

Sustainable Growth



Hatton National Bank (HNB) continues to be a pillar of strength in the banking sector of Sri Lanka. Taking the initiative in many segments, HNB has embarked on a transformational journey that has enabled exceptional performance. Jonathan Alles, Managing Director/CEO has given a new life to HNB and has motivated the team to take the Bank to the next level. He speaks about the progression of HNB while emphasising that they are here for the long haul. A fact well proven in their 130-year journey.

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HNB is one of the oldest private banks in Sri Lanka with an extensive branch network. Can you tell us about the Bank's progression?

HNB was first established in 1888 in the hills of Hatton to facilitate and support the tea industry. Today the Bank has emerged as one of Sri Lanka's leading private commercial banks. Having diversified from our original focus on the Small and Medium Enterprise (SME) sector, HNB has since grown into an organisation that services all segments of the domestic economy.

While we continue to dominate the retail banking sector, HNB has also been recording equally strong performances across the Bank's corporate banking portfolio, which has grown substantially in recent years. Similarly, our project financing and syndication capabilities have also improved significantly, and it is this holistic approach to banking, which has been a source of great strength for HNB.

Since I commenced my tenure as the Managing Director/CEO in 2013, our entire focus has been redirected towards attaining excellence in three core pillars: people, pro-cesses and technology. This approach has been an unparalleled success for HNB, which, has emerged as Sri Lanka's most profitable private commercial banking group by the end of 2016 when we were able to record a group Profit Before Tax (PBT) of 22.5 billion rupees.

Based on the lessons we learned over the Bank's strong performance in the past three years, we at HNB formulated our Vision 2020 - a comprehensive plan developed through a rigorous process of evaluation and analysis into the fundamental drivers of growth and success for HNB. Leveraging comprehensive market research and client surveys, we asked ourselves how we wanted to grow in the future, what kind of role we wished to play in the Sri Lankan economy and what kind of market segments we should operate in. And as such, we finalised an aggressive and futuristic strategic plan with challenging targets for HNB.

Next year, HNB celebrates 130 years of banking excellence in Sri Lanka. In that regard, we are extremely determined to ensure that the foundations for growth are in place for decades to come. Our strategies are directed not only towards

maintaining and preserving our leadership position in the Sri Lankan banking industry. Instead, we now have our eyes set on the future. Our goal is to serve as a beacon of excellence which others in the banking industry will be able to aspire to and even emulate. In this manner, we hope to infuse the wider industry with technological innovation and best practices as we believe that a stronger overall industry will benefit the entire country and in doing so, open up even more potential avenues for growth, in total alignment with the national socio-economic agenda.

Moving forward, one of our key priorities is to drive further improvements to our Current and Savings Account balances (CASA) while continuously honing our product and service offering. Over the years HNB has developed a proven track-record of designing and rolling out only the very best banking products in the Sri Lankan market. This reputation is driven on the back of products like 'Pathum Vimana', which has been a highly popular product in the domestic market for over three decades. Similarly, the bank has also developed a strong portfolio, and currently services a client base of over 2.5 million satisfied customers across the island.

In that regard, HNB's extensive branch network is another core strength for the Bank. Leveraging our 250 plus branch network, we have moved into every major urban centre to extend the very best banking services to a very diverse range of clientele - from urban clients to dynamic new start-ups and even respected corporate leaders, while also extending much needed financial services into the country's vital rural economy.

Today The Bank Has Emerged As One Of Sri Lanka's Leading Private Commercial Banks. Having Diversified From Our Original Focus On The Small And Medium Enterprise (SME) Sector, HNB Has Since Grown Into An Organisation That Services All Segments Of The Domestic Economy.

Our pioneering role in the SME and in the microfinance industry is another point of pride for HNB. Over the years, we have worked to support SMEs, entrepreneurs, and different communities through the expansion of the comprehensive microfinance services while also promoting financial inclusivity as well as financial literacy, all with the ultimate goal of empowering this sector to become independent and prosperous.

Over the last three years there has been a steady reduction in our non-performing loans and prominent improvements in our recovery management process. We ended 2016 with a NPA ratio of 1.8 per cent, which is significantly better than the industry average of 2.6 per cent. SMEs are now focused in the regions, corporate banking in Head Office, in addition, we have established a Centre of Excellence that has been able to completely streamline and centralise processing of retail credits from across the island.

