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CEO & Managing Director, IDLC

Q What's your opinion about the year 2012 for the NBFI sector?

A 2012 has been a challenging year for the NBFI sector for a number of reasons. 2012 witnessed severe liquidity challenges for the first three quarters of the year with interest rates sky rocketing while the liquidity in the interbank shrank significantly. Although the liquidity conditions eased in the last quarter of the year, interest rates remained consistently high throughout the year causing the NBFI sector much pain. Meeting the capital requirement of BDT 100 crore under the BASEL 2 was another major hurdle for this sector. From a business growth perspective, the shortage of power and gas created difficulties for both existing and pipeline industries and good investment or lending opportunities were relatively scarce. The bearish capital market also created havoc for the NBFI sector as many companies are heavily dependant on the stock market for their revenues. Overall, 2012 was a difficult year for the NBFI sector.

Q You had previously expected business from industrial growth in 2012. To what extent have your expectations been met?

A Overall, there was no significant industrial growth in the economy. While IDLC as an entity achieved substantial growth in terms of lending, the NBFI sector in general, was not able to grow very much. There are multiple reasons for the lack of growth- the difficult liquidity situation, the high interest rates, and the lack of major infrastructure development in terms of industrial power supply and development of transport and communication facilities e.g. roads and highways. Industry in Bangladesh is still suffering from shortages of power and gas supply. Overall power supply has improved but sadly, there has been no dramatic change as needed for new industries, businesses and residential homes. In general it appears that most of the NBFIs have experienced a slow down or drop in their lending in 2012.

Q Some banks have started operating in areas which are the core areas of the NBFIs. How do you perceive this?

A Banks are mainly engaged in short term financing where as the NBFIs serve the purpose of providing long term loans such as equipment, project financing and home loans.

While the NBFI sector have grown rapidly over the last few years it is still relatively small compared to the Banking sector. One hopes that the NBFI sector will be able to attract high quality professionals in the future to grow the sector much more strongly than the past.

Q In 2012, the earnings of the NBFIs have seen continuous downtrend. Where do you see the bottom of this downfall in revenue?

A The downtrend in revenues can be attributed to the failure of managing the challenges that were seen in the year 2012. The capital market revenues of the NBFIs have dropped significantly. Liquidity crisis has created major drawback for the NBFIs with their cost of fund being as high as 15-16 percent in some cases. The business opportunities had become quite restricted for us. From the quarterly results, it can be easily judged that the annual performance of the sector will be much poorer.

Q Basel 2 has been partially implemented in 2012. What has been its impact on the sector?

A Basel 2 requires additional capital, a continuous monitoring of return on equity and compliance with new stress testing standards. NBFIs will therefore have to keep these new statutory requirements in mind as they do businesses in future. Obviously this will require a change in overall vision and strategy because we will have to be much more analytical and careful than we were in the past.

Q What economic activity will the NBFIs take to reposition themselves in the capital market?

A It would be foolish for us to expect a major upturn in the capital market. At most we can expect a moderate increase in turnover and less volatility, a return to 2010 levels is highly improbable. The NBFI sector will have to improve their capital market investment, decision making, and risk management capabilities and also they should seek out new clients. Unless we can significantly increase the participation in the stock market of people who have never invested here before, we will not be able to grow this business.

Q The money market has tremendously improved in 2012. What impact did it have on the NBFI sector?

A The money market was very challenging in the first half of the year. The crisis only eased in the last few months of the year. Even after improving, the cost of fund remained as high as 15-16 percent due to the high inflation prevailing in the country. In addition, the various bank scams along with the operational losses faced by the banks dampened the business environment to a great extent. The banks became shy in lending their funds despite the stable liquidity scenario in the second half of the year. Government borrowing was high in the initial months of the year but gradually it was reduced, easing the liquidity in the market. The current liquidity position of the market is fair with the inter-bank borrowing rate coming down to 7- 8 percent. With 2013 being an election year, we expect the liquidity scenario to remain pretty much the same as it was in the last quarter of 2012.

Q Has the NBFI sector been able to tap this liquidity in the market? If no, then what are the reasons behind this?

A Banks have become very conservative about lending post the various scams the banking industry encountered in the past year. With interest rates still remaining high, liquidity continues to be a challenge for many NBFIs.

