Banks face daunting task of getting new business

Prime Bank's MD sheds light on the current situation of the banking sector

SAJJADUR RAHMAN

GETTING new business has become the biggest challenge for banks now as companies have been suffering from aftershocks of the prolonged political turmoil in 2013 and the first quarter of this year.

This challenge is intensifying in the wake of low-cost foreign currency loans taken by local entrepreneurs, a rise in the cost of doing business for the apparel makers, higher lending rates and nonperforming loans (NPL). Provisioning rules have also put further pressures on the businesses.

These are the views of Ahmed Kamal Khan Chowdhury, managing director of Prime Bank.

"Some sectors, including garment, are not performing well. The NPL for small and medium enterprises has also increased because of their inability to cope with political turmoil," said Chowdhury.

The apparel sector that accounts for 80 percent of the country's exports is going through an upheaval -- from compliance to competition and a rise in the cost of doing business, he said.

"We have become choosy in financing the garment sector. Companies that can sustain shocks will only be financed," the banker said.

Prime Bank is the first bank in the country that has formed a garment monitoring unit involving a team of merchandisers who regularly visit the factories to see their business and compliance issues, he said.

On low-cost foreign currency loans taken by local businesses, Chowdhury said the trend has emerged as a big threat to them as borrowers have been paying off their loans with the local banks with foreign-sourced money at an interest rate of 4.5 percent.

"We are losing business as they could be our potential clients," he said, adding that Prime Bank could give out foreign currency loans, but the spread is so low that it would not be viable.

Prime Bank was established in 1995 with an outlook to offer superior quality services that has paid dividends and made it one of the top private commercial banks in the country.

The bank's deposit stood at nearly Tk 20,500 crore at the end of 2014, reflecting people's growing trust on the bank.

The bank's NPL was 7.61 percent in 2014, well below the industry's average of 9.69 percent; its capital adequacy ratio is well ahead of the central bank set requirement as well.

Ahmed Kamal Khan Chowdhury

However, the bank was running smoothly until it was hit by a loan scam in 2012.

According to the Anticorruption Commission, Bismillah Group, a terry towel exporter, siphoned off around Tk 1,255 crore from five commercial banks on false documents and inadequate collateral.

The group allegedly took over Tk 300 crore from Prime Bank on false documents. The scam hurt not only the bank's image, but also its profits.

"It was a bad experience for Prime Bank, but we learnt a lot from it," said Chowdhury.

Bismillah Group took advantage of the bank's poor credit judgment and operational lapses -- a lesson that prompted the bank to strengthen the internal system.

"We have been introducing a centralised system to avert this kind of a loan scam; 60 percent of the work is already done."

But the bank had to write off Tk 250 crore of the Bismillah loan after keeping the same amount as provisions, which affected profitability. Prime Bank is currently fighting the case in court.

Chowdhury also discussed the bank's business model, use of technology-driven products, lending rates, and corporate taxes.

The bank now focuses on the top 20 percent of the clients who generate 80 percent of revenue for the bank. "We have opened a dedicated desk to provide these clients with extra and superior services."

Chowdhury said customers' choices in getting bank services have been shifting with changes in technology. Many customers now prefer alternative delivery channels, such as the internet and mobile phones, in taking bank services, he added.

On the lending rates, he said banks have been reducing the rates despite facing poor demand for credit; Prime Bank has been giving out corporate loans at 11 percent, which is up to 12 percent for term loans. The lending rate was 15 percent a year ago, he said.

"This has been possible because of a reduction in the cost of funds," he said, deposits cost them just 6.36 percent now, down from around 8 percent a year ago.

He welcomed the government's move to cut bank's corporate tax by 2.5 percentage points to make it 40 percent, which would help many banks meet their capital adequacy requirements and reduce interest rates further.

Prime Bank also sets aside 4 percent of its net profit for corporate social responsibility activities that go to the sectors of education and health.