Such initiatives have drastically reduced the administrative workload on our branches. This strategy in turn has enabled HNB to rapidly bolster the strength of its sales teams, while simultaneously driving unprecedented improvements to efficiency and productivity, and supporting substantial improvements to the bank's overall risk portfolio. Thus, we continue to make outstanding progress in our journey to further improve asset quality and add value to HNB's stakeholders.

In this process, we have also focused on a combined vertical, which looks at bank transformation and client experience. For this purpose we recruited a Client Experience Officer last year to completely transform the client experience at HNB, and drive seamless integration across all channels.

Consequently, whether it be brick and mortar branches, teller counters, ATMs, internet banking, mobile and POS machines, we endeavour to give our loyal customers a consistent, high quality experience that surely does not reduce or vary in quality regardless of how our customers choose to do business with HNB.

It does not really matter whether they are at our branch or at the shop, in the office or even at home, when they access our products and services through any of our channels, they should know that they are actually accessing Hatton National Bank. It has to be a tangible, clear and pleasant experience. By doing so, we are able to deliver our services in a new and refreshing manner that conveys vibrancy and efficiency. This is an aspect of our brand which we will work to continuously refine moving forward.

Our next vertical is of course, our digital banking business. We are currently looking

at digitalising the entire Bank in order to ensure that HNB will stand as the most future-ready bank in Sri Lanka. We have high aspirations set to achieve this goal. Over the coming months and years, we will be rolling out many more technology enabled products and services. These services will be further complemented by our mobile app, and our state-of-the-art internet as well as mobile banking products, including pioneering products such as HNB MoMo.

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Similarly, we have also invested significantly over the last year in a comprehensive payment and cash management solution, catering to the discerning needs of our many corporate banking clients. Accordingly, HNB has sought to provide them with unparalleled convenience in making payments and receiving collections.

We also offer highly sophisticated supply chain financing and distributor financing for our loyal SME clients, which is another vitally important segment for HNB. Additionally, we are also focused on introducing several new technologies to HNB. At present we have close to 500 ATMs in our network and we will be working to complement these ATMs with several new cash deposit machines, cash recyclers, kiosks and cheque deposit machines. Over the next year, we expect to add at least another 100 ATMs to our already extensive network.

In that context, HNB has also made excellent progress in the launching of new digital branches – the first of which was the showcase digital branch in Colpetty.

Similarly, there will be more locations where we would provide a digital branch or a digital zone for customers to use our services conveniently in the coming year. These outlets tend to act as hybrid branches, meaning that they offer a comprehensive and growing range of digital services, in addition to having the manned-counters. Digital banking does not just mean implementing a front-end façade just to excite clients. For HNB, it means that we approach digital integration in a holistic manner which covers the entire spectrum of the bank's operations. It is equally important for customer service that our processes are continuously improved and streamlined, that documentation is made efficient, automation is

introduced through our digitalization efforts. We are also working to leverage the power of data analytics in order to deepen engagement and build stronger customer relationships; these are just a few of the critical areas in our digital journey.

HNB Has Also Been Working To Introduce Many Other Progressive Measures, That Are Aimed At Improving The Environmental Sustainability Of Operations.

Another important vertical for the Bank is in relation to process excellence, or lean management as it is more popularly known. The very first steps in this journey were taken through the establishment of a total dedicated Change Management Division within the Bank back in 2013. Since then, we have achieved tremendous success in this area over the last four years. The Bank's cost-to-income ratio has improved by over ten percentage points from a previous level of 53 per cent in 2012 to 42.5 per cent when we ended the last year.

The improvement stands as a further clear testament to the absolute outstanding work that our teams of employees have been truly engaged in over the last three years across our entire branch network. I can confidently state that our efforts to really focus on getting our branch operating model right – ensuring that they are of the right size, have challenging yet sustainable performance targets, and that they are allocated the proper expertise and correct resources to drive business – has surely led to tremendous performance gains.

