Be With The People

Hatton National Bank has always maintained a customer-centric banking model that focuses on the Small and Medium Sized Enterprises (SME) sector and Microfinance. This core focus has been a part of the Bank’s ethos since its inception and is aligned with HNB’s dedication to work towards the development of the nation. Amidst today’s challenging business landscape, HNB has identified many opportunities to support Sri Lankan entrepreneurs. In line with these objectives the Bank has continued on its path towards greater value addition and a technologically driven portfolio of products. Jude Fernando, Deputy General Manager, SME

& Midmarket, HNB believes it is the responsibility of bankers in Sri Lanka to be with the people.

By Udeshi Amarasinghe and Keshini de Silva

Photography Mahesh Bandara and Menaka Aravinda

The SME and Micro sectors are very important to Sri Lanka, an aspect which the Government has also highlighted. However, even before this sector was identified, HNB has been supporting SME and Micro sectors. Can you elaborate on this?

Hatton National Bank (HNB) commenced operations in 1888. It was established in the hill country to support the plantation industry, especially to assist estate workers and help plantation management with operations such as salary disbursement. That was the start of HNB. Subsequently, HNB was incorporated as a Sri Lankan bank in 1970, which followed with the amalgamation of the branches of Mercantile Bank of India and the Grindlays Bank. This was the start of HNB's second journey.

In the modern world, our focus is retail banking, primarily dealing with the grassroots level of society. Our strength, has always been outside Colombo, because we deal with small businesses, which in Sri Lanka means agriculture and agro-based industries. Our greatest business is with small businesses.

Today, HNB has 253 branches across the island representing every district in the country. On top of that we have 150 field officers dedicated to the microfinance sector, while 50 experienced set of staff manage SMEs, through 10 SME Cells at Regional level.

When looking at our lending vertical, we always start relationships with the people at the grassroots level through microfinance, because we believe that we must first develop the small man to become a bigger businessman tomorrow. That is the

concept that we have been working on since our inception, and it has reaped good results for HNB. There are so many who have started at the lowest level, and today have become giants developed with the support from HNB. They contribute to the national economy significantly. That has been our journey.

When considering private sector commercial banking in Sri Lanka , we play a leading role in both microfinance and SME, because these sectors are interrelated. Many self-employed individuals mainly women such as female entrepreneurs, youth and school leavers have all had their start with HNB, they continued on their journey with the Bank and progressed to the SME level.

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As you mentioned, HNB has a strong regional presence. Many banks are not confident working with SMEs or low income individuals. Can you elaborate on how HNB has built that confidence?

The banking practices in Sri Lanka has traditionally been different to practices in other countries. I believe that banks are not prepared to take the risk in SME business. We have to accept the fact that, except for state banks, all other banks are motivated by profit. Because at the end of the day they must provide a return to the shareholders. Therefore, the trend has been to target the established businesspeople, or the rich. Traditionally, if someone establishes a bank in a town, they generally will not focus on the small entrepreneurs or try to assist the small businesses or start-ups. This is because their motivation is profit.

The difference at HNB is that the Bank has always focused its journey, especially beyond the city, on servicing the small businesspeople. That has been where our experience and expertise has been placed since the Bank’s inception. Examples of agriculturally rich areas in Sri Lanka are Nuwara Eliya for vegetables; paddy

cultivation in Eastern/Northern areas such as Mannar, Vavuniya, Batticaloa and Ampara; cinnamon cultivation in the south and paddy farming areas in Kurunegala and Anuradhapura. When this map is considered, HNB demonstrates a strong presence in areas where agricultural activities have been the main economic activity.

Even during the conflict, it was HNB that primarily operated in the Northern and Eastern Provinces. Not only just in Jaffna, Vavuniya and Mannar, we also had branches in Akkaraipattu, Kalmunai and Ampara during the war. Today, there are many banks in these areas, however they established these branches after the war. One reason for our success is that we employed staff from the same area as the branches, and we continued to service the small business communities, through them. Therefore, HNB has the relevant experience and exposure. With these resources, HNB was able to have a competitive advantage. Our feedback to SME always stemmed from microfinance. Our microfinance customers have been tried and tested by the time they became medium-scale businessmen. This was a good channel for our SME service, through which we were able to take them forward. That is how HNB has built its strength in these areas.

Therefore, many Banks may not take a risk and support SMEs, while others do not take the risk, maybe because they lack that experience and exposure; the ability to analyse a project and help an individual through cash flow-based lending. That is the difference between a money lender and a bank. A money lender will always ask for security, they will ask for an asset in return for a loan. However, that is not how a bank should operate.

