

# Rajendra Theagarajah Recognising The Entrepreneurial Spirit

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Hatton National Bank has been part of the Sri Lankan financial landscape since 1888 tracing its origins to Hatton Bank. Priding itself for being a national bank that is truly customer focused, HNB has spread its wings across the country. While encouraging the entrepreneurial spirit of the country through its SME initiatives, HNB has aligned itself with the national vision for prosperity. Rajendra Theagarajah, Managing Director of Hatton National Bank spoke to Business Today about the Bank's achievements and the strength of its staff and how the Bank will move forward with the changes in this renewed environment.

By Udeshi Amarasinghe | Photography by Menaka Aravinda

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**Challenges and trying times inspire HNB to look beyond the conventional, to innovate and inspire action. Can you tell us how the Bank stood firm during the turbulent economic environment?**

It is not only the last couple of years, if we look at the entire 30-year period of domestic unrest, the Bank has faced different types of challenges but during this entire period the Bank has not forgotten one thing; that it is a national bank, a Sri Lankan bank. At the end of the day the bread and butter business of the bank is taking a deposit from someone and productively utilising it. The mix changes, but the philosophy has not changed. As long as that philosophy is consistent our customers will have confidence in us.

Our thinking at HNB has been, sticking to the basics of banking. In the process, even though technology has played a very important role over the years, we have never lost the human touch – because banking is about people and experiences. The other most important aspect is empowerment of the staff. HNB is not just a Colombo based one-branch bank; it is a network-based bank spread across the nation. Therefore the balance of delegation and control is empowerment. We have struck a very good balance, which has helped us to basically create leaders in every branch to carry out the vision and the mission of the bank.

**This Was Achieved By Sticking To The Basics... We Saw The Real “Off Take” In The Last Quarter, Which By The Signs Of It, Is An Indication Of What Is To Come, 2011 Is Certainly A Year To Look Forward To**

**The Bank was able to record a good post tax profits, can you tell us how this was achieved?**

Again, this was achieved by sticking to the basics. The previous year we ended with 4.3 billion rupees in 2009. The full results of 2010 will be released soon and it will show the same robustness. The key to our performance has been our persistency in rural and semi-urban Sri Lanka, which has helped us to defend our cost of funding structure and possibility of new business opportunities, which has helped us to boost loan growth. It was a very challenging task for the first seven months. But we saw the real “off take” in the last quarter, which by the signs of it, is an indication of what is to come, 2011 is certainly a year to look forward to.

**Interest rates were reduced through a direction to the State Banks in order to stimulate post conflict development. Can you tell us how the Bank dealt with the challenges that arose through the reduction of interest rates?**

This sign came around the third quarter of 2009 where the two state banks led the tone. From our perspective we took a balanced business decision to gradually re-price our term deposits as and when they came up for renewal so that it was not a sudden shock and the customer understood why it had to be re-priced and in the process the main challenge was how you balance the re-pricing of the assets into which these deposits are deployed. Fortunately we had started this process about three to four years ago to change the basis of our pricing more into a variable rate pricing mechanism rather than fixed rate. Therefore, other than for housing loans or leases, the bulk of the book was more on a variable rate. Therefore, when the interest rates vary the impact was also passed through so we were in a better position to manage the shock than most.

**The Bank has been able to increase its deposit base substantially, how was this achieved?**

We were able to achieve this by our persistence to increase and penetrate the branch network. Last year we opened 19 new customer centres and most of them were outside the Western Province. Then apart from the global crisis there were two or three challenges locally. One local bank went through a rough period and it was at that time people realised the importance of banking with established banks and recognised the importance of rankings and ratings. Due to our steadiness and good rating we were able to attract a good flow of deposits.

Branding was another important aspect. We take pride in believing that HNB probably is one of, if not the strongest financial service brand and not just in Colombo, it is a high-street brand. And that itself has positioned the bank to go that extra mile. Finally, the difference is our ability of cross selling a different product with a whole series of other wants and needs of a depositor from a housing loan to a credit card, to a mortgage to a small business loan however small or large there is the opportunity to combine with the friendly caring attitude of our staff. At every branch we have the branch staff walking the talk. That has been a very important factor which differentiates HNB from competition.

