

# BUSINESS

# REVIEW

## ALTERNATIVE DATA PROMISING TO RESHAPE RETAIL LENDING LANDSCAPE



# ফিক্সড ডিপোজিট করতে খুব খেয়াল...

ফিউচার প্ল্যান ফিক্সড করে নেয়ার জন্যই ফিক্সড ডিপোজিট। ভবিষ্যতের সঞ্চয় যেন অভিজ্ঞ হাতে নিশ্চিত থাকে, সেই লক্ষ্যে ফিক্সড ডিপোজিট করার আগে ব্যাংক অথবা আর্থিক প্রতিষ্ঠানটির যে বিষয়গুলোর প্রতি বিশেষভাবে খেয়াল রাখবেন-

- ব্যাংক বা আর্থিক প্রতিষ্ঠানের মোট মন্দখণের হার
- সুশাসন ও স্বচ্ছ আর্থিক প্রতিবেদন প্রকাশের জন্য জাতীয় ও আন্তর্জাতিক স্বীকৃতি
- দেশজুড়ে আন্তরিক সেবাসহ শাখা অফিসের সহজলভ্যতা

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৩৩ বছরের অভিজ্ঞতা  
নিয়ে আপনার পাশে



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## Alternative Data promising to reshape retail banking landscape

Alternative Data includes payment history for electricity, gas and telecom bills, rent payments, repayments to payday lenders, and information such as employment history and educational background. It is stealing the spotlight in financial realm, especially in the field of retail since banks can be achieve operational efficiency and be profitable with the help of risk model built on a mix of traditional and alternative data. The current lending practice of Bangladesh is devoid of alternative data due to some challenges, however use of alternative data holds the potential to change the retail lending landscape.

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Case in Point

## ShopUp

ShopUp is a fast growing start-up in Bangladesh which is revolutionizing the F-commerce industry by providing access to finance (along with other services) by the use of data science for credit evaluation. The startup is growing to become a forerunner in using analytics for micro-financing.

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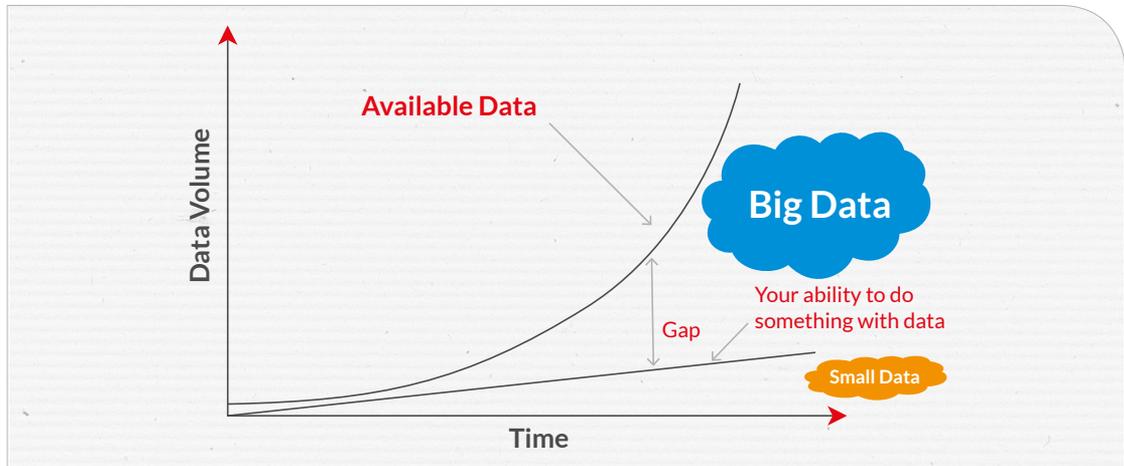
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## Capital Market Review



## Can Alternative Data be the game changer in retail lending?

In global retail lending realm, alternative data is capturing the spotlight as it creates the opportunity to finance the unbanked and underbanked portion, as well as making the risk model more accurate with more data. Alternative data, or more even correctly “credit-adjacent” data includes lots of data that are not being used in conventional credit underwriting process, for instance, utility usage, locational movement, mobile data usage, employment track record, involvement in digital platform and the list continues.

From a global picture, fintechs started the use of these data in the process of credit evaluation to reach those customers who are out of banks’ periphery. Having discerned fintech’s growing portfolio and faster loan processing, legacy banks are coming out of their conventional shell, some collaborated with fintechs. In Bangladesh, usage of alternative data in lending is still not evident, except for taking performance of utility bill payment and rent payment in some cases. Availability of refined data is a challenge in our market. Banks have

the largest customer data repository, but can hardly use them because they are scattered and unstructured. Another fact is, currently we do not have one single touch point where a customers’ all basic information, purchase history (online/offline), credit history, asset details are available (like Aadhar card, Permanent Account Number- PAN card in India). Ant Financial of China has created a financial services ecosystem by zeroing in on alternative data and bringing more consumers into the periphery. Having said that, our local startup ShopUp set a good example of lending with a credit scoring model using alternative data. It is high time that Financial Institutions should understand the importance of building their risk model using alternative data if they want to reach scalability and accelerate operational efficiency.

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\* IDLC MBR team conducted IDLC ThinkTank Summer Research Associate Program in Bangladesh University of Professionals where the Summer Research Associates are selected through case competition.

# ECONOMY AT A GLANCE

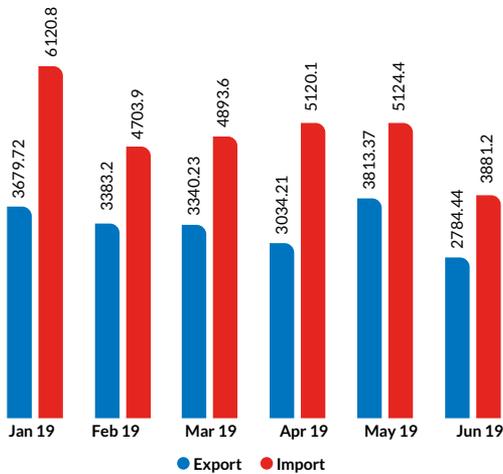
Private credit growth recorded **at 11.3%** in August '19

Remittance inflow up **5% y-o-y in USD** 1.48 billion in August '19

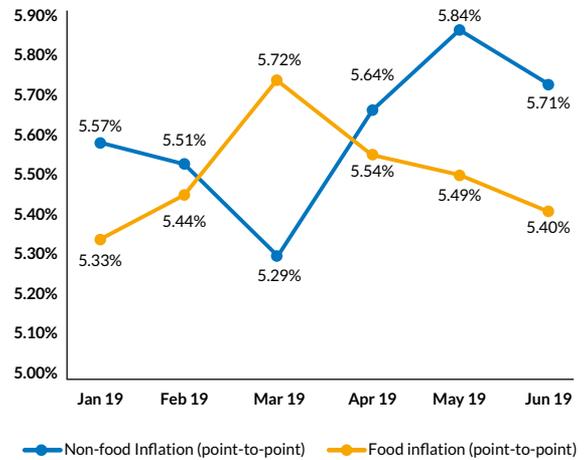
Inflation Rate Down **General inflation 5.49%** in August '19

## EXPORT-IMPORT

(USD in million)

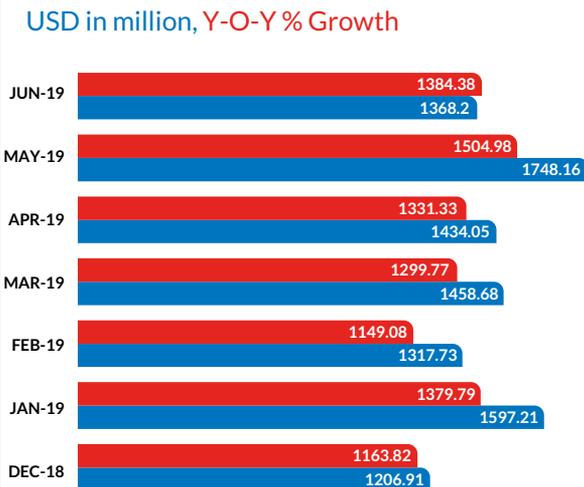


## INFLATION

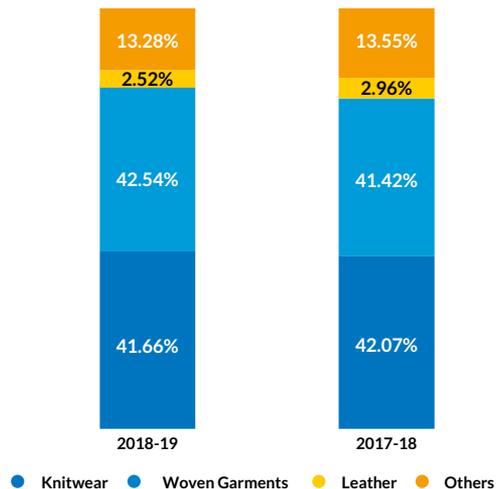


## REMITTANCE

USD in million, Y-O-Y % Growth



## SECTOR-WISE EXPORT



# MONTH IN BRIEF

● **Bangladesh topped China, India and recorded highest economic growth in the last 10 years**, according to The Spectator Index

Country	GDP Growth in last 10 years(%)
Bangladesh	188
Ethiopia	180
China	177
India	117
Indonesia	90
Malaysia	78

● **Export earnings in August'19 dropped 26.3%** short of government-set target of USD 3.85 billion due to lower shipment of readymade garment products

● **Private sector credit growth hits fresh 6-year low in July'19:** slumped to 11.3% year-on-year

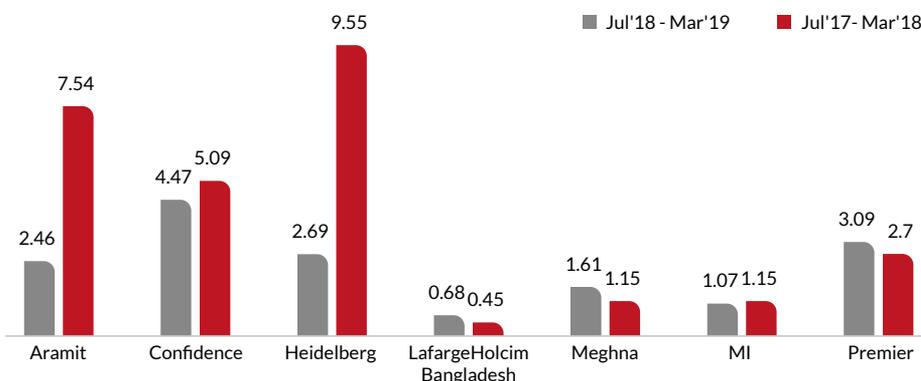
● **Remittance increased about 5% year-on-year to USD 1.48 billion in August'19** due to the recent government move to extend incentives to expatriates for sending money through legal channels

● **Trade deficit dropped to 15% percent in FY 18-19** thanks to a decline in imports and steady growth of exports

● **US-China trade war directly benefitting Bangladeshi exporters, with garment shipments to the US increasing over 3% year-on-year**

● **Growth in bank deposits leaped more than 12% year-on-year as of July'19**, up from 11.5% month-on-month

● **Listed cement makers' earnings on the wane: four (04) listed companies out of seven (07) faced downfall**



● **Net government borrowing from the banking system in the first 51 days of FY 19-20 reached BDT 26,249 crore**, against BDT 26,886 crore borrowing in the entire FY 18-19

*“LOW IMPORTS INDICATE THAT THE COUNTRY’S INVESTMENT HAS BEEN SLUGGISH”*

Fahmida Khatun, Executive Director, Centre for Policy Dialogue on shrinking trade deficit on the back of low imports

**“The exchange rate of taka against the US dollar is also favourable for remitters, which has encouraged them to send their hard-earned money through the banking channel”**

**Syed Mahbubur Rahman**, chairman of the Association of Bankers, Bangladesh on soaring remittance ascribing to cash incentive to expatriates for sending money through legal channel

**“We need to produce massive numbers of trained human resources to survive in the business in the age of automation”**

**Kazi Iftequer Hossain**, President, Bangladesh Garment Buying House Association on rising apparel export to US in wake of US-China Trade war.

**“Unhealthy competition among the manufacturers and excess production than demand are shrinking profit margin”**

**Alamgir Kabir**, president of Bangladesh Cement Manufacturers Association (BCMA) on the fall of listed cement makers’ earnings

**“WE ARE HOPING THE PROCESS OF FINANCIAL INCLUSION WILL ACCELERATE AND WE WOULD WITNESS FURTHER INCREASE IN TRANSACTIONS IN THE COMING DAYS”**

**Sheikh Md Monirul Islam**, chief external and corporate affairs officer at bKash, on how customers can make a direct transfer from their bank account.

**“WE ARE RAPIDLY EMERGING AS A ROLE MODEL OF INCLUSIVE GROWTH IN EMERGING ECONOMIES”**

**MALIHA M QUADIR**, Founder & Managing Director, Shohoz on CB Insight’s ranking of Shohoz as Bangladesh’s No. 1 well-funded startup.

