

Operational Performance of Non-Bank Financial Institutions in Bangladesh: A Study on LankaBangla Finance Ltd.

*Sufian Ahammed¹, Abdullah Mohammad Sharif²

¹Lecturer, Department of Business Administration, World University of Bangladesh

² Senior Lecturer, Department of Business Administration, World University of Bangladesh
Corresponding Author: Abdullah Mohammad Sharif

Abstract: This paper examines the operational performance of LankaBangla Finance Ltd regarding total assets, total investment, total disbursement, corporate disbursement, SME disbursement, and nonperforming loan from year 2011 to 2015. The highest growth rate of assets was 38% in 2015. According to the projected total assets might increase to BDT 50357 million 2016, BDT 56529 million in 2017. LBFL had the highest investment of BDT 42600 million in 2015 but highest growth was 38% in 2013. The projection shows that total investment's growth might deteriorate to 13% in 2016, 12% in 2017. Business disbursement was BDT 4444 million, BDT 6370 million, BDT 11070 million, BDT 19750 million, BDT 35763 million in 2011 to 2015 respectively. From 2011 to 2015, SME sector achieved a very high growth rate in 2015 and the amount of SME loan was BDT 2125 million in that year. Non-performing loans decreased in 2012 but after that it starts to increase and in 2015 it was BDT 1339 million. If no major changes occur, according to the projection, its growth rate might 6% in 2016, 13% in 2017. LBFL has improved its performance from year to year. In order to stay ahead in the market competition, they should achieve continuous growth.

Keywords: Credit risk, Disbursement and total assets, Nonperforming loan, Operational performance.

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I. Introduction

Financial institutions have been playing important roles in the development of an economy by helping the efficient flow of fund. Non-Bank Financial Institutions (NBFIs) play an important dual role in the financial system. They complement the role of commercial banks by filling gaps in their range of services. But they also compete with commercial banks and force them to be more efficient and responsive to the needs of their customers. Though banks are more common in this sector, but now-a-days non-Bank Financial Institutions are also getting preferences for their more customized services in the financial sector. NBFIs mainly provide various types loans and credit facilities. So the establishment of a procedure for credit management is necessary and critical. In these modern times, NBFIs are getting more recognition alongside the banking sector. Because compared to the banks, NBFIs process the customer request for credit quickly & these are more flexible. On the other hand, some clients do not qualify for bank finance because of the organization's preset policies. So in these cases NBFIs are getting privileges. NBFIs are playing a crucial role in Bangladesh by providing additional financial services that cannot be always provided by the banks. The NBFIs, with more multifaceted products and services have taken their place in the competitive financial market to satisfy the changing demands of customers. NBFIs also play an important role in the capital market as well as in real estate sector of Bangladesh. Like the banks, most of the NBFIs have separate subsidiaries to operate merchant banking activities. NBFIs are supervised by Bangladesh Bank following a risk-based supervisory system.

LankaBangla Finance Limited started its journey long back in 1997 as a joint-venture financial institution with multinational collaboration having license from Bangladesh Bank under Financial Institution Act-1993. Now LankaBangla is the country's leading provider of integrated financial services including corporate financial services, retail financial services, SME financial services, stock broking, corporate advisory and wealth management services. Under the broadest umbrella of products and service offerings, we are the lone financial institution to operate credit card (MasterCard and VISA) and also provide third party card processing services to different banks in Bangladesh. LankaBangla is a primary dealer of government securities since November 2009. Since 2006 LankaBangla has been listed in both DSE & CSE in Bangladesh. Analysis and performance measurement are integral to planning for operations. Performance measures and analysis also play an important role in the development of operations objectives. Operations' data serve as the foundation for these activities. Forecasting indicate future trends which is also an important factor in performance analysis. The speedy development of industrial activities in the country needs the support of a balanced & an efficient capital market. In this connection the study analyzes performance of LankaBangla Finance Limited.

II. Objective Of The Study

The main objective of the study is to analyze the operational performance of LankaBangla Finance Limited.

III. Methodology

This study examines some financial and non-financial accomplishments of the selected organization. Thus it is quantitative in nature. To find out the operational performance the researchers used several annual reports of the organization. Data were collected from the various annual reports of LBFL from 2011 to 2015. Total assets, total investment, total business disbursement, corporate disbursement, SME disbursement, non-performing loan amount data were taken as analytical factor. Five year data of LBFL have been presented in an easy and understandable form. Tabular and graphical analyses were done with the collected data so that achieve the objectives of the study. Microsoft Office and Microsoft Excel package have been used in tabular, graphical representation and projection of data.

