

Thesis Report:

Impact of Credit Risk Management on Customer Retention, Non-Performing Loan and Financial Performance: A Study on IDLC Finance PLC”

Submitted to:

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Thesis Report on

Impact of Credit Risk Management on Customer Retention, Non-Performing Loan and Financial Performance: A Study on IDLC Finance PLC”

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Declaration

I hereby declare that this submission is my own work towards the program of Executive Master of Business Administration (EMBA) and that to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the university, except where due acknowledgement has been made in the text.

……

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Letter of Transmittal

To

Lecturer: Md. Shahbub Alam

Department of Business Administration

University of Sonargaon University (SU)

Subject: Submission of Thesis report.

Dear Sir,

With proper veneration and modest submission, I would like to draw your kind attention, sympathy and consideration to the fact that I am submitting my internship report titled **"Impact of Credit Risk Management on Customer Retention, Non-Performing Loan and Financial Performance: A Study at IDLC Finance Limited"** to you. I would like to thank you for assigning the topic because the topic allows me to know the overall credit risk management process of IDLC Finance Limited. It also allows me to know the process by which credit risk management department ensures the retention of customers. Non-performing loan is created because of the activities of credit risk department and the topic helps to enhance my knowledge on that. Financial performance is influenced because of macroeconomic factors but there are also some activities of credit risk management department that influence the financial performance and the topic allows me to know that. I have tried my best to do the report and hope that my work will fulfill your expectation.

I welcome your queries and grateful to answer them.

Sincerely Yours,

Md. Jhahidul Islam
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Certificate of Supervisor

This is to certify that Md. Jhahidul Islam, a student of the Department of Business Administration, Sonargaon University (SU), Dhaka, with ID No: EMBA 2302029009, majoring in Finance, has completed the project report titled "Impact of Credit Risk Management on Customer Retention, Non-Performing Loan and Financial Performance: A Study on IDLC Finance PLC"

This report was prepared under my supervision as part of the partial fulfillment of the requirements for obtaining the Bachelor of Business Administration (BBA) degree. Throughout the project, Jahidul demonstrated dedication, a strong understanding of the subject matter, and the ability to apply theoretical concepts to practical scenarios in the field of credit risk management.

I hereby confirm that the project was carried out under academic guidelines and has been assessed based on the standards set by the university. I wish Jahidul Islma every success in her future academic and professional endeavors.

_____

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Acknowledgement

The Thesis Report on opportunity with IDLC Finance Limited is always great opportunity to learn professionalism and corporate culture. I am grateful for having a chance to meet so many wonderful people and professional who guide me through this internship period. It is difficult for me to thank all of those people who have contributed something for this report. There are some special people who cannot go without mention.

First of all, I want to express my deepest gratitude and special thanks to my honorable instructor **Lecturer: Md. Shahbub Alam**, Department of Banking and Insurance, University of Dhaka who in spite of being busy with his own duties and responsibilities, took time to hear and guide me to keep on the correct path. I am also thankful to him for his continuous support, guidelines, suggestions and supervisions that was fundamental for me to complete the report.

Finally, my sincere gratitude goes to my colleagues and friends who supported me by giving their valuable opinion.

Executive Summary

The report is based on the “Impact of Credit Risk Management on Customer Retention, Non-Performing Loan and Financial Performance: A study at IDLC Finance Limited”. The major objective of the report is to know the activities of credit risk management of IDLC Finance Limited due to ensuring customer retention. Focusing on the non-performing loan and financial performance is another objective of the report. The loan sanctioning procedure and pricing strategy are also objectives of the report.

Due to preparing the report both qualitative and quantitative methods have been used in the report. Most of the information of the report has been collected from primary sources and also some information has been collected from secondary sources. All branches of IDLC Finance are the population and head office of IDLC Finance has been selected as sample of the report. Due to completing the report judgment sampling is used. Customer retention strategy and how credit risk management department influences to reduce non-performing loan are also used in the report.

Credit risk management department of IDLC Finance does not focus on risk based financing rather focus on collateral based financing. Due to ensuring customer satisfaction, turnaround time of loan sanction has been reduced and repayment histories of the clients are noticed more compared to cash flow of clients. Most of the non-performing loan creates because of the influences of reference groups, and political parties but the effect of these groups are zero at IDLC Finance that are the main reasons for being the non-performing loan only 2.77 percent in 2017. Credit risk management department are now focusing on SME division to create new entrepreneur and the growth is almost 16.84 percent. Influences of macro and microeconomic factors are always analyzed by the credit risk management department to get information on cash flow and financial performance of clients. Growth of return and equity of IDLC Finance is decreased in 2017 because the

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List of Abbreviations

Abbreviations	Full Form
ALCO	Assets-Liability Committee
BB	Bangladesh Bank
CIB	Credit Information Bureau
CRG	Credit Risk Grading
CRP	Credit Risk Policies
CAR	Capital Adequacy Ratio
CRM	Credit Risk Management
CRM	Customer Relationship Management
CRMC	Credit Risk Management Committee
CRMD	Credit Risk Management Department
FI	Financial Institution
HHI	Herfindhal Hirschman Index
IA	Internal Audit
NBFI	Non-Bank Financial Institution
ROA	Return on Assets
ROE	Return on Equity
ROCE	Return on Capital Employed

CHAPTER 01

INTRODUCTION

1.1 Background

The economy of Bangladesh largely depends on banking sector. The success of banking sector influences the growth of economy and also helps to accelerate the GDP growth. The advancement of banking totally depends on credit risk management (CRM) department of particular bank. The more efficient the department will be, the higher success will be ensured. On the other hand the failure of banking sector may create economic crisis because almost 90 percent financial assets of our country are hold by it. On the contrary most, as most of the people are unaware regarding financial markets such as capital market and money market, it enhances the dependency on banking sector (Noman et al., 2018). Due to making sure sustainable economic boom, it is far important to make certain monetary and financial stability because through these banking sector can make an excellent connection among fund carriers and fund takers and major risks are reduced on the efficiency of CRM (Giziw, Kebede and Selvaraj, 2015).

Danjuma (2015) explained in his research that soundness of economy in growing country is correlated with banking industry. Because of severe opposition in banking industry, it has come to be essential to enhance the market share. Regarding that clients' retention and delight are mandatory. Whether or not a bank or FI can be capable to gain profit and what is going to be financial performance depends on the retention of unswerving customers.

Customer retention system will be possible only whilst customers can be satisfied on the services of the bank. Right here, CRM can play vital role because if CRM connects each customer specifically every prime customer and provide quality and best services, customers' retention will be accomplished. CRM can impress customers at the beginning with the aid of offering excellent services which include quick application processing, risk evaluation and timeliness (Mithas, Krishnan and Fornell, 2005). Individual risk management activities are more efficient due to ensuring customer retention and profitability (Tedder, 2009).

Non bank financial institutions are exploring their activities considering customers' demand and modern technology. Because of advanced technology, customers are well known about the process to take loans from overseas nations' bank that they are able to take at low cost than domestic banks. Satisfaction and retention of customers are the handiest solution of that and the solution can be carries out from the activities of CRM (Gertrude, 2011). Performance of FIs depends on the stability of customers. Interest is the major earning source of a bank. On the contrary commission and interest are the main earning sources of income of non-bank financial institutions. Bur due to NPL,

recently the profitability of banks reduces dramatically and CRM cannot avoid its responsibility regarding that. Political risks also plays leading role for NPL. It creates negative and psychological pressure on bankers. Due to growing NPL, banks not only loss its profit but also the growth of economy is hindered (Nyasaka, 2017). Haneef et al. (2012) found out that vulnerability of risk management enhances the NPLs of the banks that reduce the profitability. At present, key concern of financial sectors in the world is NPL that can be avoid through stable CRM and behavior of equality. The chance to make profit reduces due to uncontrollable NPL. Financial performance of banks and non-bank financial institutions cannot fulfill expectations.

1.2 Problem Statement

New innovation and technological development changes the scenario of banking industry. Almost every financial transaction in this competitive world is performed by banks. Now people not only can borrow and deposit funds but also can give utility bills. In order to complete foreign transactions, banks help to open L/C. mobile banking and internet banking make the banking services easier. Even though banking sector has flourished, the risk of customers' switching increased. On the other hand, non-performing loan also increases that influences the financial performance negatively (Nyasaka, 2017).

Due to ensuring customer retention and profitability, every bank tries to develop credit risk management system. Management of bank is trying to include innovation so that bank can attract customers. In that case poor CRM can hamper the profitability of bank and also can increase bad debts (Mwangi, 2012).

Rate of non-performing loan is increasing alarmingly in the world that causes the fall of profitability of banks. Because of non-performing loan, the capital base of bank decreases and may create bank run situation. CRM cannot avoid responsibility here because the selection of loan portfolio depends on the activity of CRM. Instability of economy is also responsible for non-performing loan because borrowers cannot earn according to their anticipated planning because of unstable economy (Tetteh, 2012).

According to Thisika and Muturi (2017) profitability and performance depend on the quality of CRM. If CRM has experienced and sincere employees, they can choose good and

1.3 Objectives

There are two categories of objectives. These are mentioned below:

Primary Objectives

The primary objective of the report is to know the credit risk management (CRM) of IDLC Finance and find out the impact of CRM on customer retention, non performing loan (NPL) and financial performance to flourish and enrich my knowledge in this field.

Secondary Objectives

- ✓ To discover the activities of CRM of IDLC due to ensuring customer retention.
- ✓ To find out the effect of CRM on non-performing loan.
- ✓ To analyze the CRM's influences on the financial performance of IDLC.
- ✓ To know the procedures of CRM department due to sanctioning a new loan.
- ✓ To know the pricing strategy of loan.
- ✓ To investigate the solutions ongoing problems of CRM of IDLC.

1.4 Methodology

1.4.1 Research Type

By nature, the research on credit risk management is mainly descriptive. The concept of qualitative and quantitative, both are applicable in descriptive research. Most of the information on credit risk management is qualitative that influences me to give more concentration on qualitative information. But the impact of CRM is not always qualitative because there have some numerical values which also influence me to use quantitative data. In a word, this is the combination of qualitative and quantitative information.

1.4.2 Sources of Data

To prepare a good and sound report, it is essential to give the touch of both primary and secondary data. Primary data is always cream and raw data. But it is quite impossible to collect all information from primary sources. As a result, the report is prepared taking the combination of both primary and secondary information.

Primary Sources

Majority portion of information in the report is taken from primary sources.

- Direct conversation with officials of CRM department.
- Observation the working nature and responsibilities of the officials of CRM department.
- Work experience at CIB department.

Secondary Sources

Due to preparing the report different types of information have been collected form secondary sources.

- Annual report of IDLC Finance Limited from 2013 to 2017.
- National and international published report on credit risk management.
- Website of IDLC Finance Limited.

