

BIBM POLICY BRIEF

2020



Bangladesh Institute of Bank Management

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BIBM POLICY BRIEF 2020

Policy Inputs Based on the Research Activities of BIBM for the Year 2019

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The views in this publication are those of authors only and do not necessarily reflect the views of the institution involved in this publication.

BIBM POLICY BRIEF 2020

Policy Inputs Based on the Research Activities of BIBM for the Year 2019

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MESSAGE FROM THE DIRECTOR GENERAL

The 'BIBM Policy Brief' is an attempt to present the summarized version of research activities of Bangladesh Institute of Bank Management (BIBM). The 'Policy Brief' highlights the key findings and possible policy recommendations identified in the research papers/reports prepared and presented by the institute on the issues of banking and financial sector of Bangladesh. We believe that through this publication BIBM would be able to disseminate its major findings and policy recommendations to the top level policy-makers including top executives of Bangladesh Bank, top management of banks and financial institutions and other key stakeholders of the banking and financial sector.

Every year, BIBM undertakes a series of Research Projects, Review Workshops, Research Workshops and Roundtable Discussions. The 'BIBM Policy Brief 2020', the fourth issue of the series, accumulates all the key findings of the above-mentioned research activities conducted during the year 2019. BIBM usually publishes this policy document by the first quarter of the following year. This year, the publication got delayed because of general holiday for an extensive period on account of the Corona pandemic. BIBM welcomes comments, critiques and suggestions on the publication for improvement in its future edition.

I am grateful to Professor Dr. Barkat-e-Khuda, Dr. Muzaffer Ahmad Chair Professor, BIBM for reviewing and editing each Policy Brief. Also, I thank Professor Shah Md. Ahsan Habib, Director (Training), BIBM and Professor Md. Nehal Ahmed of BIBM for their contribution in bringing out this publication.

Dr. Md. Akhtaruzzaman

Director General, BIBM

EXECUTIVE EDITOR'S NOTE

The 'BIBM Policy Brief 2020', a yearly publication, compiles the key observations and policy recommendations of the research activities conducted by Bangladesh Institute of Bank Management (BIBM) during the year 2019. A total number of 30 Research Project Reports, Review Reports, Research Workshop Papers and Roundtable Keynotes have been included in the policy brief. Each research paper of the publication outlines specific objectives, methodological issues, key observations and recommendations. We believe that the publication would be able to offer easy access and understanding to the readers on the research outcomes of the institute.

My sincere thanks goes to Dr. Md. Akhtaruzzaman, Director General of BIBM for his constant support and encouragement.

I congratulate my fellow editorial and publication team members for their hard work in accomplishing the job. We pay our gratitude to the editor of the publication Professor Dr. Barkat-e-Khuda, Dr. Muzaffer Ahmad Chair Professor, BIBM for his continued guidance and direction. We expect suggestions from our readers and stakeholders on our way to serve the banking sector even better in the future.

Dr. Shah Md. Ahsan Habib

Professor and Director (Training), BIBM

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Briefs on
Reports of the Research Projects

TITLE AND AUTHORS

IMPACT OF BANK BASED RURAL AND URBAN FINANCING ON ECONOMIC GROWTH OF BANGLADESH

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OBJECTIVES

- To investigate the impact of bank based urban financing in the economic growth of Bangladesh;
- To investigate the impact of bank based rural financing in the economic growth of Bangladesh; and
- To establish a linkage between bank based urban and rural financing and their impacts in the economic growth of Bangladesh.

BRIEF METHODOLOGY

To identify the impacts of bank based urban and rural financing, we used 37 years of data during 1987-2017 to run regression and econometric analysis. But, to show the trend of loan disbursement in the rural and urban area, division wise loan distribution, and bank wise loan distribution in both rural and area, we used the data from 1987 to 2018. The Augmented Dickey-Fuller (ADF) unit root test was conducted by using Schwarz info criterion technique and the results for the unit root test of variables level as well as in first and second difference were measured and presented. ADF test values of variables were presented in level as well as with first and second difference as a pattern with intercept, trend and intercept and with none. The presences of unit root or the null hypothesis of non-stationary for any variable will not be rejected when the absolute value of t-statistic will be less than tabulated or critical value. The significance was checked from p-value. For a model with linear trend, the critical value is at the 5% of level of significance. If p-value is greater than 5 percent, we will reject the null hypothesis and accepts the alternative that represented no unit root mean data are stationary.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Outstanding Amount of Loan in Rural and Urban Financing – The Aggregate: The loan amount in rural financing gradually increased during 2009-2017. The possible reasons for this growth could be the rapid growth of CMSME and lower rate of NPL. From different previous research and data, it was observed that a very low tendency exists among the rural borrower to become defaulters. Another possible reason could be the establishment of innovative agro-based industry which is not only adding value to the GDP but also making impact in our export revenues.

Bangladesh Bank had already issued a circular in 2019 that each bank has to increase its credit allocation at least upto 25% in the CMSME sector by 2023.

FINDING & RECOMMENDATION-TWO

Outstanding Amount of Loan in Rural and Urban Financing – Division Wise: In Chattogram and Dhaka Division, the growth of urban financing increased over time, except during 2012-2014. The possible reason could be the political instability created by opposition political party which affected the overall investment opportunities in the country. Similarly, the same trend was observed in case of rural financing. Although the population is considerably higher in rural than urban areas, the amount of loan disbursed in rural areas is significantly lower than in urban areas.

Since this trend is increasing concentration risk which is almost 64% only in Dhaka Division, banks should move for diversification to minimize the credit risk. At the same time, banks should be much more sincere and punctual in allocating rural credit as per the “Agricultural & Rural Credit Policy” of Bangladesh Bank.