Fake Korean cosmetics flood Thai market

THE NATION/ANN

Several cosmetic products with Korean-language labels have hit the Thai market. They look innocent and tempting, particularly when their sellers say, "These products are good. Your skin will get whiter. They are imported from [South] Korea. They even have FDA licence numbers here. No risks".

But according to the Food and Drug Administration (FDA), more than 1,000 cosmetic brands have flooded the market here through fake licence numbers and blatant lies.

Worse still, some brands use dangerous chemicals, so their products can cause serious health problems such as kidney failure, skin cancer, liver inflammation and urinary tract disorders.

Among the common hazardous ingredients are ammoniated mercury, hydroquinone and retinoic acid.

"Ammoniated mercury will brighten skin in the beginning. But in the long run, the skin will thin out and turn dark instead," warned Dr Sumalee Pornkitprasarn, the director of the FDA's Bureau of Cosmetic and Hazardous Substances Control.

She added that when the skin got too thin, there was a possibility that chemicals would seep into blood circulation causing kidney and liver problems.

Sumalee said her office had found that such unlicensed products were available via the internet and shopping centres.

"These products often exaggerate their benefits. To boost their image, they carry a label in a foreign language, making it look like they are imported," she said.

A source at the FDA revealed that many unlicensed entrepreneurs were found to have arranged the manufacture of fake products via agents in Bangkok's Don Muang area.

When The Nation approached a big cosmetics trader in Don Muang about the possibility of producing unlicensed cosmetics products, it explained that one kilo of skincare cream would cost just Bt3,000 and a fake FDA brand and fake licence number would cost just Bt3,500 extra.

"If you want a foreign-language label, we can arrange that too. You should go for Korean language. It's very popular now," this trader said.

A survey around Don Muang revealed that dozens of such agents existed in the area and most said they hired factories in Ayutthaya's Wang Noi district.

Given that these manufacturers are ready to print fake FDA signs and licence numbers, consumers now need to be cautious about products they buy even if they see what seem to be FDA endorsements on packaging.

A Japanese auto giant Honda Motor employee demonstrates the personal mobility device "Uni-Cub" at the Smart Community exhibition in Tokyo yesterday. Honda held the company's shareholders meeting in Tokyo and will revise its earnings results for the business year ended March 2015 to reflect additional costs of recalling cars equipped with air bag inflators made by Takata Corp.

AFP

India's influence rises in crude oil

CLYDE RUSSELL

Almost unnoticed, India is starting to exercise increasing influence on crude oil markets in Asia.

The South Asian nation has doubled imports to almost 4 million barrels per day (bpd) in the past decade, in the process overtaking Japan, Germany and South Korea to become the world's third-biggest importer behind China and the United States.

Its importance to the outlook for crude oil over the next decade becomes even more apparent in the light of slowing demand growth in China, the likelihood of at best steady consumption in much of the developed world and declining demand in Japan.

Two recent events underscored the importance that India is assuming in Asian crude oil markets: the visit by a senior official of Saudi Arabia's state oil giant and talks between Indian refiners and Iraq over filling strategic storage.

The main news from the visit of Ahmed Al-Subaey, Saudi Aramco's executive director for marketing, to New Delhi last week was that the kingdom is ready to boost output in coming months to meet rising global demand.

That was information useful to market players, but what wasn't discussed in public was what the Aramco executive was talking about with the Indian oil officials he met.

It doesn't require much imagination to conclude that the Saudis are interested in expanding their relationship with India, given it is becoming the main driver of crude demand growth in Asia, something Al-Subaey acknowledged.

India imported 3.964 million bpd in the first four months of the year, a decline of 0.6 percent over the same period in 2014.

However, import growth was affected by refinery maintenance in April and it's expected to accelerate over the rest of the year, with full-year imports expected to exceed 4 million bpd.

Saudi Arabia supplied about 760,000 bpd to India in the first four months of the year, a gain of 4.6 percent over the same period last year.

But the Saudis will be well aware that their oil will face competition from Middle East rivals in coming months, especially if Iran is successful in getting Western sanctions relaxed and Iraq continues to pump more crude.

Clyde Russell is a Reuters columnist.

