

Eastman Narangoda: Business As Usual



Seylan Bank has risen from a turbulent couple of years to emerge victorious and establish itself as a financially stable bank that has the customers best interests at heart. At the helm, Chairman of Seylan Bank, Eastman Narangoda has steered the troubled Bank to calm waters and is poised to take Seylan to greater heights. Eastman Narangoda spoke to Business Today about Seylan Bank's past, present and future.

By Udeshi Amarasinghe | Photography by Menaka Aravinda

About two years ago Seylan Bank was faced with a great challenge where the survival of the Bank was in question. But today, Seylan Bank is a success story. How was this achieved?

I was appointed as the Chairman of Seylan Bank on January 1, 2009. At that time the Bank was in a very bad situation and was on the verge of a collapse. Seylan

was essentially a volcano and customers were queuing to withdraw their money from all our branches as they were in a panic due to the collapse of the Ceylinco Group that arose as a result of the Golden Key debacle. The Central Bank under the clear direction of HE President Mahinda Rajapaksa and Governor of Central Bank, Ajith Nivard Cabraal took over Seylan under the provisions of the Banking Act. It was the timely action that prevented the collapse of the Bank. Initially I was reluctant to take over the position but the Central Bank Governor spoke to me and said that as a national duty to take up this position. The Central Bank also appointed new directors to the Board at the same time, which included R Nadarajah, the former Managing Director of Pan Asia Bank and also the former DGM of Bank of Ceylon, Nihal Jayamanne PC, Lalith Withana, Naomal Gunawardena and Ananda Peiris. I was extremely fortunate to have such a professional group of people as my Board. Their contribution was crucial to the success of the Bank.

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Immediately after I was appointed as the Chairman, the Central Bank Governor summoned a media conference and announced that the existing Board was removed and a new Board was appointed. My priority was to explain the short term and medium term plans and restore customer confidence in the Bank. We focused on introducing a strategic plan and improving the credit quality of Seylan. Since Bank's non performing loan ratio was very high, we had to improve credit quality.

The Board met on a regular basis; under normal circumstances the Board would meet once a month but due to the gravity of the situation we decided to meet once a week. The meeting would start around four a clock in the evening and end at two in the morning. We took many strategic decisions. We needed to cut down on the expenses of the Bank, which was a primary concern.

We also introduced a house-to-house campaign for the customers. This was not new to me as we implemented this programme at National Savings Bank during my tenure as CEO . The entire staff at Seylan Bank took part in this programme, which was to build customer confidence in us.

We introduced an effective strategic business plan to the Bank. In its 21 years Seylan did not have a strategic business plan. This was the first time in history that a strategic business plan, effective practices and policies had been introduced.

As a long-term priority we decided to introduce the continuous improvement of the business process as well as transform our organisational structure. Under the cost cutting exercise I had to take bold decisions such as curtail staff increments, promotions, over time and bonuses. Gratuity payment was reduced from one month to half a month. However, I must say that except for gratuity payment now we have restored all staff benefits including bonuses. Seylan Bank is now back to normal.

Furthermore, among the actions we took we introduced a revised disciplinary code as well as new ethical standards to the Bank, a new credit policy to improve our credit quality and also a new risk management policy. An important aspect was that we implemented the Good Governance/Corporate Governance guidelines set by the Company's Act. The Board Sub Committees are in place and they meet regularly. In other words our management is of high professional standards.

We had to safeguard the interest of the depositors and the shareholders to save their investments. Furthermore, we needed to secure the jobs of around 4,000 staff. To do that we had to reduce our expenses, which was done by drastically cutting the senior executives' perks and certain facilities. We had an excess of staff when comparing with other banks, therefore we brought down the retirement age to 55 from 58. Seylan had been paying the staff allowances and commissions, which were drastically curtailed in all sectors. Additionally I introduced procedures to ensure transparency and any capital expenditure had to be approved by me or the Board. This allowed us to reduce our overhead expenses by 1,250 million rupees in 2009 alone. This contributed to our bottom line as well and we were able to show a profit of 500 million rupees after tax at the end of 2009.

Between the period of January - February 2009 there was a run of approximately 18 billion rupees. I do not think there is any bank in the entire world that has been able to survive such a catastrophe. Even in the USA more than 200 banks are still in trouble despite the injection of money by the government. It is not only in USA, even in UK and other western countries such as Germany and France; the

banks are still in difficulties. Seylan is the only bank in the world that has been able to turn itself around in a short period of time after such a situation. We just released our profits for 2010 and we were able to record the highest ever profit in the history of Seylan Bank, at 1,200 million rupees after tax profit. This is a remarkable achievement.

Would you say discipline, accountability and transparency were the key elements for the bank's success?