1.4.3 Pollution Size

Population means the total representative objects of the research from which data can be collected to prepare an accurate and to get exact view of concentrated area. Considering the concept, the population size of the report is all 38 branches of IDLC Finance from where related information can be collected.

1.4.4 Sample Size

The representative of population is called sample. The larger will be the sample, the more accurate will be the results and findings. To prepare the report, head office of IDLC Finance is taken as sample.

1.4.5 Sample Design

Judgment sampling is used due to preparing the report because any kind of probability is not calculated here. On the other hand, the information of CRM is not available everywhere and it is also secret information that employees do not want to express all information frankly.

1.4.6 Analysis Tools

Different tools have been used to find out the objectives.

- Impact of CRM on customer retention
- Impact of CRM on non performing loan (NPL)
- Ratio analysis
- Regression analysis

- Different charts and figures analysis
- SWOT analysis.

1.5 Rationale of the Report

The report helps to understand how the impacts of credit risk management (CRM) on customer retention. It also allows to be informed about the influence of CRM on non performing loan (NPL) and the dependency of financial performance of IDLC Finance on credit risk management (CRM). The strengths, weaknesses, opportunities and threats are

1.6 Scope of the Report

The report is based on the impact of credit risk management on customer retention, non performing loan and financial performance of IDLC Finance. Considering the title, the report covers the policies and procedures that CRM of IDLC follows to reduce its NPL and also covers the dependency of financial performance on CRM department. Besides these core areas, the report also informs the SWOT and operations of credit risk department. Finally, a brief on findings and recommendations is also added in the report.

1.7 Limitations of the Report

To prepare such kind of informative report is always interesting, informative and knowledge sharing issue. But there are some limitations that hinder to prepare a report comfortably. Due to preparing the report, some problems are faced by me.

- The information of CRM is very secret issue of IDLC Finance and the officials are not so much interested to express all information that could be helpful for me to enrich the report.
- As I have to attend to office every day, it was difficult for me to manage enough time for the report.

CHAPTER 02

LITERATURE REVIEW

2.1 Credit Risk Management (CRM)

Credit risk means the inability of borrowers to repay the loans according to conditions that was taken from financial institutions. Success is the combination of some pillars. The success of a financial institution totally depends on credit risk management (CRM). CRM refers to the process by which the risks that are associated with the lending are determined. CRM equates risks with returns. CRM determines where to lend, how much to lend under certain conditions. Weak CRM may create not only bank run situation but also financial crisis. Identification, assessment, monitoring and controlling of credit risk by following the directions of top management are the main duties of CRM department (Basel Committee on Banking Supervision, 2000). According to Kolapo (2012) the probability of not getting the lending fund from borrower is known as credit risk. The progress of a financial institution depends on the effective and efficient use of CRM.

Profitability is the main objective of a financial institution that is ensured through ensuring safety and liquidity. Majority income of a bank comes from lending and investment which is associated with risk. CRM is the most important and fundamental function among all activities of a financial institution because if a bank fails to manage risk portfolio, it may hamper the soundness of bank and financial system (Fredrick, 2012). Proper guidelines, strategies, polices, assessment and controlling are required due to ensuring success of CRM. Reduction of adverse selection and improvement of credit quality can reduce non-performing loan (NPL) and increase the profitability of a financial institution (Muninarayanappa and Nirmala, 2004). Failure of a bank is not only harmful for national economy but also it hampers the movement of other countries economy because in the globalization, a country is connected with other countries. The economy of a country influences the economy of other countries. A bank run situation not only damage the bank but also it damage those industries and organizations that are engaged with the bank because of financial transactions. CRM is the only solution of this problem as it measures the default risk and identifies the reasons of risk due to reducing particular time. CRM department

2.2 Credit Risk Assessment Tools

Al-Tamimi and Al-Mazrooei (2007) studied on banks' risk management explained that risk assessment depends on the market structure. If market becomes highly competed, risk assessment will be more important due to ensuring solvency and profitability of particular organizations. On the other hand, in monopoly market risk assessment is not so much important.

Being selective is the main responsibility of CRM. The income and success of a bank largely depends on CRM department. If CRM can make accurate selection of loans, the organizations will be able to make profit and vice versa. In order to make profit CRM generally follows some tools such as credit rating of borrowers. CRM department of financial institutions can justify the credit rating on financial statement that is made by external and internal auditors regarding the financial performance of the borrowers. On the other hand CRM can make a list including those persons, institutions and sectors that the financial institution can allow credit facilities. Anticipating of the growing industries is also considered as another tool (Danjuma et al., 2016). Specific guidelines always bring success in every task. In that case, CRM department is responsible to determine the criteria due to assessing the risk of loan such as prospective future, credit score, documentation, collateral etc (Rosman, 2009).

2.3 Credit Risk Management and Customer Retention

Customer retention means the process of ensuring that the same customers are taking services from the bank continuously. There is high competition in banking industry of Bangladesh because no patent facility is available for service. A bank can easily copy another bank's services with little modification. In that situation only competitive interest rate and quality of services can ensure customer retention. Here, CRM plays important role by selecting the appropriate customers according to financial institution's policy (Mugambi and W. Kagiri, 2015).

Loyalty of customer is the basement of any organization. Selection of targeted and loyal customers ensures customer retention. On the other hand adverse selection can reduce the profitability in the long run and may create bank run situation (Cao and Gruca, 2005). According to Danjuma (2015), CRM department can satisfy its customer due to ensuring customer retention. Regarding that some initiatives can be fruitful such as providing loans according to customers' purpose and considering the anticipated return from the

purpose. CRM also considers the emotional, cognitive and attitude of borrowers due to ensuring customer retentions.

According to Tedder (2009), CRM department can retain customer by ensuring one to one CRM. Management will be able to know what are the customer expectations and what is customers financial conditions easily that obviously help management to take accurate decisions. One to one CRM reduces the probability of non-performing loan (NPL) and also enables the financial institutions to retain the customers. Specific risk management, payment process, and communication procedures for particular customers inspire borrowers to make good relation with lenders.

2.4 Relationship between CRM and NPL

NYONG'O (2014) explained in his research that the loan which is overdue for more than 90 days is called non performing loan. In that case, lender does not have any probability of returning the principal amount and interest from the loan. NPL depends on the effectiveness and efficiency of CRM department. Negative relation exists between CRM and NPL. If CRM can develop sound policies, rules, and procedures for loan, the rate of NPL will reduce. Due to reducing NPL, CRM requires adequate and accurate information regarding borrowers in order to evaluate the financial conditions of the borrower. Here, important roles are played by board of directors because they are responsible to evaluate the market conditions and also responsible to formulate CRM principles considering the market situations.

Lending capacity and profitability of a bank is reduced by NPL. CRM can reduce the rate of NPL by its proper activities. Monitoring the performance of loan after issuing loans to borrowers is most important way to reduce the NPL. CRM also can reduce NPL by informing borrowers about loan conditions and procedures. 6Cs of customers should be analyzed accurately and should provide repayment schedule according to borrowers' financial performance (NYASAKA, 2017).

Accordint to Thisika and Muturi (2017), Moral hazards are responsible for major NPL. Sometimes, borrowers are unwilling to provide their true and accurate information to lenders

2.5 Relationship between CRM and Performance

Making adequate profit is the main objective of any financial institution. There are many kinds of risks that may hamper the performance of a financial institution such as interest rate risk, inflation, political risk, credit risk. Among these risks, credit risk is more

harmful for a financial institution because it not only reduces the profitability but also create the risk of liquidation of the company (Uwuigbe, Ranti and Babajide, 2015).

Success of a financial institution depends on the success of credit risk management. It can measure through the analysis of return on asset (ROE) and return on equity (ROE). The higher will be the ration, the higher will be the performance of a FI (Giziw, Kebede and Selvaraj, 2015).

CHAPTER 03

ORGANIZATION

3.1 Introduction

IDLC Finance Limited is not only a financial institution but also a brand. It started its journey in 1985 as a leasing company with only 5 staffs. In 2012 it has turned into IDLC Finance Limited with the motto "financing happiness". Form its journey, it always tries to be loyal to its clients. Now IDLC Finance is not confined only to leasing finance, it is recognized as multi segmented non bank financial institution (NBFI). It provides services under four roofs such as capital market, corporate, retail and small and medium-sized Enterprise (SME). At present it has 38 branches at different regions of Bangladesh due to ensuring balance development in every region of Bangladesh (En.wikipedia.org, 2018).

Company Name	IDLC Finance Limited
Established	✓ 1985 as Leasing Company ✓ 2012 as IDLC Finance
Type	Private
Credit Rating	AAA
Branches	38
Services	✓ Capital Market ✓ SME Division ✓ Corporate Division ✓ Consumer Division
Area Served	Bangladesh
Traded As	DSE: IDLC

Table 01: IDLC Finance at a glance (Idlc.com, 2018)

3.2 Vision and Mission of IDLC Finance Limited

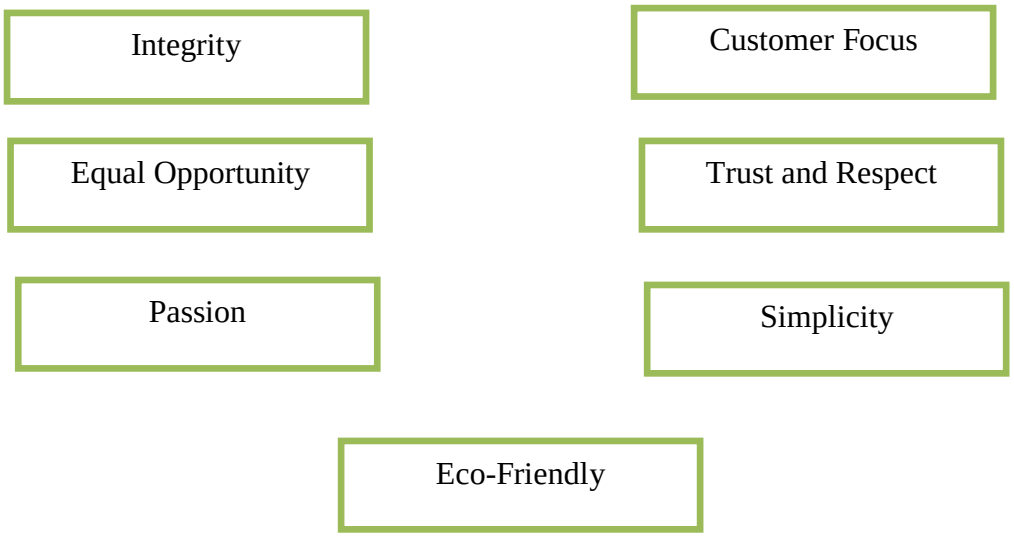
Vision

We will be the best financial brand in the country.

Mission

We will focus on quality growth, superior customer experience and sustainable business practices.

