Sampath Bank: Retaining The Growth



Sampath Bank has grown from strength to strength in its journey of 25 years. Armed with a strong sense of Sri Lankan values and a respect for the culture of the Country, they strive to introduce novel banking approaches while being a bank that is close to the heart of the people of this Nation. Aravinda Perera, Managing Director of Sampath Bank shares his views on the progress, development as well as the merits that the Bank has been able to achieve in the growing economy of Sri Lanka.

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Sampath Bank is the third largest private sector commercial bank in the country. Being a 100 percent local bank how was the Bank able to achieve such standards and what is the strength behind this growth?
Over a period of 25 years, it is not just one action but many that have enabled us to build up this strength. The greatest strength comes from the direction and guidance given by the Board of Directors. Furthermore, we have over 3,600 staff members who have mostly started their career with Sampath Bank, immediately after their school or university graduation. And slowly what we have done is to build up their capabilities and expertise. Therefore, it is the human resource or the people strength that has brought us to this level.

On top of that I would say that we are also very proactive. We believe that we are a leader in innovation and technology and we also believe that we have traditional Sri Lankan warmth that are comparatively better than our competition, which makes it easier for us to give a more professional and friendly service to our customers. We have been innovative from day one and this innovation has gone a long way towards our success.

In 2012, Sampath Bank celebrated its 25th anniversary. How has the journey been so far?
It has being quite a difficult journey. Over 20 years ago there was a time when the bank's stability was questioned. But we have overcome all that. My staff have been working very hard. We have planned our journey.

Within A Very Short Period Of Three Years We Were Able To Double Our Branch Network. That Was Possible Only Because We Had A Solid Foundation. Without A Solid Foundation, We Would Not Have Been Able To Venture Into Something This Aggressive.
If you take the first 20 years of the bank we have been progressing in a manner that was not very aggressive. We mainly focused on laying the foundation, having the proper IT base and having the strength of our staff developed. Accomplishing all this, we came to a state where we thought it is time for us to be aggressive. When the decisive time came it also coincided with the end of the war in Sri Lanka. It is in this situation, we launched our branch expansion network.

Within a very short period of three years we were able to double our branch network. That was possible only because we had a solid foundation. Without a solid foundation, we would not have been able to venture into something this aggressive.

We knew that the new branches were going to take sometime to break even. We had other avenues of income earmarked to offset the losses that we were going to incur from the new branches. This approach has worked for us.

We have already planned what we are going to do for the next three to four years. I would say every action is well planned and decided. To add to that I have a very supportive Board as well.

The monetary policy framework of Sri Lanka has undergone various changes from time to time. How has the Bank faired in these changing policy conditions and what steps have the Bank taken to align itself with these changing conditions?

The Government policies, whether its monetary or fiscal policies, or any other policy change that is going to come – whether in imports or exports – all are done with the country in mind and not necessarily the banking sector in mind. Therefore, we have to appreciate the fact that the Government is continuously doing things for the benefit of the whole population. Not only that the monetary and fiscal policies are designed and implemented making the stability of the financial sector a priority, which is a must for the banking sector.

There are many new changes that are being introduced. These include Basel II, Basel III and the new accounting standards which are all done to make sure that the financial institutions and banks in Sri Lanka are very stable and strong. The reason for this is that we are the custodians of depositor funds. If you look at a balance sheet of a bank you will see that the bulk of the money is from depositors and not from the shareholders. Therefore, even the Central Bank, who is the regulator, instigates various guidelines to ensure the safety of the depositors. One example is the depositor insurance scheme that the Central Bank introduced a few years back.

As a bank, we need to map our progress and to go through our planning process within the framework of these guidelines and regulations. We will have to take it as a given that these guidelines exist. And within those guidelines we try to do the best we can. One simple example for this scenario is that last year the Central Bank enforced a cap on the rupee lending. And they informed us that if we bring dollars from international markets, this cap can be increased. As a result, we immediately took a decision to borrow in more dollars from the international market. By doing so we increased our lending capability. Similarly we try to match the guidelines that are given and do our best.

If you look at 2012 results, despite having a credit cap, we were able to achieve our overall financial targets. In fact, I believe not many Banks were able to do. We increased our profit by 50 percent last year even with the import restrictions for vehicles and various other imported items. Looking at all these results, I think we can be happy. When the going gets tough, the tough gets going and I believe we have to plan properly and work hard.

An Important Aspect For A Bank Like Ours Is To Maintain A Good Quality Of Credit So As To Minimise Our Non Performing Advances. We Have Done This Extremely Well.

Looking at last year, the Bank focused mainly on three factors. They are branch consolidation, moderating the credit expansion and improving the stability of the Bank. How has pursuing these three factors affected the overall performance of the Bank? And for this year what areas has the Bank focused on to improve performance further?

In 2011, our network reached a number of more than 200 branches, and therefore, 2012 was mostly about branch network consolidation. But we told all branches and credit departments that they need to increase their business volumes. Rather than going into new locations, we informed the existing network that they need to expand their business volumes.