Q The cost of fund has remained high as you had predicted. Was it a major hindrance in the sustainable business model?

A Alike the banks, NBFIs do not have CASA (Current Account-Saving Account). They have to depend entirely on term deposits. The cost of fund for the term deposits are already high and in addition there are administrative costs. When we ourselves are borrowing at 14-15 percent our lending rate automatically becomes as high as 18-19 percent. Thus, the businesses who are borrowing from us will have high interest cost themselves. It becomes very difficult to find good business investment opportunities with such high interest expenses. Such high rates are not conducive to good and easy business.

Q You had earlier anticipated some major reforms on part of your association (Association of Financial Institutes of Bangladesh). How effective this association has been to you're your demands?

A I must give great credit to the Bangladesh Leasing & Finance Companies Association (BLFCA) Chairman, Mr. Asad Khan who has revitalized the BLFCA with his dynamic , diplomatic and collegiate leadership style. The Association had been relatively quiet for the past few years. Mr. Asad Khan has brought great energy, commitment and a sense of purpose to the BLFCA and has been working tirelessly for the improvement of the sector. Under this new Chairman we have even opened a first-ever dedicated new BLFCA office at Motijheel. He has put in a lot of effort in bringing everyone together, discussing our problems and finding their solutions and approaching various regulators-Bangladesh Bank, Finance Ministry and the BSEC. The BLFCA is now actively involved with all stakeholders – a very different scenario from what I experienced when I first came into this sector in 2010. Incidentally, the BLFCA will be soon renamed as the Association of Financial Institutions of Bangladesh" (AFIB) , a term which better represents the NBFI sector.

Q Do you feel that NBFIs have been successful to meet their establishment goals?

A Over the past few years the Balance Sheet and Profits of the sector grew significantly although 2012 has been a different scenario altogether. One could argue that the NBFI sector has not grown as strongly as Banks have over the last two decades and I would not argue this point. My personal opinion is that the NBFI sector has mainly suffered from a lack of strategic vision and an inability to attract superior quality professionals.

Q Do you see any scope of bond market development at present scenario?

A A robust Bond market is very necessary for the financial sector. The Bangladesh Bank is trying to develop this market. Unfortunately, the NBR does not support this initiative and it has done nothing to support the development of this market. There had been some tax incentives given for the bond market to start off. However, the NBR has taken back all those incentives. NBR has been extremely uncooperative despite the relentless enthusiasm of the Bangladesh Bank. High interest rates, lack of liquidity and the lack of tax incentives have dampened the bond market. We still hope to continue our efforts to develop the bond market and IDLC will soon be launching a 150 crore bond in the coming months to revitalize the bond market.

Q How do you see 2013 for the NBFI sector? Please elaborate.

A 2013 will continue to be challenging for the NBFI sector. Capital Market revenues will be low and risks will be high. The multitude of Banks and NBFIs will compete strongly for relatively few investment or lending opportunities. The capital and stress testing requirements bring new challenges. There is risk of political instability and subsequent implications on both the financial sector and its clientele. 2013 will be a year in which everyone will have to change the old ways of doing business and be more innovative if they are to do good business.

Q Do you think the liquidity in the money market will remain sustainable in the upcoming year?

A I believe that the market is liquid. But it is difficult for me to assess the level of liquidity that is available for any individual company. Liquid has eased and in the coming year it will be much better than 2012.

Q Are there any chances of political instability with 2013 being an election year? How do you think this instability may impact the industry?

A From the past history, we have seen that the election year has always been politically unstable. We have little control over the political environment. Political instability will affect the entire economy. Still, we hope that no major mishaps take place in the coming year.

Q Do you think regulatory compliance will be a challenge in the year ahead?

A Regulatory compliance is a challenge at all times and we have to simply accept this. Strong statutory compliance and good corporate governance along with proper code of ethics should be implemented in all organizations. IDLC has been representing these values for the past 27 years in the industry. Without strong compliance no NBFI can sustain its business in the future.

Q Do you feel that with the present liquidity the market conditions can divert back to those of 2009-2010?

A No. The central bank has over the last couple of years implemented a contractionary monetary policy and private sector credit growth is unlikely to reach the high levels that existed in 2009-2010. Various regulations have also been issued to improve risk management and credit and investment decision making.