City Bank embracing digital innovations with gusto

Says its managing director

SAJJADUR RAHMAN *and* AKM ZAMIR UDDIN

PEOPLE do not need banks but they need banking, Microsoft founder Bill Gates said 30 years ago. And it appears he was on to something seeing the latest innovations in financial services.

For instance, many banking needs can be met from one's mobile phone; people no longer need to make the journey to a bank branch for them.

Apple has launched a credit card with Goldman Sachs two months ago and Facebook is proposing a payments service to let users buy tickets and settle bills.

Also, technology and e-commerce giants like Alibaba and Tencent have moved into the financial services space as they seek to strengthen their customer-centric propositions and services.

Though late, local City Bank, a 36-year-old lender, has taken to this new wave of digital transformation with gusto.

Young adults and millennials are least interested in the traditional branch-led banking model; they are more comfortable with banking from their smartphones.

"We want to be largely a virtual bank in three years. Even, marginal people residing in a remote place should get banking services through QR Code, point-of-sales terminals and biometric devices," Mashrur Arefin, managing director and chief executive officer of City Bank, told The Daily Star in an interview recently.

City has a plan to become a digital bank that will operate online with no addition of physical branches. It also wants to run its lending programme through digital financial services (DFS), which will subsequently decrease operational costs.

Regulatory support will be required from both the central bank and the government as the traditional KYC (know-your-client) will have to be changed to implement the DFS model.

"We have already approached the regulator for the required support to roll out the service. We want to be a bank of the people and for that we must go for digital expansion."

City has already introduced a small and micro finance division seven months ago as part of its plan to restructure its balance sheet to balance the reliance with corporate and other traditional lending products. At present, corporates account for two-thirds of its current loan exposure.

So far, the small and micro-finance banking division has given out Tk 630 crore in loans to 5,500 clients with an average lending size of Tk 7 lakh.

Mashrur Arefin

The bank has spread to 40 new districts to distribute the loans, which were earlier untapped for the lender, said Arefin, who joined City 12 years ago and was promoted to the bank's top post in January.

A bank with nearly four decades of existence cannot survive with just 16 lakh customers in a country that has over 16 crore population, he said, adding that City should have 2 crore clients by now.

But that will not happen easily unless the banks build a collaboration with payments service providers and telecommunications companies, said Arefin, who previously worked in a number of foreign and local banks, including ANZ Grindlays, Standard Chartered, American Express, Citibank and Eastern Bank.

Subsequently, he urged Bangladesh Bank to broker such inter-industry collaboration.

Agent banking will be another major focus of City to mobilise low-cost deposits and disburse small loans to remote areas of the country.

About Tk 1.5 lakh crore still remains outside the banking sector, as per Arefin's estimates.

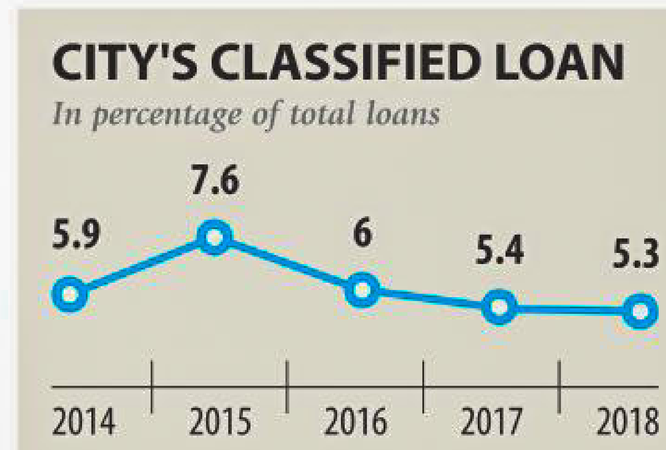
International Finance Corporation, the World Bank Group's private sector arm, holds a 5 percent stake in City and has been giving all-out support to materialise the bank's ambitions to reach out to the unbanked population by way of the DFS model.

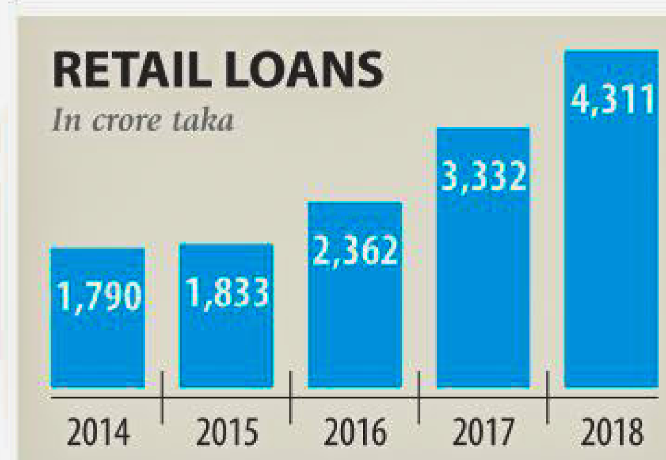
Some 15 consultants of the IFC are now working with the management of the bank to create new financial products and ideas, he said.