Meanwhile, HNB has also been working to introduce many other progressive measures, that are aimed at improving the environmental sustainability of operations. We have been able to introduce solar power to nearly 70 of our branches. Internal discipline has been strictly maintained in order to drive drastic cuts in the use of paper for printing and we continue to make positive progress in this direction. As a bank, we tend to really try and avoid creating excessive paper documentation. Instead all our approvals and plans are captured through the various systems on our tablets and many other systems that we use.

Process excellence is extremely important. There are multiple projects taking place

to improve and streamline our processes, which at this point in time may be long-winded and are less customer friendly. We want to keep improving in those areas because it provides both clarity and convenience to our staff while also resulting in notable improvements to customer service.

Those are the major verticals that will drive the business through the new vision, however we will also rely on other supporting verticals including the new business vertical, the operational risk vertical and the balance sheet optimisation vertical to promote many more improvements to the Bank's growth trajectory.

In the last three years we have seen the HNB family really expressing itself. It has been a fabulous team effort and it is inspiring to see our team rallying together in the way that they have. Today we have many young managers and executives and it is a real pleasure to see that the energy and enthusiasm levels are at an all-time high, thus leading to performance improvements across the board, and these results speak for themselves.

Our First And Most Important Corrective Measure Was To Carefully Examine All Of Our Processes In Order To Enforce A Truly Meaningful Improvement To The Way That We Do Business That Simultaneously Uplifts The Bank, Our Staff, And Our Clients.

People are the cornerstone of Vision 2020. Everything that HNB will do over the next three to five years revolves around its people. Hence we will also work to ensure that our strategies are accurate with regard to talent acquisition, development, management and retention. That is the way forward for us. The Bank is looking for sustainability; sustainable profit and balance sheet growth. We are truly focused and we are always in it for the long haul.

There is new energy in the Bank and much new thinking. What can you tell us about this?

I first joined HNB in 2002 and served until 2005. As such, I had a very good feel for the organisation. I knew that the organisation had good people, a massive client following and strong brand loyalty that had been built over a century. Therefore, when I came back to the Bank in 2010 I spent three years, first as Chief Operating

Officer and then as the Deputy Chief Executive Officer. That period gave me great insight into the many strategic possibilities open to HNB.

At the time that I joined we had 28 very senior corporate management members who gave great confidence to the CEO. By the time I took over in 2013, the bank team was quite different and had reduced to about 13; which was less than half of what we had in terms of a corporate management team. Even today we are probably one of the smallest teams for a large bank of this size.

We knew that we only had ourselves and that we had to make it work, so we didn't over extend ourselves, but instead placed greater emphasis on getting the basics right. There was intense focus, intent and passion to continue and build on all of the positive attributes of the Bank for its customers and staff and we were all very clear in terms of what we wanted to achieve.

Soon after I took over we encountered the gold debacle. We had a significant pawning portfolio at the time and gradually reducing this portfolio over two years was really quite a painful exercise, but it was something that ultimately worked to further demonstrate HNB's resilience and agility. The portfolio was declining, and in the process it was making substantial losses, which were reflected in the 2013/14 P&L. Such a significant decline could not be replaced with retail banking assets over night.

Fortunately, our corporate banking was able to step in and fill the void left by the gold pawning business, while continuing to sustain the momentum and drive loan growth for the Bank.

We have been hitherto focused on operations and were previously quite process heavy and there were many administrative bottle-necks that had to be navigated. Processes were long winded and we knew these delays were slowing down the organisation and demotivating our staff.

This was also reflected in the customer service that was offered at the bank at the

time. Therefore, our first and most important corrective measure was to carefully examine all of our processes in order to enforce a truly meaningful improvement to the way that we do business that simultaneously uplifts the bank, our staff, and our clients.

Our strategy of transforming all frontline operations into sales and service outlets while removing all of the clutter and unnecessary processes of the branches and regions back to the head office is proving to be extremely effective. Today we run much lighter, more agile branches in terms of process and in operation; they are more focused on sales and providing high quality client services.

With our people at the heart of our strategy, extensive succession planning was done and career development was thought through. We have created very exciting programmes such as the Catalyst, Acumen, Aspire and Insight for future leaders. We utilise these programmes to monitor and mentor our rising stars, hence we expect that each of these programmes will serve as vital incubators of talent that will eventually shape the future leaders of HNB and the Sri Lankan banking and financial services industry for years to come.