IV. Literature Review

According to Goldsmith (1969), financial development in a country starts with the development of banking institutions. As the development process proceeds, NBFIs become prominent alongside the banking sector. Both can play significant roles in influencing and mobilizing savings for investment. Their involvement in the process generally makes them competitors as they try to cater to the same needs (Ahmed and Chowdhury, 2007). Beck and Rahman (2006) has shown the robust relationship between the development of financial intermediaries and economic growth. They also added that financial intermediaries not only contribute to the economic growth, but also control the reverse causation of economic growth. Islam & Osman (2011) examined the long-run relationship between per capital real GDP and the NBFIs based on Malaysian market. They revealed that there is a long run stable relationship between per capita real GDP and the NBFIs' investment, trade openness, and employment.

Financial institutions that provide banking services without meeting the legal definition of a bank are called ad Non-bank financial companies (NBFCs). These institutions typically are restricted from taking deposits from the public depending on the jurisdiction. Nonetheless, operations of these institutions are often still covered under countries banking regulations. The specific banking products that can be offered by NBFCs depends on the jurisdiction, and may include services such as loans and credit facilities, savings products, investments and money transfer services (Mittal, Desai et. Al. 2014). A study by Hossain and Hossain (2013) finds that NBFIs established in Bangladesh before 1990 shows higher equity contribution and total asset size which shows their ability to generate funds at a low cost for the reputation and public confidence. On the other hand, due to the high equity contribution, large asset size and high EPS of the group of joint venture NBFIs compared to local NBFIs are able to raise relatively low cost funds. From the multiple regression analysis current study finds that only the variables of age and earning per share are statistically significant at 5% level. The other two factors, equity contribution and interest earning asset conform the theoretical sign although they are not statistically significant. The other variable, size of business that is measured by total asset, neither conform the expected sign nor is statistically significant. Choosing performance measures is a challenge. Performance measurement systems play a key role in developing strategy, evaluating the achievement of organizational objectives and compensating managers. In an article on Oct. 16, 2000, in the Financial Times' Mastering Management series, Wharton accounting Professors Christopher Ittner and David Larcker suggest that financial data have limitations as a measure of company performance. The two note that other measures, such as quality, may be better at forecasting, but can be difficult to implement. The aim of performance measurement systems is to identify key factors of success and measure them. When defining word performance measurement the terminology used by authors varies a lot. According to Neely (1995) measuring performance means process of quantifying action, where measurement is the process and action leads to performance. Costea (2013) constructed a benchmarking model in the form of a two dimensional self-organizing map (SOM) to compare the performance of nonbanking financial institutions (NFIs). The NFIs are characterized by a number of performance dimensions such as capital adequacy, assets' quality and profitability. Tyrone T.Lin et al. (2009) in their research study attempted to analyze the operating performance of 117 branches of a certain bank in Taiwan in 2006.

V. Data Analysis

To see the operational performance of LBFL we analyzed data regarding total assets, total investment, total disbursement, corporate disbursement, SME disbursement, and nonperforming loan from year 2011 to 2015. Data of the year 2016* & 2017* has been projected based on previous 5 years data.

Total Assets of LBFL:

Table 1: Total Assets of LBFL

Year	Assets(BDT in million)	Growth Rate (%)
2011	15,904	
2012	19,499	23%
2013	26,630	37%
2014	32,353	21%
2015	44,615	38%
2016*	50357	13%
2017*	56529	12%

Source: Annual report of LBFL (2011-2015)



Figure 2: Total Assets of LBFL

Assets are gradually increasing from 2011 to 2015 and highest amount of assets was BDT 44615 million in 2015 which was BDT 12262 million more than 2014. The highest growth is also achieved in 2015 which was 38% and it was 17% more than 2014. If the current trend continues without major changes, according to the projection from 2016 to 2017, it is seen that total assets might increase in the upcoming years and may reach at BDT 50357 million & BDT 56529 million respectively. But growth may fall to 13% in 2016 & 12% in 2017, if radical shifts are not made.