**Performing loans rose significantly, while the gross and net NPA ratios**

**improved to 5.9 percent and 3.1 percent respectively. How was this achieved?**

Nothing but focus on credit quality. During the early 2000s we had double digit NPA. Therefore we had a vision that during this decade we must break the barrier and bring NPAs to below five percent, which was something people felt, was unattainable. We have broken that barrier. This was achieved through persistence to quality while encouraging growth, of course I think the challenge especially last year and now, on one side was to preserve credit quality and also to grow the business. We have successfully overcome the challenges and what we have done is during the last few years built our capacity and monitoring tools, which are now put into use.

**The Bank's remittance products and exchange houses continue to deliver consistent value, what plans have been made to enhance these products and services?**

The remittance of Sri Lankans working abroad plays a significant role in the economic development of Sri Lanka. For more than 15 years we have always led the efforts to bring most of this money into the banking system. We have had a market share in excess of 25 percent for more than a decade. That thirst has not reduced it will continue. What we have done for the last two years is supplement our existing relationships with various exchange houses by establishing our own brand. Today we have four branches in the UAE, one in Oman, which we will expand by a further specified number in 2011 and will continue to reinforce the support to the Diaspora and continue to build the remittance business.

The difference between HNB and other exchange houses is that usually the money comes into the country and it is very often withdrawn and spent. However, we offer a whole series of services and experiences not only to the sender but also the receiver to keep that money in the bank and only draw what is needed; because the easiest thing is for a person to withdraw the money and even if he does not need the money, he will take it home and spend more than what is required, but if you have a free ATM card or a savings account, you only take what you need and thus you tend to save more.

**A Key To Our Success Is Our Island Wide Distribution As SMEs Are Not Only Colombo Based Entities... The Most Important Driver In This Dream Is Not The Money Or Distribution, It Is Our People In The Bank Who Go Out**

## **And Engage With The Entrepreneur**

**HNB has recognised the importance of SMEs and has positioned itself as a small and medium development partner. Can you tell us what was the thinking behind this and what opportunities are available?**

The thinking was very clear that for a number of years we have always believed even before this war ended that the engine of growth in Sri Lanka is SMEs because this is not a country with a sufficiently large enough landmass to provide competitive advantages for large-scale industrial growth. In that perspective we felt it was the medium and the small-scale entrepreneur who would make up the demand from a national point of view as well as export. Therefore from day one we have recognised and focused on targeting this segment. Their wants and needs are identified separately from personal banking, institutional banking and multinational banking. That itself has given us the first move advantage and we believe that this is also a very clear way to profit while also aligning ourselves with a national vision for prosperity.

**The Government in its 2011 Budget has given significant recognition to the SME sector, with import replacement activities taking priority. How will HNB contribute to this?**

The contribution is basically by leveraging on the bank's balance sheet and making sure that we continue to partner and hold hands with our portfolio of SME customers and hopefully bring in some new customers also into the fold and help these industries and businesses to prosper through essential banking services. It is not only financial knowledge and linkages but as they do well to also create more SMEs from a different segment, which is micro entrepreneurship. Unlike some of the other banks, we are probably the only private sector bank, which also has stated business model for microfinance. Another advantage we have from that is, as the SME does well and we foster more successful micro entrepreneurs we then pull some of those successful ones also into the SME fold.

On the other hand as the SME grows unlike some others we have a natural solution to scale them up into becoming tomorrow's corporates. Therefore we have a complete chain to pull these people up the ladder which is an advantage we would like to score on. Then a key to our success is our island wide distribution as SMEs are not only Colombo based entities. We have always had a strong network outside Colombo, which supports our work. The most important driver in this dream is not

the money or distribution, it is our people in the bank who go out and engage with the entrepreneur, and their mindset to be able to understand, empathise and provide a solution that is the clear differentiation between HNB and the rest of the banks.

