IDRA appoints external auditor for Sonali Life

STAR BUSINESS REPORT

The Insurance Development and Regulatory Authority (IDRA) has appointed an external auditor for Sonali Life Insurance, a listed insurance company in Bangladesh.

The auditor was appointed to investigate allegations of various financial irregularities, such as how Mostafa Golam Quddus became chairman of the company without making any investment.

As per regulations of the Bangladesh Securities and Exchange Commission, any individual looking to become the chairman of a local insurer must hold a minimum 2 percent share of the company.

It was also found that there are discrepancies in the value of the company's life fund, said an IDRA official on condition of anonymity.

On Sunday, Hoda Vasi Chowdhury & Co was appointed as the auditor, said SM Masudul Haque, director of the life department at the IDRA.

The auditor was asked to complete its investigation into a total of 17 issues related to Sonali Life within 30 days of being appointed, he added.

Among other allegations, the means and manner through which directors of Sonali Life purchased shares in the company to boost its paid-up capital in 2018 will also be investigated.

Similarly, the auditor was asked to find out why Sonali Life paid tax of Tk 13.75 lakh owed by Dragon Sweater and Spinning Ltd in 2021, despite the latter being a separate company owned by Quddus.

Likewise, it will also look into the purchase of a luxury car valued at Tk 1.70 crore for the company's chairman as well as its huge expenses on maintenance from 2021 to 2023.

Mir Rashed Bin Aman, chief executive officer of Sonali Life, did not respond to The Daily Star's request for a comment by the time this report was filed.

Cattle farmers in chars on the Jamuna river along Gaibandha district, some 250 kilometres north of the capital, load straw collected from the mainland onto horse-drawn carts at Balashi ghat of Phulchhari upazila. The chars are essentially shallow lands that rise and stay visible for years before fading back into the river. Becoming completely self-sufficient is not always possible for the char residents as significant effort, knowledge and skills are required to survive on one's own. The photo was taken recently. PHOTO: MOSTAFA SHABUJ

Consumer protection committee must for insurers

IDRA's draft policyholder protection guidelines outline

STAR BUSINESS REPORT

Every insurance company must have consumer protection and complaint settlement committees comprised of those on the board of directors, according to the draft insurance policyholder protection guidelines.

The committees will ensure the settlement of complaints related to insurance claims and take effective measures to protect the interests of policyholders, as per the guidelines.

The Insurance Development and Regulatory Authority (IDRA) published the guidelines on its website on December 17, seeking feedback from stakeholders.

IDRA has started working on the guidelines at a time when payments against claims of around 10 lakh policyholders are hanging in the balance as 29 life insurance companies are not clearing dues owing to a liquidity crisis.

The unsettled claims involve Tk 3,050 crore in the four years to the second quarter of 2023, data from IDRA showed.

Currently, there are 35 life insurance and 46 non-life insurance companies in Bangladesh.

The ratio of the premium collected by insurance companies to GDP is only 0.4 percent in the country whereas it is more than 4 percent in India, according to recent data from Switzerland-based research organisation Swiss Re Institute.

As per the guidelines, the insurance plan or product must be approved by IDRA and sales cannot be made without the approval.

It also warned against fraud.

At the sales stage, the actual benefits and conditions of the proposed product should be clearly informed to the customer in understandable and simple language, according to the guidelines.

No idea or assurance shall be given to the customer, verbally, in writing or otherwise, which is not in the insurance plan, it said.

It also mentioned that the suitable insurance plan or product must be presented to the customer in the context of the customer's needs or demands. No such insurance scheme or product shall be affected or forcibly sold to customers which the customer did not intend to purchase.

Customers should also be informed of any restrictions or penalties in case of policy maturity or withdrawal and any investment or other risks associated with insurance policies.

In line with the guidelines, no changes can be made to the insurance contract without the written consent of the insured.

An insurer or agent or the broker or agent appointee shall ensure appropriate security measures to preserve sensitive customer information, it added.

An individual/insurance customer or potential customer shall not be induced to initiate an insurance policy or change, add or cancel any policy, it said.

It also instructed the insurer to create and maintain a database of all the information of the insured while ensuring effective systems and processes for receiving, registering and disposing of complaints, including ICT-based systems.

"The guidelines seem suitable and will encourage policyholders," said Nasir Uddin Ahmed, first vice-president of the Bangladesh Insurance Association.

Zahangir Alam, spokesperson of IDRA, recently told The Daily Star that the settlement of many claims of policyholders remained suspended despite maturing, which was why the regulator was going to make this guideline.

Quality credit helps improve Sonali Bank's health: MD

STAR BUSINESS REPORT

Almost all the indicators of state-run Sonali Bank improved now rather than earlier due to disbursement of quality loans, said its managing director and CEO Md Afzal Karim.

The bank was able to reduce its capital shortfall, loss-making branches and at the same time the bank's loans growth increased, said the state-run bank CEO in a press conference at the head office of the bank on Monday.

Credit growth of the bank has increased after a long time and the outstanding loans and advances stood at Tk 100,809 crore at the end of December last year, which helped to make an operating profit of Tk 3,727 crore, up from Tk 2,382 crore a year ago.