Recently, the bank has launched City Alo, a product for women, with a tagline "Coffee Conversation Banking", which also aims at millennials as a specific new segment.

Arefin also touched upon a number of issues confronting the banking sector ranging from banks' default loans to liquidity crisis, high operating expenses, inefficiency and rising deposit costs.

Bad debt is one of major problems for the banks as the default loans would be nearly 15 percent of the total outstanding loans if written-off figure is taken into account, he said.





The banking sector's non-performing loans reached Tk 93,370 crore and written-off loans about Tk 40,000 crore at the end of December last year.

Banks should take prompt measures to bring down their NPLs as it has a major role behind the ongoing liquidity crunch in the banking sector, Arefin said.

The banks facing liquidity crisis have to count high interest to enjoy interbank funds in the absence of a vibrant call money market.

All the banks together are facing a liquidity shortfall of about Tk 3,000 crore, he noted at the time of this interview, which by now has seen certain improvement.

The interest rate on the call money market ranges from 4.50 to 5 percent, but the banks that enjoy strong liquidity base are now reluctant to provide funds through this overnight money market.

Arefin also talked about the cash-strapped banks, which are now forced to take funds from others in the form of placement that comes with interest rates of 8-12 percent, he said.

Repo (repurchase agreement) is the only option for banks to get funds cheaply from the central bank, but the interest rate on the tool is now 6 percent, again much higher than the call money rate.

Besides, deposit from the government agencies has not been distributed to all lenders evenly, he said.

"So, all these factors are contributing to a higher interest rate on lending."

The interest rates on the government's savings scheme should be in line with other interest rates, he said.

Arefin also pointed out that the cost-income ratio of banks, which is now more than 50 percent, is not viable and sustainable.

Banks should decrease their cost-income ratio to 40-45 percent to make their businesses sustainable, Arefin said.

As part of its efforts to lower its cost-income ratio, City has planned to run branches and manage manpower very judiciously. Also, the bank will go for low-cost deposits, such as current and savings accounts, he said.

The banker feels that Bangladesh is going through a lot of trading activities instead of industrial activities, pushing the exchange rate and foreign currency reserves to a perilous position.

"Political stability is there. Now it is our responsibility to help ongoing and emerging businesses in the country."

A career banker, Arefin is also a successful writer. Recently, his first novel 'August Abchaya' has hit the market and has gone on to become a bestseller. He has also translated stories of Franz Kafka and Homer's Iliad in Bangla.

India's economy big worry for Modi, needs stimulus

REUTERS, *New Delhi*

INDIA'S slowing economic growth is of serious concern and the country needs to urgently cut tax and interest rates to revive the economy, a top industrial body said on Monday ahead of the inauguration of Prime Minister Narendra Modi's second term.

The economy grew 6.6 percent in the three months to December - the slowest pace in five quarters - and the Federation of Indian Chambers of Commerce & Industry (FICCI) said the bigger worry was that domestic consumption was not growing fast enough to offset a weakening global economic environment.

"The recent signs of slowdown in the economy stem not only from slow growth in investments and subdued exports but also from weakening growth in consumption demand," FICCI said in a statement suggesting various measures the government could adopt in the next budget expected in a month.

"This is a matter of serious concern and if not addressed urgently, the repercussions would be long term."

Modi - who won a thumping majority in the general election despite the agricultural sector's economic woes, a shortage of jobs and the stuttering economy - takes oath of office on Thursday and will need a finance minister who can help navigate through the challenges facing the economy.

Some of the issues are slowing industrial output and manufacturing growth, slumping car and two-wheeler sales, and a drop in airline passenger traffic.

FICCI said the new government should cut corporate and individual taxes, expand a programme of handing 6,000 rupees ($86) a year to poor farmers to boost consumption demand and consider tax concessions for export-oriented manufacturers.

The Confederation of Indian Industry, another industry body, said it was crucial to reduce the income tax burden and expand the scope of investment allowance to all sectors, while higher incentives should be given to exporters.

