UCB now on strong footing

MD FAZLUR RAHMAN

WHEN Muhammed Ali took the reins of United Commercial Bank in late 2012 the lender's standing in the industry was not of note.

But in the last four years it has grown in leaps and bounds and now can be spoken of in the same breath with the best of them.

"We are now a very strong bank and on a very strong footing," Ali told The Daily Star in an interview recently.

Under Ali's stewardship, the bank rose to the pole position in all indicators save for profit in a ranking of local private commercial banks.

Its net profit more than doubled in the last four years: from Tk 158.61 crore to Tk 397.73 crore in 2015.

Deposits grew more than 50 percent to Tk 25,570 crore in 2016, from Tk 17,053 crore in 2012. UCB's import and export businesses more than doubled during the period, boosting the bank's income in the forms of fees and exchange gains.

High-cost deposit came down to 45 percent from 70 percent over the period.

"As the cost of deposit has gone down, the bank is able to lend at lower interest rates," Ali said, adding that the spread is within the limit of Bangladesh Bank.

The bank has consciously shifted from corporate-centric portfolio to garment, small- and medium-sized enterprises and agriculture.

In 2016, SMEs accounted for 38 percent of all loans and advances, while corporate clients made up 30 percent of the loans and advances -- down from 34 percent in 2012.

"My observation is, so-called corporate clients default on their loans. On the other hand, the small borrowers do not default."

When a large borrower defaults it comes as a major shock because thousands of crores of taka are normally involved.

On the other hand, even if the small borrowers default, the amount is to the tune of Tk 10 lakh or Tk 50 lakh, which is not strong enough to shake a bank, Ali said.

Employment generation is a challenge for many countries, but in Bangladesh SMEs play a vital role on this front.

Muhammed Ali

"Bangladesh cannot set up large industries overnight, but it can definitely promote SMEs."

Ali went on to praise his fellow countrymen for keeping the wheels of the economy moving, saying the entrepreneurs and even small traders take upon myriads of risks to advance respective ventures despite facing infrastructure bottlenecks such as energy shortage.

UCB has always aligned its plan with the national strategies, he said.

For instance, it is now providing a guarantee of Tk 5,200 crore for the Padma Multipurpose Bridge without any commission.

"We have given priority to the national interest although we have had to incur capital cost and maintain provisioning," Ali said, adding that UCB has played an important role in case of economic growth, employment generation and remittance income.

Remittance, which is credited for the country's healthy foreign currency reserves, can be doubled to $30 billion a year if the right steps are taken, and the first generation bank wants to do something on this issue.

UCB plans to set up a dedicated foundation for the welfare of migrant workers.

Under the plan, prospective migrant workers will be imparted vocational training on various trades such as electrical works and plumbing and enhance their communication skills.

Some 100 workers would be sent abroad every year, with UCB bearing all costs. The only requirement for the migrant workers would be to maintain an account with the bank and send their remittance through it.

"If we can do this, our people will be equipped with the right skills, which will help them earn more compared to unskilled workers. Then we will be able to double our remittance income easily."

Ali will step down as the CEO of the bank in May 14, when he would turn 65, which is the retirement age for MDs.

Evaluating his tenure, Ali said with the wholehearted support of the board, he has been able to bring in positive changes to the bank.

At present, UCB is a very compliant bank, which is reflected on its CAMELS (capital adequacy, asset quality, management, earnings and liquidity) rating.

It meets all five regulatory requirements on liquidity, maintaining sound liquidity ratios.

Ali, who is also credited for turning the fortunes of Shahjalal Islami Bank and Social Islami Bank, said the bank's acceptability has enhanced. Many multinational lenders give cheap funds to UCB for it to lend.

The bank's business network has expanded in the last four years: it now has 168 branches and 165 ATMs, up from 130 and 81 respectively. The bank employed 4,152 people as of 2016.

Its global network has also expanded sizably through exchange houses and correspondent banking relations. It has 547 foreign correspondent relationships.

During his time, the bank has introduced reliable computer software to make its network real-time, real time gross settlement, vulnerability assessment and penetration testing.

It has also revamped the anti-money laundering system, anti-scheming solutions and call centres.

UCB's performance has not gone unrecognised. The bank received national awards for best presented annual reports and corporate governance excellence for a number of times. It received "Best Emerging Markets Bank 2014" by Global Finance, an internationally recognised finance magazine.

Ali himself was awarded as "CEO of the Year" at Global Brand Excellence Awards.

Going forward, Ali said the non-performing loan is the main headache for the banking sector.

"This can be termed as cancer. So, we have to be alert in client selection, and maintain distance from the delinquent clients."