Afzal Karim said that the state-run bank now focuses on cashless banking and they are working to make a cashless society.

He also said that the bank capital shortfall was at Tk 6,782 crore and the capital shortfall had continued to rise at that time despite recapitalization by the government.

"But now the government suspended the recapitalization to state banks but we are able to reduce the capital shortfall to Tk 4,400 crore, which is a record among the state-run banks."

Last year, the bank's Tk 827 crore income came from interest income. The state-run lender's loss-making branches stood at 9 at the end of last year, down from 17 in a year ago.

Afzal Karim informed that his bank is going to open an exchange house in Maldives and the bank already took the approval from the central bank.

Replying to a question about the country's foreign exchange market, he said that there was a huge demand supply gap of foreign currency in the concluding year that is why the market was so volatile. He, however, expects that the forex situation will improve in the new year.

Ahmed made DMD of National Bank

STAR BUSINESS DESK

National Bank Limited has promoted an official to the post of deputy managing director (DMD).

The official, Sheikh Akhter Uddin Ahmed, was working for the bank as a senior executive vice-president and head of the human resources division concurrently, the bank said in a press release.

Akhter joined National Bank in 1998 as a probationary officer.

He previously served NBL Money Transfer SdnBhd, Malaysia, a wholly owned overseas subsidiary, as chief executive officer for 12 years.

He obtained his honour's and master's degrees in accounting from the University of Rajshahi.

Three factors that could determine

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So, three key factors, namely the floor price, the interest rates, and the macroeconomic challenges will determine whether the stock market of Bangladesh will make a comeback in 2024 or not.

"There is no hope for the stock market to make a comeback in the first six months of 2024 as the interest rate of treasury bonds rose, the FDR rate has gone up, and inflation has stayed at an elevated level," said a top official of an asset management company.

The yield of treasury bonds has already crossed 11 percent and it tends to rise further because the government will try to refrain from borrowing from the central bank and mobilise funds by selling bonds instead, he said.

When the interest rate of bonds and fixed deposit receipts (FDRs) rise, the funds flow from the stock market to the banking sector.

The asset manager says the government is buying US dollars from banks in the exchange of the taka, increasing the money supply in the economy – a move that may stoke inflationary pressures.

When inflation goes up, the interest rate on FDRs and treasury bonds also increases. So, there is little hope to see a pickup in the flow of funds to the stock market.

"This is because if a fund manager gets more than 11 percent return by putting funds in treasury bonds, he will invest in the instrument instead of keeping funds in a risky tool like stocks."

The bank interest rate is also set to rise.

The benchmark rate known as SMART (six-month moving average rate of treasury bills) stands at 8.14 percent currently, meaning banks can charge as high as 12 percent for loans. It was capped at 9 percent between April 2020 and June this year.

If the lending rate moves up, the deposit rate will also see an upward trend. This will result in the movement of funds from the stock market to the banking system.

Another blow might come from the depreciating taka since foreign investors try to dispose of their holdings when the local currency falls significantly, he said.

The taka has lost its value by about 25 percent against the US dollars in the past two years and the trend might continue in the new year.

"No prediction will work for the stock market as long as the floor price is in place," said Mir Ariful Islam, managing director of Sandhani Asset Management.

He says if the floor is lifted, the index might fall or rise initially.

According to Islam, the new government may instil new hopes in the market by focusing on the financial recovery. "If the macroeconomic indicators recover, the stock market may also make a comeback."

A merchant banker points out that although the market's fate will depend on the macroeconomic scenario, the government is yet to take any significant policy reforms to revive the ailing economy.

The performance of the listed companies has not been encouraging, keeping investors at bay.

In the first nine months of 2023, many companies saw a decline in profits. The profit situation may deteriorate further this year owing to higher inflation, wages and raw material prices.

"This will ultimately affect the index," the merchant banker added.

"Until the floor price is removed, investors' confidence will not receive any boost," said Abdul Mannan, a stock investor.

"I have been able to trade only a low number of shares in the last one and a half years in the absence of buyers though I needed to sell shares six months ago."

Of the 347 companies that trade on the premier bourse of the country, the price of 182 was stuck at the floor price at the end of 2023, DSE data showed.

"Some investors who paid heed to rumours earned money while honest investors sat idle. I don't want to see the same picture in 2024," Mannan added.

The stocks of 14 multinational companies rose 1 percent and the 10 largest blue-chip companies grew 0.4 percent in the last one year, highlighting the perils that most investors faced in 2023.

On the other hand, nine out of the top 10 gainers either belonged to the "B" category or the "Z" category although these firms failed to pay a minimum dividend to shareholders due to weak earnings.

Of the nine, stocks of Khan Brothers PP Woven Bag surged seven times and Legacy Footwear skyrocketed three times. The rest more than doubled.

"We hope that the new government will focus on ensuring governance in the market so that junk stocks can't dominate," said Saiful Islam, president of the DSE Brokers Association.

He said the floor price has not only squeezed the business of stock brokers, but also the stock exchanges as turnover tumbled.

