2013, the journey of MFS started in the country, the period that decided who would lead the market and who would be denied an opportunity.

Since its inception in 2010, Bangladesh's DFS market saw partnerships between mobile operators and banks to digitise utility bill payments, state-owned railway ticketing and inward foreign remittances.

One such example is bKash, which was the result of a partnership between Brac Bank and Money in Motion LLC.

Banks partnered with mobile operators for access to their unstructured supplementary service data (USSD) and distribution networks for their own MFS and mobile banking initiatives.

However, industry stakeholders disagreed over whether the MFS business model should be bank-led or telco-led.

This persisted until the BB decided to go ahead with the bank-led model and published the maiden MFS guidelines in 2011.

Both the MFS pioneers Dutch-Bangla Bank and bKash had launched their mobile financial services before BB published the MFS guidelines -- their initial success and the way they partnered with mobile operators might have influenced the regulator in favour of banks.

In this situation, a third-party service provider (SureCash) grabbed an opportunity.

SureCash launched its MFS platform in 2014. It offered an agent network and an MFS platform to banks.

This phase also saw the initiation of some partnerships with businesses that employed large-scale resources to promote their payroll disbursement service through the mobile wallet.

PHASE 2 (2014-2016)

During 2014-2016, the industry witnessed public-private partnerships (PPP) through which both bKash and DBBL partnered with a2i and the local government division (LGD) to use union digital centres (UDC) as agents across the country.

In 2013-2014, the International Finance Corporation and the Bill & Melinda Gates Foundation made equity investments in bKash.

The DFS partnership models with other service providers started to transform the industry in early 2016.

MFS providers signed deals with international money transfer operators (MTOs) and payment network providers (primarily MasterCard) to develop remittance products.

The MFS providers also partnered with microfinance institutions (MFIs) to digitise disbursement and repayment transactions.

MFIs like Shakti Foundation and BURO now have partnerships with both MFS and agent banking providers to disburse and collect repayments.

MFS providers also reinforced e-commerce payments through a partnership with e-commerce providers.

Some of these models such as Daraz and bKash have seen considerable success at present.

During this phase, banks, primarily Bank Asia and DBBL, started piloting agent banking.

Agent banking service providers also partnered with garment factories and MFIs to enhance their user base.

PHASE 3 (2017-2019)

Three key developments delineate this phase:

a) Acceptance of agent banking in the rural economy across the country.

b) Nagad, a digital financial services provider under a public-private partnership model, regulated by the Bangladesh Post Office (Amendment) Act 2010 was launched.

c) iPay and Dmoney, the country's first two online payment platforms, were launched under a payment service provider (PSP) licence. Both these marked the entry of fintech firms in the Bangladeshi DFS ecosystem.

The BB raised the transaction ceiling for MFS and issued guidelines for electronic money service to highlight transaction limits under wallets and identify who can be an e-money issuer.

PPPs in G2P digitisation through both MFS and agent banking providers benefitted more than tens of millions of people in need.

SureCash received the contract for the country's largest G2P disbursement of primary education stipends in partnership with Rupali Bank.

Bank Asia recruited agents at a high pace and secured diversified partnerships across the industry.

It partnered with various government initiatives alongside private sector players including mobile operators, e-commerce ventures, digital health, donors and other international development agencies.

The market also witnessed another trend of partnerships that promote bilateral interoperability between a bank and MFS providers.

bKash has partnered on bilateral interoperability with different banks and cards, such as Dhaka Bank, City Bank, Bank Asia, Standard Chartered Bank, Brac Bank, Visa and Mastercard.

In these partnerships, the key feature has been instant money transfer between the MFS wallet, bank account and card.

As we have mentioned earlier, such partnerships stimulate both merchant payments and the use of accounts as customers begin to see an increased range of use cases.

Brac Bank connected both bKash and Rocket for such interconnectivity between wallet and bank account.

From Bangladesh's DFS ecosystem perspective, the decade ended with an understanding of enabling new business models of financial services and innovations.

The year 2020 has been all about the global coronavirus pandemic, which catapulted MFS to an essential service for ensuring the regular money flow between urban and rural economies during the countrywide shutdown.

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