

# A Finance Company Backed By A Bank

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UB Finance, has made significant inroads into the finance space since their acquisition by Union Bank in 2011. Armed with a new outlook that has gone through much restructuring to reflect better controlled and stringent policies, the Company endeavours to reach out to customers in a more customised and personalised manner. Ransith Karunaratne, CEO of UB Finance relays about their growth and how they plan to proceed in the current environment where consolidation of the industry is encouraged.

Photography Menaka Aravinda

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**Can you talk about the journey of the Company and how the Company has fared since its acquisition by the Union Bank of Colombo?**

Union Bank of Colombo together with its US based strategic investment partner ShoreCap II invested 1.15 Billion rupees and acquired the Company in November 2011 making it the first finance company to be backed by a commercial bank in the private sector. This investment provides UB Finance with a solid and unique shareholding structure. Post acquisition the new management completely restructured and revamped the Company in line with its strategic intent. This strategic intent included among several items, its preferred market segments, product development, market development and funding strategies. The Company has made significant headway in the last one and a half years and the UB Finance brand has established itself as a top of mind brand.

**“The Company Has Made Significant Headway In The Last One And A Half Years And The UB Finance Brand Has Established Itself As A Top Of Mind Brand.”**

**UB Finance strives to offer its customers “the versatility of a finance company backed by the strength of a bank.” Can you elaborate on this aspect?**

Every business entity will need to have a business proposition which will enable it to uniquely position itself in the market. In terms of versatility we offer our customers customised products and services tailor-made to suit their unique and diverse requirements. Further, we also offer our clients service at their door step and speed of delivery reducing the process and transaction time. We are also backed by the strength of solid parents which include Union Bank of Colombo and ShoreCap II. A proposition no other finance company can offer its clientele.

**UB Finance offers many services and products that are of value to entrepreneurs and many others. Can you describe some of these products?**

At UB Finance we focus mainly on the SME market segment. We have segmented our product lines into four main areas being investment products, asset backed lending products, working capital solutions and retail lending products.

The investment products, mainly being fixed deposits and savings accounts, are uniquely customised to suit specific cash flow requirements of customers where the customers can select the duration of their deposit in days and also collect the interest on their deposit up front. Working capital solutions include factoring, invoice discounting and easy draft which is UB Finance’s version of an overdraft, where customers have the ability to draw down and payback on an approved facility whenever a requirement exists. I believe other financial service providers do not have access to the expertise required to handle the working capital

products that UB Finance specialises in. Asset backed lending products include leases, hire purchase facilities, mortgage and term loan facilities. Retail lending products are in the form of gold loans and micro loans. UB Finance also has an extensive real estate portfolio, which is available for sales on easy payment terms.

### **What is the unique aspect of UB Finance?**

UB Finance offers its clientele a “Total Solution” thereby making it a one stop shop for its customer’s financial needs. Working capital solutions is an area overlooked by many financial service providers. UB Finance leverages on the fact that it is able to meet this particular requirement. A common problem faced by most businesses in the SME sector is its limited access to working capital. Much of its investment is tied up in stocks and debtors. The business is unable to grow until such time these stocks and debtors are liquidated to cash, which enables it to run another cycle. Through its factoring solution UB Finance purchases the receivables of the SME, liquidating these debtors and giving the SME access to timely funding. This in turn enables the SME to continue its business operations smoothly. Over the past one and a half years UB Finance has developed a solid factoring portfolio which comprises of around 25 percent of its total assets. For customers who require longer term periods the Company offers leases, hire purchase facilities, mortgage and term loan facilities. For its retail customers UB Finance offers gold loans and micro credit facilities.

The above covers the entire financial requirements of individuals, entrepreneurs and the SME sector as a whole. From an individual entity that requires to make an investment or obtain a facility to purchase a vehicle to a SME that requires capital to purchase a factory, machinery or vehicle and working capital UB Finance provides the financial services to facilitate the entire financial cycle.

### **What has the Company done to increase customer confidence?**

On top of its strong parents and capital structure, UB Finance has invested in high quality, experienced individuals from the industry, which has greatly reduced the learning curve and credit operational risk. The service industry depends on people for high quality service delivery and customers are willing to pay a higher premium for high quality service delivery. UB Finance has identified its employees as a key component in the success of its business. Our senior management comprises of experienced individuals who have worked in reputed organisations and have significant industry experience. As such they have been able to deliver exceptional results in a very short period of time. The senior management teams

have also brought with them high quality processes and procedures and have also introduced new technologies to the Company. They are also able to tap into a base of tried and tested clientele maintaining high credit quality while maintaining minimum risk and exposure.

Strong branding has enabled us to convince high-end customers to join hands with us. As the Company is in its initial stages of growth, UB Finance has a modest advertising budget unlike some of its larger counterparts. However it has utilised its limited resources in a focused and effective manner and has established itself as a key player in the financial services industry.