## WORLD ECONOMIC INDICATOR-AUGUST 2019

Country	Inflation (%)	Current Account Balance (% of GDP 2019)	Gross Domestic Product (yearly % Change)	Interest Rates (%), Ten years treasury bond	Currency Units (per USD)
<b>Frontier Market</b>					
Sri Lanka	3.4	-2.7	3.7	10.3	179.24
Vietnam	2.26	2.5	6.60	4.09	22,985.9
Kenya	5.0	-5.1	5.6	11.5	102.95
<b>Bangladesh</b>	<b>5.62</b>	<b>-2.3</b>	<b>7.40</b>	<b>8.83</b>	<b>83.73</b>
<b>Emerging Markets</b>					
Brazil	3.2	-1.1	1	5.4	4.12
Egypt	8.7	-0.4	5.7	N/A	16.5
Saudi Arabia	-1.4	2.9	2.4	N/A	3.75
India	3.1	-1.5	5	6.5	72.1
Indonesia	3.5	-2.8	5	7.3	14,153
Malaysia	1.4	2.5	4.9	3.3	4.2
Phillipines	1.7	-2.1	5.5	4.5	51.9
South Africa	4	-4.1	0.9	8.1	14.8
Turkey	15	-0.2	-1.5	15.4	5.67
Thailand	0.5	7.2	2.3	1.4	30.6
China	2.8	0.7	6.2	3	7.15
Russia	4.6	7.2	0.9	7.1	66.1
<b>Developed Markets</b>					
France	1.1	-0.9	1.4	-0.4	0.91
Germany	1.4	6.5	0.4	-0.7	0.91
Italy	0.5	1.9	-0.1	0.8	0.91
Spain	0.3	0.6	2.3	0.1	0.91
Hong Kong	3.3	4	0.5	1	7.84
Singapore	0.4	15.8	0.1	1.7	1.38
United States	1.8	-2.2	2.3	1.5	N/A
Denmark	0.4	6.8	1.9	-0.7	6.76
Netherlands	2.5	9.7	2	-0.6	0.91
Australia	1.6	-0.4	1.4	0.9	1.47
Switzerland	0.3	9.6	1.7	-0.9	0.98
Britain	2.1	-4.1	1.2	0.5	0.82

## DON'T LET METRICS UNDERMINE YOUR BUSINESS

### What happened to Wells Fargo's Cross-Selling Metrics

#### THE PROBLEM

Performance metrics to judge the effectiveness of a strategy is a well-accepted practice, in the recent decades. A company can easily lose sight of its strategy and instead focus strictly on the metrics that are meant to represent it. Wells Fargo reflects an extreme example of this problem. Wells Fargo had performance metrics in place in order to boast its “**cross selling strategy**”. The fault strategy caused employees at Wells Fargo to open 3.5 million deposit and credit card accounts unbeknownst to the customers. The controversial move cost the bank millions in fines, lawsuit and reimbursement to customers. The company is still paying litigation fees and facing prohibition from Federal Reserve in expanding its assets. In April 2017, it reported that first-quarter credit card applications were down 42% year over year, with new checking-account openings down 35%. Meanwhile, more revelations about unauthorized mortgage modifications and fees, improper auto loan practices, and other missteps surfaced throughout 2017.



#### THE CAUSE

Were these devastating outcomes simply the natural consequences of having a bad strategy? Closer examination suggests that Wells Fargo never actually had a cross-selling **strategy**. It had a cross-selling **metric**.

Wells Fargo interconnected their ability to sustain long term customer relationships with the cross selling metric. The consequence was- employees focused on increasing the cross selling metrics instead of evaluating the quality of customer relationships. The metrics became the focal point rather than the underlying strategy. The company essentially replaced their strategy with metrics which is called surrogation. Surrogation caused Wells Fargo to show increased scores on their metrics even though, in truth, the metrics did not show the

actual satisfaction of the customers. Dissatisfaction of customers was fueled because of poor alignment of the metrics to the strategy. The company had an incentive system that made employees pursue deceptive sales practices. They focused more on quantity rather than quality, putting challenging sales quotas and encouraging employees to increase sales without considering the quality of accounts.

#### THE SOLUTION

Wells Fargo took necessary steps to prevent this debacle from happening in the future. They focused on building long term customer relationship strategy that was more transparent and comprehensible. The company also eliminated all sales goals and sales incentives to prevent employees from using unethical sales practices. Furthermore, strategic success is now interconnected with multiple metrics that judges customer satisfaction. Executives at Wells Fargo now know, the goal towards sustainable customer satisfaction is not only a sales metrics, rather alignment of sales metrics with well-established strategy.

Minimizing this pervasive phenomenon known as surrogation, includes employees to formulate the strategies and implementing them so that strategies will be better understood and not be replaced with metrics. Monetary incentives should not be connected with the metrics scores, which will prevent employees from emphasizing on the metrics rather than on the strategy. Another way to reduce surrogation is to use multiple metrics for an underlying strategy, that will prevent employees from replacing a strategy with a single metric.



#### ABOUT THE RESEARCH

'Don't Let Metrics Undermine Your Business' is an article by Michael Harris and Bill Talyer published on Harvard Business Review, which describes the difficult situation Wells Fargo encountered due to initiating a cross-selling metrics without a cross-selling strategy

# Beyond banking: How banks can use ecosystems to win in the SME market

## RESEARCH IN FOCUS

It used to be that SMEs were so hard to serve for traditional banks that they went largely unserved. That was because SMEs had lower revenue per head compared to the traditional clients of the banks, but had similar costs to serve. Thus, the ROE for SME banking was on average 7 to 8 percent only. Moreover, there was very little data available for analysis, and so determining their credit worthiness was very difficult.

But this scenario is changing quite rapidly. Recent developments in technology and service models have brought down the costs to serve for SMEs significantly for banks. And since this sector was largely starved of financial services until recently, there is a huge opportunity for banks to find newer avenues of business, as their traditional channels are drying up due to stricter regulations, lower margins and tighter capital requirements.

But this is a time sensitive issue, as other players such as the emerging fintech startups and the tech giants are also starting to target the SME financial services market. So, banks will need to move fast to avail the benefits of this opportunity.

In this regard though banks have a few significant advantages. First, they have the customers' trust. But the previously underserved SMEs have a negative impression of their service. So, banks are starting to provide tailored services for these businesses to address this issue.

### A new wave of attackers is focused on the SME market

Amazon (Global)	Lending to SMEs in UK, US, and Japan
Paypal (Global)	Short-term business financing
Cumplo (Chile)	Business bank accounts and personal financial management for freelancers
Holvi (Finland)	One-stop account that helps SMEs manage and view their finances
Ayden (Netherlands)	Global provider offering end-to-end frictionless payments
Klarna (Sweden)	Innovative e-commerce payments solutions for businesses and merchants
Coconut (UK)	P2P lending platform with alternative financing

## KEY POINTS

- SMEs generate almost **20%** of all banking revenues, about **\$850 billion** annually.
- Recent innovations in service models and technology have made the previously hard to serve SMEs very lucrative.
- Traditional banks have a huge opportunity in SME banking, but only if they can move faster than the emerging fintech startups and the tech giants.
- The banks stand to gain new revenue streams, increased customer satisfaction, and valuable customer data.
- Banks can help streamline the non-core business activities that SMEs have to deal with, allowing them to focus on growth generating activities.
- SMEs can ease the pain points of their growth by availing the system solutions provided by the new ecosystem platforms that banks are building.

Secondly, they have large repositories of customer data. This includes the transaction information, and that allows them to perform better analytics of SMEs. This also enables them to determine the creditworthiness of these businesses and thus minimize risks.

But there are a few things the banks will have to address to capitalize on these advantages. They must first understand what SMEs need, which is relief from dealing with non-core business activities. Because for these businesses, there are only two types of business activities, core and non-core. Focusing on core business activities can help SMEs grow and generate more revenues. But the reality is that almost 74% of their operating expenses are made towards non-core activities like bookkeeping, CRM, banking and IT while only 24% is expensed for core activities like advertising, generating market insights and recruitment.

It is then fairly evident which activities the banks should aim to help the SMEs with. And indeed, that is what they are doing. GoBank in the US has partnered with Uber to provide easy finance to drivers. In Canada, RBC's Ownr is an end-to-end online platform providing a comprehensive set of

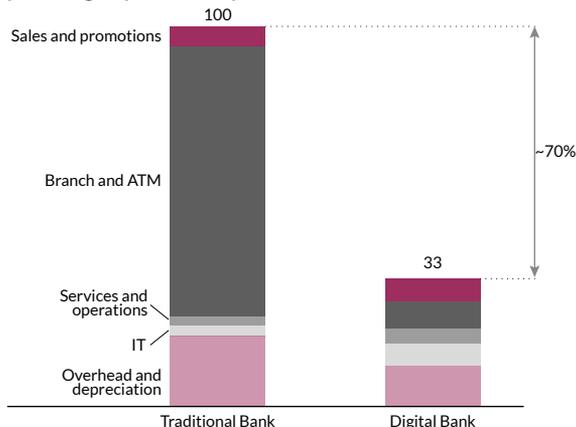
services for setting up and managing a new business. In Singapore, UOB BizSmart helps SMEs run their businesses more efficiently through various B2B providers by streamlining their accounting, payroll, sales etc. All these features integrate seamlessly with the UOB bank accounts, creating an ecosystem offering.

There is some competition here too, as mentioned before. Intuit QuickBooks is a company offering SMEs paperless real-time accounting solutions, accessible from anywhere, and with automatic back up and data security. Alipay in China is rapidly expanding into online payments, even in European markets. Recruit is providing staffing, recruitment and integrated industrial services through a job search platform, serving 18 million employers. And the Chinese company Ping An has created a whole digital ecosystem around basically all living scenarios, offering services ranging from mobility, housing and hospitality, to services like insurance, corporate services and B2C marketplaces.

All of these initiatives and providing considerable benefits to all parties involved - the banks, the FinTechs, the tech giants and the SMEs. But we can also see that despite their advantages, the banks are not doing anything significantly different compared to the technology companies. The banks want to properly utilize this opportunity that the SME segment is offering, but they can't because the SME departments of banks lack the startup focus and structure of the technology companies, because they lack a proper talent proposition for tackling these issues internally. This can be solved by establishing separate entities with clear governance for interaction with the parent, but with experienced personnel sourced from those technology industries.

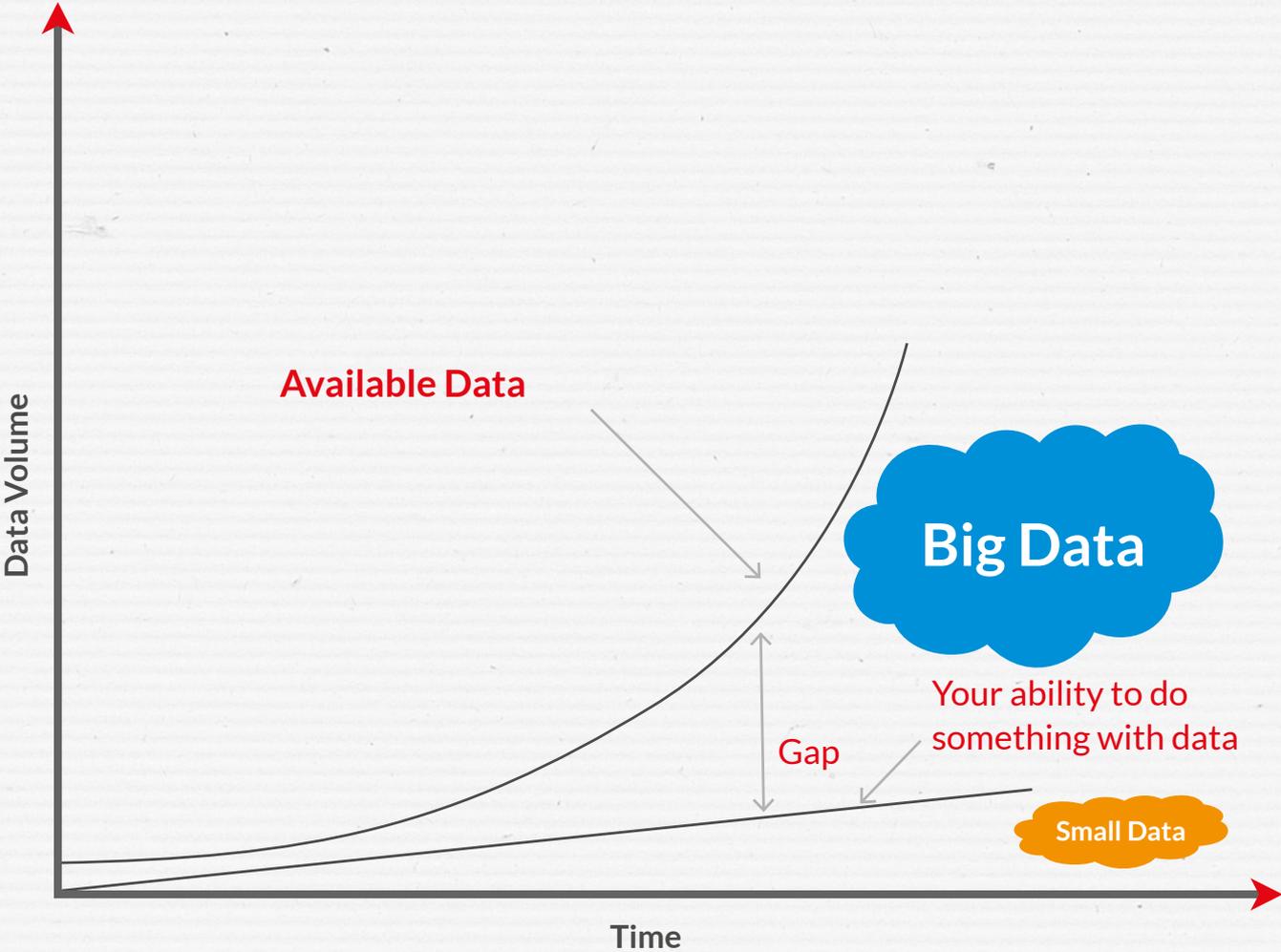
**Beyond banking: How banks can use ecosystems to win in the SME market**

