



Fourth from left, Bangladesh Bank Governor Fazle Kabir poses at the launch of the Financial Stability Report 2015, at the BB headquarters yesterday.

Stressed loans still a major risk to banking

BB unveils Financial Stability Report

STAR BUSINESS REPORT

The banking system appeared to be stable and resilient last year but loan quality remained a concern, the central bank said in its Financial Stability Report yesterday.

"Though the gross nonperforming loan ratio decreased in 2015, concerns over the asset quality remained prevalent, as a significant amount of stressed assets was rescheduled and restructured during this period," the 2015 report said.

The gross NPL ratio declined to 8.8 percent in 2015 from 9.7 percent in 2014, while the net NPL ratio remained at 4.2 percent, according to the report, which was unveiled by Bangladesh Bank Governor Fazle Kabir.

The banks in 2015 rescheduled and restructured a total of Tk 29,410 crore of loans, which helped bring down the overall default loan figure.

At present, the rescheduled loans constitute a significant portion of the banks' total loan portfolio. In 2015, Tk 26,093 crore in loans was rescheduled, which was 4.5 percent of the total outstanding loans.

From 2014 to 2015, the total amount of rescheduled loans shot up 50.1 percent in spite of the availability of large loan restructuring facilities.

In 2015, besides normal rescheduling the central bank gave loan restructuring facility to large borrowers.

Some Tk 16,410 crore of large loans were restructured, which is 2.8 percent of the total outstanding loans.

Though the required loan-loss provision of the banks as percentage of loans outstanding declined, a substantial shortfall in provision of state-owned commercial banks affected the

banking industry's "maintained-to-required" provision ratio adversely.

While private banks performed better in terms of asset quality, capital adequacy and profitability, state-owned banks were lagging behind the industry average.

This gave rise to stability concerns to the industry and thereby necessitates for stringent and prudent supervision, according to the report.

The credit growth was higher in 2015 than in the previous year. Banks continued to invest a sizable portion of their portfolio in safer liquid instruments such as government securities, the report said.

"To make our banking system more efficient and investment-friendly, the effort to reduce default loans is ongoing," said Kabir while unveiling the report.

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Regulator warns insurers on spending overruns

SAJJADUR RAHMAN

The insurance regulator has found that 40 non-life insurers have breached their respective limits on management expenses for the last seven years.

Of the country's 45 non-life or general insurers, 40 overshot their management expenses by about Tk 800 crore, according to the Insurance Development and Regulatory Authority or IDRA.

Earlier, 30 life insurers were found to have indulged in over-expenditure of Tk 2,064 crore in the last seven years.

"We have failed to bring down the management expenses by moral persuasion. We will now take action against the violators," said a senior IDRA official.

About the actions to be taken, the official hinted that the IDRA may impose restrictions on the insurers' management expenses until overspending could be made up.

The Anti-Corruption Commission has already taken up the issue of life insurers and launched an investigation into allegations that the companies embezzled more than Tk 2,000 crore in the name of management expenses.

"We have started an inquiry into the allegation of excess expenses. We have taken information on these insurers from the IDRA recently," said an ACC official.

Management expenses are all charges incurred, whether directly or indirectly, according to insurance laws. It includes commission payments of all kinds and any amount of expenses capitalised. This includes office management and branch expansion expenses.

On average, it is capped at 97.5 percent of first-year premiums, and if the company has been in operation for 10 years, it is 90 percent. It is calculated as a percentage of the premium (first-year and regular premium) and the size of the business.

No company is allowed to exceed the expenditure ceiling in any calendar year.

But insurers in Bangladesh hardly follow

the rule on expenses as the companies know they will be fined nominally for violation.

An insurer will be fined a maximum of Tk 5 lakh for violation of rules pertaining to management spending, no matter how big the additional expenditure is, according to the Insurance Act 2010.

IDRA data shows 30 life insurers, including some new entrants in 2013, spent Tk 2,064 crore in excess as management costs in the seven years to 2015.

If the insurance regulator imposes fine at the highest ceiling (Tk 5 lakh each), the total amount would stand at a meagre Tk 1.5 crore.

Similarly, 40 non-life insurers were blamed for nearly Tk 800 crore of over expenditure during the period. By imposing fine, the IDRA can collect a maximum of Tk 2 crore from these companies.