Good governance is a must for banks, he said.

"Only pressure from the central bank will not work. Banks must also have the same level of guts to establish governance with their organisations."

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US travel ban row halts dollar recovery

REUTERS, *London*

The dollar dipped on Monday as investors sought the traditional security of the Japanese yen after new US immigration curbs put the spotlight back on President Donald Trump's protectionist bent and the risks it poses for the economy.

The dollar had begun to climb at the end of last week after its worst month in five, as expectations of higher inflation and tax cuts to spur growth under the new president pushed US government bond yields higher.

That was halted by a combination of weaker-than-expected US economic growth data on Friday and the uproar that followed Trump's order restricting entry to the United States for travelers from seven Muslim-majority nations.

"Concerns on protectionism appear to be rising after President Trump's executive order to restrict immigration," said Adam Cole, head of G10 FX strategy with RBC in London.

After an Asian session becalmed by Chinese New Year holidays, the yen rose 0.4 percent to 114.58 yen per dollar in morning trade in Europe. The greenback was flat at $1.0695 per euro EUR= and marginally higher at $1.2537 against sterling.

The euro drew some support from a rise in European government bond yields to their highest in a year after regional data showed solid rises in annual German inflation. That came at the start of a week dominated by central bank meetings in the United States, Japan and Britain.

The bond market, however, also suggested euro investors were pricing in more risk from France's presidential election in April after the selection of a more radical leftist candidate by the French Socialists at the weekend.

A stronger dollar was one of 2017's big calls for many investment banks and asset managers at the end of last year but that faith has been undermined by worries about how US trade and diplomacy will pan out under Trump's presidency.

At the top of the list are concerns that the new administration may actively pursue a weaker dollar as part of efforts to change its trading relationship with China and others.

"The weak US GDP is doing the dollar no favors. But it also takes courage to keep buying the dollar, considering what Trump has said about the kind of a currency policy he could pursue," said Daisuke Karakama, market economist at Mizuho Bank in Tokyo.

US companies use 1970s budget tool to cut costs

REUTERS/FILE

A sign hangs outside the Kellogg's factory near Manchester, Britain.

REUTERS, *Boston*

THE number of US companies using a budgeting tool made famous in the 1970s by former US President Jimmy Carter is surging as they turn their spending habits upside down to boost profits and to re-invest in their businesses.

The upswing in zero-based budgeting (ZBB) signals that a broader cross-section of US companies anticipate turbulence in their revenue growth. They face more pressure on profits, too, as wages and interest rates increase, and a stronger dollar makes their products more expensive overseas.

In consumer staples, where sales growth is often capped in the low-to-mid single digits, Campbell Soup Co, Kellogg Co, and Oreo cookie maker Mondelez International Ltd have already rolled out ZBB programs that promise billions of dollars in savings.

Other industries, including finance, energy and manufacturing, are now following suit. Use of ZBB in 2017 is expected to increase dramatically in the United States and around the globe, according to consulting experts. Bain & Company reported last year in a survey of 406 North American companies that 38 percent of that group would use ZBB, up from just 10 percent in 2014.

"ZBB has taken on a life of its own," said Greg Portell, a partner at consulting firm A.T. Kearney.

A ZBB approach requires corporate managers to justify each line item of spending in their budgets, or even build their budgets from scratch. That is a departure from the typical process of using the previous year's budget as a starting point and adjusting it based on revenue and inflation projections, for example.

It often cracks down on the size of a company's real estate footprint, corporate travel, terms of international assignments, redundant technology and outside consultants. Employees get cut, too.

But there are risks. One is that companies focus too keenly on restraining spending and not on reinvestment that promotes new products and revenue growth.

"You continuously have to ask what are strategic costs and how can we invest behind the things that drive the highest volume," said Jason Heinrich, a partner in Bain & Company's Chicago office.

ZBB first gained widespread attention in the late 1970s, when Carter, as president, said he would apply the budgeting principles to federal spending. It never fully got off the ground, however, and Ronald Reagan abandoned it when he became president in 1981.

Its recent resurgence is due in part to Brazilian buyout firm 3G Capital, which used ZBB when it combined H.J. Heinz with Kraft Foods in 2015.

The combined Kraft Heinz now has the best profit margins among its peers with an estimated year-over-year gross margin expansion of 258 basis points, better than twice the average among rivals, according to Morgan Stanley. Kraft Heinz's stock sports a 2.5-point price-to-earnings-multiple premium over its peers.

3G's success is one reason the highest adoption rate of ZBB is in the consumer staples sector, which has banked on cost cutting to offset weak sales growth. In the current fourth quarter reporting season, the consumer staples sector is on track to report profit of 6.3 percent off revenue growth of just 3.2 percent, according to Thomson Reuters data.