Operating expenses/deposit balance, Indexed



**ABOUT THE RESEARCH**  
 "Beyond banking: How banks can use ecosystems to win in the SME market"- is a report published by Mckinsey & Co. which focuses on what strategies SME-focused banks should adopt to win over in this competitive global landscape

# ALTERNATIVE DATA PROMISING TO RESHAPE RETAIL LENDING LANDSCAPE



Here are some global statistics to start with:

- Average **“time to decision”** for small business and corporate lending: between three (03) to five (05) weeks
- Average **“time to cash”**: nearly three (03) months

The prolonged lending process to small businesses is deterring many potential Financial Institutions to reach scalability. Alongside, a large portion of the “credit invisible” (unbanked and under-banked) consumers are still out of banking touch due to lack in sufficient traditional credit data. The traditional credit-scoring process creates a cycle that can be limiting to the lower-income segment. By traditional credit data, all the sources of availed credit facilities of the individual/enterprise that are reported by a Financial Institution to the central credit bureau are indicated. For instance, credit cards, mortgages, car loan payments, business loan payment and the like. The payment performance of these accounts that are reflected in the report impacts the credit score, which lenders use to determine the riskiness of the customer. But other types of accounts don't generally show up on traditional credit report. Those include phone and electric bills, rent, and payments to many types of credit providers such as payday lenders, rent-to-own stores, and online personal lenders. Here, the scope and usage of alternative data is explored and exercised.

### “Alternative Data” explained

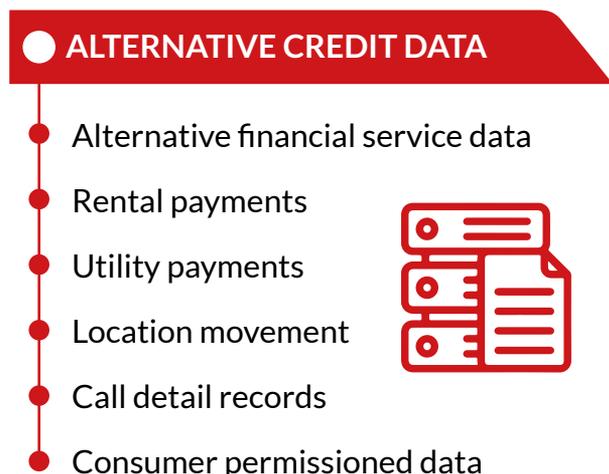
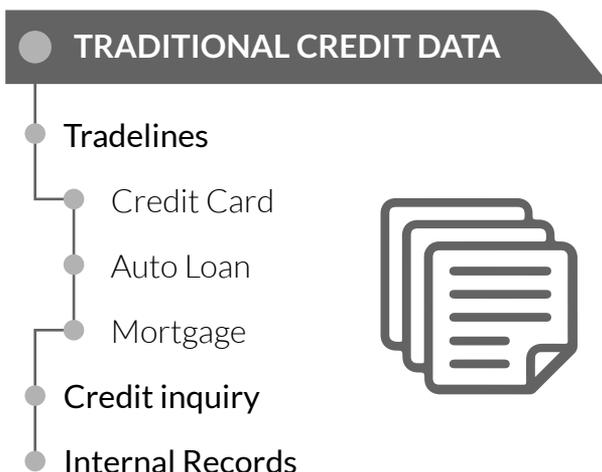
**Alternative Data** includes payment history for electricity, gas and telecom bills, rent payments, repayments to payday lenders, and information such

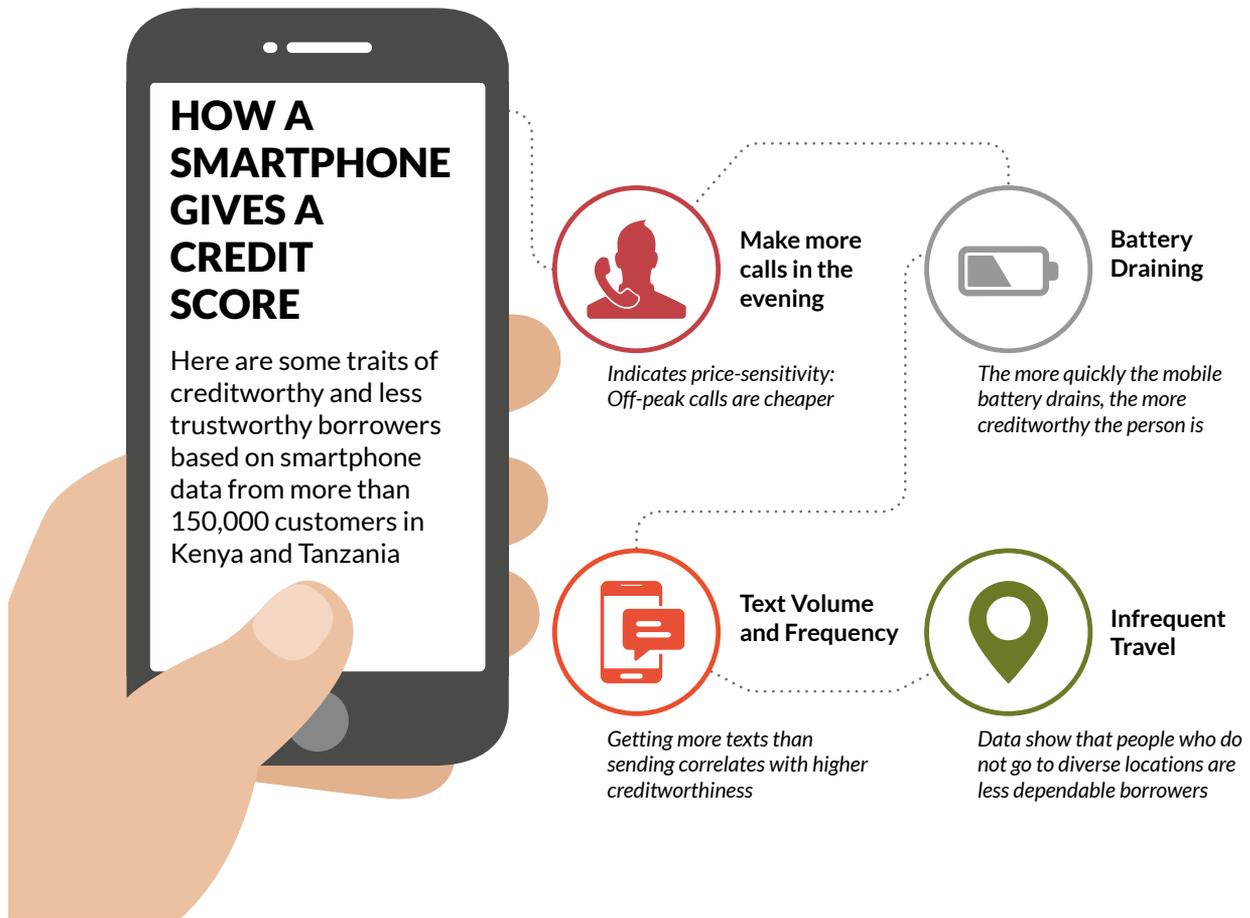
as employment history and educational background. Alternative data has come into the spotlight in financial services as it provides the ground for credit availability for unbanked and under-banked consumers.

From the lenders' point of view, expanding the coverage of possible borrowers can be a growth area. To reach the unbanked and under-banked, Fintech companies are now developing approaches to credit-scoring by looking beyond the traditional credit bureau databases and using other available sources of information.

Fintech advances are made possible through data and efficiency. Platforms use alternative data sources, such as utility bills and predictive information, to understand their customers financial lives and assess their ability to repay. Relying on this data, they can create products tailored to their customers, for example providing loans based on cash flow instead of collateral. This enables borrowers without significant wealth or assets such as a home or land to get a loan. And as operational efficiencies increase with improved technology, costs decrease and Fintech platforms can afford to serve harder to reach customers who need small loans - something that traditional banks will not do.

Banks have valuable data, but are often not using it. Banks have a highly valuable repository of SME data, including SME owners' customers' daily transaction data that provides reliable real-time visibility into SME cash flows and credit capacity. However, most banks lack the ability to create innovative SME lending models from it. The data often resides in a patchwork of legacy systems and data silos that make it difficult and





costly to access. Digital SME lenders leverage vast and expanding stores of data, including from electronically verifiable, real-time sales, bank account money flows and balances, payments, social media, trading, logistics, business accounting, and credit reporting service providers, as well as a wide range of other private and public data sources used in the SME credit assessment process.

**One of the more promising alternative data sources is mobile phones.** Mobile phones are available, accessible and replete with valuable information that can be used for credit-scoring. Mobile phone data also shows location movements, which can be used to infer the users' frequent locations, such as their home and their workplace. Location movements also provide insight on employment, modes of transportation and frequency of travel. Call detail records is indicative of the users' involvement in his/her business. For instance, duration of calls during work hours, identification of frequent callers who can be potential buyer/supplier and the like. It is rightfully said, "the way you use the phone is a proxy for the way you live."

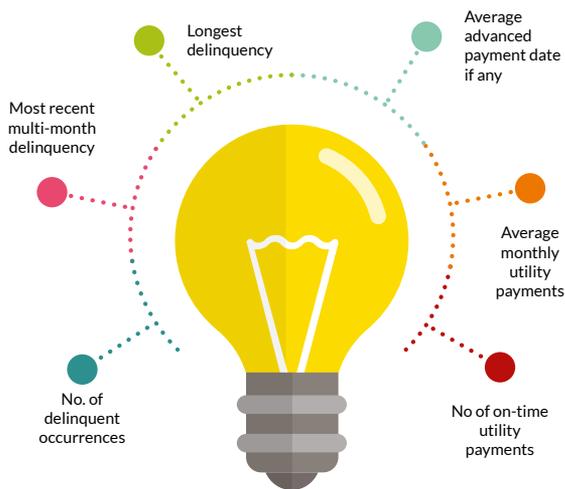
Alternative data is capable of giving lenders more confidence in their decision and allowing consumers to gain access to lower-cost financing. The data can also help identify riskier consumers by identifying information like the number of payday loans acquired within a year, number of first-payment defaults, number of inquiries within the past 30-90 days, and overall stability of an applicant.

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**Utility Payments Data offer a good indicator of delinquency.** Utility bill payment history has been shown to provide a 60% lift in credit approvals for near-prime consumers.



### Benefits of Alternative Data

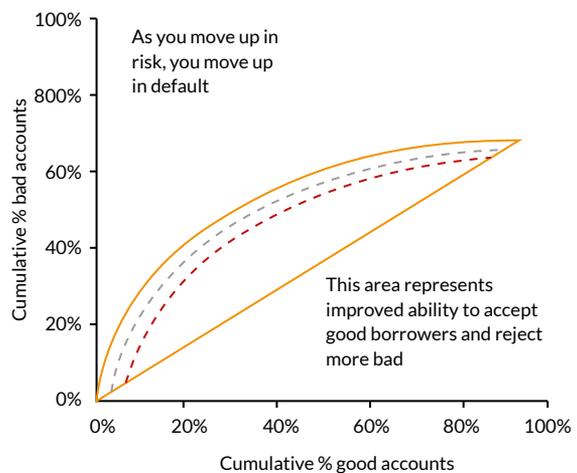
- **More accurate risk model:** The foundation of customers’ repayment behavior lies on two core aspects- ability to pay and willingness to pay. With traditional credit data, customer’s ability to pay is well evaluates, however there is hardly any scope to judge his/her willingness. With a wide array of diverse alternative data points, customer’s behavioral aspects are reflected to a considerable extent. Therefore, the more valid data points, the more accurate the risk model is.
- **Removes human bias:** When loan decisions are made based on human relationships, bias can be introduced despite best intentions. EFLs credit scoring strips out that bias and predicts risk within a borrower population.
- **Reduces acquisition and operational costs:** Perhaps the major benefit of alternative data is quicker turnaround time for the end client at a lower cost. Technology can reduce the need for human-centered processes and is more scalable. This is especially true in the digital lending world – a trend that only appears to gather steam with startups and traditional financial institutions.

