

# Undue intervention by boards causes troubles for lenders

Says IDLC Finance CEO

AKM ZAMIR UDDIN

UNDUE intervention by boards has become a major problem for lenders in Bangladesh, a situation which is creating not only a lot of troubles for top management but also hurting their financial health, said Arif Khan, managing director of IDLC Finance Ltd.

"Rather, the boards of banks and non-bank financial institutions should allow top management to take decisions in a free and transparent manner to perk up corporate governance," he said.

At the same time, the managing directors of lenders should strengthen their professional skills to remove their lack of confidence in tackling boards, he said.

"They will have to call a spade a spade if boards push for undue proposals going against rules and regulations. The CEOs will have to take strict stance to protect the interest of depositors because this will give a boost to improve financial health."

The financial condition of banks and NBFIs whose boards are less ethical is on the wane.

Khan is leading a company which leads by example when it comes to introducing new products, maintaining lower non-performing loans, making higher profits, and ensuring good governance, among other indicators.

IDLC Finance's NPL is one of the lowest in the financial sector, standing at only 2.30, way below than the banking industry's average default loans of more than 10 percent.

The non-bank made a net profit of Tk 217 crore in 2018.

"We have yet to face any penalty from the regulator in the last 34 years. This indicates the

lender is highly compliant," Khan said.

"To us, compliance is investment," he told The Daily Star in an interview recently.

Khan said a portion of loans may default and this is not unusual as clients could face loss while running business.

"But when lenders intentionally give out loans to scammers sidestepping rules, it will create dire consequences for them. In such cases, loans become defaulted and this is quite tough to recover them," he said.

IDLC Finance is an example of how zero intervention from directors and good governance can take a lender to a great height.

"The IDLC board has never transgressed its management decision and this has helped the NBFIs turn into one of the top profitable companies among all the lenders," Khan said.

The NBFIs started as a single product lease finance company in 1985 with five staff members. Today, it is the largest multi-product lender among NBFIs in the country.

The company is present in more than 20 cities, represented by 40 branches and booths with over 1,400 employees, serving over 45,000 clients.

As much as 72 percent of the lender's total loans has been approved by its assistant managers, managers and senior managers. The board and top management are not involved in the credit approval process.

"We started the method 15 years ago. And we still continue the process at a time when a severe confidence crisis is prevailing between boards and management in the banking sector," he said.

Khan said thanks to the lower NPL, there is little loss from delinquent loans.

"IDLC can recover them by filing cases



Arif Khan

with courts. We have so far recovered nearly 99 percent of our total NPLs. This has been possible thanks to a transparent credit approval process."

The NBFIs research team is dedicated to rolling out new products.

"And it also carries out research from time to time with a view to finding out any forthcoming crisis the economy may face," said Khan, who recently served the Bangladesh Securities and Exchange Commission for a five-year stint as a commissioner.

Previously, Khan served IDLC Finance for 15 years before leaving as the deputy managing director. He began his career in 1991 as a probationary officer in AB Bank.

IDLC was the pioneer in introducing SME credit programme 15 years ago and has popularised SME loan. It has adopted a go-slow policy for the wholesale banking long ago.

Many lenders followed the footsteps of IDLC after seeing the tremendous success of the SME credit programme.

Khan said a big volume of money gets stuck if a big borrower becomes defaulter.

Under the SME credit programme, the NBFIs has so far disbursed loans worth Tk 700 crore to women entrepreneurs alone. The NPL in the segment is only 0.65 percent.

In a first in Bangladesh, IDLC Finance has created a fund of \$5 million for start-ups as it thinks the segment will play a major role in taking the economy forward in the coming days. The disbursement of the fund will begin in November.

"We have taken the move to help both young entrepreneurs and the economy. We will offer collateral-free loan up to Tk 25 lakh to eligible start-ups," he said.

IDLC is now giving priority to home loans and has so far disbursed Tk 3,000 crore.

As much as Tk 1,000 crore is disbursed every year to clients to help them fulfill their dreams of a well-furnished home. The Affordable Home Loan product largely aims at the middle- and lower-income segments.

Under the product, the NBFIs is providing loans between Tk 5 lakh and Tk 25 lakh to the clients residing outside of Dhaka. The interest rate is 10 percent, two percentage points lower than the existing market rate.

IDLC Finance has also made it easier for

customers to get loans as the company's 500 sales officers visit prospective borrowers to extend credit.

The sales officials collect data from clients using digital tools and the lender gives approvals to loans promptly.

IDLC is now introducing a piece of software – Customer Relationship Management – to better understand clients' behaviour and attitude.

"We will be the first in the country to introduce the digital tool," Khan said.

