Nations Trust Bank: Moving In The Right Direction



Nations Trust Bank has completed a decade of growth. As they embark on the next phase of growth, their plans focus on recognising that banking is a regulated business aiming to deliver sustainable profits over the longer term within a sound risk management framework. Chief Executive Officer of Nations Trust Bank, Saliya Rajakaruna has more than thirty years of experience in the banking sector gathered in Sri Lanka and around the world. He speaks to Business Today of the growth strategies of Nations Trust Bank over the past decade and its plans for the future.

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There are a considerable number of commercial banks engaged in business in Sri Lanka. What does Nations Trust Bank provide to its customers that make it stand out among this competition?

From a retail banking point of view, the so-called “USP” (Unique Selling Proposition) of Nations Trust Bank is to provide “unparalleled and unprecedented levels of convenience” thereby bringing the bank as close as possible to the customer. We focus on the convenience of our customers and provide service through 365 days and extended banking hours. Our emphasis is on service, convenience and making it easy for the customers to transact. For this purpose we have invested in a considerable amount of resources in placing trained people in empathy with the customer in front of them and ensure that our back-office is also a partner in this effort. Nations Trust Bank is not a large bank, it has 1,600 employees and 40 branches but size is not an issue when the service delivered is tangible. What is unique about Nations Trust Bank is that we are focused on the customer and recognise that there is no better, more durable asset than a satisfied customer.

Within just ten years, in addition to becoming a leading player in retail banking, credit card and leasing businesses, Nations Trust Bank has also carved out a respectable market share in almost all its business lines. What are the main businesses of Nations Trust Bank?

Nations Trust Bank is engaged in five businesses, two of which are focused on retail banking. Let me explain. One of the retail banking businesses engages in deposit generation and lending on a secured basis. The other retail business is the franchise to issue American Express credit cards and extend loans on an unsecured basis. The third of our businesses is The Treasury, which has two major functions. One is to ensure that the Bank is properly funded and liquid, while the other is to look at the market and generate earnings and function as any other profit centre working within their operating limits. That is the dual responsibility of the Treasury. Fourthly, we have a corporate banking business where we engage in transactions with large corporate entities. Our fifth key business is targeted at the Small and Medium Enterprises sector. Within the SME franchise we are engaged in mobilising business current accounts, leasing and factoring. Those are the main banking businesses

that are within Nations Trust Bank. In addition we also engage in insurance broking and investment banking via two wholly owned subsidiaries, namely Nations Insurance Brokers and Waldock Mackenzie. All in all we are a fully integrated financial services provider.

We Have Developed A Strong Credit Culture And An Evaluation Process. All New Business That Come Into The Bank Are Thoroughly Evaluated. As A Result, We Were Able To Avoid Some Of The Bad Credit Risks, Understand Other Related Risks And Price The Loans Properly.

In the first quarter of 2010 Nations Trust Bank recorded a growth. Profits were up 19% to Rs 214 million from a year earlier. What measures were adopted to achieve this growth?

Simply executing the plan; doing what is expected of each of the businesses and doing the simple things well. We have a plan and we work according to that plan. We focus on ensuring that our revenue line is keeping in step. Whatever business we engage in, is done with a reasonable margin. In the case of Banking, the function of intermediation, margin is all important. Our margins have been quite good and they have been properly managed and maintained. Although it took a bit of a dive as a result of the dip in interest rates and because assets began to generate a lower level of revenue, the cost of funding was closely managed. We were also able to control our expenses and ensure that we work within the budget in whatever we do. It was also important that the Bank was writing good credit. We do not lend depositors' monies freely. When lending we try to control the bad debts, the NPL (Non Performing Loans). Those are the strategies that we deployed. We also have to ensure that we do business at a profit. Profit is very important. Sustenance of any business is based on profits. In the case of banking, it has special significance – some portion of profits needs to be retained as capital as we have to maintain capital ratios prescribed by the regulator.

At the end of the first quarter of 2010, the NPL ratio not only improved to 7% from 8.5% reported at year-end 2009 it was also much better than the general industry rate. What measures were adopted by the Bank to achieve this?