Many banks consider SMEs to be high-risk clients, as well as high-cost clients to acquire, underwrite, and serve. Revenues per client are lower relative to larger non-SME corporate clients. SME information is also often opaque. Therefore, many banks limit most of their lending to the largest of the small firms. In the

wake of the global financial crisis, increased capital and liquidity requirements, and shrinking returns on equity have made banks’ SME lending challenges even more daunting. Making use of transactional and alternative data offer an opportunity for addressing both sides of this problem and make SME lending more profitable.

### More data, more diverse data leads to better risk model

Digital data availability has largely been the driving force behind the growth in alternative lending over the last few years. Digital SME lenders, including some digital banks, use new types of data for determining creditworthiness to target a certain segment of SMEs that are underserved by banks. There is also evidence that they can analyze all of this data and issue credit much faster- and at much lower underwriting and servicing costs than traditional banks. This is especially true for those market niches that fall outside of the risk appetite for the more traditional banks. In these instances, the value of speed and convenience is enough for SMEs to take advantage of alternative lending models even when costs are similar. Further, the more diverse the data and the faster the analysis of the data, the more predictive its value.



Source: Global Payments Experts LLC

While some variables commonly work across all markets, there is no perfect “one size fits all” complete solution. The source, degree of strength, and quality of the data, ability to capture the data in systems, credit bureau coverage, local payment or business practices, cultural norms, and bank or lender business lines, mix, and strategies are all factors that can make data highly predictive in one market, lender, or situation and not at all in another.

## How alternative data is put into use?

India-based **The State Bank of India (SBI)**, has also made use of alternative data as well as partnerships with innovative business networks, such as Uber and its drivers, as well as with e-commerce marketplace providers such as Snapdeal, Flipkart, Amazon, ShopClues, and Paytm to provide micro and SME financing. In February 2016, the bank launched the SBI e-Smart SME, a collateral-free working capital loan offering for sellers on e-commerce platforms. Sellers apply for the loan online and receive an immediate answer with one click. The product relies on proprietary e-commerce platform data about the seller's sales and other data, as well as surrogate information from the public domain to assess the seller's credit worthiness for loans. For Uber, the partnership allows SBI to access data from the driver's Uber history. It simplifies the documentation requirements, thereby eliminating traditional financial statements like income tax returns.

India-based **Capital Float's** partnerships include B2C e-commerce platforms Snapdeal, Shopclues, Paytm, Flipkart, and Amazon as well as B2B e-commerce sites Alibaba.com, Tolexo, IndustryBuying, and OfBusiness, among others. The company offers loans to SMEs on these platforms, and SME loan applicants can digitally upload their seller e-commerce trading to Capital Float. Capital Float's scoring technology also evaluates merchant customer reviews on social media and e-commerce sites. In addition, it does psychometric assessments (for example, applicants are asked questions about their ability to scale a business, attitude toward credit, and how they compare to competitors) Capital Float overlaps alternative digital data with

government data like Aadhaar a identity data and the SME's profitability parameters, such as current product usage levels, industry margins, potential future earnings, and risk parameters (such as probability of default). It combines this with conventional credit bureau metrics, and tailors its credit-scoring model for each category of potential borrower it serves. For example, many of its customers want to grow businesses they have built on e-commerce platforms, whereas others are planning to sell online for the first time and need startup capital. In this regard, small-scale manufacturers have different profiles than retailers.

**Baidu** is the leading Chinese language Internet search provider. Baidu reveals ample opportunities to connect to potential small business borrowers. The data reveals correlations between search engine phrases and borrowing needs and behavior. For example, small business owners that search keywords "photography" or "hiking" are likely to need an unsecured small loan. They are also likely to be looking for their first loan, as compared with individuals searching keywords such as "cars" or "scuba diving." However, small business owners searching online for "lottery tickets" are unlikely to be a safe bet for lending platforms.

## Data Privacy and Customer Protection Use

With the range and types of data being collected from online digital and/or mobile footprints to social media and other forms of information which are being used by alternative data lenders, there has been an increasing concern about privacy and the need to be more transparent about how data is being collected and used. Although these lending platforms have provided access



to those borrowers formerly excluded from credit, they often fail to provide details as to how they gather and use data for identifying prospects, credit ratings, scoring and the credit-approval process. Given the lack of privacy protections for SMEs that utilize these new lenders and/or data aggregators who act as data-brokers, there will be a need for additional regulation to ensure that SMEs are protected. In addition, many new financial service providers and/or fintech players have often not made sufficient investment in data protection and cyber security. Since most alternative lenders, third party aggregators and data analytic providers also store, use or electronically transmit personal identification information (names, national IDs, social security numbers, dates of birth, addresses and other key personal data) or sensitive information (financial records, account information, tax filings), additional steps should also be taken to protect privacy.

### **Alternative data in lending decision: Bangladesh perspective**

In Bangladesh, alternative data is not yet in use by the Financial Institutions. This is ascribed to a handful of reasons: harnessing digital footprint data using is not easy; it requires time, commitment and skills that are in short supply.

- **Bankers' mindset and operational scalability**

There used to be a time, not long ago, when the Financial Institutions' core focus was corporate financing. SME Financing became a sought after mode of financing since 2012-2013. Top management of banks were reluctant to underwrite small borrowers due to incurring same operational cost as underwriting a large borrower. During 2012-13, Central Bank started pushing the banks to finance the small enterprises with incentives like refinance schemes. A handful of banks who started SME Financing, deemed it profitable due to high interest rate and less impact on portfolio granularity if one SME client defaults compared to that of a corporate client.

Of late, a wide range of Financial Institutions are shifting their key focus on SME lending. The early movers are enjoying a wholesome SME portfolio, however, they are yet to achieve volume. This is the reason, the banking industry is still underwriting their current portfolio in the same traditional manner and is yet to realize the importance of data in lending decision.

- **Unavailability of alternative data /Scrapping of available alternative data**

Sources of Alternative Data is scattered in Bangladesh. In India, an underwriter can access to borrower's information related to purchase history, grocery details, every type of bill payment history with the help of Aadhar Card (National Identification Card). However, in Bangladesh, all these information is not synced in one platform, which makes finding alternative data time consuming.

With the soaring adoption of smartphone and usage of Facebook and other digital platforms, more digital footprints are created. However, not all digital information are authentic and necessary in the realm of alternative data. Globally, data analysts harness these unstructured pile of data and come up with structured big database. Although, performance of utility bill payment is in current credit underwriting practice to a certain extent.

- **"Garbage in, Garbage Out"**

The term "garbage in, garbage out" originated in information technology field illustrates the fact that the quality of the output received from a computer program depends on the quality of the information that was input. Here, input is the data and output is the risk model built with this data. The more accurate and structured data, the more accurate the risk model, the lesser the default rate. Since, data is the burning problem in Bangladesh, nobody is banking on it.

- **Lack of Data experts**

According to World Economic Forum, the top emerging job role by 2022 will be Data Analysis and Data Science. As globally alternative data is stealing the highlight in retail lending realm, data extracting is becoming more and more popular. In Bangladesh, there is a dearth of data analysts and outsourcing this service proved to be way expensive.

# SHOPUP

*ShopUp is a fast growing start-up in Bangladesh which is revolutionizing the F-commerce industry by providing access to finance (along with other services) by the use of data science for credit evaluation. The startup is growing to become a forerunner in using analytics for micro-financing.*

Right after completing graduation from Institute of Business Administration (IBA, University of Dhaka), the founders of ShopUp came up with a unique solution to bring the micro entrepreneurs in a structured platform. The idea of building a platform for Facebook based entrepreneurs popped up in their mind when they tried to bring online a few micro-entrepreneurs from a pottery cluster in Southern Bangladesh, which was losing its glory in teeth of mounting popularity of plastic items. One of the problems that the founders encountered while working with the merchants based on Facebook is lack of accessibility to finance. Facebook merchants usually do not have any track record of their transactions as these transactions are entirely messenger-based and cash-based. On the other hand, the risk appetite and operational structure of the Financial Institutions (FI) do not allow them to finance the F-commerce businesses, where the ticket size ranges from BDT 25,000- BDT 300,000. Due to having high operational cost, such small ticket-sized loans are not cost-effective for the FIs. ShopUp took advantage of this phenomenon and gained popularity among F-commerce startups by providing them the access to finance among other solutions. Currently, it has more than 45000 merchants under its belt.

## Banking on algorithm based credit scoring model

Entrepreneurs can apply through the mobile app of ShopUp mentioning the amount of credit they need. ShopUp determines the loan amount by using algorithm based credit scoring model, where they count on 2000 data features to assess a particular online business. After that, entrepreneurs need to sign a physical agreement and then the cash gets disbursed to their mobile wallet or to their bank accounts (in most cases). The loan processing time varies from 3 days- 7 days. Currently, ShopUp is tagged with BRAC MFI as their partner FI. They get the final loan offer derived from the algorithm and conduct the final disbursement process. The repayment is done through either bKash or the amount is deducted at source. The collection is conducted by ShopUp since the borrowers are accessible to them as they enjoy other facilities provided by ShopUp.



Starting from left Afeef Zaman, Siffat Sarwar and Aatur Rahim Chowdhury

The Chief Data Scientist of ShopUp, who is a PhD candidate of Massachusetts Institute of Technology (MIT) leads the data science team which is based in Bangladesh. ShopUp also has a credit consultant to help them look into the signals from different directions and predict the behavioral traits of the entrepreneurs; e.g. forecasting a merchant's spending behavior through the number of times he/she prefers to boost their Facebook post. ShopUp also uses psychometric data to predict a customer's repayment intent and repayment capacity.

## Plans down the line

ShopUp raised USD 1.62 M seed round led by Omidyar Network, the impact investment firm established by Pierre Omidyar, the founder of eBay. Other funders in this round include angel investors from Facebook, Google, Amazon, Grab, and leading global banks.

The credit culture of Bangladesh credit market is yet to shift towards algorithm driven models from the traditional ones. FIs need to incorporate a new lens of lending which will be totally data driven. Information asymmetry is there; however, data-driven pipelines help to evaluate a loan applicant more efficiently. Scopes are aplenty for the new players and emerge to maintain a healthy competition.

# ৩৪ বছর ধরে লক্ষ লক্ষ মানুষের ছোট-বড় হাজারো আনন্দের উৎস

দেশের সর্ববৃহৎ আর্থিক প্রতিষ্ঠান আইডিএলসি ফাইন্যান্স

দেশের মানুষের অর্থনৈতিক উন্নয়নের স্বপ্নপূরণে বাংলাদেশের সর্ববৃহৎ আর্থিক প্রতিষ্ঠান আইডিএলসি ফাইন্যান্স গত ৩৪ বছর ধরে দিয়ে যাচ্ছে অভিনব আর্থিক সেবা ও সুবিধা। ১৯৮৫ সালে যাত্রা শুরু করে বিভিন্ন প্রতিষ্ঠান ও সাধারণ মানুষের অর্থনৈতিক কার্যক্রম এবং জীবনযাত্রার মানোন্নয়নে আইডিএলসি ফাইন্যান্স নিজেকে এক আত্মস্থানীয় সহায়ক হিসেবে প্রমাণ করেছে সবসময়। বিশ্বস্ততা, অভিজ্ঞতা ও সর্বোচ্চ সুশাসন নিয়ে মানুষের বর্তমান ও ভবিষ্যৎ পবিত্রতার বিশ্বস্ত সঙ্গী হিসেবে ফাইন্যান্সিয়াল সেক্টরে আইডিএলসি বিশ্বস্ত সেবা প্রদান করে আসছে। এর মধ্যে রয়েছে-

- এসএমই লোন • নারী উদ্যোক্তা লোন • হোম লোন • কর্পোরেট লোন • কার লোন • ডিপোজিট স্কিম • ক্যাপিট্যাল মার্কেট ইনভেস্টমেন্ট এবং আরো অনেক প্রডাক্ট ও সার্ভিস



FCB/ATOP/19

দেশজুড়ে ২০টি জেলা শহরে ৪০টি শাখা	আপনার সেবায় ১৪০০ জন নিয়োজিত কর্মী	গত ৮ বছর ধরে ফ্রেডিট রেটিং AAA	শ্রেণিকৃত ধরণ মাত্র ২.২%	৫ বছরে মুনাফা বৃদ্ধির গড় হার ২৬.৫%	দেশের শীর্ষস্থানীয় মার্কেট ব্যাংক ও ব্রোকারেজ হাউজ	বাংলাদেশ ব্যাংক কর্তৃক লাইসেন্সপ্রাপ্ত ও নিয়ন্ত্রিত	সর্বোচ্চ করদাতা সম্মাননা - ২০০ কোটি টাকার কর
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# Monetary Policy Statement, FY 2019-20

## POLICY IN REVIEW

Central Bank has announced Monetary Policy Statement (MPS) for the full fiscal year 2020 with no change in policy directives. There has been a few changes to reflect current state of economy.