Now the very history of this Bank, if I look at the 123 years, we started not from Colombo but from Hatton. We actually reversed the journey: rural to Colombo rather than Colombo to rural; so we have never evaded our responsibilities. The only difference is that HNB has been priding itself in the staff we employ. Especially for agriculture and fisheries, we take agriculture graduates or people who have been trained rather than sending an A/L qualified or an MBA to understand agriculture, not that they can't do it, but it is much easier to send someone with an agricultural background into these communities to engage the farmer, understand the philosophy, understand the cycle.

### **What are the key areas you look at when supporting a SMEs?**

The key thing is the entrepreneurial spirit of the individual and then everything else follows. That comes not from a book but through the feeling, interacting and going to the entrepreneur's business place. Then comes the business plan to understand the thinking and what is needed behind the thinking. The other most important aspect of this game is our understanding of how that entrepreneur is able to find markets for the services and products they do.

Because however good you are as a farmer or a fisherman or a small scale entrepreneur, if the fish or the produce does not reach the final market and if it doesn't have a market then you are throwing good money after a bad proposition. And again, one good difference that HNB can make is being a large-scale national bank, we have multinationals and exporters dealing with us and on the other we have large Colombo based conglomerates dealing with us. We have an excellent opportunity of building a bridge, a linkage between these big timers and linking their buying needs from the SME cluster. A very good example is recently we tied up with one of the country's largest buyers and exporters of gherkins who supplies to a global fast food chain and we work with several hundred farmers in the East coast, they are micro small time people who were identified through the cooperatives and we helped their financing but not blindly while linking them with the market for their produce. That is a good formula to extend to other SME's.

### **With This Reduction On The Financial VAT As Well As Corporate Taxation,**

## **Sri Lanka Will Probably Get Into A Comparable League With The Rest Of Asia.. It Will Be A More Attractive Location For Banking**

**Another aspect of 2011 Budget is that the tax structure of the Banking sector was changed significantly such as the abolishing of debit tax and reduction on VAT. How has this affected the services of the Bank?**

The taxation framework in the country is something, which has always for a number of years been commented upon by the banking sector, as well as various other stakeholders, which needed reform to position Sri Lanka in the next level of competitiveness. Mainly because it was felt that the banking sector was the best positioned to showcase the country as we have a number of listed entities, rock solid results and strong balance sheets but one of the main disadvantages has been the high cost of taxation. From a comparative perspective Sri Lanka had one of the highest rates of effective taxation of banks in the entire Asia-Pacific region. With this reduction on the financial VAT as well as corporate taxation, Sri Lanka will probably get into a comparable league with the rest of Asia. It will be a more attractive location for banking and then with these numbers there is potential in the after tax quantum of profits of some of these banks to increase over the next few years and certainly we hope that will help this sector to become stronger. Hopefully, some of the profits that these banks make will be put back into support some of the medium and long-term infra-structure investment requirements of the country and also pass on some of the benefits of this in the form of lower margins to the common man.

**Now, with savings deposited in the banks, VAT has gone down from 20 percent to 12 percent and corporate tax from 30 to 28 percent, the difference that the bank saves must go into the investment fund account, which will be utilised to provide loans to entrepreneurs. What are your thoughts on this and what has the Bank done in this regard?**

We understand that there is a proposal of a fund, which the Central Bank will facilitate and make use of for productive long-term investment. This is certainly welcome but for banks like us who are local and who are nationally focused and who have in the past lent our balance sheets to that cause, we humbly believe that an investment fund is not necessary because we have already demonstrated our ability to take a long term view of the country.

From an industry point of view this fund is certainly useful because for those banks

who will not be able to perhaps do what some of us are able to do there is another solution to put tax savings into a fund where perhaps the Government can channel in an organised manner.