The next factor was the credit quality. An important aspect for a bank such as ours is to maintain a good quality of credit so as to minimise our non performing advances. We have done this extremely well and we have a non performing advance ratio of two percent, which is one of the best in the banking sector in Sri

Lanka. Further, we have kept a fair amount of provisions for bad days, but then again our provisions are much higher compared to that of the industry. This is to ensure that our lending is of good quality. We also take care of our bad loans, whatever the little amount that we may have. These two factors worked quite well.

Moreover, we did our best to make sure that innovation continues. It is a fact that in time to come, non banking institutions will initiate businesses similar to ours. That change is happening worldwide. In order to make sure that we face this challenge successfully in the years to come, we have already taken certain steps and that is a far reaching plan. This trend will not come to pass in a year or two, but we want to be sure that the bank continues to grow in strength, size as well as in profits.

This year we will re-access our lending policies and we are changing emphasis on what sectors we are lending money to. We are also quite aware that the interest rates are falling and we need to keep our net interest margin at an acceptable level. I believe that industry-wide non performing advances are also increasing and we need to, again, ensure that we keep our non performing advances at an acceptable level. Those are the challenges we see in this year.

We have not seen a huge increase in imports and exports this year as well. That is partly due to Sri Lanka being a major exporter to countries such as US and EU. Those economies have not recovered as of yet. We are also quite strongly advocating expansion into the remittance business and we believe that we can improve our market share in that area this year.

The global economic growth has considerably slowed down and currently there is also a dollar appreciation that is prevalent in the economy. In these challenging conditions how is Sampath Bank progressing?
When change comes our way, some times it allows new opportunities. At other times it is a threat, but it can also turn into an opportunity as well. We have to make sure that we are ready to take the oncoming challenges and make the best out of the opportunities at hand. One good thing is that we still believe a six plus growth in the economy as possible. When we compare that with the growth rates achieved during the times of war we can be happy. Therefore, a six percent growth is good and obviously a 10 percent would be much better. But within that framework we

need to ensure and focus on the specific sectors in the growing economy. Certain sectors of the economy will grow faster than others and we need to identify and get into these particular areas and do well.

Sampath Bank has diversified into other fields as well such as Sampath Leasing and Factoring, SC Securities and Sampath Information Technology Solutions. How have they contributed to the growth of the Group and can you elaborate on their performance?

Sampath Bank is still the major player in the Group. I believe close to 90 percent or even more. Sampath Leasing is doing fairly well and we have plans to make it a public quoted company in the future while getting the finance license as well.

SC securities is doing reasonably well, but there is a lot more room for improvement. We have a small IT company, Sampath Information Technology Solutions, which is catering mainly to the IT needs of Sampath Bank. However, sometime ago we took a decision to be actively involved in investment and merchant banking. Initially, the thought was to have a separate entity for investment and merchant banking, but the present idea is to have a separate unit within the Bank to develop the business. And if that business grows well, at a particular time in the future we will decide to spin it off as a separate company. We have already started the initial work with regards to that.

More than that, I would say that we are looking to branch out of Sri Lanka. We have not decided whether it is going to be a branch or whether we will acquire a small bank elsewhere. These are things that are being discussed at strategy level. We are still open for any consolidation within the Country if the opportunity arises.

I Believe Payment Methods Will Undergo Major Changes Within The Next Five Years. If You Take Countries Such As US Or Europe, Cheques Are Already Out Of The Way And Here We Still Pay Through Cheques. But Changes Will Happen In The Near Future.

Sampath Bank has always been in the forefront in introducing innovative banking approaches to the Country. Can you elaborate on this aspect?

There is a trend in the world where people are moving away from the physical

presence of a branch. And in Sri Lanka, I believe that Sampath Bank is quite strong in this regard as more than 70 percent of our transactions happen outside the bank – mainly at ATMs and other delivery channels including Internet and mobile banking. We are moving towards a cashless society, contactless payments, near-field technology and many other new notions are happening in the world and we are in the middle of it. I believe payment methods will undergo major changes within the next five years. If you take countries such as US or Europe, cheques are already out of the way and here we still pay through cheques. But changes will happen in the near future.

Further you may not have the need to carry cash in your pocket and you may not even need a card to pay.

A completely different product may come into the market as a payment method. There is no need to reinvent the wheel. We need to be aware of what is happening in the world and take examples and try and modify it to suit our country and requirements.

A product that we introduced recently, was the foreign currency rupee conversion ATM. It can convert dollars and euros for now, but later on we plan to accommodate other currencies as well. A couple of years ago we also introduced a scheme where we pay interest for senior citizens every two weeks. Usually interest is paid monthly even though it is calculated daily. One might say it is a simple task, but technologically many things have to be done to make sure that this task is possible. And I believe that we are the only bank to pay interest twice a month.

How has Sampath Bank contributed to the overall development of Sri Lanka?