Over-expenditure was a practice in India too, but the regulator imposed vigorous punishment a few years ago.

Now, if the limit was breached by insurers in India, the excess amount would come out of the shareholders' account.

IDRA data shows new life insurers that came into the market in 2013 spent the most: Guardian Life Insurance, Chartered Life Insurance, Swadesh Life Insurance and Alpha Life Insurance over-spent by 150 percent to 300 percent. Six other life insurers spent at least 100 percent more than their allowable ceiling for management expenses.

According to industry players, life insurance companies, especially in the first five years of their existence, have higher cost per head due to expansion of business, recruitment of staff, new branch opening and marketing.

But the insurance companies that have been around for 10 to 20 years now are spending much higher than their limits.

Even state-run Jiban Bima Corporation spent nearly Tk 277 crore more than its allowable management expenses in the seven years to 2015.

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Bangladesh seeks to reopen Philippine probe into stolen funds

BLOOMBERG, MANILA

Bangladesh plans to ask legislators in Manila to revive a probe into the disappearance of \$81 million of its central bank reserves via the Philippine banking system and at least two local casinos.

Two officials from Bangladesh Bank were scheduled to meet with Senate President Koko Pimentel yesterday to request the reopening of an investigation that was interrupted by the Philippine elections in May, Bangladesh's ambassador to the Philippines John Gomes said.

The Southeast Asian country's banks and casinos have been in the spotlight due to their role in one of the largest bank heists in modern history earlier this year. Thieves hacked into the Bangladesh Bank's account at the US Federal Reserve, routed the funds to accounts at Rizal Commercial Banking Corp, before most of the money disappeared through the casinos.

The Senate held its last of seven hearings on the disappearance of the money in May, just after Philippine President Rodrigo Duterte was elected and a new set of legislators took office. Lawmakers of the previous congress came out with a report in June, which recommended that the nation's casino industry be monitored more closely for possible money laundering.

The new Senate plans to extend money-laundering controls to casinos, as well as art and luxury car dealers, Pimentel told reporters in Manila yesterday. Legislators may also relax rules protecting the secrecy of bank deposits, he said.

As well as the new Senate leader, the Bangladesh representatives will also meet with Bangko Sentral ng Pilipinas Governor Amando Tetangco, Anti-Money Laundering Council Executive Director Julia Abad, newly installed Justice Secretary Vitaliano Aguirre and Solicitor General Jose Calida, Gomes said.

"We are optimistic we will recover \$81 million, nothing short of that," Gomes said. "Maybe it will take time but each and every dollar will be recovered."

Robi-Airtel merger gets PM's approval

STAR BUSINESS REPORT

Prime Minister Sheikh Hasina on Sunday gave a go-ahead to the much-talked-about merger proposal of Robi-Airtel, paving the way for the formation of the country's second largest mobile operator.

The merger fee will be Tk 100 crore.

A telecom division official said the prime minister endorsed all the clauses and conditions set by the division for the amalgamation of the two operators.

The approved file arrived at the telecom division yesterday, said Md. Faizur Rahman Chowdhury, telecom secretary.

The file will be sent to the Bangladesh Telecommunication Regulatory Commission that will then take it forward.

"Only some formalities are left to complete the merger," Chowdhury said.

However, the BTRC's legal team said a court hearing on the issue has been scheduled for August 4; if the prime minister's approved copy is received before that, it will be placed before court.

After that, the first-ever merger in the country's mobile telecom sector will be closer to realisation, said a senior official of the BTRC.

Robi has to submit a specific plan on human resource management to the telecom regulator to ensure job security of employees so that no-one is terminated or any form of unemployment is created centring on the proposed merger.

For the next three years, the regulator has

SHAREHOLDING AFTER MERGER



to be informed before any termination of employees who joined either of the two operators before the merger took place.

In addition, the employment contracts of Airtel employees will be carried over to Robi after the merger.

A voluntary retirement scheme or voluntary separation scheme has to be prepared following the best practice of multinational companies, which will also have to be submitted to the BTRC.

On July 24, the telecom division forwarded the summary of the merger proposal to the prime minister's office for her consent, incorporating a merger fee of Tk 100 crore.