**The Government requires Banks to give long-term loans to businesses with low interest rates and develop project financing capabilities where risk taking activities such as agriculture, plantation, fisheries, livestock, construction, value addition and brand promotion need to be encouraged. Profits from such endeavors cannot be seen in a year or two, hence loans need to be given for a longer term period. What is HNB's stance on this?**

We are not new to long term funding as long as the business makes sense and the funding mechanism is available. Taking a view of a longer tenure is not something we are afraid of. We have already gone that way where generally our working capital is for 12 to 24 months but for project loans, we have gone as high as eight to ten years on a selective basis. We now believe with the new found optimism during the last two years there may be some specified sectors in the country specially infrastructure related, which may have a longer term than that – may be 15 years. We have already started the process of identifying two to three flagship projects and already given proposals to support them in this sort of tenures but not blindly. It has to make business sense whether it is ten years or 15 years as long as there is an effective return, which meets with the return criteria of the bank.

**For Banks Like Us Who Are Local And Who Are Nationally Focused And Who Have In The Past Lent Our Balance Sheets To That Cause, We Humbly Believe That An Investment Fund Is Not Necessary Because We Have Already Demonstrated Our Ability To Take A Long Term View Of The Country**

**Banks are seen as a major obstacle to the growth of new businesses in terms of securing finances. But we see banks making bigger and bigger profits each year. Why is it that banks are making it difficult for entrepreneurs to secure funding and what is being done in this regard?**

I feel the perception is relative. I do not think banks like Hatton National Bank or comparable banks like ours could have reached a state where we are today in terms of a balance sheet, nor the type of profits we are making here, if we did not understand entrepreneurship and have not supported entrepreneurs. It is just that when you take a pool of entrepreneurs there are those who have a genuine vision



but for every ten you have one or two who are not genuine. It is the precaution one takes because business of banking is not funded by one person's money it is generally funded by a large number of deposits, which is responsibly lent for a reasonable return. In that process there has to be a certain amount of caution. As I said before we would not have reached the position we are in today if we had taken a path of being an obstacle rather than being a part of progress.

**Three areas have been identified that an average customer would find it difficult to obtain services and facilities of a bank. One is the high cost of finance and attitudes of banks at operational level as well as CRIB and various other tools used to refuse credit, even for those who are eligible. This disheartens people and the confidence in the banking system has gone down. What can we do to change this mindset?**

The high cost again is a relative thing, if you look at cost of funds. In the last two years we have seen a complete flip from double-digit costs to a single digit cost of funding. And the indications are that single digit is here to stay. Today, the Sri Lankan consumers are probably at an all time best position to engage and borrow from banks. The second aspect is in terms of operational and service issues, we are not dealing with machines we deal with human beings. One has to appreciate at any given time all five fingers are not alike but the challenge for all of us at banks is to continue to invest in training, continue to monitor service levels and continue to motivate and engage staff to look at a customer as a human being rather than some moneymaking machine. That is a challenge for all of us but today what is also a driving force is that to a great extent there is high street competition. Today the high street in any village or town has a half a dozen or so very strong competing banks. There is very little room available for a bank teller or a bank clerk to be complacent because there are four or five others on the same street who will snatch the same customer. That itself has changed the mindset.

The CRIB is a tool, again as in any western or developed nation, to be used as an indicator, which is a part of a process to assess and approve credit for faster delivery. It is one of a series of indicators, which looks at the credibility and viability of a customer's creditworthiness when you give retail credit. I feel it is unfair to say that it is an obstacle. If a customer has been listed in the CRIB there has to be a reason for it, and it is unfair to say that banks should ignore CRIB ratings because there would have been a reason for the customers' ratings. But what perhaps needs to be done is if someone is in the CRIB without blindly saying I will not give you credit because you are in the CRIB, the answer is you can understand how that

process took place and whether the potential borrower has made any genuine efforts from that point to the point of being interviewed to address the issue.