I need to go 25 years back. Our founding fathers mentioned that production has to precede trade. From the very start of Sampath Bank, the Bank set up a projects department. I am very proud as I was the first employee of that department. I came into that department as the Manger and we believed that one needs to first produce before starting to trade. For commercial banks, trading is a big business, but from the very beginning until today we have been involved and focused on SMEs. In any Asian economy SME is considered a main stake. It is encouraged by the

Government and is one of the most profitable sectors. The Government of Sri Lanka recognising this fact gave tax concessions two years ago and they allowed us to retain some of the tax that we would have otherwise paid to the Government. They informed the banks that certain identified sectors will have to be given interest concessions on loans. As for Sampath bank 100 percent of these saved tax benefits go to these identified SME sectors. Again SME definition is quite wide but our loans are basically 50 million rupees or less. These loans go to a cross section of our customers to help them build up the production and service capabilities while improving their operations. This is our contribution to the development of the Country.

We are also very mindful of the corporate social responsibility that we have to fulfill. A few years back, we became the best corporate citizen of Sri Lanka. This was the CSR award given by the Ceylon Chamber of Commerce. Since winning that award, we have not applied for the category again. It is not that we are not performing any CSR activities. We are probably the only institute in this country that awards their own employees for the efforts undertaken by them with regards to CSR. We have an environmental club set up by our staff and recently we announced a competition for the best energy saving team. They will be given cash awards.

When the University of Ruhuna wanted to replant corals immediately after the tsunami we were there. Anything good that comes our way, we always try to be more active and get involved. Furthermore, for the last four years Sampath Bank has been sponsoring island- wide seminars for the grade five scholarship students around the Island. Therefore, CSR activities are progressing strongly even though we have not applied for the award.

We have also promised the Government, when they started reestablishing the rail link from Colombo to Jaffna, to build one station. We were told recently that they are ready to proceed with construction and our people are currently working with the authorities to set up the station.

We have been doing this from day one for the last 26 years. From the set card, our ATM card in the beginning years, a certain amount of money is donated towards wildlife protection activities. When the Country was not talking about environment,

we were already involved in it.

Also in terms of sports we have many national players. The only girl who represented Sri Lanka in the last Olympics is employed in Sampath Bank. One of our employees broke the Guinness world record playing scrabble recently. We support all these and we consider and believe it to be a part of our national duty.

We Need To Move Away From Sri Lanka On A Future Date And Take Up A Global Business. We Are Probably Getting Very Close To That Readiness. These Are The Things That We Need To Do In Order To Take The Bank Ahead In The Next 25 Years.

What do you think are the important factors that the Bank must focus on and what initiatives have the Bank undertaken, in order to ensure the Bank's continued growth and success in the industry?

First and foremost, the development of our staff is very important. When we doubled our branch network, to 200, we employed a large number of new employees. And we need to develop them. We are currently in the process of developing and from day one we have put in a lot of time and effort. But unlike the banks that have been growing slowly, we have a higher responsibility in developing personnel. Banks will do well when their workforce becomes a professional, educated and skilled workforce. Hard working is not going to be enough, other factors will have to come in as well. Customer Service standards is also part of this process.

Then we need to make sure that the Bank continues to be profitable. Only when a bank continues to be profitable will shareholders as well as deposit holders be comfortable in giving their money for us to safeguard. Another important aspect that I believe is that we need to move away from Sri Lanka on a future date and take up a global business. We are probably getting very close to that readiness. These are the things that we need to do in order to take the Bank ahead in the next 25 years.

The stakeholders, staff and other members play a major role in defining the progress of a company. How has the bank's stakeholders, staff and

other key players been instrumental to the Bank's growth?
We would not have achieved such success if not for our staff and shareholders, who have kept their trust in us. Then comes the deposit holders. Wherever we go in any town in this country we are accepted without any hesitation. One measure of our acceptance in a market is the first day deposits and in fact the best deposit account amount for Sampath Bank came from Jaffna. That, for me is a very good achievement. We did not know Jaffna. The war started before Sampath Bank was established and therefore we had no way of going there. After the war, we went there as a wholly new bank to the peninsula. We had a very good acceptance and we are very happy about that.

The promotional prospects are linked to performance. The rewards are also to some extent related to Group performance. We have still not started to look at individual performance related rewards. However, we support the development of our staff. We have a very strong training team and we look after our people very well. Though we don't have individual development targets for everybody, we have them for the senior people. We always encourage our people to develop not only in their selected profession but also in their individual ambitions as well.

How is the future outlook of the Bank?
For two or three years, you do better than average and you out do your own performance in the past. Then what really happens is that the expectations also grow with that. When that happens keeping up with those expectations are going to be the key challenge that we face. This would be the most difficult aspect. When you are a small bank your growth in percentage terms can be very easy. But when the base gets bigger, it tends to be more difficult for a bank to maintain the same growth percentage. That is the challenge we are facing at the moment.

Final thoughts.
We have won many major awards in the past. We have won the Bank of the Year Award from the "Banker Magazine" for two years and we are very proud and happy that we have won two main Awards at the National HR Excellence Awards this year. And I am sure my staff wants to retain it in the future as well.