Indian Prime Minister Narendra Modi

The FICCI also called for an interest rate cut from the Reserve Bank of India (RBI), as real interest rates have remained high for a long time with commercial banks reluctant to pass on the benefits of recent cuts.

When Modi took power for the first time in 2014, global oil prices slumped. But as he gets set for a second term, rising oil prices could push the current account deficit higher.

The body also said the trade war between the United States and China could further slow down global trade and hurt India's already sluggish exports.

"Amidst rising uncertainties and economic challenges on both the domestic and global front, there is an urgent need to re-energise the engines of growth and pump prime the economy," FICCI said.

"The upcoming budget...is an opportunity for the government to boost consumption and investments through appropriate fiscal stimulus and policies."

Government bureaucrats have started consultations with industry bodies, such as the FICCI, before the budget.

Asia's billionaires develop taste for boutique wealth managers

REUTERS, *Hong Kong/Singapore*

GROWING demand by Asia's rich for independent advisory services and access to a wide variety of investment products is spurring the surge of boutique wealth managers more associated with the established wealth hubs of Switzerland and London.

The boutiques, or so-called external asset managers (EAMs), mainly tap small-and-mid-level business owners and executives, who are typically out of reach for private banks, by leveraging their locally based advisers' contacts and family ties.

As a result, more and more private banks are also leaning on boutique managers to boost their assets in a region which is seeing the fastest billionaire population growth in the world.

While it is a long-established practice in developed wealth centres, with Switzerland and London home to over 2,000 EAMs each, industry officials say Asia has scope to multiply the current pool of less than 200 such boutique wealth managers.

Hong Kong-based Chi Man Kwan - a former private banker with BNP Paribas and Standard Chartered, who set up an independent asset management firm three years ago - is one of the beneficiaries of the growth.

"We are, as an industry, a lot younger than our counterparts in Europe," Kwan said. "But if you benchmark us against the amount of wealth that is being created in Asia, it's the tip of the iceberg."

Having started out by managing his parents' wealth, Kwan's Raffles Family Office now has 35 staff, $2 billion in assets and more than 70 clients. Kwan said his start-up would double the headcount and assets over the next two to three years.

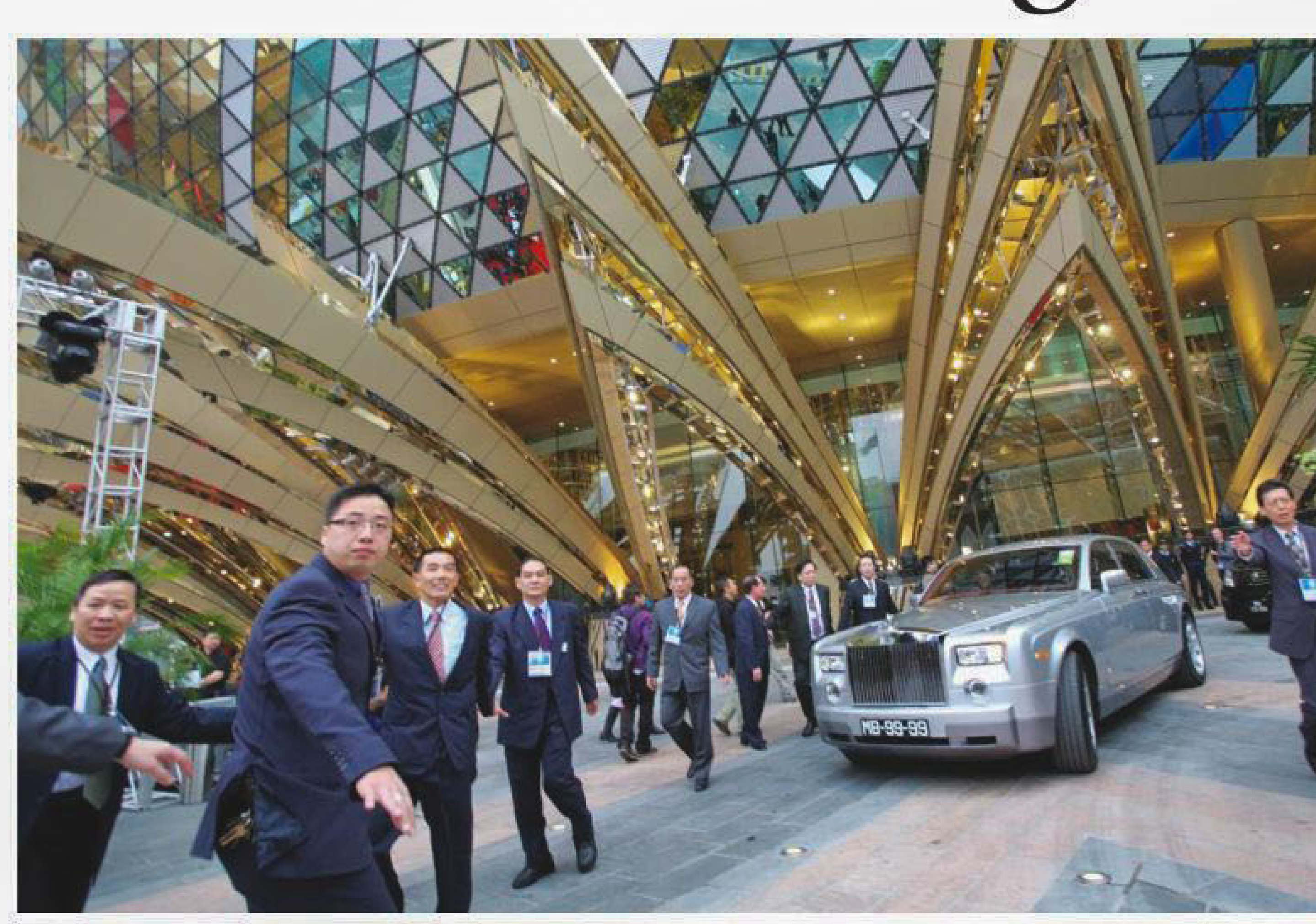
EAMs offer investment advisory, tax and succession planning services to clients, and partner with the large wealth managers such as Credit Suisse and UBS to open accounts and execute deals.