Average daily turnover on the DSE decreased 39.8 percent to Tk 578 crore in 2023, following a 34.9 percent drop in 2022.

Saiful Islam hopes the near impasse created in the market for the floor price will be removed by the new government.

"The new government must scrap the floor price immediately without bothering about the impact it may have on the index. Then, it should ensure a higher supply of well-performing companies in the stock market."

"A good number of sound companies is crucial to elevate the confidence of stock investors," he said, adding state-run companies that are in good shape should be asked to go public initially.

"At the same time, the regulator needs to be strict on ensuring good governance."

In its analysis, a brokerage firm said it sees 2024 as a year with key turnarounds awaiting, regarding post-election policy stability, interest rate plateauing, exchange rate stabilisation, and industry consolidation amid an economy trying to overcome shocks.

An added incentive is the delayed impact of the floor price removal, and the associated bargain opportunities that did not materialise in 2023 over policy misfire, said the analysis prepared for its clients.

Investment

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A similar slowdown in investment was also seen in the garment sector, worth more than $30 billion, in the past year.

In 2023, 134 new garment units came into operation compared to 182 in 2022, according to data from the Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

The main reason for lower investment in that sector was because of a slowing in the inflow of work orders from international clothing retailers and brands alongside other causes like the volatile dollar market, low prices from the buyers, rising costs of production, and low pressure of gas and electricity in factories, said BGMEA President Faruque Hassan.

Some factory owners expanded necessary technologies as many exporters are focusing more on high valued added garment items like apparels made from man-made fibre, Hassan told The Daily Star over phone.

However, the situation is expected to improve from the second half of this year as the global economic situation is improving, evidenced by the easing of the interest rate by the US Federal Reserve and major banks in the European countries, Hassan also said.

In 2022, nearly 50 new units came into operation in the knitwear sector, but in 2023, that number was reduced to less than 10, said Mohammad Hatem, executive president of Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA).

The knitwear sector also witnessed some very required expansion which was mandatory for the exporters. Otherwise, the sector saw dry investment, he said.

He added that the low inflow of work orders and inadequate gas pressure meant industry owners could not run their factories at full capacity, with most units running at 50-60 percent capacity.

He also said the volatile dollar market was responsible for low investment inflow in the sector.

Govt sees budget surplus

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In the first quarter of FY 2023-24, the interest payments amounted to Tk 21,834 crore, including Tk 2,905 crore against foreign loans.

In the same quarter of FY 2022-23, the interest payment amounted to Tk 18,169 crore, including Tk 1,525 crore against foreign loans.

In case of subsidies, the government spent Tk 8,953 crore in this fiscal year's first quarter, which was Tk 11,179 crore in that of the last fiscal year.

A finance ministry official said the surplus was evident as the revenue collection witnessed a rise.

As a result, the government did not have to borrow, he said.

Instead, the government was able to repay some loans, the official added. In case of deficit financing, the government repaid Tk 12,675 crore in the first quarter of the current fiscal year.

In the same period of the previous fiscal year, the government's net borrowing stood at Tk 1,638 crore.

Usually, foreign loans are opted for when meeting budgetary deficits as it is low cost.

However, in the current fiscal year, the government managed to repay more than what it had borrowed.

In the first quarter, the government borrowed Tk 1,843 crore but repaid Tk 8,094 crore.

Private credit growth

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since June 2022, averaged 9.42 percent in November.

To contain rising prices, the central bank began to tighten the money supply by introducing the Six-month Moving Average Rate of Treasury bill (SMART) and lifted the cap on the interest rate offered by banks on loans to let the rate reflect the market reality.

As such, the interest rate on deposits and loans has been increasing since July in line with the spike in SMART due to the liquidity crunch in the banking sector.

Banks can charge up to 3 percent as margin on the SMART on loans. In case of consumer credit as well as cottage, micro and small and medium enterprises, banks can take up to one percent as a fee to cover supervision costs.

Islam said the cost of loans had risen. Besides, people in general have become cautious ahead of the general election, he added.

Sheikh Mohammad Maroof, additional managing director & head of business at City Bank, said the slowdown in credit growth to private sector was not significant.

"But it reflects slowing amid rising interest rate. Besides, private sector credit flow usually slows in the final months of a year. Banks give higher focus to deposits, reduction of non-performing loans and annual book closure during this period," he said.

Reserves fall short

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dollars from commercial banks. It purchased $1.04 billion in recent times, which included the $200 million bought from the crisis-hit Islami Bank last week, said central bank officials.

At the same time, the regulator continues to pump US dollars into banks from its reserves. Between July and December, the BB sold $6.7 billion to banks, central bank data showed.

The banking regulator sold more than $13 billion in the past two years, piling up pressure on the reserves.

Banks, especially the state-run lenders, are taking the dollar support to settle import payments of Bangladesh Petroleum Corporation, Bangladesh Agricultural Development Corporation, and Bangladesh Chemical Industries Corporation, among other government agencies.

The next review of the 42-month IMF programme will take place in May when Bangladesh is expected to receive the third installment.