Certainly! If we look at the global financial crisis, what happened was that the financial institutions were introducing innovative new products and they were implementing these at a very high speed and giving their senior staff huge salaries, bonuses and increments. Now, they have returned to the basics.

I must say that under the strict supervision of our Central Bank, the Sri Lankan financial sector – despite the global meltdown and the crisis situation created after the Ceylinco Group issues in Sri Lanka – showed discipline and we did not feel the brunt of the crisis because the Central Bank though they took strict action, their supervision was of a very high standard. Basically what we did was bring financial discipline and good governance to the Bank. We implemented the fundamentals; good governance and financial discipline that were essential for our speedy recovery.

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The lessons that we learned from this experience were that the Bank's main shortcomings were financial indiscipline, mismanagement, excess staff and Seylan had a top heavy organisational structure. Therefore we took the appropriate measures to reduce the top, curtail bad lending practices and malpractices. We addressed all the issues relating to the management policies, lack of good governance, non commitment, lack of integrity and poor human capital management.

By saving Seylan Bank we were able to save approximately 4,000 jobs and 105 billion rupees worth of depositors' money and seven billion rupees worth of shareholders' investments. Our hard work has been rewarded and in 2009 our annual report won two gold awards at the Vision Awards 2009, organised by the

League of American Communication Professionals in New York. We also won a gold medal, three bronze medals and honours award at the recent 24th Arc Award International 2010 held in New York. We recently won the Best Turn Around Brand of the Year award by the Sri Lanka Institute of Marketing. On a personal note I have been awarded the most outstanding Sri Lankan in 2010, in the business management category by the International Lions Association.

The support of the customer and investor was a great strength to the Bank that ensured the survival of the institution. How was this achieved and what is the relationship with customers and investors today?

We lost about 18 billion rupees in deposits during the crisis but now all the customers have come back. At the time of the crisis, our deposit base was about 105 million rupees, and now it has risen up to 110 million rupees. This shows that our customers have returned. Our loan book has increased by ten percent compared to last year. Customers have confidence in us now and our business is back to normal.

Seylan Bank says that it has introduced a new way of doing business, can you tell us about this and how is it different from the processes followed by other banks?

I must say that it is not really a new way of doing business but Seylan Bank has an advantage compared to other competitive banks as we have reached grass root levels. Seylan Bank is a household name and our reach is throughout the country, even at village level. Therefore our strategy is to concentrate more on helping the small and medium entrepreneurs, which is also the Government policy. We need to provide our assistance to them to improve their businesses and also the income levels. By doing so the rural areas and country as a whole will be developed. Our main focus is to help the small and medium scale businesses.

We are also focusing on improving customer services. Therefore we provided training to our staff to be more customer oriented and customer friendly. That is why our customer service is of high standard. We also took measures to improve our branch network and the outlook of the branch. We are financially stable and strong. We have refurbished and renovated the branches. We are expanding and this year we are planning to open 15 new branches, mainly in the North and East and other parts of the country, to deliver our products and services to a larger

clientele. This is also an opportunity for us to make use of our excess staff.

Earnings per share have improved and the ratio of non-performing loans has reduced. The Bank is making profits. What can you tell us about this?

If we look at our non-performing loans, in 2009 it increased to about 31 percent. We were able to bring it down to 21 percent this year. This was a difficult task but we managed to achieve this through hard work. Our return on asset in 2009 was 0.38 percent and it has increased to 0.87 percent and ROE, which was 6.2 percent in 2009 has increased to 10.8 percent. The interest margin was 5.18 percent and it has now gone up to six percent. We made 1.2 billion rupees of profit after making loan loss provisions of 1.59 billion rupees, the highest in the market; if we can make that then it means we are very strong.

And the other area we focused on was our excess staff situation; in our estimation we feel that we have about at least 500 staff in excess. But, we cannot offer the entire 500 members a golden handshake. Initially we thought of offering to 300 members, for that we had to spend about nearly 700 million rupees. We offered a very generous package to the staff. The balance 200, we will utilise for our branch expansion programmes. Through this we will improve the efficiency of our procedures and reduce the delay in processing our loans and other activities. In other words, improve the productivity and efficiency of our banking service to the customers.

Additionally, our share price has seen positive growth. At the time I took over the Bank, our share price was trading at 17 rupees, in the recent past we have seen the price increase to 100 rupees. The average rate is around 75 rupees at the moment.

Seylan Bank is known as the Bank with the Heart. Can you tell us how the Bank has lived up to this?

We are living up to the expectation of the Central Bank and Government policies and we have given the best possible interest rates to the customers. Then, when we lend money during the recovering process after giving all possible concessions we take legal action as the last resort. We always try to help the customers to revive their businesses or to improve their earning capacities. Then we have trained our staff to give the best customer service. We are living up to the standards and continuously improving ourselves; we are in the true sense the

Bank with the Heart.