- Private sector credit growth target lowered but remains higher than current state: Ongoing liquidity crunch has hit the private sector credit growth badly as it stood at 11.3% in June 19 compared to 16.5% target. We can also see that loan demand has decreased due to recent spike in interest rate. Adjusting to the reality, central bank has lowered down the target to 13.2% for December 2019 and 14.8% for June 2020.
- High government borrowing to continue: Government borrowing target has increased substantially to 25.2% for Dec 2019 and 24.3% for June 2020 compared to only 10.9% target of previous MPS. It is to be noted that growth in government borrowing has already crossed 20% in FY2019. This higher government borrowing is to finance the budget deficit resulted from lower growth in government revenue collection. Altogether, central bank targets 14.5% domestic credit growth for Dec 2019 and 15.9% for June 2020.
- Higher target set for reserve money and broad money growths: Reserve money growth stood at 5.3% and broad money growth stood at 9.3% in June 2019. Central bank has set higher growth target of 9.8% for reserve money and 11.3% for broad money in Dec 2019. Much higher growths are targeted for June 2020: 12.0% for reserve money and 12.5% for broad money.

**Table 1: Key summary of the MPS**

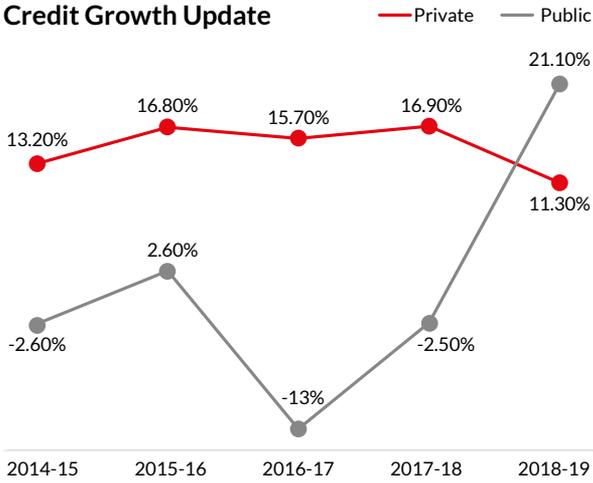
	Actual	FY 2020 MPS Target	
	Jun 2019	Dec 2019	June 2020
Inflation General	5.47%	Less than 5.5%	
<b>Growth</b>			
Reserve Money	5.3%	9.8%	12.0%
Broad Money	9.3%	11.3%	12.5%
<b>Domestic Credit</b>			
Domestic Credit	12.3	14.5%	15.9%
Public Sector	21.1%	25.2%	24.3%

- Current account deficit declined to 1.7% of GDP, projects to improve further: Higher import growth in FY2018 due to large infrastructure projects and rice import normalized in FY2019, which resulted C/A deficit to decline to 1.7% of GDP from 3.2% of previous year. In absolute term, it improved to USD5.2bn in FY2019 from USD8.8bn of FY2018. Net Foreign Asset (NFA) growth of 2.2% against projection of -3.4% helped in recovering C/A faster than expected. Central bank projects this NFA growth to continue in Dec 2019, growing by 2% but later it will come down to 0.3% at the end of FY2020. Besides, central bank projects official reserves to stay at similar level (USD32.7bn) for next year also.
- No change in policy rates as central bank opines market is in comfortable balance: Policy rate kept unchanged at Repo rate of 6.0% and Reverse Repo rate of 4.75%. Besides, CRR and SLR kept unchanged at 5.5% and 13.0%. As both Taka and foreign exchange interbank are at ease, central bank has decided not to make any change in the policy rates.
- Reiterated the budget targets for GDP and inflation: GDP growth of 8.2% and inflation ceiling of 5.5% was targeted in National Budget for FY2020. Central bank maintains the same target.

**Table 2: Key summary of the BOP**

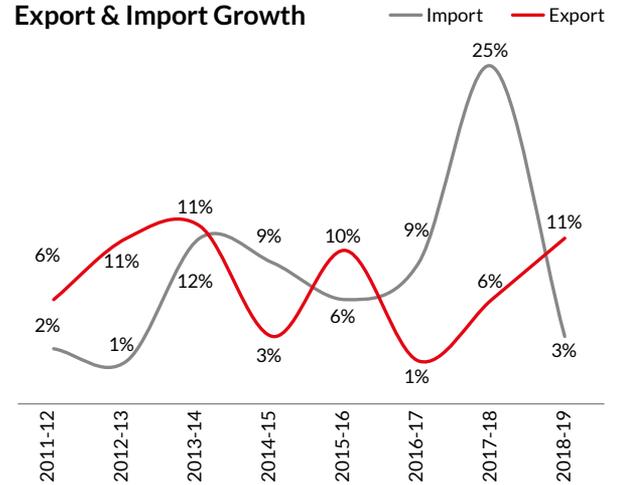
Amount in USD bn	2017-18A	18-19P	19-20E
Trade Balance	-18.2	-15.5	-15.2
Services	-3.6	-3.5	-4.7
Primary Income	-2.5	-3.1	-3.4
Secondary Income	15.4	16.9	18.7
Of which: Workers' remittances	15.0	16.4	18.4
Current A/C Balance	-8.8	-5.2	-4.5
Capital Account	0.3	0.2	0.3
Financial Account	8.2	5.6	4.3
Errors & Omissions	-0.6	-0.6	0
Overall Balance	-0.8	.01	.10
Gross official reserves	32.9	32.5	32.7

### Credit Growth Update



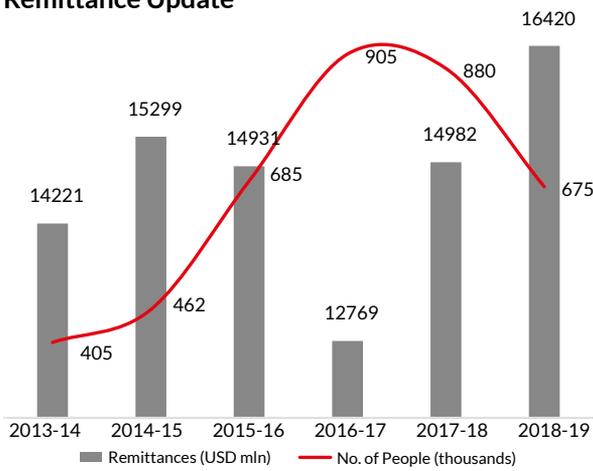
Public sector credit growth surpassed private sector loan growth after 9 years. We experienced this in FY2010.

### Export & Import Growth



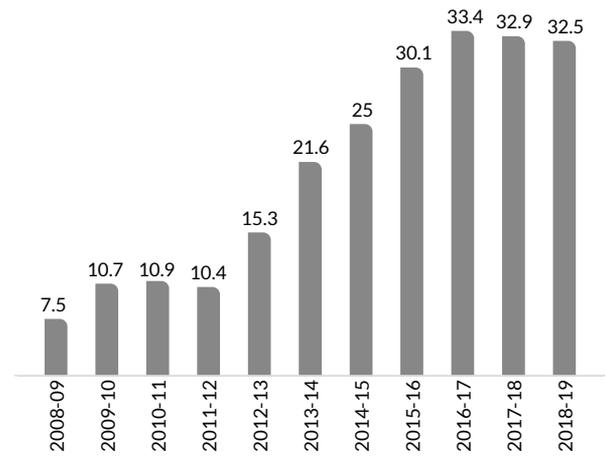
After 2- year gap, export growth again surpassed import growth.

### Remittance Update

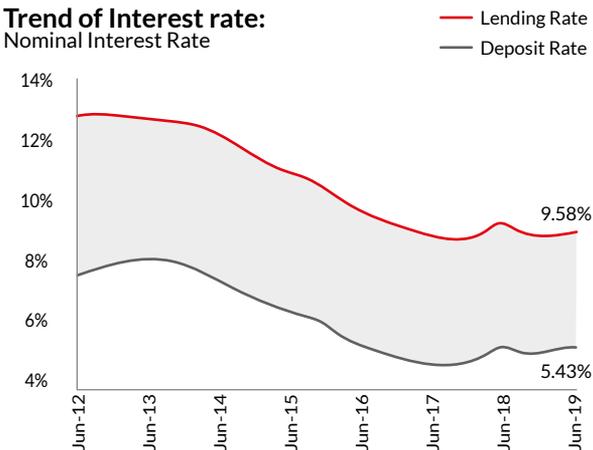


Source: Bangladesh Bank, IDLCSL Research

### Forex Reserve

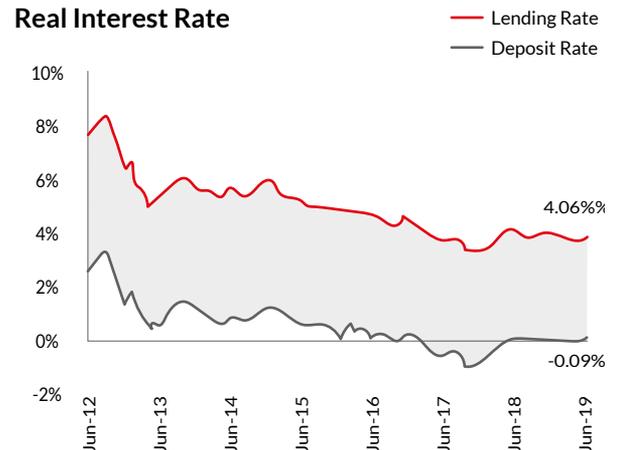


### Trend of Interest rate: Nominal Interest Rate



Source: Bangladesh Bank

### Real Interest Rate



Source: Bangladesh Bank

## IS BANGLADESH'S STARTUP ECOSYSTEM FACING A HEAT?

**Shohoz**, the largest online destination in the country, has been featured on CB Insights Startup Continent as Bangladesh's number 1 well-funded startup. This is a moment of glory for the nascent startup ecosystem of Bangladesh.

Few factors make our startup ecosystem fertile: a vibrant youth population, growing share of middle and affluent class, soaring adoption of smartphone, increasing usage of digital platform and the like. Our country is poised to reap the same benefits of a demographic dividend that countries like Japan, China and even our neighboring India have used to transform their economies. For a while, that was the case.

During the late 2000's and early 2010's, Bangladesh experienced a boom in new startups. They fought through a horde of issues plaguing our country such as lack of infrastructure, minimal government support, poor funding infrastructure for venture financing etc. And finally, the giants of the Bangladesh startup scene rose to prominence in one of the worst countries for doing business in. Startups like Pathao, Sheba, Shohoz and Chaldal become success stories, recognized even on the global stage. More and more young entrepreneurs started breaking the mould of going into conventional jobs after graduation, and started creating jobs themselves. More

incubators started providing guidance and financing to these budding startups through accelerator programs. Even the government support increased significantly, through both funding and infrastructure. Bangladesh then, was on track to be the next hub of startups in Asia.

Of late, two prominent startups of Bangladesh are having a tough time, one actually closed operations. Names are: Pathao and Cookups. While Pathao is struggling to gear up from its current downfall, Cookups put an end to its operation. The two startups had some factors going adverse to their successful operation, which any startup can encounter.

- **Not doing enough what is required to do a sustainable business model:**

Cookups is a brilliant story of starting from a Facebook group to web and app with a totally non-conventional concept. However, in the long term they could not scale up with their niche target market. In India, "Dabbawala" reflects a similar success story, They connect home-cooks to people who do not want fast food, but do not have the time to cook for themselves. Dabbawala has been very successful in both securing funds and managing those funds to scale up. They targeted the working-mothers



and provided tiffin for their children. The business model got immensely popular that Harvard Business School termed it to be the world's best food delivery system which earned a Six Sigma performance by Forbes Magazine. Identifying the right target group is essential.

- **Diversification:**

Successful startups, as the trend reflects globally, go for diversification after reaching stability in the current line of business. Both in case of Pathao and Cookups, diversification came at a very early stage. Pathao's core concentration was ride-sharing service and e-delivery, however, after getting a widespread popularity (not stability) of their ride-sharing service, they went for online food delivery service, e-grocery and e-wallet. The latter two could not stand in teeth of competition, Similar trend goes for Cookups: even before setting a sustainable business model, they came up with "Growups" an e-grocery line for health-conscious individuals, catering service and so on . Startups, at an early stage, should decide on their core line of business take as much time as needed to establish that.

- **Funding is tough:**

Due to having an infant startup culture, sources of funding are scarce. Bank funds are suited to the needs of startups and startups can't meet banks' risk appetite. There is no local venture capital ecosystem, with a moderate angel and seed-stage ecosystem.

However, funding problem should be mitigated once the startup culture takes a good shape.