Water reveals two sides of Myanmar's economic boom

AFP, *Yangon*

EVERY morning on his way to work in Yangon, builder Zaw Min Tun takes a swig of water at a Buddhist temple, a vital place to quench a thirst for the many ordinary citizens left behind by Myanmar's economic boom.

Bottled water is among the plethora of consumer industries set to take off as the country emerges from decades of isolated junta rule, putting more money in the pockets of the country's rich and a growing middle class.

But, at around 300 kyats (25-30 US cents) a litre, it remains too pricey for the majority of people in a country where the average annual per capita income of $1,105 remains one of the lowest in Asia.

Decades of weak investment under junta rule means the vast majority of people -- eight in 10 -- are forced to drink from unsafe supplies such as wells, boreholes, springs and streams while only nine percent have access to tap or piped water.

Poor infrastructure combined with the high prices of bottled water mean many locals like Zaw Min Tun rely on the terracotta jars of water left by kindly strangers at the many Buddhist temples across the country.

"This is where I have to wait for the bus," he tells AFP under a baking hot sky outside the temple in downtown Yangon. "And when I'm thirsty I take a drink."

On the other side of Myanmar's consumer boom, adverts for purified water cover billboards and the sides of delivery trucks in Yangon and other cities, pushing aspirational and wholesome messages.

"With Alpine, live longer and healthier," says the slogan of market leader Alpine, a local company which produced 200 million bottles in Myanmar last year, and projects to churn out 300 million by the end of 2015.

Myanmar's bottled water market is, as yet, far from saturated.

In 2013 consumption of bottled water per head stood at just 0.1 litres, according to a 2014 report by researchers at Euromonitor International, compared with 21 litres in the Asia-Pacific as a whole.

AFP

A man drinks from a free roadside water pot in Yangon, Myanmar.

Nestle is among the international companies that have circled the market for water, although the Swiss food and drink giant has shied away from major investment so far.

"This business has a great future. As people get richer, the middle class has more expectation," Sai Sam Htun, CEO of Lo Hein Company, which owns the Alpine brand, told AFP.

For the country's newly minted middle class, such bottlers offer a sense of security in what had been, until recently, a notoriously unreliable cottage industry.

"Previously, there were a lot of small players, they did not care about water treatment," Sai Sam Htun added.

"They just got it from underground or from the pipe from the city water. They treated it very lightly."

Concerns over poorly purified water became such an issue that in February the Ministry of Health banned more than 70 brands after spot checks showed they failed basic safety tests.

Fenton Holland, an Australian specialist who has helped Western drinks companies and hotels access safe water supplies in Myanmar, said businesses are becoming aware they need access to safe water.

"Even when you make potato chips you need high-purity water," he said.

Decades of economic mismanagement under the brutal junta has left Myanmar with a creaking and decrepit infrastructure and the water supply is no exception.

According to national census figures released this month, only 31 percent of inhabitants living in cities consume purified water in some form, falling to just two percent in the countryside.

Even in Yangon, the nation's economic heart, wells and ponds are a common water source for the city's seven million inhabitants, especially outside of the centre.

On the city's western outskirts, far removed from the construction cranes and car dealerships of the city centre, Thein Ham, 51, fills up some water jars on the side of the street.

Bottled water "is for other people. My mother did the same thing," she explained.

On paper, Myanmar should not lack for fresh, drinkable water.

As a tropical country boasting three mighty rivers, it is annually soaked by life-giving monsoon rains, although the dry season often brings brings drought due to poor management.

Revamping the country's infrastructure is a Herculean task, even in a city like Yangon.

French firm Egis has been commissioned by Yangon's authorities to come up with a plan to rehabilitate thousands of kilometres (miles) of water pipes under the city.

"These pipes have to be cleaned and repaired," explained Marion Hasse, a project coordinator for Egis. "Most of the pipe season between 50 and 70 years old."

She estimates that the centre of Yangon could see safe drinking water delivered via taps within five years, but for the whole city, it could take more like two decades.