Core Values



3.3 Credit Risk Management (CRM) of IDLC Finance Limited

The most important and rigorous department of IDLC is credit risk department. The success of IDLC mostly depends on CRM. Because of the efficiency and effectiveness of

officials of CRM of IDLC its non performing loan is less compared to others. CRM of IDLC is not only associated with accounting loss but also with economic cost, opportunity cost. Major objective of IDLC is to ensure profitability through issuing loans to creditworthy customers. Mainly the CRM of IDLC is consists of with four objectives.

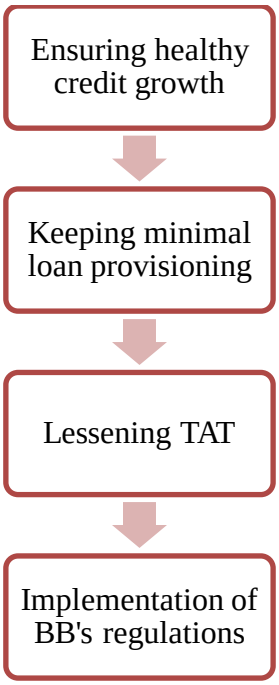


Chart 01: Objectives of CRM of IDLC Finance (Idlc.com, 2018)

3.4 Credit Risk Management Process of IDLC Finance Limited

Due to getting return from any loan timely and properly, it is essential to analyze the associated risk of clients. It is important both at pre stage of loan and post stage of loan. IDLC allows four steps at its CRM structure.



Chart 02: CRM process of IDLC (Annual Report, 2016)

Risk Identification

After getting loan proposal from any clients the first and foremost responsibilities of CRM is to know the purpose of loan and find out the all kinds of associated risks with the purpose such as default risk, industry risk, market risk, competitors position etc. Here, CRM analyzes the prospects of the clients business and also tries to forecast the growth of the project.

Risk Measurement

Under risk measurement, CRM determines the affect of risks on clients' position. Here, management considers both macro economic variables and micro economic variables and its impact on clients business and cash follow.

Risk Mitigation

Risk management is a process by which IDLC find out the ways by which it can abate its risks if the clients fail to repay the loan within the scheduled time. IDLC Finance uses several methods to reduce the risks.

Limit of the Loan

How much credit an official or a manager can issue is fixed by board of directors. Due to issuing a loan that exceeds the limit, officials need to take approval from manager and if manager wants to provide loan that exceed his or her limit, s/he needs to take permission from branch manager or board of directors.

Cash Follow

Before sanctioning a loan, officials and auditors analyzes the cash flow that may generate from the project for which client wants to take loan. In that case, officials also look after the previous cash flow history and the repayment history of the client with other financial institutions.

Collateral

Mainly, collateral based finance is used in Bangladesh. Risk based financing is not generally used in our country because the transparency level and adequate requirements by which risks are measured are not available in our country. But a touch of risk based financing always remains because the officials analyze the micro and macroeconomic variable regularly.

By the way, before sanctioning any kind of loan CRM calculates the value of collateral that the client will keep to the company to reduce the default risk of customers. Land or other fixed assets, properties are mainly taken. The instruments that are equivalent to cash like fixed deposit are considered as most collateral.

Risk Monitoring

After issuing a loan, that most important issue is to monitor the associated risks with a particular loan and it is the major responsibilities of credit risk management department. CRM analyzes the micro and macro economic factors that may influence the growth of clients' business. Officials of CRM constantly notice the repayment history of clients and inform that to the head of CRM as an early alert about a client. CRM department also reviews the portfolio quarterly because if a portfolio faces problems, it will be great loss

for IDLC Finance. Officials of CRM find out all risks that are associated with a portfolio and also determine the promising sectors.

CHAPTER 04

DUTIES AND OBSERVATIONS

4.1 Duties

Due to gather practical knowledge and idea after completing all academic courses, it was fundamental for me like others to start my internship program. The journey of internship has been started for me on 11 January 2018. After attending a little viva voice I have selected for the department of credit risk management (CRM) that is the most prestigious department of IDLC. Here, my duties and responsibilities are

- Checking the information of clients.
- Identification of the valid accounts of IDLC.
- Identification the invalid accounts of IDLC.
- Finding out the reasons why a particular account is invalid.
- Giving note for those accounts in which clients use false name, or any other information.
- Analyzing the accounts of clients.
- Analyzing the repayment history of clients.
- Contact with the accounts holder who hold accounts with unclean information.

4.2 Observations

It is always a great opportunity to work in an organization whose corporate governance is world class. Sever objects are really influencing that I observe.

- The corporate culture of IDLC is too good.
- Eagerness of employees to help us is really amazing.
- Some accounts are opened with wrong information and even there are some mistakes.

This is some observations but what I am learning from the corporate culture and my duties will obviously create a milestone for me.

CHAPTER 05

INDUSTRIAL APPRAISAL

5.1 Impact of CRM on Customer Retention

Retaining the previous customers and continuation of business with present customers are known as customer retention. Retention is inconceivably difficult in 21st century because customers are more aware regarding new services and products. This is too much difficult for service industries such as for financial institutions because no patent is available for new innovation of services industry and others can copy new innovation easily with little bit modification (MugambI and W. Kagiri, 2015).

Major responsibility of CRM is to ensure customer retention and retention of customer is possible only when CRM can ensure customer satisfaction. CRM of IDLC mainly focuses to four major activities that are strongly correlated with the performance and profitability. Ensuring strong growth of credit, and reducing loan provision are major among those. Due to ensuring customer retention CRM of IDLC not only focuses on customer satisfaction or accounting loss and profit but also consider economic loss and profit such as opportunity cost.

Heart of FI is CRM that always influences not only the movement of FI but also influences the movement of customers. Retention of portfolio is the main goal of any FI because if customers reject any FI because of FIs' failure, it not only brings loss but also create negative image through negative words of mouth from customers. Due to ensuring customer retention, IDLC finance resists the negative issues. In that case, role of CRM is most because its selection procedure influences more than other departments' activities due to ensuring retention of customers. Acrid competition is going on in financial industry of Bangladesh. Base of customers is not changing and all FIs are competing to attract some limited customers or industries such as pharmaceuticals, construction, RMGs etc. Among this acute competition in 2016 the ultimate growth of asset base of IDLC increases 12.77% with little NPLs in the industry that obviously express the situation of IDLC (Annual Report, 2016).

Risk based pricing is not completely available in Bangladesh. Risk based pricing means those clients will provide more premium whose risk is high and those provide low premium whose risk is low. There is no model in Bangladesh to use numerical data to find out the premium. Because the complete profile of a borrower such as criminal record, default record, job security, earning sources, tax rebate, tendency to change industry, tendency to make loss is available at central database. As a result, in developed countries, financial institutions can easily find out the degree of risk for each client due to issue corporate or SME loan but this is not implacable in Bangladesh. However, theoretical model is used to determine the premium such as in Bangladesh premium is

charged considering the prospective risk. Such as if a client has business risk, and operational risk the premium will be high for those clients. As risk based pricing is not implacable properly in Bangladesh, it is difficult for FIs to determine which customers the FIs should retain and which should not. Regarding that IDLC follows sole parameters. There are some subjective parameters that are used to take decision regarding customer retention along with financial performance.

5.1.1 Turnaround Time (TAT)

Customer satisfaction and customer retention are strongly correlated. If customers become satisfy on banks, they will stay with the banks with loyalty. A customer will be a loyal customer if s/he gets better services from FIs. According to employees of IDLC, we learn time value of money from books and teacher but a real businessman learns time value of money from reality. The value of 1 crore of today is not equal the value of 1 crore tomorrow. This concept is well established to the head of each employee that makes employees more aware to give loan as early as possible. However, IDLC gives loan to clients among 7 days by completing all procedures. There have records that IDLC offers loan within 1 day to its client by considering the value of money. As IDLC always tries to be loyal from the beginning, the customers also give the return to IDLC by being loyal and helping to complete all procedures and also providing all payments timely. On the contrary, IDLC always tries to retain those customers who are loyal to the institution.

Average time to execute a process cycle from beginning to end is known as turnaround time. In case of service the less will be the period of TAT, the higher will be the rate of success (Techopedia.com, 2018). CRM department of IDLC has already reduced the TAT for any kind of loan by using modern technology. Now the total process of loan disbursement from applicants' application is done within a several days that influence clients positively to take services from IDLC. Because of quick TAT, every year the base of customers of IDLC is going upward.

5.1.2 Portfolio Analysis

Portfolio analysis is a basic tool that CRM committee analyzes to take decision regarding customer retention. Responsible employees of IDLC always update information regarding portfolio of clients. Employees consider and analyze the present consequences of portfolio through analyzing the causes. Both positive and negative perspectives of

portfolio are analyzed to know the condition of every loan. Here, the outcomes of analysis are used to determine whether to retain the customer or not. Employees use trend analysis to be informed about the basic portfolio such as repayment, frozen balance, risk etc. Employees of IDLC also try to forecast the probable future conditions of portfolio. Due to forecasting the future, here, employees consider the quality, growth, productivity, performance, profitability of portfolio. Through considering the outcomes of portfolio, authority takes decision for every customer.

5.1.3 Repayment History

Not only IDLC but also all financial institutions want to ensure customer retention. Due to ensuring customer retention, a major criterion in Bangladesh is to give an overlook on repayment history of borrower because risk based pricing is not solely followed by our financial culture. Here, the institutions never consider business risk, industry risk or market risk to determine the pricing and premium of loan. IDLC monitors these risks but as per other FIs IDLC provides more attention to repayment history. Mainly the customer retention of IDLC depends on this repayment history of customers. Moreover, how many payments are made delay is consider more strictly. If the clients be able to provide installment regularly, bank will always try to retain the customer and also want to provide new loans to the customer. Even though a customer face financial problems in business but can pay the installment regularly, IDLC always welcome the borrower to take loan from IDLC.

5.1.4 CIB Information and Financial Statements

Several criteria plays role to take decision regarding customer retention. Here, IDLC takes information about new and existing customer from CIB department of IDLC. If

CIB gives negative information regarding any customer, IDLC always try to avoid such kinds of customers and if the customer become existing customer, the institution never want to retain the client for further loan. IDLC also analyze the loan statement, profit and loss statement to analyze the current financial situation of customer due to taking decision regarding customer retention. The relation of customers with other financial institutions is also considered due to taking decision on that. Loan experience of existing customers both with IDLC and other financial institutions is considered by analyzing loan statement, payment statement, and bank statement.

5.1.5 Collateral

Retention of existing customer depends on the condition of collateral of customer. If the condition of collateral; deteriorates, bank obviously inform customer to add some extra value of collateral to reduce risk and if the queries are followed by clients properly then IDLC always provide priority of customer retention. As risk based financing is not used in our financial culture, almost all financial institutions provide more priority to collateral. The loan can be with or without collateral. The credit with collateral has way out plan and it is less risky that why IDLC always want to retain such customer by issuing loan at low cost and premium and also want to retain these customers by maintaining a good corporate relation. Oppositely, the loan without collateral is risky and IDLC never wants to issue new loan to these customers and also charge higher price because way out plan is difficult.