- **Not eyeing on competition:**

An old adage goes: Keep your friends close and enemies closer. Pathao was focusing on their unaligned marketing campaigns one after another, when Uber Eats was venturing into Bangladesh. Worthy to mention, Pathao Food already gained traction in the market when Uber Eats rolled out. Pathao should have been more alert at that time because Uber already had a strong network. Evidence suggests, homegrown startups serve better compared to foreign startups in Asian market (Ola-India, Didi-China, Grab-Singapore). After a point, they lost their momentum and their foresight, and started to falter.

Doing business in Bangladesh is tough. Every year, the country falls one notch down in the Doing Business Index by the World Bank. Poor infrastructure, lengthy documentation process make it difficult for the businesses to sustain. However, it is even more difficult for the startups since they are yet to fall under any proper regulation. Pathao, however, have not failed yet. They still have a good chance of getting back on their feet, being leaner than ever. But for that to happen, they have to refocus on their core business and rekindle their innovative spirit, which is applicable for all the startups in Bangladesh. Being innovative and solving actual problems should never be eclipsed by wanting to grow quickly just for the sake of pleasing investors.



# PERFORMANCE ANALYSIS OF TOP 10 COMMERCIAL BANKS WITH IDLC FOR 1<sup>ST</sup> HALF, 2019

## Top 10 Commercial Banks: (In alphabetical order)

- BRAC Bank Limited
- Dutch-Bangla Bank Limited
- Eastern Bank Limited
- IFIC Bank Limited
- Islami Bank Bangladesh Limited
- Mercantile Bank Limited
- Pubali Bank Limited
- Southeast Bank Limited
- The City Bank Limited
- Trust Bank Limited

### CRITERIA

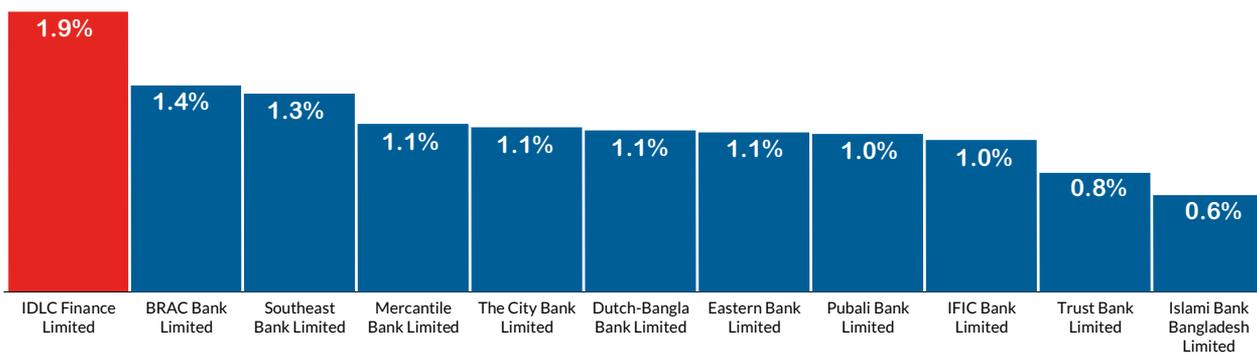
LOAN PORTFOLIO SIZE

RETURN ON ASSETS (ROA)

RETURN ON EQUITY (ROE)

NET PROFIT AFTER TAX

### RETURN ON ASSETS, HALF-YEARLY ANNUALIZED



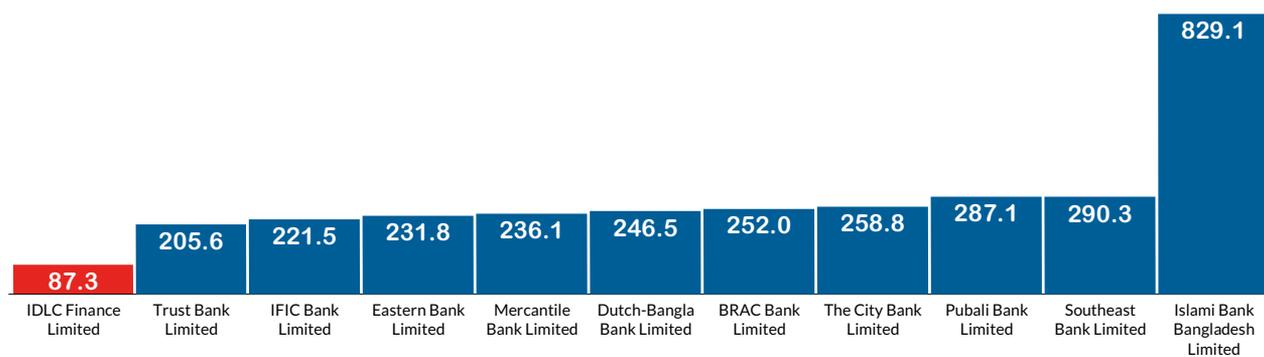
### RETURN ON EQUITY (ROE) HALF-YEARLY ANNUALIZED

Southeast Bank Limited	<b>17.8%</b>	The City Bank Limited	<b>14.5%</b>
Mercantile Bank Limited	<b>17.2%</b>	BRAC Bank Limited	<b>13.9%</b>
Pubali Bank Limited	<b>16.0%</b>	Eastern Bank Limited	<b>13.5%</b>
Dutch-Bangla Bank Limited	<b>15.9%</b>	IFIC Bank Limited	<b>12.2%</b>
Trust Bank Limited	<b>15.8%</b>	Islami Bank Bangladesh Limited	<b>11.7%</b>
<b>IDLC Finance Limited</b>	<b>15.6%</b>		

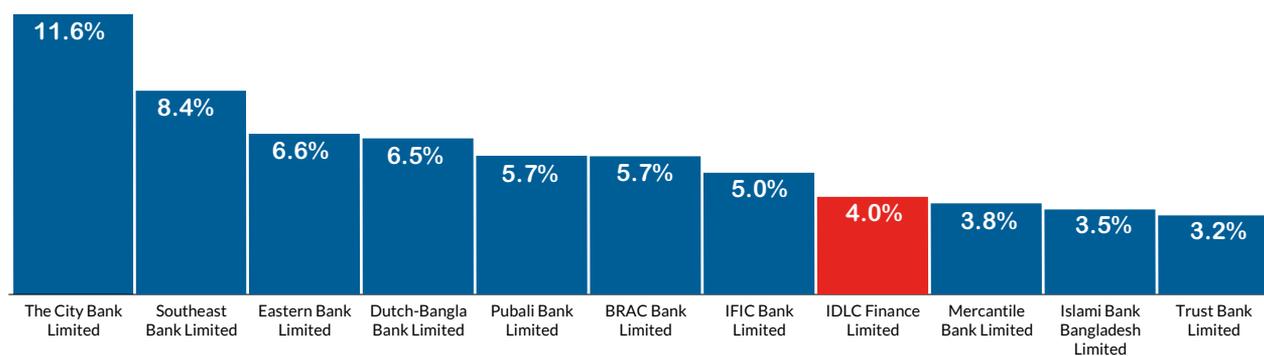
## NET PROFIT AFTER TAX (IN BILLION) 6M, 2019

IDLC Finance Limited	<b>1.1</b>	Dutch-Bangla Bank Limited	<b>1.9</b>
Trust Bank Limited	<b>1.1</b>	Pubali Bank Limited	<b>2.2</b>
IFIC Bank Limited	<b>1.5</b>	BRAC Bank Limited	<b>2.5</b>
Eastern Bank Limited	<b>1.6</b>	Southeast Bank Limited	<b>2.6</b>
Mercantile Bank Limited	<b>1.7</b>	Islami Bank Bangladesh Limited	<b>3.3</b>
The City Bank Limited	<b>1.8</b>		

## LOAN PORTFOLIO SIZE 6M, 2019



## LOAN PORTFOLIO GROWTH (%) Y-T-D



## COST TO INCOME 6M, 2019

Southeast Bank Limited	<b>33.9%</b>	Islami Bank Bangladesh Limited	<b>45.8%</b>
Trust Bank Limited	<b>34.5%</b>	Mercantile Bank Limited	<b>47.6%</b>
IDLC Finance Limited	<b>41.3%</b>	The City Bank Limited	<b>56.1%</b>
Eastern Bank Limited	<b>42.8%</b>	BRAC Bank Limited	<b>65.3%</b>
Pubali Bank Limited	<b>43.5%</b>	Dutch-Bangla Bank Limited	<b>80.7%</b>
IFIC Bank Limited	<b>45.2%</b>		

## IDLC reports a consolidated Net Profit after Tax of BDT 1,051 million in the first half of 2019



IDLC Finance Limited reported a consolidated Net Profit after Tax of BDT 1,051.33million in the first 6 months of 2019, posting a 5.41% de-growth from the same period last year. On a standalone basis however, parent company's NPAT grew by 15.09% Y-o-Y and stands at BDT 919.22million.

Earnings per share for the half-year stands at BDT 2.79 as against BDT 2.95 in the 6 months ending June 2018. Book value per share rose to BDT 35.46, from BDT 33.36 at the end of Q2 2018.

Since December, 2018 loan assets grew by 4.02% to BDT 87.31bn. The loan book growth was primarily driven by Consumer portfolio, which grew by 8.36% over the last six months and now accounts for 35.03% of the parent company's portfolio. The Consumer vertical of the company has recently launched affordable housing scheme to provide home financing to the middle and lower middle classes of the country. SME loans still hold the lion's share of the book, at 41.88% while corporate loans make up 23.09% of the loan assets. NPL rate stands at 2.58%, compared to 2.36% at the end of H1, 2018.

Wholly owned capital market subsidiaries have all suffered in H1, 2019 – largely due to low trade volume as well as poor investment returns.

**While lower returns from the capital market subsidiaries have led to a slight decrease in the group's Net Profit, returns from our lending operations on a standalone basis has seen a noteworthy growth of 15%. This reflects our capacity to maneuver through a market afflicted with rising deposit rates and tight liquidity scenario. Although unfavorable conditions of the capital market have reduced our investment income, it is important to note that our subsidiaries have contributed quite substantially towards the company's bottom-line in the past. Hence, while we acknowledge that there will be ups and downs in the returns from the capital market in the short term, we are fairly confident of generating above average returns from our investments in the long term.**

- Arif Khan  
CEO & Managing Director  
IDLC Finance Limited

# নিজের বাড়ি মানে স্বপ্ন আঁকার ক্যানভাস আইডিএলসি হোম লোন



## HOW TO BATTLE IDENTITY THEFT AND ENSURING SAFETY OF FINANCIAL PRODUCTS?

Financial identity theft refers to the abuse of user information by stealing personally identifiable information for financial gain. Financial identity theft has been an alarming issue in Bangladesh for last few years, as several incidents of identity theft came to light. Fraud occurs when a variety of fraudulent accounts like new loans, credit cards and lines of credit will be cloned against your original accounts.

Identity theft, with fraudsters taking advantage of weaknesses in the cards, ATMs, POS and banks, is on the rise in Bangladesh. So financial service users of Bangladesh should be cautious to ensure safety of their financial assets. There were many cases of fraud occurred due to identity theft in Bangladesh. In 2017 BDT 25 lacs were stolen using 40 clone cards. Exploiting weaknesses in credit and debit card security systems, fraudsters attacking ATMs, point-of-sales (POS) and banks, which is alarming. So to stay secure from these fraudsters, everyone who uses financial products, should follow some measures.

### Target information

Purse, wallet, mailbox, briefcase, and home are places thieves can steal personal information. Personal computer is a big target for the hacker because computers hold information which is more than enough for hackers to do a mischief. Information passed through internet is another option for hackers to steal the information. Social media, different online gateways for financial transaction are places which can be a trap for the financial services users.

### What to do when you suspect a case of identity theft

#### ● Reporting to concerned FI

As soon as you understand that there is a fraud committed using your information, you should notify the FIs quickly so that they can halt the transaction occurred and save you from financial losses.

## Things to remember

- PIN should not be kept with anyone unless any intention of using it for a specific purpose.
  - Someone should provide PIN number only when it's necessary to do so.
  - All the financial statements and other documents containing important personal data should be shredded before discarding.
  - Use a locking mailbox or secure mail slot to help protect important mail and new credit and debit cards from identity thieves.
  - Limiting shares on social media is necessary because information placed of birth or dog's name could be an answer to an online security question.
  - Frequently changing passwords for credit cards, debit cards and any online transaction portals.
- 
- **Change all affected account passwords**  
Change all of your passwords on any account that was affected by fraud. If one of your existing accounts doesn't have a password, now is the time to create one.
  - **Replace your stolen cards**  
If any of the cards you use is stolen, immediately you should inform the issuing bank and replace the old one.
  - **Reporting fraud to police**  
For any fraud case it is wise to inform police about the fraud. It will help the law enforcement agencies to find out the fraudsters easily so that that group cannot commit any further crime.

## Performance of Equity Markets of Bangladesh and Peer Countries

Bangladesh equity market closed the month of August in negative territory. During the month, the broad index DSEX declined by 0.8%, losing 43.0 points. The blue chip index DS30 also slumped by 1.5%, while the Shariah index DSES increased marginally by only 0.2%.