Total Investment of LBFL:

Table 2: Total Investment of LBFL

Year	Investment(BDT in million)	Growth rate (%)
2011	14,580	
2012	18,634	28%
2013	25,732	38%
2014	31,228	21%
2015	42,600	36%
2016	48204	13%
2017	54118	12%

Source: Annual report of LBFL (2011 to 2015)

Over the years total investment has increased and highest investment was BDT 42600 million in 2015 which is much better than previous years. The highest growth was 38% in 2013 & in 2015 it achieved growth rate 36%. Though the amount of investment has increased, but to achieve high growth rate more investment is needed.

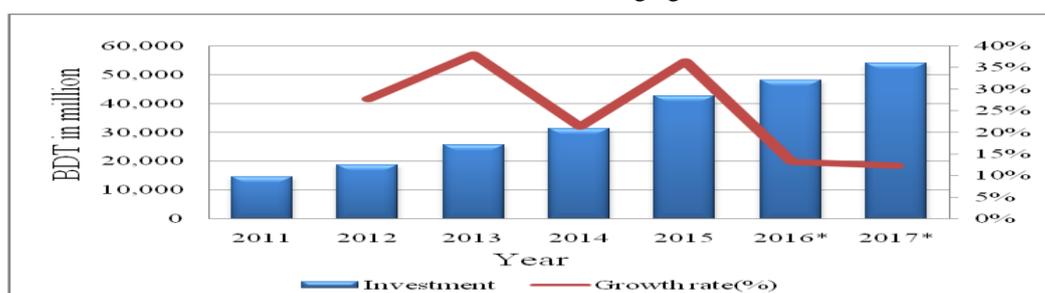


Figure 3: Total Investment of LBFL

If the current trend continues without major changes, according to the projection from 2016 to 2017, it is seen that total investment's growth might deteriorate in the upcoming years and may reach even at 13% in

2016, 12% in 2017, but amount of investment may increase to BDT 48204 million in 2016 & BDT 54118 million in 2017, if radical shifts are not made.

Total Business disbursement of LBFL:

Table 3: Total Business disbursement of LBFL

Year	Business disbursement (BDT in million)	Growth rate (%)
2011	4,444	
2012	6,370	43%
2013	11,070	74%
2014	19,750	78%
2015	35,763	81%
2016*	42027	18%
2017*	49158	17%

Source: Annual report (2011 to 2015) of LBFL

Business disbursement has increased over the years and highest disbursement was in 2015 that was BDT 35763 million. It was BDT 16013 million & BDT 24693 million more than 2014 & 2013 respectively. The highest growth rate in disbursement was 81% in 2015. If the current trend continues without major changes, according to the projection from 2016 to 2017, it is seen that it may increase to BDT 42027 million in 2016 & BDT 49158 million in 2017 but growth might deteriorate and may reach even at 18% in 2016, 17% in 2017, if radical shifts are not made.

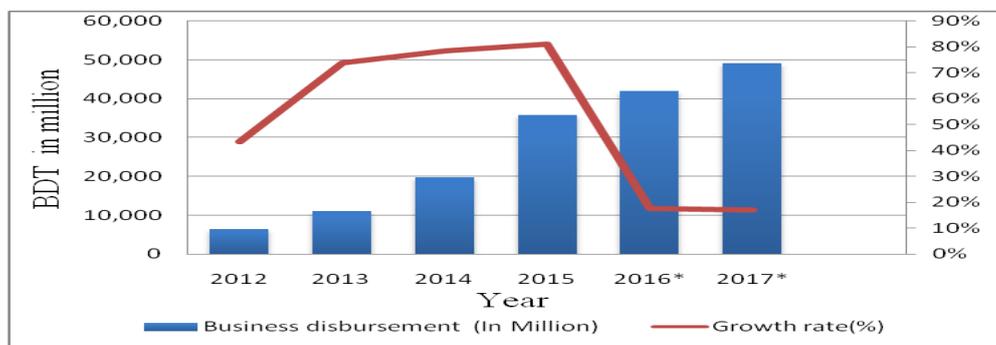


Figure 4: Total Business disbursement of LBFL

Corporate disbursement of LBFL:

Highest disbursement of corporate loan was in 2015 & growth in that year was 35%. But the highest growth rate was 41% in 2013 which is 6% higher than last year (2015). Though loan amount has increased than 2014 but growth has declined in 2015. If the current trend continues without major changes, according to the projection from 2016 to 2017, it is seen that it might increase in the upcoming years and may reach even at BDT 26157 million in 2016, BDT 29307 million in 2017, if radical shifts are not made.

