

SBP urged to promote concept of boutique banks

Page NO.13 Col No.06

HAMID

WALEED

LAHORE: Shaukat Tarin, Advisor to the Chairman of Silk Bank, has said that the central banks nurture boutique banks all over the world and the State Bank of Pakistan (SBP) should follow the suit for promotion of this concept in Pakistan.

He said the State Bank of Pakistan (SBP) should address the issues of microfinance banking. "It is not necessary that all banks should have Rs 500 billion plus paid-up capital. A large number of banks with less than this volume operate in the world," he added.

Talking to Business Recorder, the senior banker and former finance minister of Pakistan said the approach of central bank towards microfinance banks is not very encouraging where such banks are thrown to the open sea and force them to merge once they start drowning.

"The microfinance banking should enjoy more facilitation from the central bank," he asserted.

He said most of such banks were collapsed in the past due to the shortage of capital. The asset book of these banks remained weak amidst escalating cost of funding due to a limited number of branches in the country. Accordingly, the number of accounts remains insufficient and the banks are left with no option but to procure expensive term deposits etc.

Furthermore, he added, the cost of fund for a normal bank against any microfinance bank like Silk Bank carries a difference of 1.5 percent approximately. This is a huge spread in a highly competitive environment as it burdens the capital and liquidity of the bank. That is why many other banks equal to the size of Silk Bank succumbed to the pressure and eventually led to consolidation with other banks. The First Women Bank is yet facing these problems.

In Pakistan, he said, packing of Khadim Ali Shah Bukhari (KASB) Bank was followed by National Investment Bank (NIB) and both of them opted for merger to survive. Similarly, Summit Bank is in the process of merger with Sindh Bank. Prior to it, Summit Bank had consolidated with Atlas and My Bank.

He said Silk Bank is the only microfinance bank that survived with a book of Rs150–175

billion. “God willing, we will move forward,” he added.

Referring to the concept of boutique banks world over, he said: “Silk Bank is like a boutique bank because of its share in consumer banking against the whole banking industry in Pakistan which is 8.5 percent in terms of assets.”

“We are eight and a half times more than our actual size only because we have focused on consumer banking,” he added. He said the bank was deteriorating fast under the name of Saudi Pak Bank. It was a weak and loss making entity, making loss in 2006-07 when everyone was making profit.

In 2008-09, he continued, problems multiplied and the balance sheet of the bank deteriorated further that led to extensive provisioning within the bank. There was a time when 30 to 32 percent portfolio of the bank was considered as bad portfolio.

“We injected capital in the bank and we are making profit over the last two years,” he said, adding: “The bank made profit of Rs750 million in 2016, followed by Rs1.25 billion in 2017 and it is likely to close year-end business around 2 billion in 2018.”

The bank management went through massive restructuring, technological overhauling, and introduced new consumer products besides opting for Islamic banking and focusing on Small and Medium Enterprises (SMEs) besides restructuring its corporate wing.

He said he has been carrying the philosophy that one should use a bank for banking purposes.

A visible improvement is evident in the deposits of bank recently and the bank has preferred extensive lending to other areas of activities. He pointed out that Silk Bank has not opted for making money through procurement of government securities. “The Advance to Deposit Ratio (ADR) of Silk Bank is around 65 to 70 percent today which is highest in Pakistan,” he added.

“Similarly, we have also discouraged the practice of making profit through taking position in stock market. We have preferred classical banking in order to ensure a stable base of the bank to improve profitability in every quarter throughout the current year,” he concluded.