There Are Several Young Members In Senior Positions, They Have Found Themselves, And Recognized Their Skills, The Value And What They Could Create For The Organization.

We need to observe a correlation in their performance and the investment that we are making in them. We have seen results and we have also seen an unprecedented number of promotions made over the last few years, at a minimum more than double from previous times. This means that people are motivated and they know that they do not have to wait for years to get promoted. There are several young members in senior positions, they have found themselves, and recognized their skills, the value and what they could create for the organization. This is one of the biggest factors that they draw on in terms of both motivation and inspiration. It has been my great pleasure to watch this process happen in a rapid, but orderly and organic manner and I look forward to observing and supporting our team to continue their development.

Project financing is one of the major aspect of HNB. What was the thinking behind this?

We are very strong in corporate banking and SMEs and that is due in no small part to having each vertical being headed up by some of the most skilled professionals in the industry and that gives me a lot of confidence and comfort as well. Knowing that the skill levels exist, and that there is ability to think and work independently and effectively makes our entire team stronger.

The project finance division today plays a two pronged role. One is that we have continued to support and align ourselves with nationally significant projects; whether it is building hospitals, roads, bridges, sanitation, water projects and irrigation we have been there doing our share. Similarly, we have also played a role with our top corporates joining syndicates; we have financed hydro-power, wind power and solar power projects and are also looking at projects that specially focus on converting bio-mass waste to energy. We are looking at a whole range of activities that we can support in terms of national development including health and hospitality.

At the next level for some of our SMEs and microfinance clients we are able to come in with certain term loan structures. These loans are not structured in the 1-5 billion rupee range, but much more in the 100-200 million rupee range of development facilities, which are there to expand small businesses in the rural areas.

The loans could be directed towards the agriculture, manufacturing, hospitality or the health sector. We do have a huge passion in growing that portfolio so that we play our role not only in the heart of the Western Province and in the large towns and urban centres, but right across Sri Lanka. We provide medium to long-term loans. We have taken the risk, which we think a bank like HNB should do. Project finance, syndications and development banking are very important to us and we will continue to focus in these areas and align ourselves to both national, corporate and SME requirements.

You spoke greatly about the staff and the team. The branches themselves are quite independent and are able to perform, what are your thoughts on this?

We have a fantastic team and a wonderful group of branch managers and also staff. While acknowledging the tremendous importance, the value and contribution of our branches, our philosophy is not about pressurising our branches. No matter where you are it's HNB. We need to stay connected using the technology available today, we are all there for each other. The staff does not have to worry about making serious decisions in isolation. No matter where they are in the country, we have worked to ensure that our lines of communication are always open. They only need to pick the phone, drop a mail or text and there will always be someone on the other end to help. That kind of support structure, guidance and consultancy is always available. We have divided our branches from ten regions to 20 regions this year. Thus, we have 20 regional heads of which ten are senior regional managers who are in-charge of the big branches within the region, and there are medium size branches, which are managed by regional managers.

For Me, It Is Very Much A Two-Way Street, And I Feel That The Efforts Of My Team Plays A Big Role In Inspiring Me From Day To Day.

This helps us to focus. Otherwise what happened previously was that the big branches tend to take most of your time, and thereby a few small branches will get neglected. We have now eliminated that gap. The branches are divided to about ten to 12 branches per regional head, focusing on driving sales and providing quality service.

We have also appointed a Chief Employee Experience Officer at the Bank. This is in fact a specialised role to address the staff issues, grievances, concerns and to look into their suggestions. The Officer's job is not merely collecting information, but to make sure that resolutions are found and then communicated back to whoever raised them. However, staff always have the access to me, my top team and HR to come and speak at any time.

There is no conflict in this role with HR, on the contrary it complements the strategic vision of HR, It simply permits HR to continue with its plans to create a great working place for all our staff at HNB.

As the Managing Director, you are very hands-on and you make visits

around the country. Tell us about this experience?

It is not just me, but my entire top team travels quite extensively and regularly.

