

## MITIGATE LENDING RISKS

### through rigorous credit assessments

In the face of current economic challenges, NBFI in Bangladesh can adopt several strategies to navigate and strengthen the finance sector. Firstly, it's crucial to monitor market trends and proactively adjust strategies. By staying ahead of economic shifts, we can mobilize funds more efficiently and meet the needs of our clients in a

timely manner.

Maintaining liquidity is vital for meeting obligations to depositors, the market, and lenders. By adopting a balanced asset-liability management framework, we can effectively manage liquidity risks and ensure we meet both short term and long term financial commitments. This means keeping an optimal balance between assets and liabilities to avoid liquidity crunches.

Secondly, managing non-performing loans (NPLs) is of paramount importance. Implementing robust risk assessment tools and regularly monitoring loan portfolios allows us to minimize bad loans. Coupled with stricter credit assessment processes, this ensures healthier loan books and better financial stability. By closely monitoring repayment schedules and borrower performance, we can identify

potential defaulters early and take corrective actions to mitigate risks.

Careful due diligence in loan sanctioning and disbursement is also essential.

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Strengthening governance is another key strategy. We can build trust and ensure sustainable growth by fostering transparent and accountable management practices. This includes adhering to regulatory standards and cultivating a culture of ethical business practices.

Regarding government support, continuing refinance and pre-finance funds is crucial. Such support enables NBFI to provide lower-cost financing options, particularly to SMEs and underserved sectors. Government-backed refinance schemes can significantly reduce the cost of funds for NBFI, enabling them to offer competitive interest rates to borrowers. This is especially important for supporting small businesses vital for economic growth and employment generation.

Moreover, strong regulatory supervision by the government ensures adherence to best practices and maintains financial stability. Regular audits, compliance checks, and transparent reporting mechanisms help maintain the integrity and reliability of NBFI. The government

can also facilitate capacity-building programs and provide technical assistance to NBFI to enhance their operational capabilities and risk management practices.

In addition to these strategies, NBFI should focus on leveraging technology to enhance service delivery and operational efficiency. Digital platforms can streamline loan processing, improve customer service, and expand reach to underserved areas.

Lastly, NBFI should actively engage in financial literacy programs to educate customers about financial management, investment opportunities, and responsible borrowing. This can be achieved through regular financial literacy sessions, workshops, and dedicated social media channels.

**M JAMAL UDDIN**

CEO & Managing Director, IDLC Finance



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## At a glance

Established in 1985, IDLC Finance PLC is one of the largest multi-product, multi-segment Non-Banking Financial Institution (NBFI) in Bangladesh. IDLC holds a strong and diversified footing in the Corporate, SME, Retail, and Capital Market segments.

The IDLC Group comprises four companies: IDLC Finance PLC, IDLC Securities Limited, IDLC Investments Limited, and IDLC Asset Management Limited. The businesses of all four entities are intertwined and operate under the umbrella of the IDLC Group.

IDLC Finance offers the Purnota SME Loan to support women-led businesses, including capacity-building programs and financing to help women entrepreneurs thrive. In 2021, IDLC Finance launched its MFS-based digital deposit product.

In 1990, IDLC opened its first branch in Chittagong. Today, IDLC is present in 24 cities, represented by more than 44 touchpoints, with over 1,600 employees serving over 254,000 clients.

The company is renowned for its commitment to sustainable business practices and active involvement in corporate social responsibility (CSR) initiatives, focusing on education, health, environment, and community development. Recognized for its innovative solutions and significant contributions to the financial sector, IDLC continues to expand its services and branch network across Bangladesh.

## UNSUNG FINANCIAL HEROES

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on home loans. Government initiatives addressing macroeconomic issues would be helpful for us in managing these challenges," states Nasimul Baten, MD of DBH Finance.