The collateral can be in many forms such as it can be land or any other properties but the value of these types of property is not fixed. As a result IDLC always prefer those customers whose collateral is more stable. For example, if a customer has tk 1 crore FDR against 10% premium, here IDLC can give loan to the client at 13%. At this situation, IDLC give loan from clients deposit rather generate extra income and always want to retain such type of client.

5.1.6 Default Risk

Analysis of current financial condition of employees is the regular activities of IDLC. Risk may arise from business risk, operational risk or industrial risk. The default may also occur for unsystematic reason. Here, in Bangladesh it is not possible for financial

institution to make pricing by calculating all the risks. Such as certain percentage for business risk and another portion of premium for operational risk is not possible in our country. But analyzing the growth of the industry, monetary policy and macroeconomic variable, IDLC determines the probability of being default of every customer. CRM of IDLC analyzes and calculates the probability of insolvency through calculating the value of Altman Z score. At Z score 5 ratios are considered to determine the solvency. If the score is become below 1.8, the probability of insolvency will be high. On the other hand, if the Z score become equal or higher than 3.00, it indicates that the financial position of the borrower is sound.

5.1.7 Active Accounts Analysis

Customer base of IDLC is large that ensures higher profitability of IDLC. Almost 1,08,770 accounts are active in IDLC among these accounts IDLC analyze the valid and invalid accounts after a particular periods. Here, almost 58,174 accounts are valid. Valid accounts mean those accounts in which clients provide all valid information at KYC form. On the other hand, almost 3,178 accounts are invalid. Invalid accounts are those in which clients hide their information at the time of opening accounts. Due to retaining customers IDLC analyzes valid accounts and ensue to provide services at low rate for further loans. The management also shows extra care for those customers such as serve information regarding industry movement.

5.1.8 Collaboration

Every employee of IDLC from lower to top level works to achieve a particular goal. Everybody in IDLC is so much helpful and dedicated that obviously attract every customer. Any decision regarding any customer is never taken by any particular department. Every department considers and analyzes the prospect of a single customer from individual department responsibility. Every department of IDLC helps other department by providing

5.1.9 Communication

Financial market of Bangladesh is becoming competitive day by day and the interest rate both for deposit and lending is reduced. At this situation, it is difficult to compete with others only by using interest rate tool. Here, to gain success CRM maintains good relationship with clients through formal and informal ways. Employees of CRM

department response at every query of customers by using latest technology. Due to solving major issues of customers, the institution also allows physical communication with clients.

5.1.10 Interest Rate

The interest rate of both loan and deposit is declining day by day. On the other hand, the competitors in the industry are growing that create the probability of reducing the profitability. Home loan of IDLC covers the major portion of its total loan. Due to creating new market share retaining the existing customers and surviving with the intense competition, lower interest rate is charged by CRM. On the other hand IDLC provides higher return on deposits. On an average, the deposit interest rate in Bangladesh is 5 to 6 percent at many banks that mean the return is less than the inflation which indicates negative interest rate. At that condition, IDLC finance provides at least 5 to 10 percent interest on its term deposits. CRM helps ALCO to determine the interest rate by considering and calculating the duration gap that can be positive or negative. On the contrary, IDLC offers loans for women entrepreneurs at lower interest rate. The rate will never goes over 10 percent. Almost 26.19 percent growth of corporate loan occurs at IDLC corporate in 2016 due to proper analysis of market and charging comparatively lower loan interest rate (Annual Report, 2016).

5.1.11 Transparency

Transparency is the key to any success. An organization can achieve success only when it can ensure transparency to every level of organization. At IDLC every department ensure transparency due to ensuring transparent services to client. From employees requirement to loan disbursement and maintenance, high exility is maintained. Pricing method, features of products, documentation all are transparent compared to other institutions of Bangladesh.

IDLC finance provides complain box at its front office so that clients can inform higher authority regarding ant problem that clients face at the time of taking services. The transparency of CRM insures customers that the rating and price that IDLC charge against loan will be moderate and competitive than other. Because of this assurance, client retention probability is increased. Transparency can be by doing every task according to promise that employees do at the time of opening account. IDLC also inform clients regarding charges and pricing before charging from clients accounts. Providing importance to the opinion of accounts holder has become an important matter that bring success of the institution.

5.2 Impact of CRM on NPL

The loan at which borrowers fail to fulfill loan agreement or to pay loan installments at least once within 90 days, it is considered as non performing loan. Because of non-performing loan profitability of banks damage dangerously. It hampers not only the banks' profitability but also slow down the growth of economy. Banking industry of Bangladesh is facing alarming red signal for NPL. Every year NPL is rising at alarming rate. The banking industry of Bangladesh is gradually going to the hand of some people. It has become a common phenomenon that, they have taken a huge loan from industry, and then they become failure to pay the loan and again take loan due to restructuring the loan. Though the problems are turning into acute situation, the policy makers behaved like that there has no solution of the problem. Some strict regulation, implementation and punishment for violation can solve the problem a lot. Until the higher authority remains indifferent, the problem will not be solved.

The NPL in banking industry of Bangladesh is unthinkable. Almost 10.13 percent of total loan is NPL in Bangladesh. Among this instance, the sign of NPL at stated owned bank is more piteous. 26.84 percent of total loans of stated owned bank are NPL. The provision that is kept against NPL is insufficient as a result at any time or situation the banking system of Bangladesh can face a dark night that not only damage our banking industry but also destroy the economy of Bangladesh. Even if the banking industry faces any problem because of NPL, all industries will face tremendous problem that will create liquidity problem. Licensing new banks are now major reasons for NPL because new banks provide aggressive loans with proper documentation in order to capturing the market share. As new banks do not consider proper documents and collateral, loans that are issued turn into NPL (The Daily Observer, 2018).

Although the NPL of FIs is increasing alarmingly, the NPL of IDLC is reducing surprisingly. It is not a magic, it is the result of following rules and regulation of BB properly. The probability of NPL of any organization totally depends on the higher

Year	2017	2016	2015	2014	2013
NPL (%)	2.77	2.95	3.06	2.02	1.63

Table 02: Percentage of NPL (Annual Report, 2017-2013)

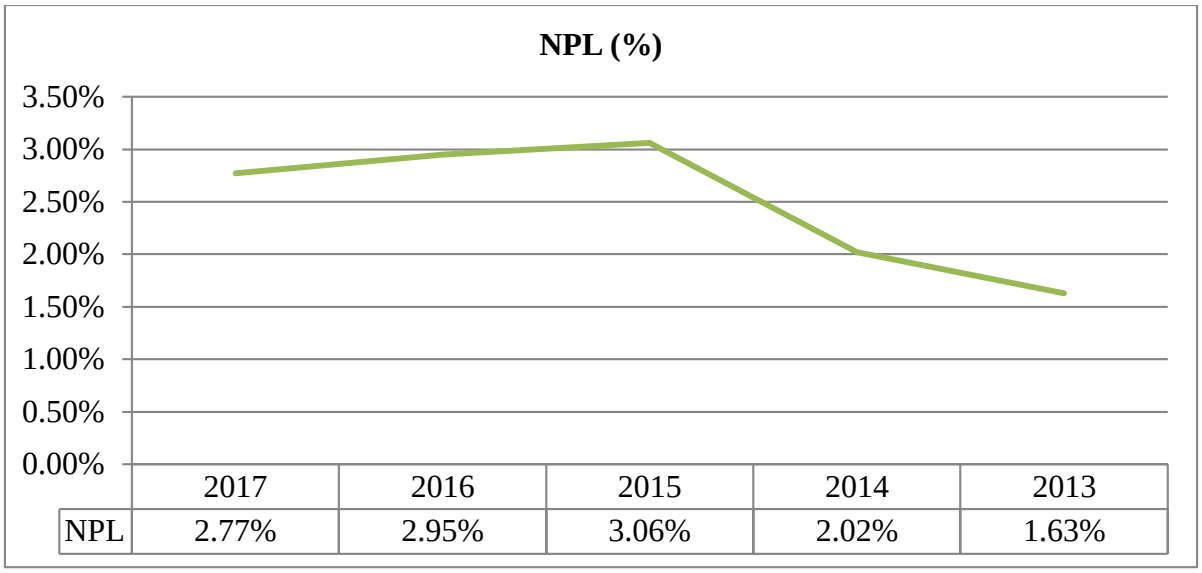


Figure 01: Percentage of NPL

Form the above diagram, it is clear that the NPL of IDLC is not too high compared to the industry. NPL is only 2.77 percent in 2017 that is less compared to 2016. The main reason behind that the higher authority of IDLC is quite strong about the policies and regulations. The authority never considers quality because of short term profitability. The main credit behind that goes to effectiveness and efficiency of credit risk management of IDLC. CRM always analyzes the risk associated with customers' demand and also monitor the risk and prospective of existing clients.

For every success, some reasons remain hidden. Here, for low NPL, CRM of IDLC has creativity, dedications, strictness and responsibility. The impact of CRM on NPL of IDLC can be known by analyzing the activities of CRM to reduce NPL.

5.2.1 Reasons behind the Success of CRM of IDLC Finance Limited

5.2.1.1 Board of Directors

A leader can change a projects or institutions by leading from front. Formulation and implementation of rules and regulations totally depend on the activities and wish of board of directors. According to officials of IDLC, the NPL of any FIs largely depends on higher authority. If higher authority and CRM head follow all guidelines of BB and implement these guidelines strongly, the NPL rate will reduce absolutely. They also claim that if the board of directors of IDLC is put to the worst institution, the institution obviously turn into a sound institution. Sometimes for some external pressure, higher authority cannot implement policies properly. As IDLC's CRM always tries to avoid

such pressure, NPL of IDLC is the lowest NPL compared to all other financial institutions in Bangladesh.

Board of directors continuously monitor, evaluate, and review the loan procedures, and policies and update according to market situation and overall risk environment. They divide the total market according to sector and determine how much percentage has to invest in what sector and also anticipate the estimated profit and risk.

5.2.1.2 Reference group

Majority of NPL in BD creates because of the power of reference group. The strength of reference group is untouchable and unthinkable that comes to the industry and takes a huge loan from the industry and finally being default. Most of the NPL of stated owned banks create because of giving loan by breaking the loan limit. Strict laws and regulations can avoid the problems that are used by management of IDLC. IDLC authority never allows any reference from any third party. Loans are sanctioned only when borrowers fulfill all the processes and documentations. If borrowers can give strong collateral, banks will charge lower price and if borrowers fail to give strong collateral, banks will charge higher price or avoid the clients' requests.

