

A new Dimension in Investment Banking

Posted on

There is no reason why Sri Lanka cannot be another Singapore in the next 10 years, with its strategic positioning, financial discipline and aggressive economic policies that economic policies that unleash the talent of its people. These were the prophetic words of Usman Hassan, CEO of Citi National Investment Bank, the latest investment bank to join the ranks of investment banking in Sri Lanka from January 15. Citi National, is a 50-50 joint venture between the National Development Bank (NDB), one of the local banking giants in Sri Lanka with the largest profits among listed companies, and Citibank, the largest US bank with a presence in 99 countries.

NDB with its client base of over 800 and long term funds at its disposal, and Citibank with its global network specialising in corporate finance activities, have observed that with privatisation and infrastructure development taking top billing in the government's foreseeable future, the time has now come to decrease the wide gap between investments and savings by making international markets more accessible to the local investor. Therefore, Citi National will draw from NDB's strong local presence and Citibank's global network to provide innovative financial solutions to Sri Lanka's business community and potential foreign investors.

According to Hassan, Citi National aspires to be a major player in providing financial services to its customers who place value on its in-house and global expertise. The principal activities of Citi National will include advisory services in the areas of privatisation, infrastructure, corporate restructuring and mergers and acquisitions. Citi National will also focus on the development of short and long term debt markets.

Speaking on the reasons for setting up Citi National in Sri Lanka, Hassan says, "some people might say this is not the right time, the market is not picking up, there are political problems here, so why do it? The problems are more like a regional phenomena. Look at our neighbouring countries. The Financial Markets are all following the same pattern."

"You may have heard comments made by the IMF and World Bank. They say that this is a very opportune moment. The market is just about to take off". Adds Hassan emphatically, "I support that view. I also feel that we are very close to a political settlement and if that problem is taken care of, this market will take off with a bang. All the ingredients are there for it the policies are very conducive for such a take off. We can't miss out. We have to be

there at the right time to capture all these opportunities.”

When comparing Sri Lanka to Bangladesh or India, Sri Lanka’s net reserves of over US\$ 2.5 billion, and the highest per capita income among SARC countries with excellent socio-economic indicators, puts her in a very enviable position with that of her neighbouring countries. The opportunities that exist in the emerging markets is phenomenal due to the fact that emerging markets have a GDP in excess of US\$ 5 trillion compared to the US having a GDP of about US\$ 16.5 trillion and Japan over US\$ 5.5 trillion.

With the growth rate at over 6%, coupled with rapid growth in an aspiring middle class, the emerging markets are likely to have a greater incline compared to the more established markets. It is important that we have a presence in this segment”, says Hassan.

“Everyone wants to be hero. and client needs are going to change. They are going to become global. When this happens, no local bank can satisfy those needs”, explains Hassan who has been with Citibank for 9 years. There is also not much competition in the developing markets and therefore margins are wider. We are a very unique investment bank in that we are going to look at every available opportunity.”



The Government's policies on private sector investment and the privatisation programme encourages the development of a vibrant private sector. However, in view of the apparent gap between savings and investments and large government borrowings from private savings and with the government debt being over 100% of the GDP, steps should be taken to facilitate access to global markets for local corporate investors. If this does not happen, the private sector will be further 'crowded out', says Hassan.

There is a need to engineer and introduce new concepts and instruments in the capital markets, especially the shortage of Rupee Fencing where the foreign banks have played a limited role so far," explains Hassan. "This shortage is further exacerbated by the fact that there is neither a corporate bond market nor an organised secondary debt market.

"In Sri Lanka everything is short term even the yield curve is short term anything over a

year is a totally different ball game. This thinking must change". According to Hassan, there are investors who may abuse incentives given but this can be managed if regulated carefully, so people don't take advantage of it. But it must be done. If you know it's being used for a particular purpose like capital expenditure etc., checks must be done and the investor must be allowed to take the risk."

"Why is there such an emphasis on bank guarantees?", asks Hassan. "Everything has to be backed by a bank guarantee and there's no risk element at all. Therefore, naturally the return is lower. If a reputed multinational issues a commercial paper, why do you need a bank guarantee? An investor should be able to take the risk on that Multinational. It may probably be a better risk than even the bank that guarantees it. Everyone forgets that the higher the risk, the higher is the return."

The absence of a corporate bond market in Sri Lanka does not suggest that the investor community is unable to absorb corporate bond issues. On the contrary, it is non-existent because the policies and instruments that would foster its development are non-existent. The Government could start the process by introducing their 3, 5 and 10 year bonds with tax concessions, reduce stamp duties, eliminate tax anomalies and also encourage insurance companies, EPF, and ETF, to diversify their portfolios for the development of a long-term market", continues Hassan.

To firmly place Sri Lanka on the map of global financial markets, a top priority would be to establish a rating for the country as this is the yardstick in all international markets. "The government should obtain a sovereign country rating from a reputed agency to be a benchmark for the country's corporate debt issues or for an automatic rating the Government could float their bond or note of US\$ 100 million in the European Market", says Hassan.

Hassan sees vast opportunities in Sri Lanka and emphasises that with the Citibank network in the Middle East, United States and Europe, Citi National will be able to make a huge contribution to the financial markets in the country. Our work in India, Pakistan and Bangladesh will definitely assist in this process.

The activities of Citi National will be in two areas fee based and fund based. "With the emphasis on privatisation we have two opportunities", says Hassan. One is to get a mandate from the Government like Morgan Glenfield has a mandate on the telecom privatisation. If you don't get that you can come on the buyer's side. And that's where your network becomes very important. We have to go across the world to find a buyer". Hassan also sees opportunities in local restructuring in mergers and acquisitions.

“One problem area we are going to come up with is charging a fee for advisory services which have hitherto been given by banks for free”, explains Hassan. “Our services are not cheap. We are going to be expensive compared to the other merchant banks. It is not that we are expensive, it is just that the banking culture here does not allow it. We have come across this in other countries also. “What are you talking about? We can’t pay that much!”, is a line we have heard many times. It will take some time for people to see the benefits of using investment banks and paying for advisory services which they have hitherto got free.”

Another problem that has cropped up in setting up Citi National, is the dearth of personnel. With just 3 years of investment banking in the country, Hassan says that recruiting the right personnel has been posing a problem. “One more expatriate may be brought in, but only for short term stints. We will probably have 15 personnel in the bank by the end of next year.”

Citi National will go into their activities step-by-step. The fee based activities will take priority and from then on fundbased where opportunities to arrange funding, for example, from the Euromarket, will be looked into, where Citi National itself will have a small stake.

“It is very important to give a good impression to the multinationals by the banks because the bank will act as an advisor to a prospective investor and are the ambassadors of this country. Negative advice will only deter investors and it must be remembered that an acquisition is always carried out on the basis of the advisors”, says Hassan.

It may be an opportune moment to remember the words of Lee Kwan Yew, who was Head of State of Singapore for about 3 decades. “Take a look at Japan, Malaysia and Indonesia. Their growth rates are over 7%. People talk about democracy. But we don’t need democracy. We were nothing when we separated from Malaysia. but now we are among the top most developed cities in the world. We just need discipline, good management and long term policies.”

With Citi National Investment. Bank joining the other investment banks, namely Seylan Merchant, People’s Merchant, Vanik Incorporation, Jardine Fleming, HNB and Merchant Bank of Sri Lanka, maybe it is time for Sri Lanka to take a look at her future, in terms of global accessibility and strategies, opening out doors to big investors to assist in the bridging of the ever widening deficit.