**“UB Finance Has Faced Many Challenges. But It Has Been A Very Interesting And Rewarding Journey.”**

#### **How does the Company manage its credit quality?**

Maintaining credit quality is a key success factor to any business. We are a process driven organisation and therefore have a very stringent credit process that has flown through Union Bank into UB Finance. Our credit process is well documented from the starting point of the credit application to the documentation to the credit appraisal to what industries we lend to. All approvals are processed through the Head Office. We have the service of an experienced Senior Manager Credit from the financial services industry who has over ten years of experience. Large facilities require the approval of the Chief Operating Officer, myself and the Credit Committee as per the delegated credit limits approved by the Board of Directors.

#### **What challenges have the company faced and how has the company overcome them?**

UB Finance has faced many challenges. But it has been a very interesting and rewarding journey thus far. It is always a challenge for a new player to break into and be successful in the financial services space considering that we have 58 finance and leasing companies and 22 licensed commercial and specialised banks for market share. In our short period of operation we have greatly increased our deposit mobilisation and lending activities making us a notable player in the financial services space. This achievement is especially notable considering the fact that the industry has shrunk over the past year with the decrease in the number of vehicles getting registered.

The vehicle leasing markets have considerably declined. Further, UB Finance is competing with large players who are well-established having been in the market for a long period of time. Therefore, competing with them has been a formidable challenge. However as we have brought in people from the industry who have much expertise, we have managed to overcome some of the challenges we would have otherwise faced. As such, our success and overcoming challenges could be contributed to a combination of strategies including the backing of the bank, our versatility the team and our branding – these things put together have enabled us to deliver substantial results despite the slowing down of the industry.

**Many new players are joining the Finance sector of Sri Lanka where consolidation is encouraged with many smaller companies merging with bigger counterparts. What are your thoughts on this and how has UB Finance managed in this volatile yet growing environment?**

I personally believe that it is a positive move for the industry to consolidate and have a smaller number of finance companies and banks, as larger entities would be more efficient and financially stable. They would also be easier to monitor and regulate. This would alleviate the quality of the industry as a whole and enable them to compete with their global counterparts. A smaller number of finance companies would also mean a reduction in overheads, the benefit of which they would be able to pass on to their customers.

Further, when the market becomes too competitive finance companies tend to compromise on credit quality to achieve business volumes. This would ultimately have a negative impact on all its stakeholders and the industry as a whole. In line with the Central Bank of Sri Lanka's objective of encouraging SME investment by reducing interest rates, money market interest rates have been continuously reducing over the last year. However, if the overheads of the financial services intermediaries are not maintained they will not be able to pass on this benefit to the SME Sector as intended by the Central Bank of Sri Lanka. As such, we are looking at the consolidation process positively together with our parent bank.

**As a Finance Company how have the measures taken by the government and the Central Bank reflect on UB Finance and how has the measures taken by both entities helped the industry?**

The Central Bank of Sri Lanka played a very active role. They regulate the industry and are in constant touch and engage with us actively which is a very good thing. Consolidation will help the Central Bank as well, even for regulatory purposes, the numbers are too extensive to regulate effectively. Further, they have been very helpful in terms of advising and they

are approachable. The Central Bank has considerably reduced the policy rates, over the past year with the intention of improving investment and industry. When the rates come down, it creates a profitable environment for people to start businesses as the finance costs are reduced. We have also seen an increase in FDIs coming into the financial services sector, which is a testament to the positive outlook of foreign investors into the industry.

**The strategic plan during the year 2012/13 focused on achieving a higher nett profit where the betterment of the people, processes and the technology were looked into. What is the strategic plan of the company for the year 2014 and what aspects does the company plan on improving?**

Recently we had to look at other sources of business other than leasing as the vehicle market has been stagnant. Therefore, factoring has been one area that we have looked at actively. Going forward, we, like most of the companies are waiting to see how the consolidation process pans out. We still don't have a clear idea as to how this will proceed and impact the industry. Therefore we are continuing with our original three year strategic intent until we have more clarity on the consolidation process.

**"We Don't Want To Be Just Another Finance Company. We Will Strive Towards Being Sri Lanka's Preferred Financial Services Provider."**

As part of the industry we will continue to focus on the people, processes and technology. People drive the business and we will continue to invest in top quality people who will drive the front lines. The team also needs to be supported by good processes and technology. We have upgraded our IT system, which was on several platforms and we have consolidated and brought it onto a single platform where we have better quality information that enhances our service delivery. Enhancements such as these will continue as good processes, reducing delivery time and improving credit quality. Our parent Company has assisted us to deliver detailed and time tested processes, which we believe in the long run will assist us to achieve the standards to which we aspire. We currently operate through an island wide network of eight branches and we plan to open two every quarter in line with our strategic intent. We continue our business as usual and are committed to double our business volumes in the current financial year.

### **Final thoughts.**

It has been an interesting journey and a challenge and I believe you will see greater achievements from UB Finance in current financial year. We want to make an impact. We

don't want to be just another finance company but will strive towards being Sri Lanka's preferred financial services provider.