The cost-income ratio of the NBFIs is less than 40 percent, one of the lowest in the industry.

"But, we do not pay lower salary to our employees. We are now giving all-out efforts to use latest knowhow and appoint skilled workforce."

The lender always tries to use simplified process to run operations. "This has helped it enjoy a strong low cost-to-income ratio," said Khan, who obtained an MBA from the Institute of Business Administration under the Dhaka University.

IDLC is the top taxpayer in the non-bank financial sector. Last year, it gave Tk 200 crore in taxes to the exchequer.

"This is not an easy task for a lender," Khan said.

He also touched upon some issues confronting the banking sector.

He said many banks have recently taken decision not to park deposits with NBFIs, dealing a blow to the latter.

"Rather, banks should deposit funds with NBFIs after analysing the financial health of an NBFIs."

IDLC, however, doesn't depend on banks for deposits because the cost is high. Rather, it raises funds from retail depositors.

Khan, who did his undergraduate and postgraduate degrees in finance and banking from Dhaka University, said bringing down the lending rate to single-digit is important as it will give a breathing space to the business community.

"But, we will have to lower the deposit rate to 6 percent simultaneously. Otherwise, the banking sector will not be able to implement the single-digit rates on lending," said Khan, a chartered financial analyst and a member of the CFA Institute in the US.

## US DELISTING THREAT

# China says 'decoupling' would harm both sides

REUTERS, Beijing

CHINA warned on Monday of instability in international markets from any "decoupling" of China and the United States, after sources said the Trump administration was considering delisting Chinese companies from US stock exchanges.

US President Donald Trump's administration is considering the move, three sources briefed on the matter said on Friday, in what would be a radical escalation of US-China trade tensions.

It would be part of a broader effort to limit US investment in Chinese companies, two of the sources said. One said it was motivated by the Trump administration's

of the international community."

Geng said he hoped the United States would work with China to deepen economic and financial cooperation, and that the United States would take a "constructive attitude" toward resolving differences.

Stocks in mainland China fell to their lowest in almost a month on Monday on the news that the United States may curb Chinese companies' access to US capital markets, stoking fears of a major escalation in the trade war.

The news comes just ahead of celebrations in Beijing on Tuesday marking 70 years since the founding of the People's Republic of China, at which President Xi Jinping will oversee a massive military parade.



REUTERS/FILE

Traders work on the floor at the New York Stock Exchange.

growing security concerns about the companies' activities.

Chinese Foreign Ministry spokesman Geng Shuang said he had noted the reports on delisting and the response from the US Treasury, which said there were no plans to block Chinese listings "at this time".

China-US trade and financial cooperation is mutually beneficial, Geng told a daily news briefing.

"Exerting maximum pressure and even seeking the forced decoupling of China-US relations will harm the interests of Chinese and American companies and people, create turmoil in financial markets, and endanger global trade and economic growth," he added.

"This does not accord with the interests

The United States and China have been locked in an escalating trade war for over a year. They have levied punitive duties on hundreds of billions of dollars of each other's goods, roiling financial markets and threatening global growth.

In June, US lawmakers from both parties introduced a bill to force Chinese companies listed on American stock exchanges to submit to regulatory oversight, including providing access to audits, or face delisting.

Chinese authorities have long been reluctant to let overseas regulators inspect local accounting firms - including member firms of the Big Four international accounting networks - citing national security concerns.

## Eurozone jobless rate falls to 11-year low

AFP, Brussels

UNEMPLOYMENT in the eurozone fell in August to 7.4 percent, its lowest level since May 2008, according to official data released Monday.

The figure, which brought the number of unemployed in the single currency bloc to 12.17 million, was lower than a forecast by financial data provider Factset, which predicted unchanged unemployment at 7.5 percent.

Unemployment in the eurozone thus fell below the rate just prior to the world financial crisis in 2008 (7.5 percent) after reaching 12.1 percent in mid-2013 at the height of the debt crisis.

Germany, the leading economy in the euro area, recorded the lowest level of the 19 euro countries, stable at 3.1 percent followed by Malta at 3.3 percent and the Netherlands at 3.5 percent.

The large countries of Southern Europe are still well above the average.

Greece, which put an end to a series of bailouts in 2018, recorded the highest level, at 17 percent according to June figures, the latest data available.

In Spain, the percentage of unemployed declined in August to 13.8 percent, a smaller decline than in Italy which fell to 9.5 percent, down 0.3 points. France remained stable at 8.5 percent.

Unemployment among workers under 25 fell to 15.4 percent, with again Greece at the top with 33 percent according to June figures.

In Spain it rose slightly in August to 32.2 percent.

In the countries of the European Union as a whole, unemployment fell to 6.2 percent, some 15.4 million unemployed.



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