Interest rates were reduced considerably by the Government through a directive to the State Banks in order to stimulate post conflict development. Can you tell us how Seylan dealt with the challenges that arose as a result?

There are actually two aspects that one needs to focus on; when the interest rates are reduced there will be an adverse impact on the bank but on the other hand from the country's perspective and if we look at the broad picture of the country, low interest rates are good. This will be an encouragement or incentive to prospective investors, especially in the SME sectors. This will enable banks to provide low cost finances to start their business, thereby contributing to the development efforts of the Government. This will also be of benefit to create more employment and increase the income level of the people of this country. Although, interest rates have come down, I believe that the volume of business of the banks will increase.

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The banking sector and other relevant authorities should look into the rights of the retired people, mainly for the people who depend on the interest income, with their life savings. Senior citizens need money for their medical expenses and other such requirements. There should be some kind of a concession or a scheme and I feel that this is the right time to think about the situation of the senior citizens.

What are your thoughts on the provision of long term loans with low interest rates to risk taking industries such as agriculture, fisheries and plantations, which is a requirement stipulated by the Government in its 2011 Budget?

Long-term loans can have adverse effects on the bank's profitability. But if we have to look into the issue in terms of the country's benefit, I feel that this will help to improve the country's development efforts in the long term. Investors

require long-term funds instead of short-term funds, especially fisheries and agriculture related sectors, as it will take longer period of time to give results.

In the short term a dip in the banking sector may come but in the long term, the country develops and employment opportunities will be created. As a result the income level of the population will increase as well. The bank will benefit in turn and it can offer more products rather than limiting itself to the conventional banking products. In fact if we look at the international situation, banks have spread their services, especially banking products, they have to offer non-conventional banking products to the customers and offer various financial products under one roof, rather than having specialised products. For example bank assurance, leasing, hire purchase and accepting utility bills. Now the customers are busy they cannot go to various outlets for certain services, time factor is very important. Therefore banks need to look into these aspects and provide inter related services to the customers.

For Sri Lanka this is the best opportunity because we have seen an end to the suffering caused by the 30-year long conflict and now peace and stability have been restored. This is the best time for the country to take off. Banks also have to play a positive role, rather than in my view, look after only the stakeholders and the depositors while thinking of only making reasonable profits. Banks also need to provide good services to the people and also make a good contribution for the development of this country. Thereby improving the living standards of the people of the country on the whole. We have to strike a balance and look into the interest of stakeholders, investors, shareholders and also the welfare of our staff.

How can we make the banking system less bureaucratic and more customer friendly?

This would depend on the management of the various banks. I cannot say that the entire banking system is highly bureaucratic. It depends on the approach of the management of various banks; usually they should be very customer friendly and actually the banking industry is highly competitive. So unless the banks provide customer focused financial services banks cannot survive and they cannot be bureaucratic. The world trend is to simplify the banking process and procedures, to make them more customer friendly, and we are also looking forward to providing more efficient and customer friendly services.

What are the new plans for the Bank? Will it be extending its branch network further? What plans have been made for the North and East of the country?

We have already opened four branches in the North. We are planning to open a further 15 branches this year, mainly in the North and East and also five mini branches.

We are going to give a face-lift to our branches, so that all the branches will have a uniform identity. We are planning to improve operational efficiency, that is the reason we are starting to centralise the processes to give efficient services to the customers. Furthermore, we are planning to improve our brand image, we may introduce new products to the customers and we will emphasise on improving our leasing activities and credit portfolio.

Final thoughts?

Sri Lanka has much potential especially after the end of the conflict. Opportunities are arising mainly in agriculture, SME sector and hotel industry. There has been a large tourist influx to the country. However I feel that Sri Lanka has to improve the facilities in the tourism sector. We see the road network in the country improving day by day. But transport services for the tourists have to improve, that is from the time the tourist arrives in the country and until he leaves. We need to introduce domestic flights as well.

In my travels abroad I have not seen a beautiful country like Sri Lanka; with our culture, heritage, beaches, hills, wildlife and nature. However I feel that it is not marketed properly. We need to improve our facilities, as we do not have adequate rooms and other related services to attract customers. We still see tourists coming to the country but we are not capitalising on this.

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If we improve the tourist industry, it will create many job opportunities. With improvement of roads, they can sell their products like, fruits and vegetables, and they can provide labour to the hotels. We can utilise the waterfronts and the

waterways by introducing boat services. Then, Sri Lanka is one of the best surfing destinations. Therefore, we can improve the services, generate employment and improve the income levels. The Government is moving in the right direction by improving infrastructure, developing towns and suburbs. Large international chains are coming to Sri Lanka such as Shangri La and Sheraton so that is a good sign and is an indication of Sri Lanka's potential. We have to unlock that potential and develop the country.