Contrast that with the consumer discretionary sector where sales are seen rising 5 percent but profit just 1.1 percent.

Trump travel ban stirs faint corporate outcry beyond Silicon Valley

REUTERS, *New York/Boston*

MOST US corporate bosses have stayed silent on President Donald Trump's immigration curbs, underscoring the sensitivities around opposing policies that could provoke a backlash from the White House.

While the leaders of Apple Inc, Google and Facebook Inc emailed their staff to denounce the suspension of the US refugee program and the halting of arrivals from seven Muslim-majority countries, many of their counterparts in other industries either declined comment or responded with company statements reiterating their commitment to diversity.

The difference in response shows the pressure large swathes of corporate America faces to avoid tussling publicly with the new administration.

Companies such as aircraft maker Boeing Co and automakers Ford Motor Co and General Motors Co have already had run-ins with Trump over other issues, and they have much at stake in policy decisions that the administration will make on tax, trade and regulatory matters.

Before office, Trump attacked Boeing over the cost of the future Air Force One program. Boeing Chief Executive Officer Dennis Muilenburg met with him earlier this month and said he and Trump had made progress on the Air Force One issue and the potential sale of fighter aircraft.

Representatives from Boeing, General Motors and Ford declined to comment on Trump's immigration curbs. Wall Street, meanwhile, is hoping the new administration will ease some of the regulations introduced in the wake of the 2007-08 financial crisis and adopt a lighter touch in their enforcement.

Industries including banking, healthcare and auto manufacturing "see themselves on the cusp of a new era of deregulation, and they do not want to do anything that would offend the new emperor," said Cornelius Hurley, director of Boston University's Center for Finance, Law & Policy.

REUTERS/FILE

US President Donald Trump sits with PayPal co-founder and Facebook board member Peter Thiel, Apple Inc CEO Tim Cook, Oracle CEO Safra Catz and Tesla Chief Executive Elon Musk during a meeting with technology leaders at Trump Tower in New York US on December 14, 2016.

Trump had targeted both the tech industry and Wall Street during his presidential campaign, but once elected, he tapped former investment bankers, hedge fund managers and private equity investors to join his administration.

With friends in high places, Wall Street may have less reason to be as outspoken about the new restrictions.

"Bankers have direct access to this White House," said Erik Gordon, who teaches at the University of Michigan's Ross School of Business. "They don't have to protest publicly."

Representatives of Goldman Sachs Group Inc, Citigroup Inc, Bank of America Corp and Morgan Stanley declined to comment on Trump's immigration order.

Wells Fargo & Co said in a statement that it was reviewing the executive order and its implications for staff and its business.

JPMorgan Chase & Co's Operating Committee, which includes CEO Jamie Dimon, sent a note to staff saying it was reaching out to all employees affected and noted that the country was, "strengthened by the rich diversity of the world around us."

To be sure, some CEOs were more outspoken. Nike Inc CEO Mark Parker said the company did not support the executive order.

"Nike believes in a world where everyone celebrates the power of diversity," he said in a statement. "Those values are being threatened by the recent executive order in the US banning refugees, as well as visitors, from seven Muslim-majority countries."

Brent Saunders, CEO of US drugmaker Allergan Plc, tweeted: "Oppose any policy that puts limitations on our ability to attract the best & diverse talent."

But many boardrooms kept quiet. Representatives for some energy companies, including Exxon Mobil Corp, for example, declined to comment.

As the idea of corporate social responsibility has taken root, so companies have increasingly championed a range of causes, including gay rights, diverse workplaces and a global view.

Many in corporate America are still trying to work out how to deal with a new government that takes a more conservative stance on some social issues and has an anti-globalisation platform.

Those non-tech companies that did issue statements over the weekend tended to emphasize their role as good corporate citizens rather than openly criticize Trump's policies.

Starbucks Corp CEO Howard Schultz has put the coffee chain in the national spotlight before, asking customers not to bring guns into stores and urging conversations on race relations.

In a letter to employees, he said Starbucks was developing plans to hire 10,000 refugees over five years across dozens of countries, but he did not directly criticize Trump's order. "I am hearing the alarm you all are sounding that the civility and human rights we have all taken for granted for so long are under attack," he wrote.

In his statement, General Electric Co CEO Jeff Immelt told staff that the company would engage with the US government.

"We will continue to make our voice heard with the new administration and Congress, and reiterate the importance of this issue to GE and to the business community overall," he wrote.

One of the most immediate ways for corporate bosses to communicate with Trump about the immigration order will be the first meeting of his advisory panel of business leaders next week.