**Banks are advancing in technology but we still find that customers have to fill cumbersome application forms. How can we simplify these processes?**

That is an ever-evolving process; most banks in Sri Lanka today I would say are in a far better position than the rest of Asia or the rest of South Asia in terms of the type of simple procedures we have in banking. In terms of paper work, electronic banking is here to stay. We have so many alternate touch points like mobile banking, ATM, Internet and the latest innovations to complement the basic branch. But before one does all that there has to be a basic understanding of the customer's history to be captured. I feel that is something which is unavoidable but what people are trying to do is try to simplify it by things like having a common mandate for multiple products so you don't have to fill ten different forms for ten different services and wherever possible you have a history of a customer once you come to a bank with a common customer identifier, after that whenever the customer comes for various requirements, that identifier triggers off the history and only incremental information is required. Banks are moving towards that to a great extent and there again as I told you it is the nature of the industry competition itself, which will drive banks to simplify processes and make banking more user-friendly. If not you are going to lose out to the neighbour.

**With all the banks that are available in Sri Lanka we still find people going for informal banking services despite the risk because it's simpler and there is less bureaucracy. However, to encourage people to engage in the banking systems the Government has restructured the taxing system, how do you think the banking sector itself could build the confidence of the people?**

The tax system is one tool but there is something far more important. At our Bank, we call it financial inclusion. And at HNB we walk the talk by literally committing up to three percent of our asset base in micro related businesses; and the reason we do that is to make banking more affordable to these people who normally would not get a chance of having a bank account or a relationship with a bank and thus go to the informal sector. By doing so they get into a poverty trap and when they get into a poverty trap they eventually become not only a social problem they actually become a problem to you because the problem is in the environment we operate in. Therefore, rather than excluding them we include them so that if they prosper, the

environment gets better and everyone will prosper.

Information sharing is also very important because the people at that level of social strata need information about what is responsible banking, what are their rights when they borrow and that is something which comes through financial literacy; at HNB, we invest a lot of time as a part of our micro entrepreneurship in financial literacy. Now we have also gone to the next level and started this process with the SMEs. Recently we started a programme in Matara with the Matara Chamber of Commerce. The Matara branch of the Chamber identified 30 entrepreneurs and SMEs in Matara and trained them about how to prepare an application to obtain a loan from banks and we hope that the rest of the industry will also join us and do this because good banking is not only about making money affordable its about imparting good banking habits and creating a knowledgeable community.

**HNB is also in the forefront of sustainability and CSR, even recently the Bank provided relief to those affected by the floods; can you tell us about the sustainability and CSR initiatives?**

The CSR initiatives of the Bank are today institutionalised. We have a HNB CSR foundation with ten trustees, including three directors of the bank who bring in a sense of direction. We have a few pillars, which are mainly focused on literacy, water and sanitation, healthcare and the environment. We are fairly focused on these areas. Our CSR work is not done in an ad hoc manner. Support to the recent flood victims, was an emergency relief and there is provisions for that but there is also the long-term focus.

In the area of literacy we have a very clear programme; we have adopted libraries at village school level and we started with one in 2005 after the Tsunami, and today we have over 155. We started by initially identifying the schools to provide the basic chairs, tables and furniture and then we worked with The Asia Foundation over the next year to identify the essential, Sinhala, Tamil and English books. In the third year we gave a basic PC and a printer to introduce computing to the schools and last year we selected ten schools and gave them a total of 100 solar powered shock proof laptops. This is really for preschool kids so that you give them an experience of using the internet and computers before they go to school. As we gifted solar powered laptops we were able to go to schools where there is no electricity and travel into rural parts of the country.

With regards to water and sanitation on average we do about six projects a year.

Generally we select small communities with 300 – 400 people where they either do not have sanitation facilities or drinking water and then we provide them with the facility. Today we have covered from Point Pedro in the North to Bodhirajapura in Katharagama to Vakarai in the East and Puttalam in the West; we have gone right throughout the country. Healthcare is very much focussed on cancer care. We have a programme where we have adopted Maharagama. We work in the area of trauma counseling because many people focus on drugs and equipment but one area which we felt was neglected was the families of the patients; how the family handles the trauma and not just treat the patient as a patient for the rest of their life because in most cases this patient can live at home. Therefore to manage that aspect counseling is important. Therefore, we have invested in the trauma counseling centre in Maharagama and we even support and train volunteers because there are four of our own senior officers who have gone through a training programme on a voluntary basis.