5.2.1.3 Political party

If the events of current NPL are analyzed, it will be clear to everyone that behind every NPL there are intangible hands of politicians. As a result, IDLC CRM avoids almost 90 percent loan requests from politicians because the probability of NPL from these loans is higher. But if politicians provide strong collateral, IDLC obviously provides loan to politicians like other clients.

On the contrary, if any media celebrity fails to submit adequate collateral, IDLC finance never allows loan for his or her popularity.

5.2.1.4 Management Structure

IDLC finance follows the guidelines of Bangladesh Bank that accelerate the management structure of IDLC for CRM. Because of organized management structure, responsibility of employees and strictness of board of directors, IDLC finance becomes successful to mitigate the associated risk.

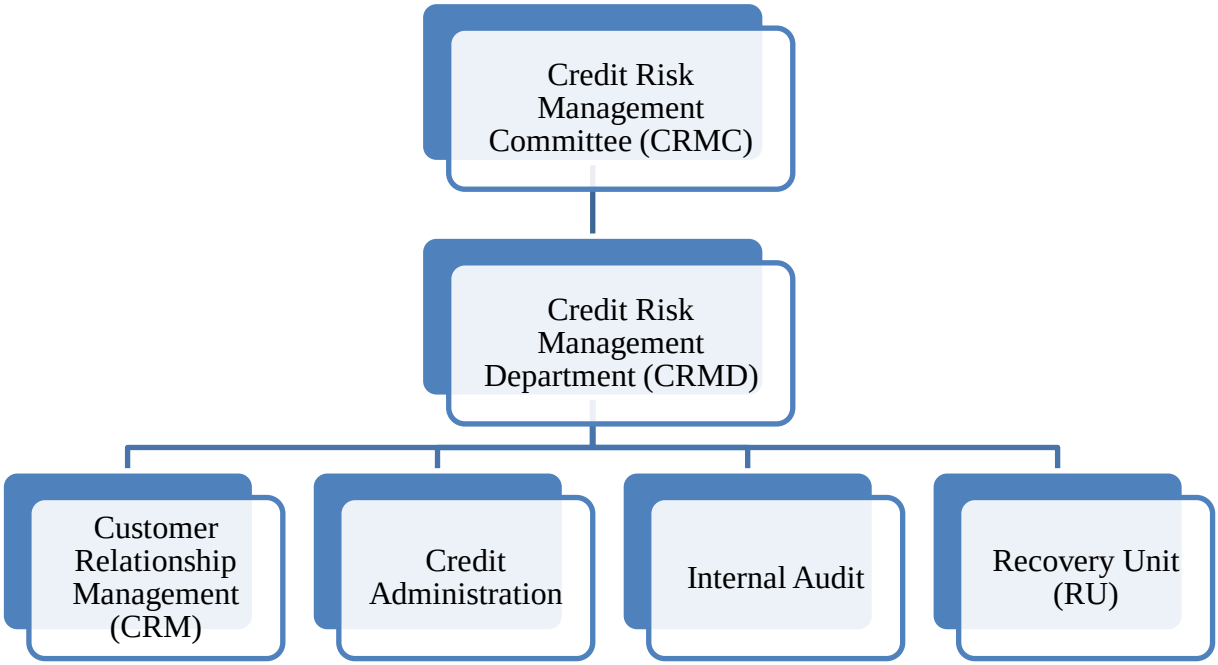


Chart 03: Management structure of CRM (Annual Report, 2016)

Every financial institution has some basic and core goal for that all departments work together. Top level management should prepare the structure of CRM by considering the concentrated goal. Where the FI wants to invest should consider at first. The core sectors of investment have to give extra priority when the CRM management is formed because the success and failure of a FI totally depends on the performance of CRM. If CRM be able to identify, monitor and manage the risk properly, the growth will be touchable and vice versa. IDLC Finance provides more concern and priority to CRM department because of the sensitivity of CRM.

CRM Committee (CRMC)

CRMC of IDLC is structured by taking the head of CRMD, treasury, ALCO and other top level officials. Implementation of policies, regulation, strategies and tactics is attributed to CRMC. CRMC members instruct CRMD what to do in what situation. Standard of collateral, valuation model of collateral and loan mechanism also fixed and monitored by this committee. They are also accountable to board of directors to explain the details environment of market, anticipated risks and over situation. Loan pricing model, RWA, provisioning methods are monitored and applied by the committee officials.

CRM Department (CRMD)

Theoretical framework of CRM is developed by CRMC because it indicates the movement of CRM. But the practical movements are made by CRMD. From the very

beginning stage to final stage of loan, all tasks are performed by this department. The officials analyze the value of collateral, associated risks with borrowers. Loan pricing is also determined by the department through evaluating collateral and risks. CRMD identifies the risks, monitors the risk and finally find out the outcomes of the risk. After issuing fund this department provides various types guidelines to the borrowers so that they can utilize their funds.

Customer Relationship Management (CRM)

Financial market of Bangladesh is too much competitive. 57 scheduled banks, 6 non scheduled banks and 33 FIs are competing. Moreover, customers' base is not changing and everyone tries to attract the same base of customers. Due to attracting most creditworthy customers and cream customers, relationship department continuously working. Officials of the department motivate customers to take services from IDLC. They also aggregate information on the financial conditions and probability of growth of clients businesses. If the health of assets of borrowers deteriorates, the officials inform that to CRMD and sometimes analyze the reasons behind the failure of borrowers to repay the loan (Bb.org.bd, 2018).

Credit Administration

Credit administration of IDLC mainly examines the documents that are mostly important to approve a loan. As risk based loan is not issued in Bangladesh, the importance of collateral and documentation can never be explained in a single world. Credit administration analyzes the documents of the borrower, determine the value of collateral, and forecast the future value of collateral. Terms and conditions, and pricing of loan are determined by this department. Performance of clients account is evaluated regularly by this department and informed the result to the top level.

Internal Audit (IA)

Internal auditors of IDLC monitor the financial performance of IDLC. Performance of loans that are issued by IDLC is also measured by IA. Whether the documentation process and the valuation of collateral are accurate is determined and monitored by IA. The accounts that face repayment problems, collateral problems or any other financial problems are determined by IA. Howe much provision should be taken against any risk is also evaluated by internal auditors.

Recovery Unit (RU)

After following all procedures, policies and regulations to give loans to customers, there appear some loans that fail to repay the installment timely. Here, recovery unit of IDLC find out what loans are turning into NPL and what types of actions and strategies can be taken to recover the loss. The unit quests all possible ways to recover a problematic account and also investigates the flexible, best and profitable ways of liquidation of an account.

As CRM of IDLC follows the structure accurately, and strongly, all employees are aware about their duties and responsibilities. Because of such specific responsibilities and attentiveness eagerness of employees towards individual tasks allow IDLC to avoid the burden of NPL.

5.3 CRM Policies of IDLC Finance Limited

Like other financial institutions, IDLC finance also has some unique policies of CRM. The policies are followed for every single type of loan and the implementation of these policies accelerates to avoid NPL.

5.3.1 Credit Risk Policies (CRP) and Risk Identification Process of IDLC Finance Limited

To be successful at any task, it is fundamental to have some rules, policies and regulations. Board of directors and CRMC set the CRP. Here, in the policies of IDLC, authority scribes the criteria to accept a risk, limit of loan, guidelines about problematic loans etc.

Analysis of Borrowers

At the beginning of any loan proposal, CRM analysis the characters, collateral, capacity, cash flow, and conditions due to assuring about the ability of borrower to repay the loan. Here, IDLC also analyzes the purpose of the loan and also takes repayment history of the borrowes from CIB. All credit information of borrowers are preserved at CIB from where IDLC always collect information to know previous history of borrowers with others.

Credit Risk Grading (CRG)

Credit risk grading is an appropriate method to anticipate the capability, attitude, tendency, character and cash flow of borrowers. Through CRG, IDLC takes a core idea about customers previous history and ability but CRG is not used as benchmark or standard in our country because FIs of Bangladesh provide more attention on collateral based financing. Event though it is not envisaged as to take decisions on whether IDLC should lend to the borowers, it gave concerningand awaring information before and after lending that can be helpful to take decisions.

Credit Purpose

Before sanctioning any knid of loan, CRMD assesses the purpose of credit for which clients want to borrow. In that point, management also considers the growth of particular sector, investment zone, coporate environment.

Analysis of Industry

At the second stage, CRM finds out the prospect and probability of growth of the industry under which borrowes invest borrowed funds. Under industry analysis, number of competitors, flow of clients, customer base of borrowes are also analyzed.

Trend Analysis

If CRM satisfies on borrowes and industry analysis, the officials will go to financial statement analysis. Under this analysis, officials reviews the at least 3 years profitability, loss, cash flow, accounts receivable, loans, liabilities, assets to get a general idea about the strength of the clients.

Anticipation of Performance

After receiving the results of trend analysis, if the results become positive, the officials of CRM will forecast the prospects of the project or plan for which borrowers want to take loan. Here, CRM considers the demand of borrowers products along with competitions and market share of borrowers.

Existing Customers

To provide new loans to existing clients or to extends the limit of existing customers, CRM measure the interest of the borrowers along with trend analysis of financial

statement, repayment history of existing loan, market conditions and prospective of borrowers business.

Implementation Risk

More concern is shown by the officials at time of investment at any new project. The pros and cons should analyze before issuing loan. Here, if the loan becomes 30 percent or more than 30 percent, all risks such as business risk, operational risk and all kinds of systematic and unsystematic risks should be analyzed and provide score for each risk even though risk based financing is not performed in Bangladesh.

Collateral

All financial institutions make collateral based finance in Bangladesh even though in modern world, more priority is given to risk based financing. CRM always provide more importance to the valuation process of collateral because of depending on that valuation, the amount of loan is determined. IDLC always keep a margin so that it can recover the loss of value of collateral because of the reduction of value of collateral for the movement of markets.

Cancellation Process of Loan

Management clearly declares all terms and conditions related to loans that clients must obey such as informing IDLC before change of business, financial statements rules etc. Any violation of any term can be the cause of cancelation of loan. Here, CRM mentions what a client can do and what a client cannot do.

5.3.2 Credit Approval

After analyzing the overall conditions and situations of clients, management issues loan to customers if official think that clients will be completely able to repay loan timely. Some rules are followed by IDLC at the time of issuing loan that rules are imposed by Bangladesh Bank. Functions of credit approval should be separated from all other departments and approval documents should be written at authorized form of IDLC.

5.3.3 Credit Monitoring

After credit approval, new challenges create because after issuing loan the task of loan repayment procedures start. Authority has to monitor every financial step of clients. Credit monitoring period and method are clearly described at loan statement. The officials of CRM who are responsible for credit monitoring are quite experienced and

trained on macroeconomic variables, and are able to forecast the financial condition of borrowers. How government's rules and regulations influence activities of clients, the probability of new technology arrival and its influence on clients performance are monitored by officials regularly for large loan but it is conducted periodically for small and medium loan.

