

# Patience key to success for new banks

Muklesur Rahman, chief executive of NRB Bank, says investing in SMEs will boost the economy

SAJJADUR RAHMAN

A bank is a business that is passed down through the generations, paying dividends along the years, much like the goose that laid golden eggs.

Also, the business of banking is quite unique, compared to other industries in manufacturing or trading. Earning the confidence and trust of clients, both depositors and borrowers, is vital to its sustenance. Moreover, a bank cannot cease to exist in the blink of an eye unlike other privately-owned business houses because of various regulations and compliance issues.

These are the views of Muklesur Rahman, chief executive officer and managing director of NRB Bank, a newly established financial institution.

Citibank was founded in 1812 and is still doing business around the world. Standard Chartered Bank began its operations in Bangladesh more than 100 years ago. Rahman said he can name many banks that have been doing business for generations.

"It is not a manufacturing business that you make products, sell those and book profits without taking so much time," Rahman said in an interview with The Daily Star.

According to him, it takes three to five years for a bank to make profits; to make it a sustainable institution requires far more time.

"Sponsors of a bank have to have the patience not to pocket quick benefits," he said, referring to some new banks that are charging ahead by issuing big loans to earn quick profits. But these, he said, may end up as bad loans, damaging the health of the new banks.

Rahman was surprised to see that some of these new banks rolled out Tk 2,000 crore as loans in the first year of inception, and that too in the year 2013-14 when the country was going through political turmoil.



Muklesur Rahman

Rahman made the observations on the challenges and outlook of the banking industry in Bangladesh based on his three decades of experience in foreign and private banks, at home and abroad.

Prior to joining NRB Bank, he was the deputy managing director at Eastern Bank. He also worked in Standard Chartered Bank and Citibank

and a number of local private banks.

Banks run on depositors' money and the business is all about creating an enduring relationship with clients, both borrowers and depositors. Though entrepreneurs have created the fourth-generation new banks, each with Tk 400 crore as paid-up capital, it is insignificant against the depositors' money in the bank.

According to him, each of the nine new banks has already received several times more money from the depositors than their paid-up capital.

"Only one bad loan can intoxicate a bank's entire portfolio, making the business risky for entrepreneurs, shareholders and depositors."

A bank's health depends largely on portfolio management and asset quality, he said.

"I will not go for short-term profits. I want to make NRB Bank a strong institution based on long-term business prospects."

To him, lending is the biggest challenge for a new bank, as borrowers demand the lowest interest rate without considering the banks' cost of funds.

The new banks' data shows the cost of their funds is between 10 percent and 11 percent, which is well within a single digit for many old banks. In terms of lending, if a new bank offers a borrower 11 percent, an old bank offers 10.5 percent.

The banker said Bangladesh is a country of immense potential with around five crore youths who can be converted into human capital.

Promoting and facilitating small and medium enterprises is the only option that can benefit both the youth and the overall economy, he added. Citing examples from China, Malaysia, Taiwan, Hong Kong and Singapore, he said they became rich by developing their SMEs.

Rahman said SMEs will generate much needed employment and push the country's GDP onto a higher growth path.

"Banks need to lend more to the SMEs."

On how banks can engage more with the SMEs, he said some banks can be given licences with a condition that they must work outside Dhaka. For example, a bank will work in Comilla only, another in Chittagong or any

other major city, to reach out to the unbanked, but potential SMEs, he added. He believes that a bank should lend by seeing the borrowers, not their collateral.

He is of the view that some banks should be headquartered outside Dhaka, with maybe a liaison office in the capital to communicate with the regulator and government agencies.

On the challenges facing the sector, Rahman said political uncertainty, infrastructure constraints and high cost of funds are the main barriers for the banks.

"Banks face difficulties in getting back their loans when there is political instability in the country," he said, referring to the rising nonperforming loans (NPL) during political unrest.

The industry's NPL reached Tk 28,000 crore or 12.79 percent of total loans as of September last year, while the internationally accepted tolerable NPL limit is 2-3 percent, he said.

Infrastructure dearth also pushes the cost of doing business up for the borrowers; Bangladeshi apparel entrepreneurs are doing a fantastic job competing with other countries, but adequate infrastructure could give them an edge over their competitors.

On the pricing of banking products, particularly loan and deposit products, the banker said the spread should never go beyond 5 percent. He hails the latest government move to cut the interest rates on savings certificates, which he believes will help banks reduce their lending rates.

A high corporate tax (42.5 percent) is another barrier for the banks, especially new banks, said Rahman. Many industries get a tax holiday, but not banks, he added.

Finally, he appreciates Bangladesh Bank for its efforts to regulate the sector strongly. The central bank has done a lot of good things, including automation and introduction of e-banking across the country, he said.

