A temporary tax cut CAN BE A BOOST

The key challenges facing NBFIs or finance companies are rooted in an image problem due to governance issues of some of the NBFIs. The current Non-Performing Loan (NPL) rate of around 30% is largely due to scams, wrong borrower selection, and the absence of a robust risk management culture. In addition to governance, non-compliance with regulations and human resource issues are also major challenges. The NBFI sector as a whole has failed to attract an adequate number of skilled resources due to ongoing problems and the image of the sector.

Addressing these governance issues should start at the board level. The recent Finance Company Act has possibly, for the first time, addressed some of the governance-related issues, including eligibility criteria for Directors, Independent Directors, CEOs, and CXOs, but much will depend on the fullest implementation and compliance of these regulations. The appointment of Independent Directors for non-listed NBFIs is a good step.

Secondly, supervision needs to be effective in the context of ongoing digitization in the overall financial sector. The use of technology in the NBFI sector is also growing, necessitating staff with IT knowledge and familiarity with core banking solutions.

Thirdly, policies need to be adopted in a manner so that banks and NBFIs can complement each other instead of competing with each other. Few NBFIs can be brought under a separate cell to monitor and support closely for improvement. Sometimes measures taken to address the problems of weaker NBFIs restrict the growth of better players in the industry.

NBFIs also lack liquidity support similar to that available to banks. Guidelines can be made that a specific percentage of investment on minimum capital, allowing the sector to receive liquidity support in emergencies. Government support in these areas is also crucial for sectoral growth.

Profitability in this sector has significantly dropped due to interest rate caps. These factors are interconnected with the capital market. When regulated sectors like banks, insurance, and financial institutions experience decreased profitability, it impacts the capital market too. In the first quarter of this year, available information on several listed NBFIs witnessed significant drops in interest income due to repricing of deposits on a daily basis while loan repricing is allowed only after six months. People in the sector are expecting detailed guidelines on withdrawal of the interest rate cap soon, like banks.

In the absence of savings or current accounts, the cost of funds of NBFIs is much higher than banks, which results in margin pressure as well as reduced profit in an interest rate cap regime. Additional provisions have just aggravated the profitability further due to the increasing trend of NPL. Moreover, businesses are going through various challenges, and borrowers are increasingly failing to repay the money. In this context, a tax cut for an interim period for the sector can be a boost for the profitability trend as well as have a positive impact on the capital market.

Last but not least, drastic reforms of the legal framework to expedite the decision-making process in the money loan court are crucial for the recovery of bad loans. Recent policies on willful defaulters are another good step in this context.

KANTI KUMAR SAHA
Chief Executive Officer, Alliance Finance

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alliance finance
we focus on you

At a glance

Alliance Finance PLC (AFPLC), although only six years old, is a prominent Non-Bank Financial Institution (NBFI) that obtained its license from Bangladesh Bank in 2017 and has since maintained a strong presence in the financial sector with its product differentiation. The institution has established and nurtured beneficial relationships with several banks, such as Sonali Bank, Janata Bank, Commercial Bank of Ceylon, Woori Bank, United Commercial Bank, Mutual Trust Bank, Midland Bank Limited, etc.

Through its Structured Finance Department, Alliance Finance has successfully completed 15-year funding arrangements under syndication from World Bank refinancing funds for two infrastructure projects by playing the lead arranger role with an interest rate slightly above 6%. Their commitment extends beyond traditional finance, emphasizing a proactive approach to achieving positive social impact and ecological balance. Prioritizing risk management, Alliance Finance employs thorough credit analysis and forward-looking selection criteria in client selection.

Alliance Finance is committed to offering user-friendly digital financial services, aiming to enhance convenience and accessibility for its clients. With a commitment to innovation, it has showcased a wide array of products, ranging from corporate finance, SME, and retail banking to structured finance, sustainable finance, women entrepreneur financing, green finance, and nano loans, among others.

At a glance

DBH

DBH Finance PLC is the pioneering and largest specialized housing finance institution in Bangladesh's private sector. Since its inception in 1996, it has achieved remarkable growth in facilitating home ownership in Dhaka and other major cities. Concurrently, it actively promotes the real estate sector to a diverse array of prospective clients, offering crucial support along the way.

Among all banks and financial institutions in Bangladesh, DBH stands out as the sole recipient of the highest 'AAA' credit rating for an impressive 18 consecutive years. This exceptional rating serves as a crucial indicator of the financial safety, security, and strength of the institution.

DBH currently operates 15 branches across strategic locations including Dhaka, Chattogram, Rajshahi, Khulna, Rangpur, Sylhet, Cumilla, Gazipur, Savar, Narayanganj, and Mymensingh. In 2023, the institution introduced its DBH Islamic wing, offering Shari'ah-compliant Islamic financial products. With a core focus on housing finance, DBH has disbursed over Tk15,500 crores to benefit more than 57,000 families over the past 26 years.

THE RISING DOLLAR RATE indirectly affects us

NASIMUL BATEN
Managing Director & CEO, DBH Finance

The overall economy, including banks and Non-Banking Financial Institutions (NBFIs), is experiencing significant challenges. One of the most notable issues is the interest rate gap that has persisted since the COVID-19 pandemic. During the pandemic, we were unable to increase interest rates, leading to a 9% interest rate gap by 2022. This, coupled with rising inflation, resulted in high funding costs that we couldn't pass on to our clients.

To address this, the government and Bangladesh Bank introduced the SMART rate (Six-month Moving Average Rate of Treasury bill) in July last year. This benchmark aimed to control the upward trend of interest rates, if not making it fully market-oriented.

Subsequent policy changes by Bangladesh Bank caused a sharp increase in interest rates. For instance, the treasury bill rate rose from 8% to 11.5%, which in turn increased the SMART rate. By April 2024, the SMART rate was 10.55%, allowing banks to add 3% and NBFIs 5% to loan rates, resulting in rates exceeding 13%. As of this month, the SMART rate is now market-determined, effective from May 8th. While the full impact is yet to be seen, it's clear it will affect the overall economy and our customers.

Higher interest rates generally lead to a decline in the number of clients. Not all clients are willing to accept higher rates, and those who do may face reduced repayment capacity. This decrease in customer numbers can lower credit scores in the private sector, posing a significant challenge.

Despite our organization maintaining a Non-Performing Loan (NPL) ratio of less than 1%, the industry as a whole struggles with high NPL ratios. This impacts clients by leading to reprovisioning, which reduces their profits.

While we do not directly deal with foreign exchange, the rising dollar rate indirectly affects us through our customers. In an import-driven economy, real estate developers and exporters face higher costs for raw materials due to the increased dollar rate. This elevates production costs, driving flat rates higher and pushing real estate prices beyond the reach of many, reducing the number of potential buyers.

Currently, with interest rates being market-oriented, the government's capacity to directly intervene is limited. However, to control inflation, the government and Bangladesh Bank are taking necessary steps to mitigate the impact of the rising dollar rate.

As a financial institution, our operations differ significantly from those of banks in terms of margin, scale, size, and profitability. Banks have a broader operational scope, while financial institutions face certain peripheral limitations and higher funding costs. Additionally, our tax rate is relatively high compared to banks, which poses a challenge at a granular level. Aligning the rules and regulations for both banks and financial institutions could create a more level playing field.

However, the primary focus should be on the macro economy, and the government's attention to this is appropriate. Given the current constraints on revenue and expenditure, our requests for a lower tax rate can take a back seat. Once the economic conditions improve, we will certainly advocate for positive changes.

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