Micro level analysis

Micro level analysis is conducted by officials remembering and considering the financial position, management, external factors. The analysis is conducted due to ensuring and appropriateness of capital charge.

Macro level analysis

Business of clients is not influenced only by the activities of clients. A lot of macro lever factors can influence the movement and business scenario of clients. CRM of IDLC always analyzes the interrelated risks considering industry, sector, and products wise. Officials also consider the customers' demand for clients' products.

Stress testing

Stress testing is tool by which CRM manages and anticipate the associated risks. How macro level factors affect the credit growth, stock prices, and financial statements and how micro level factors influence the risk factors are determined by stress testing.

Analysis of Concentration Risk of Credit

Industry risks and portfolio risks are more hazardous for every FI because these risks may hamper the payment of loans and advances that are given to clients. Due to avoiding that CRM determines the risk of portfolio according to sector wise, industry wise and region wise. Here, IDLC uses Herfindhal Hirschman Index (HHI), by which CRM determines the diversification of portfolio. If the portfolio spreads among many sectors, and regions, the result will be close to zero that indicates less concentration risks and vice versa.

HHI = Sum of S^2

S denotes the percentage of each sector among total portfolio.

1. HHI ≤ 0.010	1. Concentration risk is homogeneous
2. 0.100 > HHI > 0.010	2. Risk is satisfactory
3. 0.180 > HHI > 0.100	3. Risk is moderate

Chart 04: Interpretation of HHI (Bangladesh Bank, 2016)

Interpretation

- ✓ If the result of HHI is less than or equal to 0.010, the risk will be homogeneous.
- ✓ If the result of HHI remains between 0.100 to 0.010, the risk will be satisfactory.
- ✓ If the result of HHI remains between 0.180 to 0.100, the concentration risk will be moderate.
- ✓ If the result of HHI is higher than 0.0.180, the risk will be high.

The NPL of IDLC is less than other FIs in the financial industry. The reasons behind that are the policies and procedures of IDLC. Higher authority always respects every regulation of Bangladesh Bank and always tries to follow each part of regulations properly and accurately. CRM never compromise quality of credit with any negotiation. If the clients want to take services from IDLC, they obviously should have quality collateral and valid purpose.

5.4 Ratio Analysis

5.4.1 Return on Assets (ROA)

How much a company earns by investing its total assets is determined by the return on assets. The efficiency and inefficiency of CRM can be measured by return on assets. The larger the ROA, the higher is the efficiency of CRM because most of the return of IDLC finance, now, comes from interest from investment and commission from services and loan and service choosing responsibilities totally remain on the shoulder of CRM.

Year	ROA (%)
2017	1.72
2016	2.02
2015	1.93

2014	2.18
2013	1.92

Table 03: Return on Assets (Annual Report, 2017-2013)

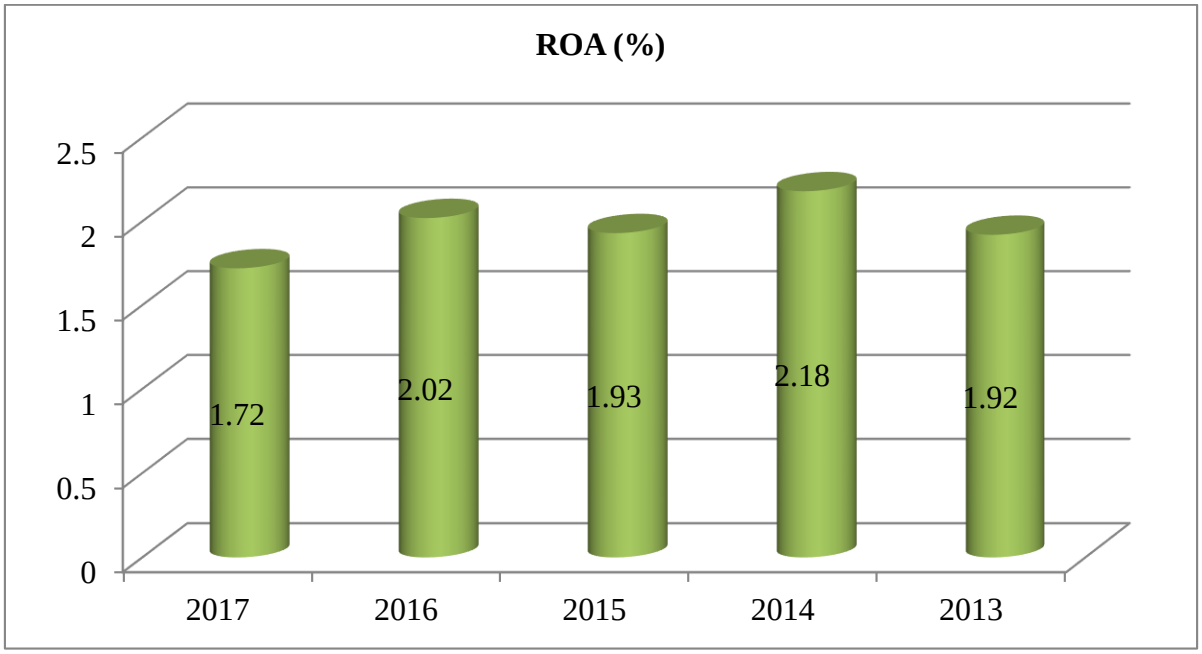


Figure 02: Rate of return on assets

Interpretation

Return on equity in 2017 is 1.72 percent that indicates if IDLC Finance invests Tk. 1, it can generate Tk. 0.0172 as return. But the return is less as compared to 2016 because it launched new branch in Barisal but yet the income is not generated from that. From the graph, it is clear that in 2015 the rate is also less than the year 2014, it occurred because IDLC purchased a huge amount of assets in that year and political instability. In 2013 IDLC lost some valuable and creditworthy customer that influences to reduce the ROA at 2013.

5.4.2 Return on Equity (ROE)

ROE means how much a company can generate profit by using the capital of shareholders. ROE measures the ability of a company and efficiency of officials. The larger the ratio, the more efficient will be the CRM.

Year	ROE (%)
2017	14.98
2016	20.87
2015	20.01
2014	22.37
2013	19.24

Table 04: Return on Equity (Annual Report, 2017-2013)

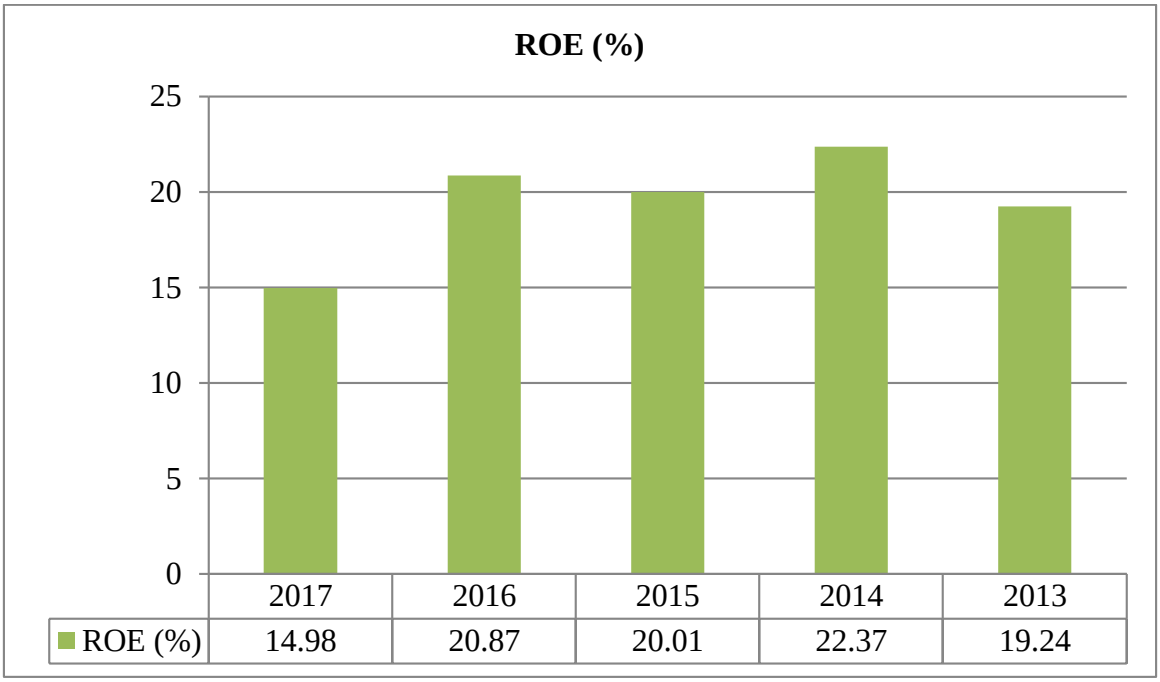


Figure 03: Rate of return on equity

Interpretation

Return on equity (ROE) of IDLC in 2017 is 14.98 percent that indicates if IDLC invest Tk. 1 from capital of shareholders, it can generate Tk. 0.1498 as return. But the ROE is less than compared to other years that occur because of huge investment in infrastructure.

5.4.3 Return on Capital Employed (ROCE)

The ratio means how much a company can generate profit by investing its total capital that it invests in the market. The efficiency will be higher if the ratio increases.