I find my visits motivating me in a very powerful way. Certainly, I go out to meet my staff to inspire and motivate them, and to meet our clients to understand their needs better. But for me, it is very much a two-way street, and I feel that the efforts of my team plays a big role in inspiring me from day to day.

On a more pragmatic level, it can definitely sometimes feel very limiting to be confined to a single space and it's surely not the most motivational or passionate thing to do for a person like me who enjoys the outdoors. When I feel low on energy, visiting my teams based around the country motivates me to come back and push forward. I do try to make my branch visits on Fridays. My team also supports me fully by not arranging meetings on those days whenever possible. I drive out into a region to meet a combination of staff, branch managers and clients. This gives me a good feel of the ground reality.

I am a firm believer of the digitalisation journey of HNB, however there are other things in terms of client and staff experiences, in terms of business potential, risks, operational bottlenecks, that you get to know better face to face. It is wonderful to understand their business, to know what they are doing, how they plan and what are their challenges. It is actually easier to support their requirements when you experience their operations at first hand. You in fact get the opportunity to really understand the client and build a relationship with them. There is always a risk involved, but the client will always do his best to repay. Those judgments are easier to make during a discussion than through a well written credit paper.

During the past three years, HNB in terms of performance, has been doing significantly well. The Bank has been able to maintain its position in the Business Today top corporate rankings as well. What can you tell us about this?

The fact is HNB has done well in all the KPIs, which are of significance to the banking industry. We have not just outperformed industry averages but are the best KPI in the industry. We have made significant progress in terms of profit growth, ROAs and ROEs. These are really good indicators of how the business has grown.

The cost income ratio has improved from 53 per cent to 42.5 per cent. NPAs have improved by about 200 basis points. We have achieved this through focus, and meticulous execution, planning as well as consistency in everything that we do.

It has been a good journey so far; a journey that motivates and inspires me to think of the next five years. It will be challenging but with what we have achieved we are looking forward to the future with excitement and expectation.

During Challenging Times, It Is The Banking Industry That Has Remained Stable. We Have Had Peaks And Troughs, However The Banking Sector Has Remained Resilient And Is Also Agile Today In Order To Move On And Adapt And Take On New Roles In The Economy For Different Segments.

We have been able to achieve strong results because of our very strong team performance at the top level as well as throughout the entire organisation. The branches, regions, corporate banking, SME, micro finance, and personal banking, also the sales teams have all rallied together exceptionally well. The support service units have truly understood their responsibility fully. They have supported our mission and our strategy without reserve.

The transformation from operations to sales; the transformation from administration to more client focus; the transformation from long winding processes to more lean as well as efficient processes; and also the change from hierarchies to flatter structures in terms of people have all contributed to the performance of HNB.

From rigid controls at head office to more empowerment and delegation, which has taken place at the segment, product, region as well as branch levels. We will focus on the targets, which we have to achieve, above all valuing relationships. Given our extremely rich legacy of 130 years, what matters most at HNB is banking beyond transactions. Our entire bank philosophy is focused on relationship banking. We create value for our clients, understanding what is required rather than trying to simply force what we have on offer to the consumer and instead offer tailor made solutions.

The sustainable growth we have recorded over the past cannot be achieved if we are only a transaction bank. I would not hesitate at all to refer to the Bank as a classic example of a relationship bank, which values its clients, and understands their needs and is able to respond with its wide range of products and services.

What are your thoughts on the banking industry as a whole?

The health of the banking industry is a reflection of the economy. The banking sector of Sri Lanka is doing well. During challenging times, it is the banking industry that has remained stable. As a nation, we have had our peaks and troughs, however the banking sector has remained resilient throughout. We believe that agility will be the key factor determining the success of the banking sector truly moving forward. We must build capacity to adapt, and take on new roles in the economy.

Sri Lankan Banks Are Strong And Are Also Performing Well. They Are Focused And Keen To Support The National Agenda.

With increased regulations and capital requirements, the bank capital structures must be strengthened. Thus, the sector needs the support of the shareholders, regulators and the Government to be strongly capitalized since it is the capital structure that also permits the industry to align and drive credit needed to support national development. Banks should be allowed to play the role that they are playing today in enabling the economy to grow and develop, whether it is at a project level, or a corporate, SME or rural level.