Apart from the merger fees, the telecom division fixed Tk 33.8 crore for per Megahertz of Airtel's 2G spectrum to be used by Robi for the next four years.

Airtel is currently using 15 MHz of 2G spectrum in different two bands and Robi may not take the entire spectrum, hinted their senior officials.

Earlier on July 13, an inter-ministerial meeting chaired by Finance Minister AMA Muhith finalised the merger fees and spectrum prices.

Robi and Airtel opened talks on a possible merger at the end of August 2015, and on January 28, the operators' parent companies signed a deal to that effect.

If merged, the entity will be the second largest operator in Bangladesh after Grameenphone in terms of subscribers.

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Rejoinder & our reply

The implementation of the annual development programme was worth Tk 86,967 crore last fiscal year, which was 92.62 percent of the total outlay of the revised ADP, the planning ministry said.

The size of the revised ADP was Tk 93,895 crore last fiscal year.

The ministry said this in a rejoinder to a report headlined "Development spending lowest in six years", which was published in Star Business on July 29.

The government spent 91 percent of the revised ADP in fiscal 2014-15, while the implementation rate was 93 percent in 2013-14, the ministry said.

The ADP spending was the highest last fiscal year since the inception of the Planning Commission, it added.

It also said, though ADP schemes are implemented across the year, most bills are paid during the last quarter/month. Until a payment is made, the ministry cannot take those into account.

OUR REPLY

The size of the revised ADP, including the funds of state-owned enterprises, was Tk 93,895 crore last fiscal year.

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MCCI, textile millers criticise proposal of gas price hike

STAR BUSINESS REPORT

Gas price hike will leave a negative impact on businesses as such a move will raise the cost of doing business, a leading chamber said yesterday.

The cost of transportation, production and electricity as well as overall food prices will increase with the gas price hike, said the Metropolitan Chamber of Commerce and Industry (MCCI) in a statement.

The unplanned gas price hike will also negatively impact productivity and export of garment products, which will erode the country's competitiveness in the global apparel market.

Bangladesh Energy Regulatory Commission (BERC) increased gas prices by 26.29 percent in September last year, and any further hike within one year goes against the laws of the commission, the chamber said.

According to a proposal of state-owned Titas Gas Transmission & Distribution Company Ltd, the price of gas for household use should be raised 140 percent to Tk 16.8 per cubic metre.

MCCI also suggested the government should increase the use of alternative energy to reduce dependence on natural gas. It is not possible to deal with the challenges of a gas crisis only by increasing gas prices, the chamber said. The crisis can be eased to some extent by fixing the problems by introducing a metre-based billing system, stopping illegal gas connections and reducing illegal gas bills, the chamber added.

"The MCCI thinks the price hike is irrelevant and illogical."

Meanwhile, leaders of Bangladesh Textile Mills Association (BTMA) also opposed the proposal of gas price hike, saying the textiles sector has been going through a rough patch due to volatile cotton prices, the Gulshan terror attack and higher cost of production.

The proposed 130 percent hike in gas prices for captive power plants will increase the cost of production, they said.

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IDLC Finance's profit rises 8pc

STAR BUSINESS REPORT

Net profit of IDLC Finance rose 8 percent year-on-year to Tk 88.2 crore in January-June thanks to a rise in deposit and lending.

IDLC said it continues to be a strong operator in the small and medium enterprise's segment and experienced 19 percent year-on-year growth in the sector during

the period.

Corporate and consumer financing, two other major business segments of the company, also experienced notable growth.

Despite challenges, the company has been growing continuously in 2016, Arif Khan, managing director of IDLC Finance, said while announcing the half-yearly results at a press briefing in Dhaka on Sunday.

"While the SME segment posted the highest amount of growth in the loan book, all our business segments enjoyed a good half-year."

"We continue to be very vigilant about the quality of our portfolio and have been able to moderately decrease the NPL ratio to 3.01 percent at the end of June, compared to 3.06 percent at the end of

December last year," he said.

IDLC got 3,726 new customers and the customer assets portfolio grew 10 percent year-on-year to Tk 533.6 crore in the January-June period of 2016.

Operating profit increased 14 percent year-on-year and stood at Tk 158.3 crore at the end of June.

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