Among the regional peers, Pakistan (-7.1%), Sri Lanka (-0.8%) and Vietnam (-0.8%) also closed the month in red. MSCI Frontier Markets Index slumped by 1.6%. Vietnam showed the most encouraging longer term track record with a 5 years' return of 54.6%, while Bangladesh yielded 12.6% return during the same period. In the meantime MSCI Frontier Markets Index yielded -4.9% return.

Table 1: Equity market performance in Bangladesh and peer countries

Indices	Index Points, August, 2019	Return*					
		1M	3M	YTD	12M	3Y	5Y
<b>Bangladesh</b>							
DSEX	5,095.8	-0.8%	-5.2%	-5.4%	-9.0%	12.6%	12.0%
DS30	1,800.1	-1.5%	-4.1%	-4.3%	-8.2%	3.7%	5.0%
DSES	1,183.4	0.2%	-2.5%	-4.0%	-6.8%	7.8%	N/A
<b>Peer Countries</b>							
Pakistan (KSE 100)	29,672.1	-7.1%	-17.5%	-19.9%	-28.9%	-25.5%	3.9%
Sri Lanka (CSE - All Share)	5,889.9	-0.8%	10.9%	-2.7%	-3.1%	-9.8%	-16.3%
Vietnam (VNI)	984.1	-0.8%	2.5%	10.3%	-0.6%	45.9%	54.6%
<b>MSCI Frontier Markets Index</b>	<b>740.0</b>	<b>-1.6%</b>	<b>2.3%</b>	<b>9.8%</b>	<b>5.2%</b>	<b>18.7%</b>	<b>-4.9%</b>

\* All returns are Holding Period Return

Source: Investing.com, MSCI, DSE

### Liquidity Condition in Equity Market of Bangladesh

During August, the total market capitalization decreased by 0.7%, while free float market capitalization decreased by 0.7% as well. Meanwhile, daily average turnover of August 2019 was BDT 4.6 bn (USD 54.7 mn), increasing by 13.7% from that of last month. Accordingly, turnover velocity which represents overall liquidity of the market decreased to 23.3% in August compared to 28.0% of last month. In 2018, turnover velocity of Bangladesh equity market was 37.7%, whereas it was 5.4% in India, 6.9% in Sri Lanka, 34.8% in Vietnam and 70.7% in Thailand.

Table 2: Market capitalization and turnover statistics

Particulars	31-Aug-19	30-Jul-19	% change
Total market capitalization (USD* mn)	45,070	45,382	-0.7%
Total equity market capitalization (USD mn)	38,148	38,410	-0.7%
Total free float market capitalization (USD mn)	15,442	15,481	-0.3%
Daily Avg. Turnover (USD mn)	54.7	48.1	13.7%
Turnover Velocity~	23.3%	28.0%	N/A

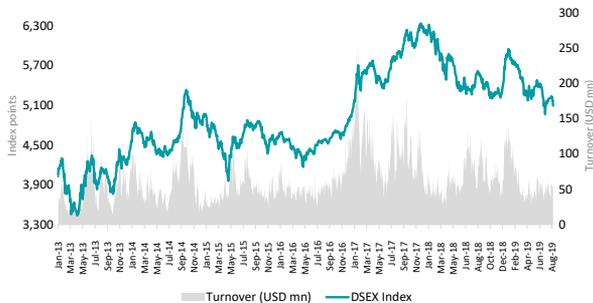
\*\*All USD figures are converted using an exchange rate of 84.5 as of August 31, 2018 as per Bangladesh Bank website.

~Turnover velocity is calculated by dividing monthly total turnover with month-end market capitalization. The figures are annualized.

### Historical Index Points and Market Participation Data

Since its inception on January 27, 2013, DSEX yielded a holding period return of 25.6% till August, 2019. During the same period, daily average turnover of the market amounted to BDT 5.5 bn (USD 64.7 mn) (Figure 1).

Figure 1: DSEX since inception along with market turnover



### Market Valuation Level - P/E Ratio

The market P/E increased to 13.59x in August compared to last month. However it is still lower than 18 years' median market P/E of 15.14x (Figure 2). In terms of trailing 12 month P/E ratio equity market of Bangladesh is cheaper than most of its regional peers. (Figure 3).

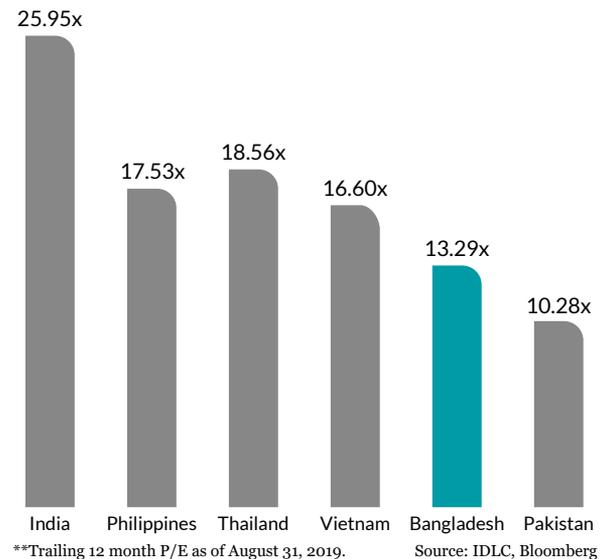
Figure 2: Historical market P/E\* and its median Current Market P/E in Context of History



\*Price Earnings (P/E) Ratio is calculated by dividing total market capitalization of all profit making listed companies with their total audited annual earnings.

Source: CEIC, DSE

Figure 3: Current market P/E\* of Bangladesh and peer countries



\*\*Trailing 12 month P/E as of August 31, 2019.

Source: IDLC, Bloomberg

### Sector Performance

During August, among the major sectors, Fuel & Power, Pharmaceuticals & Chemicals, and Miscellaneous advanced by 3.0%, 4.3% and 7.5% respectively, while Bank (-4.2%), Telecommunication (-3.6%) and NBFII (-3.2%) faced the highest selling pressure.

The largest sector in terms of market capitalization, Bank is relatively undervalued in terms of P/E ratio. On the other hand, Telecommunication sector has the highest dividend yield of 8.6% among all sectors.



Table 3: Sector performance snapshot

Sector	Market capitalization (USD mn)		Return*						P/E (x)**	P/BV (x)^	Dividend Yield~
	Total	Free Float	1M	3M	YTD	12M	3Y	5Y			
Bank	6,633	3,730	-4.2%	-8.2%	-1.1%	-6.4%	44.5%	81.1%	8.1	0.9	2.2%
Pharmaceuticals & Chemicals	6,373	3,430	4.3%	7.0%	7.5%	9.9%	29.1%	81.6%	12.0	11.1	1.7%
Telecommunication	5,203	555	-3.6%	-9.9%	-8.7%	-13.1%	36.0%	20.4%	17.3	2.6	8.6%
Fuel & Power	5,915	1,478	3.0%	4.2%	10.9%	10.7%	41.1%	61.9%	13.7	1.7	4.2%
Food & Allied	3,293	1,180	-2.3%	-8.6%	1.9%	8.8%	38.6%	62.3%	27.5	7.9	1.4%
Engineering	2,297	1,170	-0.3%	-4.7%	-7.8%	-11.0%	9.3%	73.7%	14.4	1.6	0.9%
NBFI	1,875	558	-3.2%	-14.4%	-13.6%	-21.8%	19.8%	17.4%	17.4	1.6	3.5%
Textile	1,464	810	0.1%	-9.2%	-12.2%	-8.0%	34.5%	46.0%	14.1	0.9	2.2%
Miscellaneous	1,371	364	7.5%	6.5%	9.2%	8.4%	30.9%	108.5%	24.0	1.3	1.8%
Cement	1,001	409	0.9%	-7.9%	-16.4%	-23.6%	-39.1%	-48.5%	28.3	2.3	2.4%
Life Insurance	725	327	0.0%	2.7%	-1.6%	26.9%	51.3%	21.4%	14.8	6.0	1.7%
Non-Life Insurance	580	334	-2.2%	-2.2%	25.6%	29.5%	74.8%	47.2%	12.9	1.1	2.8%
Ceramics	315	130	7.6%	-0.1%	-3.6%	-6.4%	9.9%	52.7%	23.8	1.8	1.5%
Tannery	302	145	-1.0%	-1.0%	-7.3%	-7.7%	13.6%	30.4%	24.0	2.3	2.3%
Travel & Leisure	269	146	-1.7%	-2.6%	-8.6%	-7.6%	32.3%	-14.2%	22.4	0.6	3.1%
IT	245	159	1.0%	-2.7%	-8.6%	-10.7%	80.8%	238.2%	30.8	1.4	1.1%
Services & Real Estate	199	102	3.9%	-3.0%	-5.7%	-13.5%	-14.0%	50.4%	16.4	1.0	4.4%
Paper & Printing	154	51	1.6%	-11.3%	-27.1%	-12.2%	27.6%	-24.2%	21.8	2.4	2.7%
Jute	47	34	7.9%	2.7%	-16.3%	142.6%	279.1%	518.9%	45.3	14.2	0.1%
<b>Market</b>	<b>38,049</b>	<b>15,001</b>	<b>-0.8%</b>	<b>-5.2%</b>	<b>-5.4%</b>	<b>-9.0%</b>	<b>12.6%</b>	<b>12.0%</b>	<b>13.6</b>	<b>1.7</b>	<b>3.3%</b>

\*All returns are Holding Period Return.

\*\*Price Earnings (P/E) Ratio is calculated by dividing total market capitalization of all profit making listed companies with their annualized earnings excluding companies trading at an annualized P/E greater than 80.0x.

^P/BV is calculated by dividing total market capitalization of listed companies with their total book values excluding companies with negative book values.

~Dividend yield is calculated by dividing last year's declared cash dividend with market capitalization.

### Cap Class Performance

During the month of August, All Cap Classes yielded positive return, except Large Cap Class which gave a return of -1.2%. However the Large Cap was the highest dividend yielding (3.7%) class.

Table 4: Performance of different market cap classes

Cap Class	Market Capitalization of Constituent Companies (USD mn)	% of Total Equity Market Capitalization	Return*						P/E (x)	P/BV (x)	Dividend Yield^
			1M	3M	YTD	12M	3Y	5Y			
Large	≥120	81.7%	-1.2%	-4.0%	0.3%	-1.2%	37.3%	45.6%	13.4	1.9	3.7%
Mid	36-119	11.5%	1.3%	-2.3%	-0.9%	-2.7%	15.8%	40.2%	12.7	1.0	1.8%
Small	12-35	5.4%	1.2%	-4.8%	-9.1%	-5.0%	25.5%	59.3%	19.8	0.9	1.7%
Micro	<12	1.4%	0.2%	-7.2%	-5.1%	-8.8%	29.2%	44.2%	19.3	0.9	1.7%
<b>Market</b>	-	-	<b>-0.8%</b>	<b>-5.2%</b>	<b>-5.4%</b>	<b>-9.0%</b>	<b>12.6%</b>	<b>12.0%</b>	<b>13.6</b>	<b>1.7</b>	<b>3.3%</b>

\* All returns are Holding Period Return

### Performance of 20 Largest Listed Companies in Bangladesh

Among the 20 largest listed companies in terms of market capitalization, MARICO (+10.0%) advanced the most in August, followed by BERGERBPL (+8.4%). On the contrary, BRACBANK (-7.9%), EBL (-7.3%) and OLYMPIC (-6.8%) faced the highest selling pressure during the month.

Majority of these companies yielded outstanding return over longer time horizon (5 years) such as BRACBANK (+322.0%), BERGERPBL (+216.1%), CITYBANK (+177.4%), RENATA (+141.7%), DUTCHBANGL (124.4%), EBL (+123.9%), and BXPHERMA (+102.5%).

Among the scrips GP, SUMITPOWER, TITASGAS, EBL, MJLBD, and ISLAMIBANK recorded a higher dividend yield compared to that of market.