As they are not tied to any particular private bank, they are free to offer bespoke and independent advisory services, a flexibility that Asia's rich find increasingly attractive.

EAMs account for up to 6 percent of total wealth management assets in Asia, according to a survey by trade publication Asian Private Banker. That will double over the next three to four years, industry executives told Reuters.

The trend is getting a foothold in Asia at a time when the overall individual wealth is expanding.

Asia Pacific saw total household wealth grow 3 percent last year to $114.6 trillion from a year ago, making it the largest wealth region globally, a Credit Suisse global wealth report shows.



AFP/FILE

Asia Pacific saw total household wealth grow 3 percent year-on-year to $114.6 trillion last year.

"EAM accounts are relatively low-maintenance accounts for private banks," said Alexander Florsheim, chief investment officer at Carret Private, which manages more than $1 billion in assets in Asia.

"Private banks don't have to spend much and pay incentives to in-house relationship managers for originating the business."

Schroders Wealth Management announced in February it was acquiring the wealth management business of Singapore-based independent asset manager Thirdrock Group, which had $3 billion of assets.

Besides UBS, Credit Suisse and Julius Baer, who work with EAMs in Asia, Bank of Singapore set up a desk last year to work with independent asset managers covering Greater China and North Asia.

The head of that desk, Jeffrey Peng, said partnering with independent managers helped it access clients in different markets, and saved costs as the work was split between the bank and boutiques.

Noah Kan, head of Julius Baer's intermediaries business in Southeast Asia, said working with EAMs was as profitable as the Swiss private bank's direct business, and it would remain relevant to its growth strategy in the region.

Credit Suisse, which provides services to over 1,000 EAMs globally, said in the past three years it had sharpened focus on working with the local asset managers in Asia Pacific (APAC) instead of the "satellite offices" of their European peers.

"Moreover, the EAM penetration in APAC is still lower than that in other regions and the industry is expected to grow as a result of the local wealth creation and increasing awareness," its Greater China head of EAM business Franck Chen said.

UBS did not respond to a request for comment.

Many rich individuals prefer to work with boutiques due to their transparent fee model, primarily a management fee charged as a percentage of the client assets.

"Only if a client's portfolio does well, then your firm earns more and if clients suffer, then your firm will share the pain. So it's your firm's incentive to ensure that you do well for your clients," Singapore-based AL Wealth Partners co-founder Anthonia Hui said.

The rising cost of hiring wealth advisers from bigger global private banks and meeting compliance requirements are however a challenge for boutiques, even as they run operations with 20-100 people and avoid flashy office locations.

Most of the smaller independent managers are not equipped to make huge investments in systems, compliance, and people, said Olivier Mivelaz, who started wealth management platform Swiss Asia in Singapore in 2004 and now manages $3 billion in assets.

"If you don't have a critical mass, you are not equipped to make these investments," he said.