The main criteria that a bank should consider are the viability and cash flow of the business, not security. This is what the decision should be based on. Obviously, I do not state that this is 100 per cent how HNB operates, because we offer leasing as well. But we do take these factors into account. Throughout the years, HNB itself has changed, especially in terms of our offering to the agricultural sector. After all, there is hardly any security when lending to the agricultural sector. For example, in Udappuwa, a fishing village in Puttalam, we have a branch set up in the area with a good microfinance model. We have close to 700 customers, all of whom are engaged in a range of fishing activities. Here, 95 per cent of the loans have been provided based on personal guarantees and cross guarantees. It is a reciprocal

model, that is working well with no bad loans. Similarly, there are many good banking models across the country. It is important to have the skill to identify a suitable customer and business for lending.

In a nutshell, it is while using this experience and exposure that HNB contributes for the development of microfinance and SME. HNB has a flair for this business. Even the direction from the top management is focused on these sectors. We have comprehended that unless you develop a small businessman today, you will not have a commercial customer tomorrow.

After all, a bank cannot only deal with commercial customers merely because there are challenges in the SME sector. One of the inherent characteristics of the SME sector, which is proven by research, is that nearly 60 per cent of SME business close down during the first five years. Or they face issues due to a lack of expertise within the management among other reasons. It is therefore essential for the bank to have the right experience and exposure to work within this sector.

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What are the services, products and facilities offered to the SME sector?

Traditional banking facilities are offered, such as loans and deposits. In addition, our present intention is to continue to enhance this portfolio through value addition, especially in terms of technology. Last year alone we introduced seven new products for the SME sector. For example, SME Expo Credit is a product specially formulated for exporters, which provides pre-shipment financing for exporters with limited tangible security and based on their orders.

We also introduced the SME Business Card, which enables any business to make their transactions through this card. It is different to a personal card or credit card. SME Business Insurance has been specifically designed for the sector too.

HNB, together with a developer, also introduced an Enterprise Resource Planning solution, which eases daily operations. Web-X Pay was developed in partnership with another company, it is an e-platform created to help our SME customers market their products. This is because we realised that many Sri Lankan SMEs mainly traditionally supply to exporters and only a few attempt to export themselves. They are not attempting to reach international markets and pursue beyond certain limits, and this platform will provide them international opportunities. Similarly, there are many other products that have been introduced on top of traditional services.

We believe that new technology should be incorporated into the SME sector on both sides. Banks should be more technology driven while customers too need to incorporate technologically advanced processes similar to other countries.

What is the response for these technologically-driven products? Is it too soon for Sri Lanka?

I do not believe it is too soon. Sri Lankans may not be too keen on technology and there was a little resistance in the beginning. However, we only introduced these products last year. Popularity has been growing gradually. I hope that once customers realise the value and convenience these products provide, they will definitely come on board with HNB.

At the start we did not provide much publicity for these products. Recently, we commenced trilingual advertisements in the newspapers. I hope this will convey the results we seek. We trust there will be many new clients for these products during the coming years.

You mentioned about HNB staff visits to customers. Can you explain how important this is to build confidence with the customer?

With our SME model, the bottom level is the branches, we have 253 in total across the island. There are ten regional offices to manage these branches. The regional offices report to the Head Office. That is the Bank’s operational pyramid. Therefore,

customers are managed at both branch and regional levels. Customers with exposure of ten million rupees and less are handled at the branches. Exposure to over ten million rupees and below 200 million rupees is handled by the regional offices. Exposure above 200 million rupees is handled by Head Office.

We have ten Regional SME Credit Cells, which employ experienced staff with the right expertise. They report to the SME Centre at the Head Office. We wanted this structure in addition to the branch network to ensure we have close contact access with remote customers. Or else it would not have been practical. For example, if a customer in Jaffna has a specific requirement it is not practicable for us to attend to them from the Head Office in Colombo. Therefore, we have Head Office representatives at the Regional Offices so that they can service the customer. Hence, we are able to facilitate the requirements of these customers by having close contact.

A challenge with regards to the SME sector in Sri Lanka is that in many instances they do not have financial documentation and they do not believe in maintaining these statements. Their finances are not audited, there are no tax files and they mainly operate businesses based on gut feelings. Banks, on the other hand, are governed by mandatory compliance requirements set by the regulator. Therefore, we need to balance all these aspects in our approach. It is a different story with medium and large scale loans. Therefore, when preparing a proposal for an SME customer, we find it difficult to seek many documents to justify the project, we generally need many documents, especially when it comes to larger loans. However, in the absence of these documents, the only option for the Bank is to visit the customer, observe the situation and prepare the appraisal with justification for approval.

In certain circumstances, if a customer does not have a balance sheet, our staff who handles the visit, prepares the balance sheet for the customer. Otherwise, the customer will not be able to proceed with the proposal. Therefore, it is a necessary service; 100 per cent of the loans are approved after visits and inspections.

In addition, HNB has a compulsory policy for staff and branch managers to visit these customers at least once a month or once in three months. After providing the

loan it is mandatory for staff to visit the customer to confirm the relationship.HNB is also in the process of changing its working model. We will have two different models, and will segregate sales & services and operations both at Branch and regional levels. Therefore, sales & service teams including all branch managers are required to spend time with the customers. We believe this will facilitate further service delivery and better relationship management.