First, we took a good look at the existing portfolio. One of the reasons why the

margins dwindle is because the underwriting of the loans is not good. When underwriting is not good, loans go into NPL. When that happens, banks have to reverse all the interest that has been accrued on those loans. We took a hard look at the NPLs and did some good recovery work. In the last few months we were focused on NPLs and recovery and we were able to reverse what had been reversed and turned the bad loans into good loans. The benefit of such action was two-fold; interest revenue improved and NPLs also improved going back to being interest-generating assets. Therefore, the first step was managing the NPL.

Secondly, it is important to ensure that you are writing good credit and booking good assets. We have developed a strong credit culture and an evaluation process. All new business that come into the bank are thoroughly evaluated. As a result, we were able to avoid some of the bad credit risks, understand other related risks and price the loans properly. Disbursements were also controlled ensuring that all pre-conditions were understood and adhered.

Thirdly, we continued to monitor what was included in our books on a regular basis. Usually, once an asset is included in the books one forgets pursuing the next transaction. But we don’t take our eyes off those assets on the books. The idea is to ensure that the bad portfolio turns good and the good portfolio does not go bad. That is what resulted in a good NPL position and a good revenue flow. It is not always easy because events overtake. Constant vigilance is a must in maintaining a good loan book.

Nations Trust Bank was established in July 1999 through the acquisition of the Colombo Branch of Overseas Trust Bank. In the past decade, mergers and acquisitions have been one of the key strategies of growth of NTB. Could you tell us about the growth strategies of NTB?

Let me talk a bit about growth in general terms and then on some specifics.

We want to ensure that in terms of growth, no single business dominates. We have five large businesses and I would like all five to grow and not have one or two dominate. It is not unusual to see some businesses absorb cash flow and capital as they get developed while the others provide the necessary cash flow. For example, we are going into the North and East and expanding our branch network. We expect

some other business within the five to be profitable so that it balances out the investments we make in these new branches. We would not like to have only one sector generating 70-80% of the revenue or the profits and the others not making a contribution. Growth should ensure that there is no vast disparity between the five businesses and that they are all performing equally or if not equally, very comparably.

Secondly, we do not want to grow rapidly. We want to have a managed, controlled growth and be a business that is there for the longer term. We need to grow while ensuring that we keep in line with all the regulations and laws. We appreciate the rewards that come with good risk management and good compliance. Essentially we want to limit the risk of major setbacks that will negate the advances and advantages acquired along the way.

In terms of specifics, Mergers and Aquisitions (M&A) is a natural activity in any market and cannot be ignored in terms of growth. Foreign interests in Sri Lanka and its enterprises are also likely to grow. Government intervention in the banking sector via the equity market also cannot be ignored. We retain an open mind. There are many options each carrying their own merits and risks. For the moment we see nothing in the horizon in terms of M&A. Accordingly growth for the time being will be home grown meaning self-generated or organic. Nationally we are in the cusp of a future never seen before carrying significant growth potential. New products, new market segments, new geographies and new demographics provide a lucrative landscape for growth. We will take advantage of these new vistas and play on our strengths to grow.

One other comment about growth; Government focus is to increase our per capita income, a commonly accepted indicator of growth and status. Such increases and status carries a correlation with the size and level of banking assets although the lines of causation are somewhat debatable. Accordingly I expect significant growth on account of or resulting from such Government focus and effort.

In March 2010 Nations Trust Bank had a warrants issue which was fully subscribed. How did it contribute to the capital adequacy and the assets of the bank?

With the inflow of Rs 1.2 billion on the conversion of the warrants, capital adequacy is not an issue. It can become an issue. As a ratio capital is about 16% and hence we are well within the ratio that is imposed by the Central Bank. The Central Bank may also stipulate that banks have a certain minimum amount of capital. I believe that the Central Bank is likely to raise this threshold, which is why it is important to generate capital internally without relying solely on externally generated capital. In terms of corporate finance, if you are running a good business, capital will always be forthcoming. But sometimes they do not work in tandem like that. So we must generate our own capital. For the immediate future we are fine. We have about Rs 7 billion counting the Rs 1.2 billion as well as the profits of the first three months. But if the Central Bank decides to raise the threshold, capital injection and our internal resources must be there to generate this required capital. For the present, we are maintaining a healthy capital adequacy ratio.