It can be calculated through the formula: Net operating Income/ (Total assets – Total liabilities)

Year	ROCE (%)
2017	27.13
2016	36.22
2015	38.11
2014	36.70
2013	33.59

Table 05: Return on capital employed (Annual Report, 2017-2013)

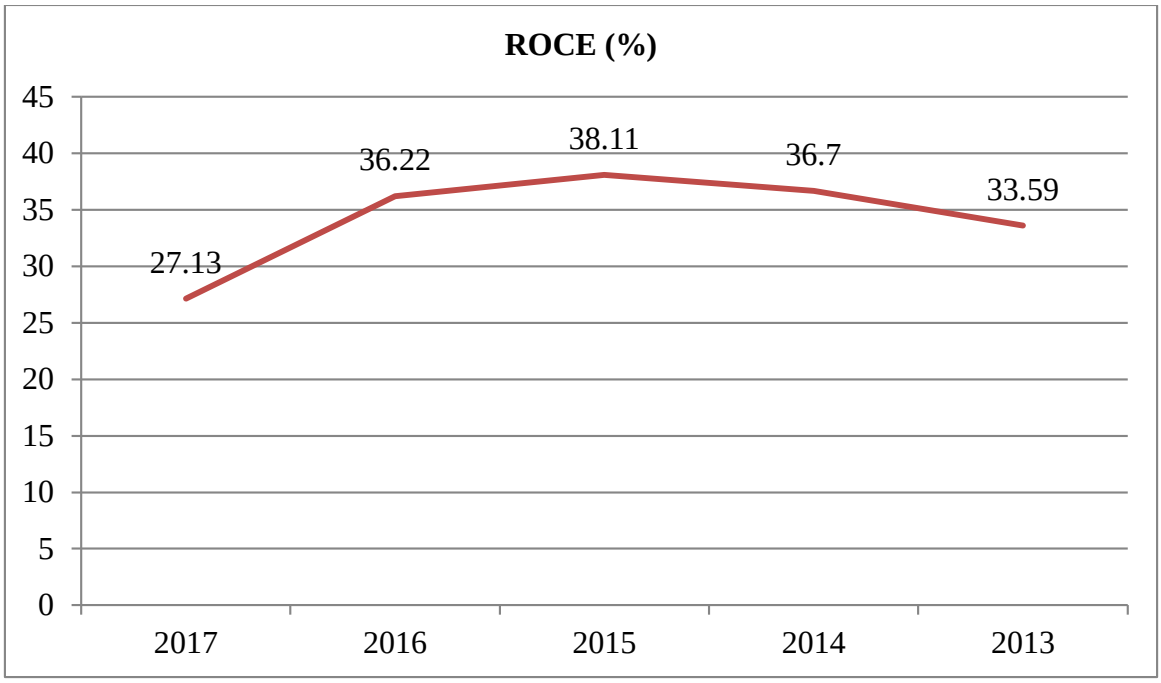


Figure 04: Rate of return on capital employed

Interpretation

The ROCE of IDLC Finance in 2017 is 27.13 percent that represents if IDLC invests Tk. 1, it will be able to earn Tk. 0.2713. The ratio has been decreased in 2017 than other years because the denominator increases without increasing numerator.

5.4.4 Growth of Loans of IDLC Finance Limited

IDLC Finance provides loans to different sectors. Among these lease receivable, long term finance, car loans, home loans, short term finance and loan against deposits are the major income generating sources.

Year	Loans	Growth (%)
2017	70,665,633,916	15.59
2016	61,135,698,103	13.51
2015	53,857,714,206	18.76
2014	45,348,701,212	17.25
2013	38,677,966,492	----------

Table 06: Loans of IDLC Finance (Annual Report, 2017-2013)

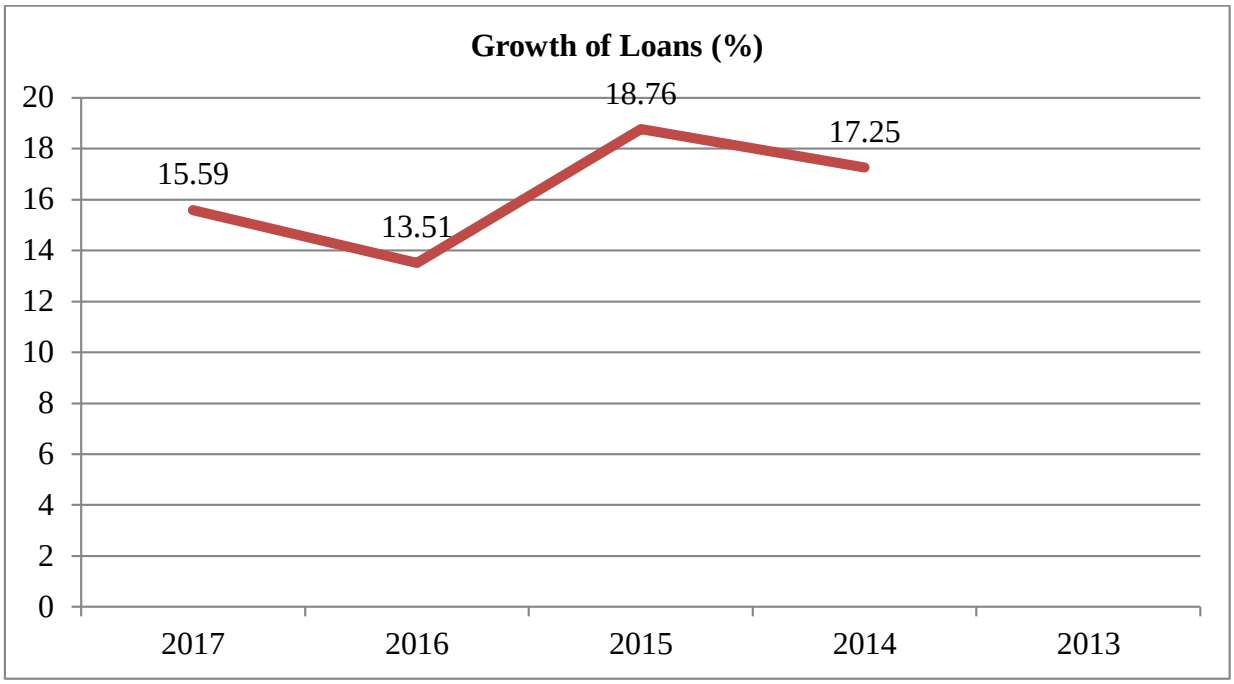


Figure 05: Growth of loans

Interpretation

The growth rate of loan of IDLC is moderate. This is the success of CRM officials because they can issue loan with proper risk management. The growth rate in 2016 is less compared to 2015 and 2014. The main reason behind that in 2016 a large turnover occurs in IDLC. Because of that it lost some core and prime customers. The result also influences the growth of 2017.

5.4.5 Loan Portfolio of SME

Due to creating more entrepreneurs, IDLC Finance is focusing on SME division. The main reason is to ensure equal development to all sides of Bangladesh. It offers SME loan to its clients at low rate compared to others and provides regular instructions and guidelines to clients do that they can use their funds properly.

Year	SME Loan Portfolio	Growth (%)
2016	26,054	16.48
2015	22,368	24.93

2014	17,905	24.91
2013	14,334	40.83
2012	10,178	

Table 07: Loan portfolio of SME (Annual Report, 2017-2013)

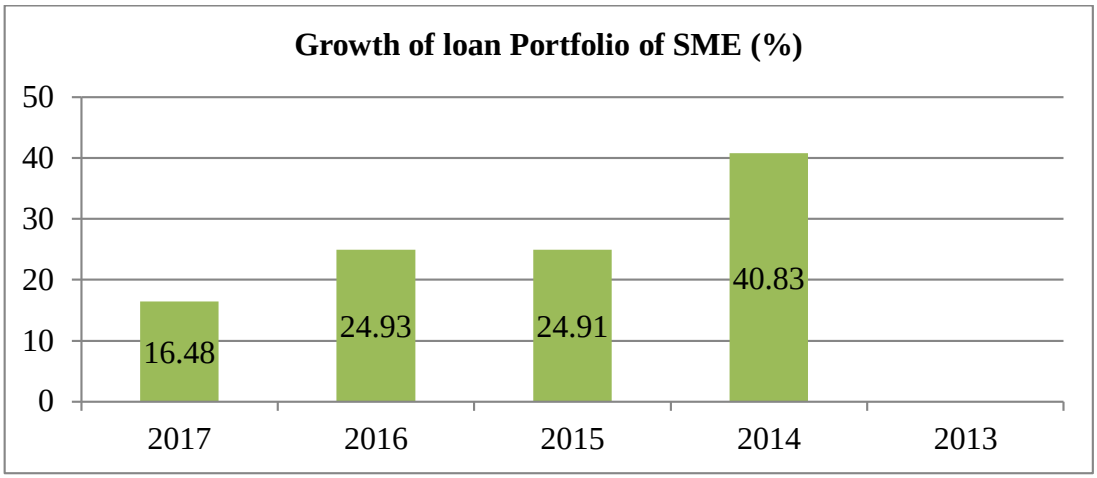


Figure 06: Growth of loan portfolio of SME

Interpretation

The analysis is conducted based on the information of 2012 to 2016 because information of 2017 is not available. By the way, growth of SME was incredible in 2013 and the growth rate was 40.83 percent because at that time some new and developing sectors flourishing their business such as leather, steels, exporters etc. After that time, it reduces gradually but IDLC always considers new ideas and business by issuing loan at low pricing.

5.5 Regression Analysis

5.5.1 Hypothesis 1

Statistical relationship among Return on Equity (ROE), Capital Adequacy Ratio (CAR) and Non-performing Loan (NPL)

Positive or negative relation exists among ROE, CAR and NPL. Following the calculation result SPSS 16.00, the relationship is discussed below:

Year	ROE (%)	CAR (%)	NPL (%)
2017	14.98	15.30	2.77
2016	20.87	13.25	2.95
2015	20.01	13.37	3.06
2014	22.37	13.33	2.02
2013	19.24	14.16	1.63

Table 08: ROE, CAR and NPL (Annual Report, 2017-2013)

Hypothesis 1

Null Hypothesis (H0): There is no significant relationship between ROE, CAR and NPL of IDLC Finance.

Alternative Hypothesis (H1): There is significant relationship between ROE, CAR and NPL of IDLC Finance.

Variables

Due to fulfilling a regression analysis, dependent and independent variables are required. At this analysis, the variables are

Dependent variables: Return on Equity (ROE)

Independent variables:

i. Capital Adequacy Ratio (CAR)
ii. Non-Performing Loan (NPL)

Regression Model

Regression model for the analysis is

$ROE = A + B\ (CAR) + C\ (NPL) + \varepsilon$

In the regression model, “A” is called intercept or constant, “B and C” is the slope, and ε (epsilon) means the random error term.

Coefficients								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	65.341	5.062		12.908	.006	43.561	87.121
	CAR	-3.078	.347	-.968	-8.864	.012	-4.572	-1.584
	NPL	-1.256	.483	-.284	-2.598	.122	-3.336	.824
a. Dependent Variable: ROE								

Table 09: Coefficient for ROE, CAR and NPL

Here confidence level is 95%

So, significance level is (1-confidence level)

= 1-0.95

= 0.05

= 5%

From the analysis, it is clear that “P” value for CAR is 0.012 which is less than the significance level 0.05 that means the null hypothesis is rejected which represents that there has significant relationship between ROE and CAR. As Bangladesh Bank (BB) declared that every financial institution has to maintain at least 10 percent CAR but IDLC Finance always keeps CAR more than 10 percent due to ensuring security and protecting customers from any kind of uncertain loss. On the other contrary, “P” value for NPL is 0.122 that is more than the significance level 0.05 that means the null hypothesis is accepted and it represents no significance relationship between ROE and NPL. It occurs because the NPL rate of IDLC Finance is very low compared to the volume of ROE.