HNB has a very loyal customer base. Many started their business journey with HNB and they have continued to place their trust in us. However, we need to be with them. That is the reason for the change in terms of the segregation of services that will take place in the Bank. At the moment all our staff is involved in everything. For example, the branch manager is overseeing operations as well as the customers. We are going to segregate this. We will send our sales & service teams out to visit the customer. Our aim is to continue to enhance our relationship with the customer. That is our future. Once we change this model, HNB staff will have more time to manage relationships, bring new clients and also provide a super level of service to our customers.

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HNB is a one-of-a-kind bank. How do you differentiate the brand based on your target customers, especially in the face of new competition?

We have differentiated ourselves from the competition. This is because we have 150 field officers dedicated to microfinance. There are many challenges with regards to microfinance in Sri Lanka. Both SME and microfinance sectors are affected by variables such as climatic changes and natural disasters. One week there will be a flood, while the next week there will be a drought.

Inconsistent policies too have a huge impact on business. Presently, rice mills in Sri Lanka have been affected mainly due to inconsistent policies. The tea industry is also facing challenges. Likewise, all these industries are highly vulnerable.

Therefore, the NPA when operating within the SME sector is also fairly high.

Although these may negatively impact HNB's bottom line, we are committed to providing services to this sector for the betterment of the country and its development.

The Government must support the SME sector with assistance from the banking industry. It is through the development of start-ups that the country will develop. This is the reason countries such as Japan, Malaysia and India support the SME sector. They understand that the future depends on small entrepreneurs. I believe the Government has realised this today. Sri Lanka's GDP has been at three per cent. Even this three per cent has been from the SME sector because there have been no large-scale infrastructure projects or similar ventures in Sri Lanka last year. There have been small accomplishments. No matter what, Sri Lankans will always try to do something. Although there is a perception that Sri Lankans are not entrepreneurial, I will not accept that because of what I have witnessed first hand, even those who are currently employed in the public and private sectors attempt an entrepreneurial pursuit; they will at the very least import a vehicle and try to resell it. At the end of the day, that is a form of entrepreneurship.

HNB is different because we take all of this into account. We continue to forge ahead with that concept, and with the focus on SME and Microfinance. It comes with a cost for the Bank in terms of loan losses and operational costs. However, HNB has the strength to do it and we will be that beacon for the country. That is the culture at HNB. We face challenges and we are persevering to overcome these challenges. Our aim is to be the best company and most preferred employer in the country while offering the best customer-centric service. HNB has many strengths such as being the first bank to reach many locations across Sri Lanka. Many customers continue to be with us. We have an extensive database and our customer base is diverse. However, we are yet to make optimum use of the opportunities available to us. We are attempting to do so now, starting with the identification of such gaps and providing solutions.

We also do not forget the fact that HNB has investors to whom we must provide a reasonable return. We must have a balanced approach and cater to the country's

expectations and people’s expectations, while also catering to the expectations of our shareholders. They expect a good return from HNB. It is a great achievement to be able to do so, while being a national bank. Right now, we are continuing to enhance our accomplishments.

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Future plans and outlook for the year?

Our future plan is to continue introducing value added products. When the country experiences growth of three to four per cent, we must consider realistic options. HNB will always be aligned with the needs and requirements of the country. We will continue our efforts to stabilize the business as far as lending is concerned especially through the promotion of value added products. We have identified certain areas, which needs more attention. One such area is exports, a sector that the Government has also concentrated on with regards to strategic planning.

We will also focus on value addition through technology. We want to move away from the traditional methods of lending and innovation. It is not merely about mortgagees and lending. There are new concepts such as Distributor Finance, Supplier Finance and value chain financing.

While concentrating on these avenues we will also work towards making business sustainable. As I mentioned before, SMEs find it difficult to operate after progressing to a certain level due to inherent characteristics. For example, if it is a family business they are reluctant to seek expert or professional advice; relevant financial statements and tax payments are not maintained; they attempt shortcuts with negative ramifications; turnover is considered as profit and personal expenses are carried out with business income instead of further investment. These eventually

pose a great challenge to sustainability of the business. Therefore, another area that we are focusing on is awareness and capacity building programmes to ensure the clients are on the right track to enable their business to continue to progress. Our priority this year is to help our customers to ensure the continuity of their business, overcome obstacles and work towards becoming corporates of their own right.

Can you tell us about yourself and your career at HNB bank?

As with many of us at HNB, I started my career at a lower level of the Bank. We have two levels of recruitment – lower level and management grade level. I joined as a Banking Assistant 32 years ago. Gradually, I progressed through the ranks to reach my current position.

Our management structure includes the Board at the top and our Managing Director, Jonathan Alles who is the leader and is responsible to manage the Bank on the guidance of the Board. A corporate management team of 19 members work with our MD while managing a specific vertical such as retail banking, SME banking, corporate banking, cards, operations, Trade services, IT and HR.