Sri Lankan banks are strong and are also performing well. They are focused and keen to support the national agenda.

You have been in the banking sector throughout your career and have overseas experience as well, can you tell us about yourself?

Immediately after completing my schooling at St Joseph' college, I started working at HSBC in the mid 80s and then was cross posted to Dubai in the early 90s. I continued my stint in the Middle East until 2002 when I decided to come to Sri Lanka. This period gave me great exposure and I truly enjoyed, and am thankful for the experience, which has moulded me to become what I am today. Thereafter, whatever challenges I have taken up, I have enjoyed every minute of it.

I joined HNB in 2002 as the Assistant General Manager. I was the first manager of the head office branch in this new HNB tower. It was a tremendous experience working with a great team at that time. Later, I went back to HSBC and did a five-year stint thereafter in the Middle East once again this time centred in Dubai and Abu Dhabi. Returned to HNB in 2010 as the Chief Operating Officer, then Deputy Chief Executive Officer and in 2013, I took over as CEO.

I do put in long working hours and this is not the best, however I believe that as long as you are inspired and motivated and you are happy doing it there is less stress. I am a firm believer that challenges and a little pressure is good for the health as it keeps the blood flowing, otherwise when you are lethargic, it can cause illnesses. Excessive work where there is no enjoyment in it as well, can create stress and stress is not a good thing. I believe in work life balance; I may not be the best example of someone who has that perfect balance, but I encourage people to do that. I like to think that over a period of time that I might be able to strike that right balance, but at this stage I am very focused, working hard to do what I can for HNB, and for the incredible team of people who work with me, for our clients and the country.

That passion is at an all-time high, so I hope that I would be able to motivate my team, provide the right kind of leadership, which is expected of me and I aspire to do the best that I could do.

I have enjoyed the two years that I was the Chairman of the Sri Lanka Bankers Association (SLBA). It was a wonderful experience. We are all peers competing for market share for business but there is a lot of camaraderie, good will and good spirit among the banking CEOs. We have many good bankers both at a very senior level and at a mid management level.

Regulation Compliance Should Be Strictly Adhered To, So That The Reputation Of The Industry Is Intact And Continues To Grow.

At HNB, we work hard and leave the rest to the Almighty above to support us in the things we are doing if they are the right ones. We do not claim these achievements for personal glory or our personal success. I have been clear to say that it has been

one strong team performance.

I also must say that we have received a lot of inspiration from above. There is only so much that you can do at a human level. We are very grateful and thankful to our creator and the inspiration that we get from above. We completely surrender ourselves and our organisation to the Will of God, as we journey on.

Message to the banking and finance sector?

The responsibility that has been entrusted upon us bankers and those who are employed in the banking and financial services industry is an important one and it is one that cannot be taken lightly. We have a responsibility to our shareholders who have had faith in us. We also have a responsibility to all our depositors who have trusted HNB with their money and are expecting a return. We have to ensure that those funds are deployed responsibly- in a manner that benefits the whole nation. This must be in compliance with lending to the correct institutions, right people for the right purpose. This will then stimulate economic growth. They should be environmentally friendly, socially acceptable and should also support the development of corporates, SMEs, the Government as well as the people of our motherland. Therefore, as bankers, please do not take your responsibility lightly.

Banking and finance has evolved over the years beyond the provision of deposit and lending services. We have now moved into providing various other value added services.

We need to realize that today customers have the same amount of information that we bankers and finance companies have. We need to provide meaning to the information that they have and what they can do with that information. That is what stimulates economic growth. Information with you or me merely remains information until it is put into action and that is what we need to do.

The health of a country is determined by the strength of the banking sector, as such following the highest levels of ethics, integrity, honesty, compliance to all regulations that are in place is very important because a banker or finance company deals with money. In today's world money can be a temptation. You need to aspire

to higher grounds and a higher purpose, which is the service you can provide through your organisation. The market or customers must not lose confidence because of one or two irresponsible individuals or companies. To that extent regulation compliance should be strictly adhered to, so that the reputation of the industry is intact and continues to grow.