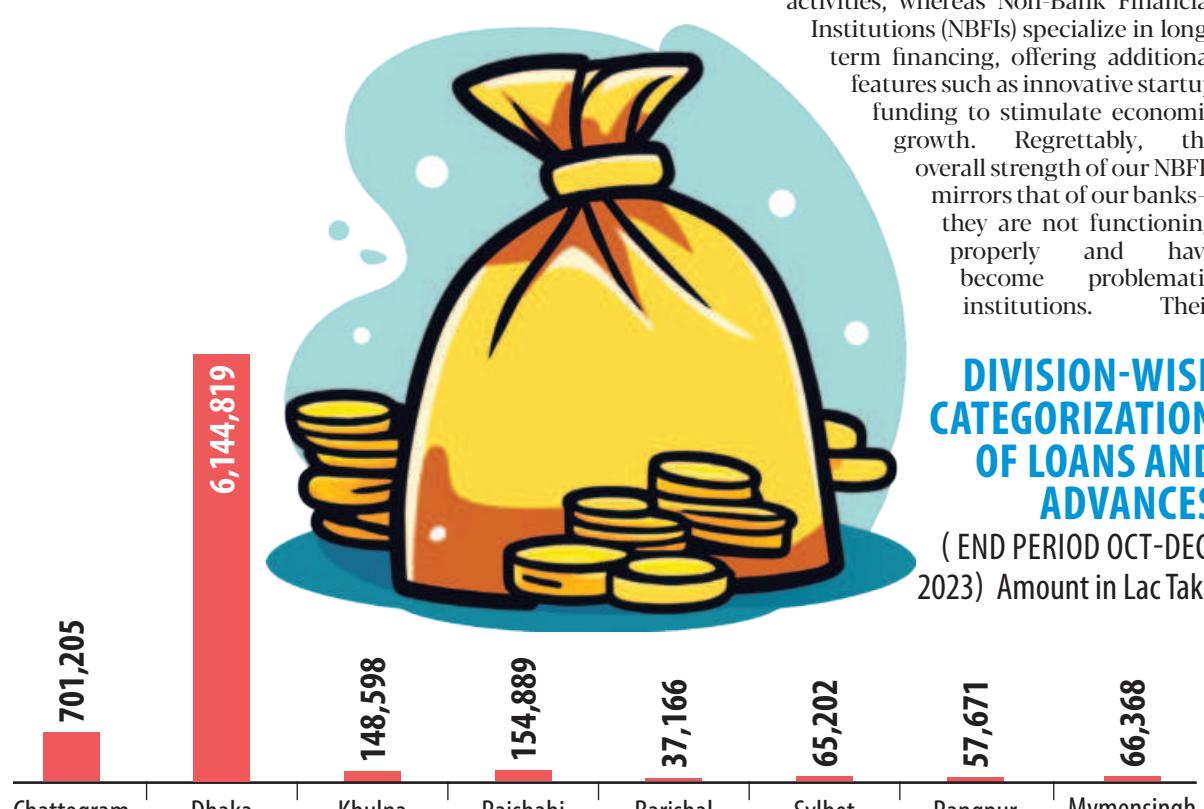
He further adds, "Globally, NBFI benefit from long-term funding sources like pensions and insurance since they

has not been robust due to a lack of good governance and policy support from the government, but they still have the potential to grow if the existing problems can be addressed fairly," mentions Kanti Kumar Saha, Chief Executive Officer of Alliance Finance PLC and Vice-Chairman of the Bangladesh Leasing and Finance Companies Association (BLFCA).

"Commercial banks worldwide primarily focus on short-term business activities, whereas Non-Bank Financial Institutions (NBFI) specialize in long-term financing, offering additional features such as innovative startup funding to stimulate economic growth. Regrettably, the overall strength of our NBFI mirrors that of our banks—they are not functioning properly and have become problematic institutions. Their

### DIVISION-WISE CATEGORIZATION OF LOANS AND ADVANCES

(END PERIOD OCT-DEC, 2023) Amount in Lac Taka



provide long-term loans, unlike banks. However, here, NBFI are providing long-term loans with short-term funds, while banks are offering short-term loans with the advantage of long-term funds. If the government revises the current regulations, it would significantly benefit NBFI by allowing them access to long-term funding, which aligns with their long-term loan disbursement practices."

"The contribution of NBFI to the financial assets of the country is around 5 percent, whereas in neighboring countries like India and Sri Lanka, the share of NBFI is around 16 percent and 12 percent respectively. The role of NBFI

challenges primarily stem from mismanagement, leading to a rise in bad loans and hindering the development of our economy," says Mustafa K. Mujeri, Executive Director of the Institute for Inclusive Finance and Development (InM), and former chief economist of Bangladesh Bank and director general of Bangladesh Institute of Development Studies (BIDS).

He stresses the urgent necessity for a comprehensive overhaul and underscores the critical need for a robust regulatory mechanism to effectively supervise the activities of NBFI and bolster governance practices, thereby ensuring optimal performance.

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