The fourth area is the environment. As a flagship project we have adopted the Bundala national park. There is an invasive cactus species growing in the park. We have cleared 20 hectares over the last three years of this low growing cactus, which affects or causes the human-elephant conflict. We are going through that with a couple of other partners. In addition to that green is very important to HNB. In fact we have introduced a green pledge at HNB.

Every one of our 4,400 staff practices this starting from the home to the office. A very important thing also is from last year we took a simple pledge and said let's look at the amount of stationary paper we are consuming for a year and we pledged that next year we will at minimum plant the equal number of trees we consumed. Therefore last year we quantified the amount of paper we used to 4000 plus trees equivalent and I believe we are just completing the replanting. We started the replanting programme from Maha Oya and in every part of the country we have branches adopting various sites. It is not only a question of planting a tree for the next ten years but what we do is the staff from each branch will get involved and often we work with communities or groups in maintaining the trees, and that is a commitment we make to sustain the planet. It is a simple concept to understand and communicate and the most important thing is it is the best way to engage our staff. Then CSR will not be something that the Board or the top management asks one to do but where the staff is connected and identifies itself with the programme.

**At Our Bank, We Call It Financial Inclusion. And At HNB We Walk The Talk By Literally Committing Up To Three Percent Of Our Asset Base In Micro**

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### **What about the services provided to the North and the East of the country?**

HNB has been in the North of the country since 1970. During the worst part of the conflict we never went away from the North. Today, in the peninsula we have over ten branches and in the East we have another dozen. Overall we have about 24 customer centres in the North and East of Sri Lanka. We expect this to grow at a similar pace in the next year or two and we are constantly on the look for new locations. The focus in the North and East is to mainly support agriculture, fisheries and small-scale entrepreneurship. And then of course as the national plan with healthcare and tourism coming in we will support some of those as well.

A very important mechanism that we have put in place in the North is that soon after the war we realised that sending staff from Colombo was not going to work. We have started local recruiting thereby localising the recruitment process. We not only recruited from the North but instead of bringing the interviewee to Colombo we have taken the interview process itself to Jaffna. Therefore shortlisting, examinations, interviews and the appointment letter and training are all done there. Technology is used very effectively and we feel that the last two years the batches we have recruited are of a much superior quality. By talking to some of the parents we learnt that they would never have sent their daughters for example to Colombo to face an interview because of the obstacles/cost. But now that we have come to their hometown it is much easier. They also feel that we mean what we intend to do so the confidence level has increased. Therefore we are getting a much better response from the people there.

### **Are there any tailor made facilities and services that HNB has introduced to the North?**

**HNB Has Been In The North Of The Country Since 1970. During The Worst Part Of The Conflict We Never Went Away From The North. Today, In The Peninsula We Have Over Ten Branches And In The East We Have Another Dozen**

In terms of tailor making it is a question of leveraging on our network. The Government itself through the Central Bank has some excellent financing schemes. 'Uthuru Wasanthaya' is the best example. There is two billion rupees for the North

and a billion for the East so we are not short of money. What we were short of is the distribution network and the mindset of banks to make use of this money and invest. In fairness now that the Government has made available the funds on our part we are increasing our distribution and reach, better understanding entrepreneurs and in addition to that one thing which we are doing very strongly is providing the linkage between the people and the buying power for their products from Colombo.

### **Future plans?**

If I look now, especially after May 2009 for the next three years the focus would be very much inward looking at Sri Lanka, the opportunities are here. Last year we mapped the Bank's three year strategy with the national vision, the five year vision. We will select aspects of the national vision, which have a positive correlation with our strengths and develop these opportunities into profitable business and hopefully give superior returns to our shareholders.

It is always a pleasure to engage with Business Today. For more than ten years we have had the pleasant experience of being part of the Business Today top corporate rankings.

**We Will Select Aspects Of The National Vision, Which Have A Positive Correlation With Our Strengths And Develop These Opportunities Into Profitable Business And Hopefully Give Superior Returns To Our Shareholders**







