Commercial Bank: Confident About The Future



Commercial Bank of Ceylon is the largest private sector bank in the country. With this status comes a responsibility that the Bank does not take lightly. Despite the challenges in the economy, the Bank has recorded a strong performance, upon which it hopes to build on in 2018. The Bank will continue on its customer centric approach and focus on overseas expansion. Dharma Dheerasinghe, Chairman, Commercial Bank of Ceylon says, they are confident about the future of the country and economy.

By Udeshi Amarasinghe and Keshini de Silva
Photography Mahesh Bandara and Menaka Aravinda

What can you tell us about the performance of the Bank?
In terms of our overall performance, we have been growing steadily each year. Looking at the bottom line, we have been growing at around 15-17 per cent each year. In 2016, we grew by 2.6 billion rupees when compared to the previous year. Likewise, the growth of 2017 was similar, despite it being under very challenging circumstances.

There have been several official forecasts for the Sri Lankan economy. One forecast is by the Central Bank based on Census and Statistics Data and another by the IMF, because we have been following IMF programmes, and multiple forecasts from other multinational agencies. There are slight differences between them, but not by a big margin. Initially, the official forecast was a 5.5 per cent growth of the economy, then it came down to five per cent and most recently revised to 4.5 per cent for 2017. That is the ballpark figure. Hopefully, medium to long term growth of our economy will be higher than this. You cannot sustain a growth rate of any business, industry or service greater than the growth rate of the overall economy. Therefore, all of us will fall within that framework. That is why it is challenging. As I mentioned in my previous interview with Business Today, Sri Lanka is such a small economy, which consists of a population of less than 22 million. We have about three million people in the country who are just left behind and neglected, without

any access to finance due to their low income and lack of financial literacy.

We helped the Government in its programme “Nila Mehewara” to provide National Identity Cards as it is the basic identification document a person should possess in Sri Lanka. You cannot do anything without an NIC. We have about half a million Sri Lankans without this basic identification document. We are talking about a country that has many disparities in terms of income distribution, economic activities of different sectors, educational level and literacy. Though Sri Lanka records a literacy rate of over 90 per cent this literacy does not mean much. It is all about IT literacy today. How many people have IT literacy? What is our IT penetration in this country? IT literacy is less than 40 per cent and Sri Lanka’s IT penetration is at a very low level.

The reason why Commercial Bank is looking at overseas expansion is because we have many boundaries within the country and also the potential for growth and expansion is not very large. If you want to have business expansion, you must go out of the country. Overseas expansion is one of our strategies.

What is the progress of the Italian operations?
It is doing well. We first went into Italy in 2007-2008. We struggled for about nine years, and it was only last year that we received our licence from the Bank of Italy, which is as good as getting a licence in the EU as Italy is a member state. This will enable us to go to any other EU country and operate.

Our business is thriving, as it is mainly exchange house business that we are focusing on. We have many Sri Lankans in Italy and their income levels are much higher than their counterparts in other countries such as the Middle East. The minimum salary is about 1,000-1,200 Euros per month, of which a substantial amount is remitted to their homes in Sri Lanka. It is not only remittances from Italy to Sri Lanka, but also to Bangladesh and the Philippines. As such, the operations in Italy are doing well and are profitable. It is noteworthy to mention that within the last few months we passed the break-even point, and are now operating at a profit.

Are you looking at venturing into other markets as well?

We have a presence in Myanmar. As the country is opening up to the world after having been closed for such a long time, that economy has a great potential. Looking at the country's resource base, there are many opportunities but the progress made so far is very little. We moved in about three years ago and we are looking at various options of business. We have a representative office in the city of Yangon and we hope that with the expansion of new business activities, our operations will gradually improve.

What about development banking?

Even in the 2018 budget speech, the Finance Minister spoke about a development bank. We had two development banks in the country: in 1954, DFCC was set up for development lending; and, in 1979, NDB was set up and I was involved in the process myself while at the Central Bank. At that time, all senior staff at the newly setup National Development Bank were from the Central Bank. Today, the National Development Bank has become NDB Bank and DFCC has become DFCC Bank. They are both commercial banks today.

We do not have financial institutions with the strength to lend money to development activities. As banks, we have what is called an Asset & Liability Committee (ALCO), where we look at the asset and liability match or mismatch. There cannot be a mismatch between assets and liabilities. Banks create liabilities by taking deposits and borrowing from other people and institutions. We are borrowing from both local and overseas sources, and we have a huge deposit base, which is mostly short term. Our lending portfolio, which forms the asset portfolio, should match this as well. Otherwise we will run into difficulties. It is a risk profile that we should be looking at.

> **SMEs Are The Backbone Of The Economy, And It Is Reflected In Our Lending Portfolio. Over 50 Per Cent Of Our Lending Is To SMEs. We Consider SME As A Sector That Should Be The Engine Of Growth In The Country.**

At Commercial Bank, we have a Board Integrated Risk Management Committee and Executive Risk Management Committee. Each and every credit proposal we get from various Business Divisions, exceeding certain limits, should go through the

Executive Risk Management Committee. Only with risk officers' approval can we lend that money. Risk has become part and parcel of our business. In the good old days there was no such thing called risk or risk management. Now the risk management is written into regulatory directions. We have to be mindful of the fact that risk is part and parcel of our day to day business and it has to be an integral part of the business model of any bank, or financial institution for that matter.

We should have a development bank. As a commercial bank, we have limitations, because our liabilities are short-term liabilities. We cannot create long-term assets from a short-term liability base. We have some long-term assets. For example, we are lending to road development, water supply and drainage projects, and other investments by the private sector. But this is not a very big share of our asset portfolio. Therefore, development banking has a significant role to play in our economy which is at a developing stage.