Table 4: Corporate disbursement of LBFL

Year	Corporate (BDT in million)	Growth rate (%)
2011	5008	
2012	10409	108%
2013	14671	41%
2014	16776	14%
2015	22633	35%
2016*	26157	16%
2017*	29307	12%

Source: Annual report (2011 to 2015) of LBFL

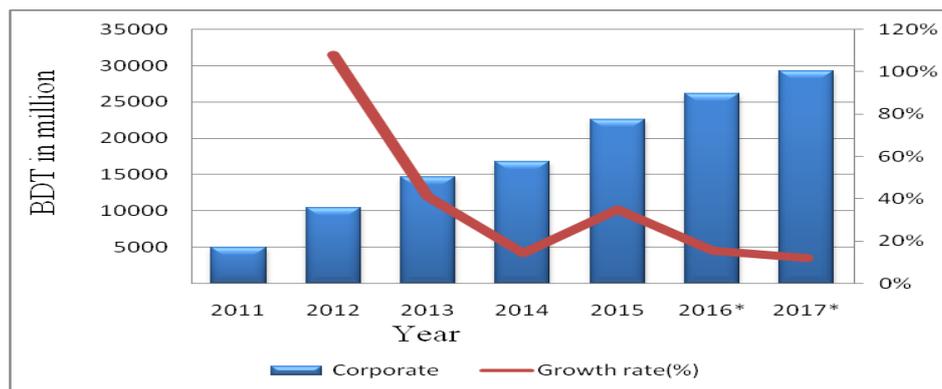


Figure 5: Corporate disbursement of LBFL

SME disbursement of LBFL:

Loan in SME sector was much lower in 2011 to 2014 but achieved high growth rates in 2015 that was 608% which was a huge change. If the current trend continues without major changes, according to the projection from 2016 to 2017, it is seen loan in SME might increase in the upcoming years and may reach at BDT 2486 million & BDT 2934 million respectively and growth rate might slightly increase in 2017 than 2016, if radical shifts are not made.

Table 5: SME disbursement of LBFL

Year	SME(BDT in million)	Growth rate (%)
2011	325	
2012	245	-25%
2013	300	23%
2014	300	0%
2015	2125	608%
2016*	2486	17%
2017*	2934	18%

Source: Annual report (2011 to 2015) of LBFL

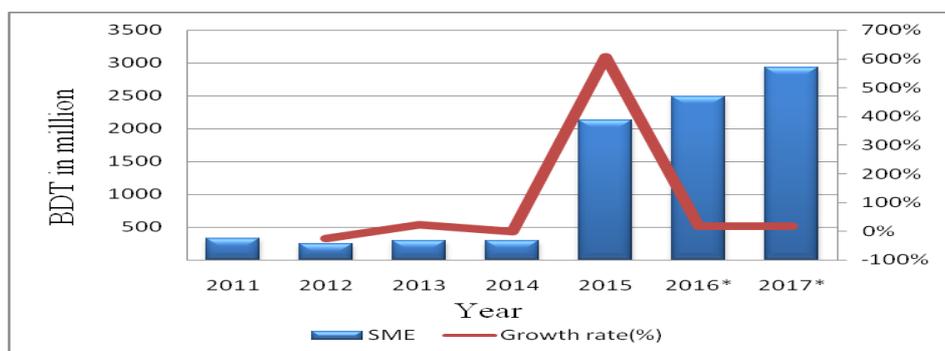


Figure 6: SME disbursement of LBFL

Non-Performing loan of LBFL:

Table 6: Non Performing loan of LBFL

Year	Non-performing loan(BDT in million)	Growth rate (%)
2011	926	
2012	523	-44%
2013	931	78%
2014	1232	32%
2015	1339	9%
2016*	1422	6%
2017*	1602	13%

Source: Annual report (2011 to 2015) of LBFL

Nonperforming loan has much decreased in 2012 but after that it gradually increased. The highest amount of nonperforming loan was in 2015 that was BDT 1339 million with a growth of 9%. If the current trend continues without major changes, according to the projection it is seen that non-performing loan might increase in the upcoming years and reach at BDT 1422 million in 2016 and BDT 1602 million in 2017, if radical shifts are not made.