## Fed on track to hike rates: Yellen

REUTERS

Federal Reserve Chair Janet Yellen was clearer than ever on Friday that the central bank was poised to raise interest rates this year, as the US economy was set to bounce back from an early-year slump and as headwinds at home and abroad waned.

Yellen spoke amid growing concern at the Fed about volatility in financial markets once it begins to raise rates, and a desire to begin coaxing skeptical investors towards accepting the inevitable: that a 6-1/2-year stretch of near-zero interest rates would soon end.

In a speech to a business group in Providence, Rhode Island, Yellen said she expected the world's largest economy to strengthen after a slow-down due to "transitory factors" in recent months, and noted that some of the weakness might be due to "statistical noise."

The confident tone suggested the Fed wants to set the stage as early as possible for its first rate rise in nearly a decade, with Yellen stressing that monetary policy must get out ahead of an economy whose future looks bright.

While cautioning that such forecasting is always highly uncertain, and citing room for improvement in the labour market, the Fed chief said delaying a policy tightening until employment and inflation hit the central bank's targets risked overheating the economy.

## Thailand passes first inheritance tax to raise revenue in lacklustre economy

REUTERS, Bangkok

Thailand's military government has passed the country's first inheritance tax bill, as part of tax reforms to broaden the tax base and boost revenue in a lacklustre economy.

The bill, approved by the National Legislative Assembly late on Friday, will require inheritors of assets worth more than 100 million baht (\$3 million) to pay tax above that threshold - at 5 percent for descendants and 10 percent for others.

That compares with a previously planned threshold of 50 million baht and a tax rate of 10 percent. The bill will be effective 180 days after it is announced in the Royal Gazette.

Finance Minister Sommai Phasae said last week with a tax rate of 5 percent, the government expected to collect about 3 billion baht per year.

The inheritance tax is among the overall tax reforms, which Prime Minister General Prayuth Chan-ocha previously said would terminate benefits that favour the rich.

Prayuth led a military coup in May last year to end months of destabilising political unrest that brought the economy to the brink of recession.

Thailand downgraded its growth forecasts last Monday by 0.5 percentage points to 3.0 to 4.0 percent for the year. Prayuth said on Friday his government would "try its best" to help the economy.

Prayuth also said a general election will take place in the Southeast Asian country in April or May 2016 - but could be delayed by three months if a referendum on the constitution takes place.

## Brazil unveils cuts as IMF urges fiscal discipline

AFP, Rio De Janeiro

The IMF urged Brazil to get its fiscal house in order to emerge from five years of low growth as South America's largest economy Friday unveiled a package of budget cuts in a move to kickstart a recovery.

Brazil has lost ground since a period of high growth largely fueled by Chinese-led demand for commodities came to an end and the International Monetary Fund (IMF) forecasts GDP will contract by around 1.0 percent this year.

The downturn has forced leftist President Dilma Rousseff to agree to a measure of austerity, while promising to protect social programs that have lifted tens of millions out of poverty over the past decade.

Planning minister Nelson Barbosa duly announced budget cuts of 69.9 billion reais (\$23 billion) designed to put the country on track toward achieving surpluses of 1.2 percent of GDP this year and 2.0 percent in 2016-17.

The cuts are the largest in the 12 years that Rousseff's Workers Party has been in office -- predecessor Luiz Inacio Lula da Silva having served two terms from 2003.

Barbosa said the cuts were necessary "in order for the economy to bounce back."

# Small food makers on fast path to US store shelves

REUTERS, New York

SMALL US food manufacturers once toiled for decades to develop a critical mass of fans for their products. Now, an increasing number of privately-held players are going from garage to grocery store in fewer than five years thanks to an erosion of barriers to entry within the food industry.

The trend is visible everywhere from gluten-free and organic foods to more traditional fare, according to interviews with half a dozen startups, as well as retailers and industry consultants.

Contract manufacturers have made it easier for small companies to produce goods inexpensively, while the reach of digital advertising allows them to target consumers without big marketing budgets, industry experts said.

More mass-market retailers want niche brands that shoppers view as healthier to drive traffic in stores, particularly as they face rising competition from natural food and specialty chains like Whole Foods Market Inc.

"It's never been easier in the history of food for a new organic company to get their products on shelves," said Arjan Stephens, executive vice president of sales and marketing at Nature's Path Foods. The privately-held organic breakfast cereal brand was founded in 1985 and took nearly two decades to gain traction with mainstream retailers.

In the ice cream business, for example, sales of some major US brands have faltered. But one beneficiary is a little-known frozen dessert company called Arctic Zero.