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A couple of other points about capital. Banking is a highly leveraged business and hence a closely regulated industry which means we incur a given level of costs that must be accommodated. One cannot run a bank alone; high leverage means the regulator plays a dominant role. Hence we have to carry mandatory roles and departments such as chief risk officer, chief compliance officer and risk management department. We also need to carry IT systems and processes that support this effort to provide a stable operating environment. All these people and systems have to be in place; hence a significant amount of fixed costs translates into a minimum level of capital.

The Rs 1.2 billion of new capital went into partially funding these needs. It also enhances our capacity to engage in incremental business by extending loans and advances. Based on the capacity to leverage the incremental capital, we will be able to grow the balance sheet several folds via the loan book. That alone is not adequate. The new capital as well as the old capital needs to be serviced in terms of dividends. Hence the loans we extend need to be appropriately priced.

NTB holds the franchise for issuing and acquiring American Express Credit

Cards in Sri Lanka. How is your Bank's credit card business with Amex progressing?

Globally the credit card business has suffered because now, people want to save instead of spend. There should be a balance, one must save but one should also spend. Actually this is a dichotomy. If you look at most of the western countries they spend, whereas emerging nations in Asia are savings oriented.

What is good about the Amex card is that it is well known globally, recognised as a prime indicator of one's way of life embedded with aspirational qualities. The card has been built over a number of years supported by enhanced systems marketed and positioned well. Much investment has gone into the card. In the context of Sri Lanka, Amex Card has a close relationship with SriLankan Airlines where cardholders are entitled to various facilities such as baggage allowances and lounge facilities. The Amex Card provides a level of service and acceptance that is very high.

However, our credit card business must do two things. Firstly, people must spend and consume and do so in a responsible manner. Lack of consumption damages the economy. Equally over consumption results in inflation again weakening the economy. Hence a balance is required. As long as spending and consumption is within limits, the card member and the bank can engage in good business. Secondly, card issuers like us also need to be responsible and issue cards selectively to those who know how to use them responsibly. Cardholders and card issuers have to be conscious about it and avoid excessive debt and high personal leverage.

Our credit cards business has grown leaps and bounds during the eight years it has been in issuance in Sri Lanka. We have 90,000 plus cards in issuance and receivable balances of Rs 5 billion. Amex Cards have contributed well to the bank's overall bottom line despite relatively high delinquency levels seen in the last year.

As you mentioned, the operating costs of the banking sector are generally on the higher side. But, in the fourth quarter of 2009 the operating costs of Nations Trust Bank recorded a decrease of 8%. How was this achieved?

On a regular basis we look at how we are performing against the budget. All the businesses contribute to setting up the budget. But we have to ensure that we perform much better than the budget numbers by being continuously cost conscious and efficient. Cutting corners, however, is not an option. Employing good people coupled with good processes is another attribute. Competent employees always cost money, globally also it is like that but pays-off over time. In the current environment with significant competition we have to manage costs quite tightly to maintain margins.

Being conscious of wastage is another reason. Although the budget is prepared by the senior management and then passed by the Board, it does not mean that the process ends there. The idea is not only to see that at a minimum, one manages within the budget but also to stretch and exceed it.

NTB is also involved in Small and Medium Enterprises. Would you like to talk about the services you provide to your customers?

There are now less development banks and more commercial banks. Hence we now have to play the role of a development bank, which means our balance sheet is going to get a bit stretched. As a commercial bank, we are likely to see returns sooner rather than later. But here, because we are going to undertake some development activity, returns are likely a little bit later than sooner. Given the development work, however, returns are likely to be more stable and hence less volatile.

We provide assistance to SMEs across Sri Lanka. Some of these SMEs are already strained, while there are new SMEs being born. Industries such as fisheries, apparel, horticulture and agriculture are likely to thrive. People who are engaged in SMEs need assistance in terms of training and guidance in equal measure as the financing. We will be providing such services as part of our standard product offering.

Nations Trust Bank is expanding into the North and East of the country. What plans are in place?

We started with Vavuniya some months ago. More recently we came to Batticaloa, a

full-service branch now in full swing and thriving. In Jaffna we opened a full-service branch to provide the people of Jaffna with real choice in terms of service and products. Already there are many banks and finance houses there. However, significant development is likely to happen there. Already a global city, it is certain to attract much attention and a sure bet as a leading tourist city. The Government is likely to root significant investments in the region as the peace dividend; 1% of GDP would be significant. We intend playing a noticeable role in the region.