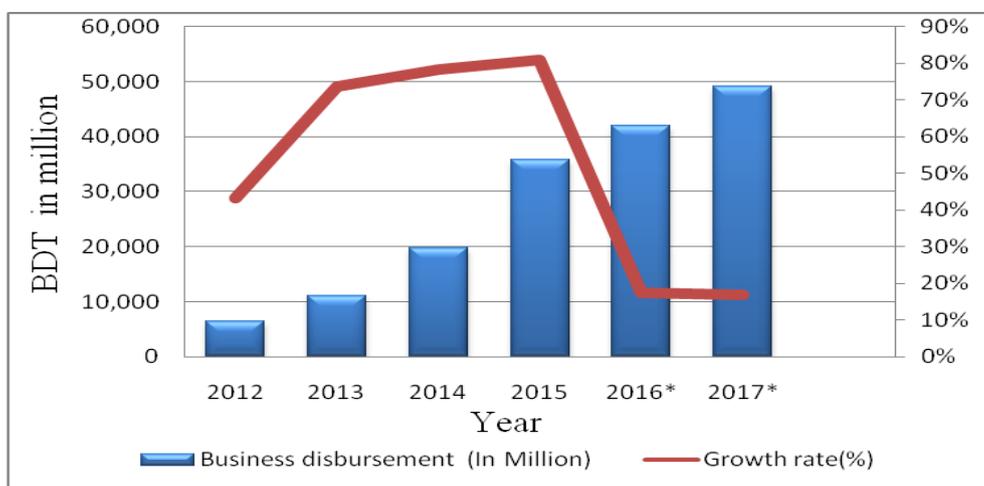


Figure 7: Non Performing loan of LBFL

VI. Major Findings

1. Total assets of LBFL are seen as the increasing trend from 2011 to 2015 and the highest amount of assets was BDT 44615 million in 2015 with a high growth rate of 38% which was 17% more than 2014. According to projection, total assets might increase in 2016* and 2017* but the growth decline due to macro-economic variables in the domestic and global phenomena.
2. Investment increased to 42600 tk. in million from BDT 31228 million in 2015. Growth also increased to 36% in 2015 which was 15% more than 2014. Though total investment has increased from 2011 to 2015 but the growth rate was fluctuating even it decreased a great percentage in 2014. If the current trend continues, according to the projection total investment's growth might deteriorate and may reach even at 13% in 2016*, 12% in 2017* but amount of investment might increase in 2016* and 2017*.
3. Business disbursement is seen as an increasing trend from 2011 to 2015 and the highest disbursement was in 2015 that was BDT 35763 million with a highest growth rate of 81% which was 3% more than 2014. According to the projection, total business disbursement might arise in the 2016* & 2017*.
4. The nonperforming loan decreased BDT 925 million to BDT 522 million in 2012 but after that it has gradually increased and highest amount of nonperforming loan was in 2015 that was BDT 1339 million with a growth of 9%. If the current trend continues without major changes, according to the projection, non-performing loan might increase in 2016* & 2017*.

VII. Conclusion

LankaBangla Finance Ltd has a vision to be the most preferred financial service provider in Bangladesh and now it is one of the reputed non-bank financial institutions. But in the age of competition if the company does not provide extraordinary that means superior services, then it will be difficult to continue this trend. They should put more effort to step forward than its competitors and have to be more cautious in the recovery sector to reduce non-performing loan. The campaigning and marketing of the products should be done more frequently to ensure a growing customer base.

VIII. Recommendations

1. Total assets and investment of the LBFL need to be increased more in the future by improving productivity, lowering costs, increasing sales revenue, increasing receivables collection to tackle the future decline.
2. Loan disbursement in corporate, SME, retail has increased from 2011 to 2015 but this amount is not enough considering the market and other competitors. So they should increase client base and loan the amount in a profitable sector to achieve more growth.
3. LBFL should do more marketing and campaign so that amount of customer increase in future.

4. The nonperforming loan has increased which is a matter of great concern. They should choose client more consciously and continuous improvement should be made in the lending & recovery procedure which would reduce the default risk and increase profitability.
5. They should try to maintain stable growth to increase public confidence in LBFL. This will help to increase both numbers of investors and customers.

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