Regression Analysis

Through regression analysis, influence of independent variable on dependent variable is measured (Statistics Solutions, 2018). Here, the following results have been got from analysis:

Unstandardized Coefficients

Change of dependent variable due to changing independent variable by keeping other variable constant is referred by unstandardized coefficients (Bhalla, 2018). Here, the constant indicates that if there has no impact of CAR and NPL, ROE will be 65.341. On the contrary, if all other variables are considered it may exist between 43.561 to 87.121

The slope (B) of CAR is -3.078 which indicates that because of one unit increase of CAR, the ROE will decrease by 0.03078 and the slope of NPL is -1.256. If the slope of NPL increases by one unit, the ROE will also decrease by 0.01256.

So, the regression line is

ROE = 65.341 + (- 3.078) CAR + (-1.256) NPL

Standardized Coefficients

Change of standard deviation of dependent variable because of the change of independent variable is called standardized coefficients (Statistics How To, 2017). The beta of CAR is -0.968 which represents that one unit change standard deviation (SD) of CAR will reduces the SD of ROE by -0.968. On the contrary, because of the one unit change of SD will reduce the SD of ROE by -0.284.

5.5.2 Hypothesis 2

Statistical relationship among Return on Assets (ROA), Capital Adequacy Ratio (CAR) and Non-performing Loan (NPL)

Positive or negative relation exists among ROA, CAR and NPL. Following the calculation result SPSS 16.00, the relationship is discussed below:

Year	ROA (%)	CAR (%)	NPL (%)
2017	1.72	15.30	2.77
2016	2.02	13.25	2.95
2015	1.93	13.37	3.06
2014	2.18	13.33	2.02
2013	1.92	14.16	1.63

Table 10: ROA, CAR and NPL (Annual Report, 2017-2013)

Null Hypothesis (H0): There is no significant relationship between ROA, CAR and NPL of IDLC Finance.

Alternative Hypothesis (H1): There is significant relationship between ROA, CAR and NPL of IDLC Finance.

Variables

Due to fulfilling a regression analysis, dependent and independent variables are required. At this analysis, the variables are

Dependent variables: Return on Assets (ROA)

Independent variables:

Capital Adequacy Ratio (CAR)

Non-Performing Loan (NPL)

Regression Model

Regression model for the analysis is

ROA = A + B (CAR) + C (NPL) + ε

Coefficients								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	4.521	.764		5.917	.027	1.234	7.809
	CAR	-.167	.052	-.875	-3.195	.086	-.393	.058
	NPL	-.097	.073	-.366	-1.335	.314	-.411	.217
a. Dependent Variable: ROA								

Table 11: Coefficient for ROA, CAR and NPL

Here confidence level is 95%

So, significance level is (1-confidence level)

= 1-0.95

= 0.05

= 5%

From the analysis, it is clear that "P" value for CAR is 0.086 which is higher than the significance level 0.05 that means the null hypothesis is accepted which represents that there has no significant relationship between ROA and CAR. On the other contrary, "P" value for NPL is 0.314 that is more than the significance level 0.05 that means the null hypothesis is accepted and it represents no significance relationship between ROA and NPL. The CAR and NPL cannot affect ROA of IDLC because the management of IDLC always uses its assets through analyzing new opportunity, focusing niche market, ensuring equal opportunity around the country, investing at stable sectors and using advanced technology. Even though there has no relation between CAR, NPL and ROA, CAR and NPL always treat ROE negatively.

Regression Analysis

Here, the following results have been got from analysis:

Unstandardized Coefficients

The constant indicates that if there has no impact of CAR and NPL, ROA will be 4.521. On the contrary, if all other variables are considered it may exist between 1.234 to 7.809.

The slope (B) of CAR is -0.167 which indicates that if one unit increase occurs of CAR, the ROA will decrease by 0.00167 and if the slope of NPL increases by one unit, the ROA will also decrease by -0.00097.

So, the regression line is

ROA = 4.521 + (-0.167) CAR + (-0.097) NPL

Standardized Coefficients

The beta of CAR is -0.875 which represents that one unit change standard deviation (SD) of CAR will reduces the SD of ROA by -0.875. On the contrary, because of the one unit change of SD will reduce the SD of ROA by -0.366.

5.6 SWOT Analysis of IDLC Finance Limited

STRENGTHS
✓ Most gorgeous brand in local market.
✓ Sanctioning any kind of loan within 7 days.
✓ Allowing clients to take services according to their need and quality of service is superior.
✓ Own software for performing activities and keeping banking records.
✓ 38 branches in different areas that are establishes strategically.

✓ Rigorous adherence of rules and regulations of Bangladesh Bank.
✓ Most effective and efficient CRM and ALCO in Bangladesh.
✓ Continuous investing on new officials so that they can be principal of IDLC.
✓ Sound and stable return on asset and return on equity.
✓ Unique culture and world class corporate governance.
✓ Providing advice regarding market, industry and economy to clients.
✓ Most faithful, effective, efficient, and competent board of directors.

Table 12: Strengths of IDLC

WEAKNESSES
✓ Majority of income comes from interest earning that is a major weakness of IDLC because it is a NBFI.
✓ Majority portion of loan portfolio is concentrated in Dhaka.

Table 13: Weaknesses of IDLC

OPPORTUNITIES
✓ Offering 360 degree services in financial sectors toward its all clients.
✓ Giving importance to green financing.

Table 14: Opportunities of IDLC

THREATS
✓ Unhealthy competition and low interest rate reduce the operating income.
✓ Shrinking new investment opportunities and increasing the volume of liquidity.

Table 15: Threats of IDLC

CHAPTER 06

FINDINGS

6.1 Findings of the Report

After exploring the issue of CRM of IDLC finance, several themes have been noticed.

1. The major concern of IDLC Finance is to retain existing clients and also to fascinate new clients. Due to obtaining the goal, CRM reduces its turnaround time significantly. Now IDLC Finance is able to provide loan a new client within seven days by ensuing all formalities, policies and procedures those are applied by Bangladesh Bank.
2. IDLC Finance focuses more at collateral based financing and do not provide more attention to risk based financing. In order to retain an existing client, CRM of IDLC focuses more on the quality of collateral.
3. It is not a matter of concern of IDLC Finance regarding the performance of clients business rather it places more attention to the repayment history of clients. If a client becomes able to repay the loan, CRM will issue loan to that clients even though the performance of business of clients is not good. In that case clients must have a strong base of collateral.
4. After a specific time period IDLC always analyzes all accounts due to finding out the valid and invalid accounts. At present there are almost 58,174 valid individual loan accounts whose repayment history are consistent and oppositely, there are almost 3,178 invalid accounts where the clients use false information or employees make mistakes to record the information of clients.
5. Due to attracting new clients and retaining existing clients, IDLC offers loan at low interest for SME and women entrepreneurs. The growth of SME division is 16.84 percent.
6. The NPL in financial sectors in 2017 was 10.13 percent but the NPL of IDLC was only 2.77 percent in 2017. The main reasons behind this are the contribution of board of directors, transparency and the integrity of CRM of IDLC.
7. Most of the NPL creates because of the influence of reference groups but it is a matter of covariate that the effect of reference group is zero in IDLC Finance. Similarly the influence of political party is helping to create NPL in financial sectors and because of that IDLC tries to avoid politically influenced people.
8. Officials of CRM always tries out the effect of micro and macro economic variables on the growth of business and provides adequate guidelines and motivations to their clients so that they can be loyal towards IDLC and can pay the scheduled payment on time.

9. IDLC Finance follows all parts of regulation that are issued by Bangladesh Bank and never compromise quality of collateral that helps IDLC to keep its NPL at lower level compared to others.
10. The growth of return on equity decreased in 2017 because of the expansion of branches of IDLC. Likewise, the return on assets also decreased because of the same reason.
11. Growth of loans of IDLC reduced dramatically because of the large turnover in 2016 and IDLC lost some core clients. But for the efficiency of CRM, IDLC has become able to recover the problem in 2017. The growth rate of loan was 15.59 percent in 2017.
12. The impact of CAR and NPL is negative on ROE and ROA. If CAR and NPL increases, the ROE and ROA will reduce but the effect of CAR is more influential compared to NPL.

CHAPTER 07

RECOMMENDATIONS AND CONCLUSION

7.1 Recommendations

It is quite difficult to give any recommendation on the lacking of IDLC because IDLC Finance is a well structured financial institution. After completing the report, I have found some points on which IDLC Finance can put more attention.

1. CRM of IDLC Finance lays more attention on collateral based finance but if the management follows or uses risk based financing, official be able to charge clients according to different risks that helps CRM to retain the existing clients and also attract new clients because risk based financing is not used by others. Here, IDLC has the chance to be pioneer.
2. IDLC can lessen the interest rate on different types of loans because it holds a large amount of liquid funds that cannot generate any income. Here, if IDLC Finance reduces the interest rate it can retain more clients and also be able to attract new clients. NPL of IDLC may also reduce if Interest rate reduces because it will remove a burden from clients' shoulder that motivates them to be more loyal towards IDLC.
3. Due to ensuring equal development, IDLC Finance should inaugurate more branches across the country that enhance the customer base of IDLC and increases the profitability.
4. Human resources management must be more aware about employees' turnover. Because, if a key employee switches from IDLC, s/he will obviously take away some core clients that happened in 2016. HRM should be able to read the mentality of employees.
5. Officials should be more attentive at the time of sanctioning loans to new clients because almost 3, 178 accounts holders uses false information at KYC form or officials make mistakes. Most of the NPL of IDLC creates from such types of accounts. In order to solve the problems, credit risk management should analyze clients' details information by physical contemplates.
6. The maximum turnaround time of IDLC is only seven days. But the time value of money for seven days can be a cause of large financial loss. Considering, the situation, IDLC can supplies temporary loan like as bridge loan by taking a sound collateral before issuing a new loan.
7. The rate of NPL of IDLC is only 2.77 percent but it keeps more capital adequacy ratio (CAR) to ensure customers security. But in that stage IDLC can reduce CAR rate and may invest the amount due to earning more profit.
8. The growth of SME division is 16.84 percent but it is quite low compared to other years. In that situation, CRM should increases branches due to ensuring

equal development and also arrange different seminars on recent issue that influence people to know the recent demand of markets.

7.2 Conclusion

IDLC Finance is the top leading non bank financial institution. The credit risk management department of IDLC Finance is the most crucial and sound department. Credit risk management committee always arranges training programs for the officials of CRM department. The officials of CRM analyze the micro and macroeconomic variables so that they can inform clients about the market conditions and probability of growth or loss. Due to ensuring customer retention, CRM department regularly examines the collateral conditions and cash flow of customers. On the contrary, the department issues loan to its clients within seven days from application due to creating loyalty among clients from the beginning day. Recently, most of the non performing loans are creating because of the reference of reference groups and political parties. Due to solving the problems of NPL, CRM never allows any reference from anyone. IDLC Finance is trying to ensure equal development in all areas of Bangladesh. To achieve that intent, the numbers of branches are enhancing by authority and investing a huge amount due to gathering market share and because of the criteria, return on assets and return of equity decrease slightly.

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