Jaffna has two major sources of remittances. One from the kith and kin of the people of Jaffna and also international organisations which are focused on the infrastructure projects. This is not limited to traditional people like ADB and the IFC. Even other countries and organisations are interested in the development work. Not only the peace dividend by the Sri Lanka Government will be invested, but others who want to join in developing infrastructure are also going to come. When all the development work takes off, it is possible that people will leave their adopted countries and return to Sri Lanka. Soon we'll be able to see high rise buildings in Jaffna too.

The Securities and Exchange Commission (SEC) and Colombo Stock Exchange (CSE) have also opened in Jaffna. We have quite a large role to play in terms of the stock market because we are a major margin provider to the stock market. Even before the opening of the branch in Jaffna we planned sessions where we educated people on what the stock market offers, the kind of investments that can be undertaken. Along with several other activities such as a cricket tournament, art competitions and HR programmes were conducted about ten days prior to the opening of the branch. The Jaffna branch was launched in June 2010.

Are there any new products that the customers of Nations Trust Bank can expect in the near future?

We are planning a number of new products. It has to be said that whatever we do, we will not take away any of our current services or facilities from the customer. We will only give more to our customers; enhance convenience and the ease of doing business. That is predominant in all of the products that we have. In addition to our current products, we will also introduce pawning, investment plans and schemes to educate children. We already have kid's accounts. Since educating children is a

main interest among Sri Lankans we are planning to add some bells and whistles to enhance the quality of that product. The population is also ageing and we will be addressing their needs too. On the card side, we plan to introduce enhancements that provide benefits in terms of spending and saving.

With regard to mortgages, we have to think a little bit more because land prices and building costs are high. Generally speaking, we can look at mortgages on the basis of income over the longer term but we have to be more innovative than simple mortgages. We have to give a little bit more. However, it is important to keep in mind that when we have these kinds of mortgage loans and products, the property market naturally goes up because there is funding. It is important to be controlled because we can also end like the US where property prices ballooned and then crashed. So you can expect some limited and controlled innovations in mortgage lending.

Leasing is also an important component in our business. We have been extending leasing facilities mainly for vehicles and will expand to extend those facilities for machines and equipment thereby providing a comprehensive mix of Asset Based Finance options to SME businesses. The basic deposit product will also receive attention to make it more attractive.

I would like NTB to be funded more by the deposits than the money markets. Hence the supply of good deposits is important. Therefore we need to make deposits more attractive but not only simply by manoeuvring the rate, but by additional features that are attractive to the customers. Across the businesses there will be new products that will be coming to interest and entice the customers. In doing so we will also bring the benefits of investing in the equity market and the currency market to our customers, both retail and corporate.

What are the plans of Nations Trust Bank for the future?

Plans for the future entail a larger business in terms of branches, balance sheet footings, capital and profits. We hope to forge relationships abroad, target the non-resident Sri Lankans to add value to their needs and engage in capital raising and related investment banking activities. Good well trained people fully engaged with

such corporate aspirations and a longer term view are central to these plans.

At present when you look at the banking sector, interest rates are on the decline. The banking sector outlook remains positive and also with loan growth expected to gather momentum from the first quarter of 2010, what can Nations Trust Bank, as well the banking sector in general expect in the near future?

I am not sure of declining interest rates. Government budget deficit, bad weather, recent price hikes are likely to influence inflation and hence rates. Oil price, however, remains subdued acting as a break on inflation.

Significant Development Is Likely To Happen In Jaffna. Already A Global City, It Is Certain To Attract Much Attention And A Sure Bet As A Leading Tourist City. The Government Is Likely To Root Significant Investments In The Region As The Peace Dividend.

The absence of war has re-rated Sri Lanka and is perhaps the underlying reason for the rising stock market. Our corporate entities are also reporting good profits providing additional strength. On the basis of a three year view, the stock market still has some way to go.

The banking system, however, is flush with cash and very liquid. Hence need some real productive capacity to be added on a selective basis. I say on a selective basis as the global consumer seems to be under some duress.

Over the last 30 years we missed many opportunities. We must not miss any more. All the businesses that we used to have in Sri Lanka such as tourism, gems and tea should be made to come back. To make that happen we have to make Sri Lanka attractive for investors and enhance the ease of doing business here.