Table 5: Snapshot of 20 largest companies in terms of market capitalization

DSE Code	Sector	Market capitalization (USD mn)		Daily Avg. Turnover (USD mn)	Return*						P/E (x)	P/ BV (X)	Dividend Yield
		Total	Free Float		1M	3M	YTD	12M	3Y	5Y			
GP	Telecommunication	4,986	499	0.58	-3.5%	-9.7%	-9.2%	-13.7%	37.0%	22.5%	11.7	12.6	9.0%
BATBC	Food & Allied	2,577	682	0.59	-1.7%	-8.8%	3.5%	10.4%	56.3%	64.5%	28.6	8.0	1.4%
UPGDCL^	Fuel & Power	2,464	246	2.91	3.8%	14.9%	35.9%	37.3%	306.5%	N/A	25.3	7.6	3.0%
SQURPHARMA	Pharmaceuticals & Chemicals	2,352	1,542	0.94	0.4%	-1.1%	-0.9%	-1.6%	26.4%	59.4%	15.8	3.3	1.3%
RENATA	Pharmaceuticals & Chemicals	1,132	553	0.12	1.5%	1.4%	4.1%	13.0%	45.5%	141.7%	28.4	6.0	0.7%
BERGERPBL	Miscellaneous	864	43	0.19	8.4%	12.1%	19.1%	26.2%	52.5%	216.1%	35.4	11.7	1.6%
BRACBANK	Bank	845	471	0.60	-7.9%	-10.4%	-8.4%	-13.5%	65.8%	322.0%	14.1	2.2	0.0%
ICB	NBFI	843	27	0.03	-3.9%	-13.8%	-12.1%	-21.5%	15.5%	-0.4%	77.1	2.0	2.8%
MARICO	Pharmaceuticals & Chemicals	687	69	0.31	10.0%	32.2%	56.2%	69.0%	70.8%	119.2%	17.1	33.3	3.5%
LHBL	Cement	531	187	0.14	-3.3%	-3.5%	-9.2%	-25.7%	-46.5%	-62.3%	28.4	3.0	2.6%
SUMITPOWER	Fuel & Power	517	190	0.18	3.8%	1.0%	3.8%	10.5%	47.8%	51.6%	8.6	1.0	7.3%
OLYMPIC	Food & Allied	491	354	0.27	-6.8%	-8.2%	-4.1%	5.1%	-22.9%	69.8%	22.3	6.1	2.3%
TITASGAS	Fuel & Power	440	110	0.03	0.0%	-2.6%	3.3%	0.7%	-5.9%	-44.4%	9.8	0.5	6.6%
ISLAMIBANK	Bank	427	218	0.05	-1.3%	-9.3%	-3.6%	-11.3%	-15.6%	18.9%	5.5	0.7	4.5%
BXPBARMA	Pharmaceuticals & Chemicals	403	350	0.16	1.9%	7.6%	6.2%	-4.0%	5.3%	102.5%	11.4	1.2	1.5%
DUTCHBANGL	Bank	391	51	0.26	-2.4%	-5.0%	14.4%	26.9%	65.3%	124.4%	8.6	1.5	0.0%
EBL	Bank	330	226	0.06	-7.3%	-7.8%	10.6%	7.6%	63.4%	123.9%	8.8	1.2	5.3%
MJLBD	Fuel & Power	323	92	0.11	-2.0%	-3.3%	-13.2%	-7.4%	-10.4%	13.9%	15.0	2.2	5.0%
POWERGRID	Fuel & Power	319	76	0.22	0.7%	-1.3%	21.9%	18.7%	9.2%	57.2%	7.6	0.5	2.9%
CITYBANK	Bank	316	221	0.37	-5.1%	-3.3%	-6.4%	-20.4%	45.8%	177.4%	8.7	1.0	2.2%
<b>Market</b>		<b>38,049</b>	<b>15,001</b>	<b>54.72</b>	<b>-0.8%</b>	<b>-5.2%</b>	<b>-5.4%</b>	<b>-9.0%</b>	<b>12.6%</b>	<b>12.0%</b>	<b>13.6</b>	<b>1.7</b>	<b>3.3%</b>

\* All returns are Holding Period Return.

^ Five years' return is not available for UPGDCL as they were not listed then.

## Top Performing Mutual Funds:

The top ten open end mutual funds based on 3 year CAGR outperformed the market during the same period. Among them VIPB Accelerated Income Unit Fund (+12.3%) and Third ICB Unit Fund (+11.2%) made significant return. However, on YTD 2019 basis, Sixth ICB Unit Fund (+2.6%), MTB Unit Fund (+2.0%) yielded the highest return.

Table 6: Top ten open end funds based on 3Y return (CAGR) performance

Name	Asset Management Company	Fund Size (USD mn)	Return		
			2019 YTD*	2018	2016-2018
VIPB Accelerated Income Unit Fund~	VIPB	12.1	1.7%	-7.8%	12.3%
Third ICB Unit Fund	ICB	3.8	2.2%	-7.0%	11.2%
Seventh ICB Unit Fund	ICB	5.0	0.8%	-11.9%	10.7%
LankaBangla 1st Balanced Unit Fund	LankaBangla	5.0	-0.8%	-2.0%	10.7%
Fifth ICB Unit Fund	ICB	4.1	0.9%	-7.0%	10.4%
UFS-Popular Life Unit Fund~	UFS	9.3	-0.8%	-4.6%	10.2%
Sixth ICB Unit Fund	ICB	3.6	2.6%	-9.3%	9.5%
MTB Unit Fund	Alliance	9.4	2.0%	-4.2%	9.2%
Second ICB Unit Fund	ICB	1.5	0.7%	-7.1%	8.7%
Peninsula AMCL BDBL Unit Fund One	Peninsula	2.5	-0.4%	-14.3%	7.7%
<b>Market (Broad Index) Return (%)</b>			<b>-5.4%</b>	<b>-13.8%</b>	<b>5.2%</b>

\*Based on published NAV and DSEX point of August 29, 2019

~ 2016-18 returns are calculated from inception date in 2016.

The top ten closed end mutual funds on the basis of 5 years (2014-2018) performance yielded mixed return on YTD basis. GRAMEENS2 (+2.5%) yielded the highest return on YTD basis. All these funds are traded at a lucrative discount compared to their NAV. Besides, all the funds also offered higher dividend yields compared to market (Table 7).

Table 7: Top ten close end funds based on 5Y return (CAGR) performance

DSE Code	Fund Manager	Fund Size (USD mn)	Price <sup>1</sup> (BDT)	NAV <sup>1</sup> (BDT)	Price/NAV	Dividend Yield <sup>2</sup> (%)	NAV Return <sup>3</sup>				Redemption Year <sup>4</sup>
							2019 YTD	2018	2016-18	2014-18	
NLI1STMF	VIPB	8.0	11.4	13.4	84.8%	11.4%	1.7%	-8.0%	13.3%	14.6%	2022
SEBL1STMF	VIPB	14.8	10.6	12.6	84.3%	11.3%	1.8%	-8.3%	12.8%	13.7%	2021
GRAMEENS2	AIMS	41.1	12.4	19.0	65.1%	7.3%	2.5%	-1.6%	12.2%	12.4%	2023
1JANATAMF	RACE	35.6	4.1	10.4	39.5%	7.3%	-1.2%	-4.5%	7.1%	10.3%	2030
RELIANCE1	AIMS	9.4	9.7	13.2	73.6%	10.3%	0.5%	-1.1%	12.0%	10.2%	2021
PHPMF1	RACE	34.1	3.9	10.2	38.1%	7.7%	-3.7%	-4.9%	8.5%	10.2%	2030
EBL1STMF	VIPB	17.5	5.1	10.2	50.0%	5.9%	-2.7%	-3.5%	9.5%	10.0%	2029
POPULAR1MF	RACE	36.8	4.0	10.4	38.5%	5.0%	-4.2%	-4.4%	8.3%	10.0%	2030
PRIME1ICBA	ICB AMCL	9.6	6.2	8.1	76.6%	9.7%	1.1%	-8.6%	7.6%	9.4%	2020
ABB1STMF	RACE	29.6	4.1	10.5	39.2%	7.3%	-4.5%	-5.0%	8.5%	9.2%	2032
<b>Market</b>						<b>3.3%</b>	<b>-5.4%</b>	<b>-13.8%</b>	<b>5.2%</b>	<b>4.8%</b>	

1 Price and NAV published on August 29, 2019.

2 On last cash dividend declared.

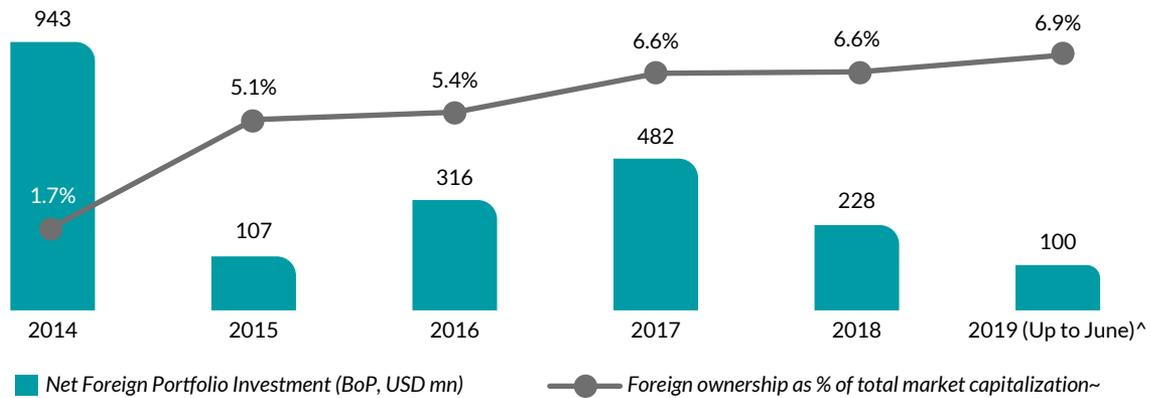
3CAGR computed for respected periods, except for 2018 and 2019 YTD, adjusted for dividend. YTD returns of funds debuting within the year represent return generated since debut, hence is not directly comparable with return of funds that operated throughout the year.

4In reference to BSEC Press Release বিএসইবিএস/মুখপাত্র (৩য় খণ্ড)/২০১১/১৫ published on September 16, 2018, tenure of existing listed closed end mutual funds can be extended by another tenure equal to maximum 10 years, provided that the full tenure of the subject fund does not exceed 20 years in total. However, the mutual funds those are not willing to extend their tenure will still have the option to convert or wind up as per rules and regulations.

## Foreign Participation in Equity Market of Bangladesh

Over last 5 years, Bangladesh equity market has seen a surge of foreign investment. As of August, 2019 total foreign ownership stood at 6.9% of the total equity market capitalization, which was only 1.7% in 2014.

Figure 4: Net foreign portfolio investment and foreign ownership as % of total equity market capitalization



Source: DSE and Bangladesh Bank

\*Net portfolio investment data are as of December of the respective years.

~% of foreign ownership of equity market capitalization data are as of December of the respective years except for 2019 (June).

Among all the companies with foreign ownership, JMISMDL had the highest foreign shareholding of 50.2% as of August 2018, followed by DBH with 42.8%.

Table 8: Top ten companies with highest foreign shareholding as of July

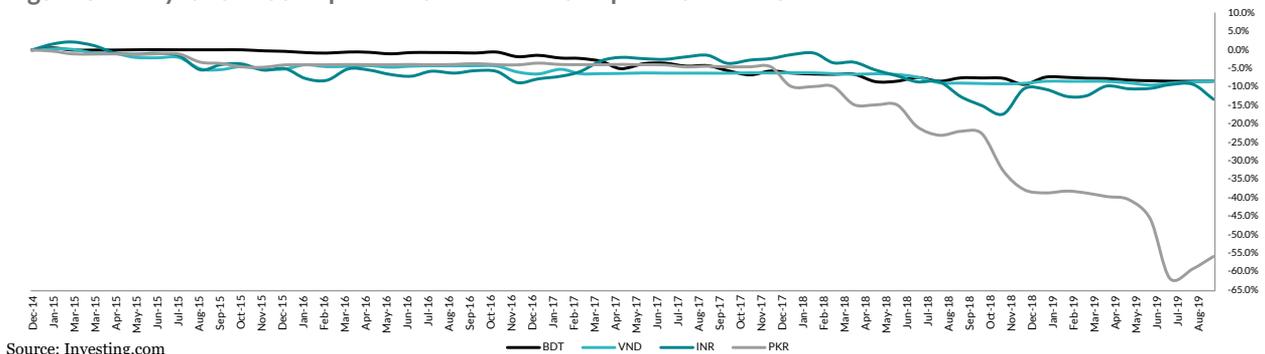
Ticker	Sector	Foreign Shareholding
JMISMDL	Pharmaceuticals & Chemicals	50.2%
DBH	NBFI	42.8%
BRACBANK	Bank	42.6%
OLYMPIC	Food & Allied	40.2%
BXPHERMA	Pharmaceuticals & Chemicals	37.2%
ISLAMIBANK	Bank	24.1%
RENATA	Pharmaceuticals & Chemicals	22.3%
MLDYEING	Textile	21.9%
SHEPHERD	Textile	20.3%
SQURPHARMA	Pharmaceuticals & Chemicals	20.2%

\*Source: DSE

## Performance of BDT and Currencies of Peer Countries against USD

Since 2015, BDT retained its value better than the currencies of peer countries. While BDT depreciated by 8.4% against US Dollar, other currencies of neighbor countries like Vietnamese Dong (VND), Indian Rupee (INR) and Pakistani Rupee (PKR) lost 8.4%, 13.4% and 56.0%, respectively.

Figure 5: Five year's relative performance of BDT and peer currencies



Source: Investing.com

ব্যবসা ছোট হোক বা মাঝারি  
আপনার পাশে আছে

আইডিএলসি এসএমই লোন