Servicing the SME sector is important as well?
SMEs are the backbone of the economy, and it is reflected in our lending portfolio. Over 50 per cent of our lending is to SMEs. We consider SME as a sector that should be the engine of growth in the country. We are very SME focused, and also feel that some SME customers get a better deal than some corporate customers because they are well-managed and well performing. We need more and strong SMEs for sustained and accelerated growth of the economy of our country.

> **We Are Looking At Overseas Expansion, And I Must Also Say That In Our Domestic Operation We Are Very Much Customer Centric; That Is The Built-In Culture Of This Bank.**

Future plans of Commercial Bank?
We have to strengthen and consolidate our position. That is our main focus. For a long period, we have been a typical commercial bank, engaged in borrowing and lending. In economics you call it financial intermediation. We were only doing that. But now we believe we have to expand beyond the horizons of a typical commercial bank. We thought that rather than looking at business locally, which of course we are doing, we should also look at overseas expansion. One other overseas operation we have is in the Maldives. We have a Tier One bank, majority of the stake owned

by Commercial Bank, which is running at a profit now. Having started commercial operations last year, very recently we opened our second branch in the Maldives. We will be able to get a part of the profit back to Sri Lanka. The operations in Bangladesh are worth manyfolds the investment we made initially. Therefore, we are looking at overseas expansion, and I must also say that in our domestic operation, we are very much customer centric; that is the built-in culture of this Bank.

Our Managing Director/CEO is due to retire in 2018, but we are not looking at potential candidates from outside. We have a succession plan, second, third and fourth tier. At any given point of time, even if the second tier is not available, we have a third tier. Likewise, we are grooming our officers from the very bottom. We recruit banking trainees, and those trainees are posted to various branches and departments, and they interact with customers at a very early stage of their career. They know the customer needs. The customers today need a better service than what they had before. The conventional banking model is obsolete. We need to look at new technology and digital banking. We are very much focused on these.

Outlook for 2018?

Every year, we have our bank budget, which is a part of the medium to long-term corporate plan. The 2018 budget was presented to the Board in December 2017. It is a very comprehensive budget, encompassing all different parts, branches and business and operational areas of the Bank. This means everything collected from a grassroots level operation is incorporated into the main corporate plan as well as the budget by the finance department. We are looking at profit growth. We have become a one-trillion rupee asset bank. To my knowledge, no other private bank in Sri Lanka has reached this benchmark to date. We will continue to grow. At the end of December 2017, we added another 100 billion rupees to the one trillion rupees, possibly reaching 1.1 trillion rupees. Likewise, our asset base, deposit growth and loan book have improved as well; our ROA and ROE are good.

We are looking at our business growth within the country as well as outside when considering our overseas operations. We had some setbacks in our Bangladesh operation in 2016. But Bangladesh has picked up very much and at one stage about 10-12 per cent of our bottom line came from Bangladesh, so that is a good sign. We have high-end customers in Bangladesh because we bought over one of the foreign

banks and those customers are still with us, they are very loyal to us. We have got new corporate customers as well. I believe our expansion in Bangladesh is much faster than our expansion in Sri Lanka, as Bangladesh is a much bigger economy.

The banking regulations in Bangladesh are not very comprehensive. We only have 19 branches there at present. Unlike in the Maldives where we have a subsidiary incorporated in the home country, in Bangladesh we have only branches. It is not operated as a separate entity.

> **We Will Continue To Grow. At The End Of December 2017, We Added Another 100 Billion Rupees To The One Trillion Rupees, Possibly Reaching 1.1 Trillion Rupees.**

As a former Central Banker and now a commercial banker. How do you see the current banking sector?

If you look at the Banking Act and the Monetary Law Act and the recent amendments to the Acts, there are two objectives of the Central Bank. One is economic and price stability, the other is financial system stability. Those are the two objectives of the Central Bank. The financial system is very important to the Central Bank, as the regulator, and a significant proportion of the financial system is in the banking system. Other financial institutions regulated by Central Bank are finance and leasing companies. I remember one former Central Bank Governor saying that all finance companies and leasing companies put together is less than the size of Commercial Bank. At that time, the number of finance and leasing companies was around 70, now with the amalgamation, the number has come down to about 50. Therefore, these 50 companies put together is smaller than Commercial Bank. Many people do not understand that the financial system is the solid backbone of the economy of any country. Investors always look at the size as well as the stability of the financial system. They measure the strength of any economy by the stability of the financial system. In the annual report of the Central Bank, you will find one line, that is, the financial system in Sri Lanka is stable and robust.

Message to all stakeholders?

As one of the largest private corporates in Sri Lanka, we have a big responsibility as

a significant stakeholder of this economy. Whenever I get the opportunity to address the public, I say we have done more than our part as a private corporate. We have paid part of our income to the Government through taxes both direct and indirect. During the past nine months of 2017, we have paid about eight billion rupees in direct taxes to the Government. In 2016, we paid close to ten billion rupees to the Government as direct taxes. When you consider indirect taxes, the number is far greater. We believe that in the next fiscal year, starting from April 2018, banks will have a higher tax liability and we will have to comply.

Our message to our stakeholders is that we want to improve our service to them in every possible way. We are very customer centric. Even in terms of digital banking, we have made progress in our way forward, incorporating ourselves with rapidly advancing technology. Our purpose is to cater to our customers better than we did in the past, get more customers into the network, and grow ourselves as a financial service provider within Sri Lanka and overseas, and these are built into our vision, mission and values.