The fat-free, lactose-free and gluten-free product originated out of a soft serve machine in a Temecula, California garage. Arctic Zero hit the retail big leagues in 2013 when it gained coveted space in the freezers of Kroger Co just three years after launch. It is now also available at Wal-Mart Stores Inc, Whole Foods and on Amazon.com Inc.

"Everyone has been looking for a 'better for you' alternative in ice cream," said Arctic Zero CEO Amit Pandhi. "There just hasn't been any innovation until our brand came along."

Overall, small and midsize consumer goods companies have stolen \$18 billion in US sales, or 2 percentage points of share, away from large players since 2009, according to a March report by IRI and the Boston Consulting Group. In 2014 alone, they took 0.7 points of share from



REUTERS

Arctic Zero Chief Executive Amit Pandhi poses for a picture with his company's healthy frozen dessert in San Diego, California.

big manufacturers.

Last year's US sales of snack bars help illustrate the trend. According to Euromonitor International, giant food companies General Mills Inc and Kellogg Co had market share declines of 0.3 points and 1.9 points, respectively, compared with 2013. The privately-held Clif Bar & Co gained 1 percentage point during the period, and another small rival, Kind LLC, increased its share by 2.1 points.

The pace of overall share gains is accelerating as small organic and natural food purveyors win more shelf space at mass-market stores.

"They're able to really focus on a subset of consumers and subset of retailers, and win in those areas and use that as a platform to grow into mainstream areas," said Dan Wald, a partner at Boston Consulting Group.

Talenti, a gelato maker that uses hormone-free milk and pure cane sugar, employed such a strategy shortly after beginning production in a 1,000 square foot factory in Dallas.

In 2007, when gelato was still a new concept in US supermarkets, the company approached natural food and specialty stores like Sprouts Farmers Market Inc, Whole Foods and Fairway Group Holdings Corp. Once the frozen treat proved its success, Talenti pitched more mainstream chains like Publix Super

Markets Inc and Kroger.

"It was really an exercise in discipline and retail mapping," said Talenti CEO Steve Gill. "The worst thing we could do was put it into a retail format that was not yet ready for it and have it fail." Unilever Plc bought Talenti last year for an undisclosed sum.

To be sure, getting on the shelves of a Target or Kroger isn't easy, and competition for those spots is increasing. The number of companies exhibiting at Natural Products Expo West, a popular trade show where many food makers get noticed by buyers for retail chains, has increased 74 percent to 2,768 since 2005, according to New Hope Natural Media, the show's organisers.

Major food companies are also waging a counter-offensive, dropping some artificial additives from their well-known brands, creating new products they say are healthier, and acquiring natural or organic food brands that have proven themselves.

General Mills bought organic food maker Annie's Inc, best known for its bunny-shaped macaroni and cheese, for \$820 million in October. Hershey bought Krave, an upscale jerky company, in March. It didn't disclose the price.

"We are certainly seeing that there is a pronounced consumer trend toward health and wellness alternatives,"

Mondelez International Inc CEO Irene Rosenfeld said in an interview last month. The maker of Oreo cookies and Cadbury chocolate acquired Enjoy Life, an allergen-free food company, earlier this year. "As the world's largest snacking company, it is our desire to be meeting those needs."

For the small food players, that makes getting the right placement on shelves critical. Steve Hersh, co-founder of Utmost Brands Inc, started selling the company's GuS Grown-Up Soda to retailers out of his Subaru in 2003.

A year later, single bottles of GuS were lost among other options in the aisles of Stop & Shop Supermarket Company, which eventually stopped offering the product.

GuS contains less sugar than the average soda and is marketed to adults. Retailers are now catching on to its appeal and giving it prime placement.

"Now you go to a Wegmans or Food Emporium, you're going to see our four packs on a four-foot (wide) shelf, and you're going to go, 'oh, that's a brand,' rather than three little bottles in a sea of soda," Hersh said.

Finding the right distributor can also help small players build scale. Months after GuS launched, Hersh was contacted by Big Geyser, a major beverage distributor in New York that helped get the soda into Whole Foods and Fairway.

Food makers may still have to jump through hoops to satisfy retailers. One hurdle is the fees that major stores charge food makers to gain shelf space, which can run into the hundreds of thousands of dollars.

Retailers may waive such fees depending on the number of options in the category and the ability of a novel brand to draw shoppers. But they may also make companies change the packaging of the product, a potentially costly move.

For instance, nutrition bar company Medterra Inc received interest from Target Corp to join a trial run of new brands in its stores.

Target asked for the bars to be sold in a five pack that Medterra didn't offer. The company designed the new packs with the help of its contract manufacturer and produced them in about 45 days, said Paul Pruett, Medterra's CEO.

The trial at Target concluded in April, and the product is no longer on the shelves. It did, though, raise the brand's profile, and the bars will be sold in about 400 Kroger stores later this year, Pruett said.