FINDING & RECOMMENDATION-THREE

Outstanding Amount of Loan in Rural and Urban Financing – Bank Wise: In urban financing, the private commercial banks were much ahead compared to state-owned-commercial banks, specialized banks and foreign commercial banks. PCBs held 79% of market share, whereas the specialized commercial banks (SB) held the lowest position. The reason is quite simple. Since most of the PCBs’ businesses are urban centric and there are very few SBs in number, the dominance of the PCBs becomes quite obvious. On the other hand, there is hardly any involvement of FCBs in rural financing, although the same “Agricultural & Rural Credit Policy” of BB is applicable for FCBs as well. In rural financing, PCBs also held the major market share (43%), closely followed by the SOCBs (39%). The reason for non-involvement of FCBs in rural financing was because they have hardly any operations in the rural areas.

Bangladesh Bank should increase its monitoring and supervision more strictly so that all types of banks give equal emphasis in both rural and urban financing. The deposits of rural areas should not be diverted to urban area for its development; rather, more fund should be allocated in the lending budget of the bank for rural area development since Bangladesh is a rural centric country.

TITLE AND AUTHORS

OPENING NEW BRANCHES OF BANKS: RATIONALITY AND REALITY

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OBJECTIVES

- To understand the nature of growth of bank branches in Bangladesh;
- To examine the new branch opening and approval procedures; and
- To identify the gap between de jure and de facto bank opening environment

BRIEF METHODOLOGY

The study has utilized both primary and secondary data. Secondary data were collected from the BB publications such as Annual Report, BB Quarterly, Scheduled Bank Statistics, Monthly Economic Indicators. In few cases, Annual Reports of the commercial banks were also studied to understand the individual bank's position. A questionnaire relating to branch opening practices was sent to all BIBM member banks. The findings derived from that questionnaire incorporated the responses of 25 banks, mostly from PCB group. It should be mentioned here that the study mainly focused on the private commercial banks. Besides, members of the review team discussed with some senior executives of BB, Chief Executive Officers (CEO), Head of the concerned departments of the banks, and Branch Managers to get in-depth understanding regarding different aspects of new bank branch environment.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Branch Concentration and Competition: Bank branch concentration is a reality across the country. In some areas, one building accommodates few branches, which leads to branch concentration. Initially, it seemed that few branches may survive in small area provided there is un-served banking need in the area. When branch concentration leads to unhealthy competition, costly branch relocation becomes the only alternative.

So, the banks should be more careful in selecting the location of new bank branch.

FINDING & RECOMMENDATION-TWO

Decision about Location: Site selection is the most important decision. Ideally, a bank's decision to open a branch should be based on finding a profitable business area. So, the availability of the suitable location should determine the number of new branch for a bank. But, the study found the other way round i.e. 'number first then the location' principle guided the branch opening environment. Banks first get approval of the number of new branches and then they apply for the permission for the locations. Site selection process will be more strengthened, if the banks are asked to perform a detailed site selection procedure and attach that along with the application for opening bank-branch at the time of submission to the Bangladesh Bank. From the national economic point of view, the network of the bank-branches should be geographically as diversified and evenly distributed as possible keeping in mind the viability of the branches for promoting financial inclusion and reducing rural-urban disparity.

In this regard, having a geographic mapping of branches through developing a 'Bank Branch Apps' will be useful for the regulatory body to examine the suitability of the proposed location of the branch. The 'Bank Branch App' may include the locations of all business centers of the banks such as branch, ATM booth, banking booth, agent outlets, etc.

FINDING & RECOMMENDATION-THREE

Finding Suitable Premises: Finding suitable premises is becoming increasingly difficult, particularly in the rural areas. There are quite a few issues connected to this problem. Among these issues, electricity load capacity of the buildings, security, house rent, and the amount paid in advance are considered as main hurdles. Sometimes, suitable buildings are found in an area where there is less business opportunity. These obstacles lead to delay in branch opening function which is costly.

The banks, thus, should consider both the location and the premise at the same time while opening a new branch.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FOUR

Maintaining Ratio between Urban and Rural Branch: As per the current regulatory framework, banks are required to open one urban branch against a rural one. As many Upazilla headquarters located far from the city are defined as urban areas, banks establish a branch in remote rural areas to maintain the rural-urban mix. Thus, banking services are not reaching at the Upazilla headquarters to the reasonable degree. This may lead to a situation in which significant banking need of people living in Upazilla headquarters remain unaddressed while the insignificant banking need of the villages are being attempted to be addressed. In addition, economic activities of the village areas are still insufficient to support a branch of a traditional bank.

In this situation, the regulatory definition may be revised for better positioning of new bank branch.

FINDING & RECOMMENDATION-FIVE

Setting Business Target: It is understandable that the banks will set a business target for the new branch. Observation shows that banks generally set their deposit, loan, and profit target without any underlying objective and quantitative analysis by taking into account the local business potentials, presence of other branches, future growth prospects, cultural and social traits of the location, and capacity of the bank. In fact, the widely accepted perception among the bankers is that the profit target of the new branch is set on the basis of the performance of other relatively newly opened branches. But, due to the difference in business environment, profit target turns out to be unrealistic in many cases, and thus, puts extra burden on the management. Usually, the banks plan to bring the new branch into a profitable one just after one year of operation. This is, perhaps, too short a period to be justified for a new branch. What is important for any branch is to ensure smooth and stable growth in the long run that is not necessarily achieved by just first year's profit.

So, the bank management should apply more prudence and long-term view in setting the profit target for a new branch

FINDING & RECOMMENDATION-SIX

Pre-operation Planning and the Quality of Human Resource: Information and understanding about the people, business, and opinion of the competing bank branches are vital for the success of the new branch at least in the initial period. Branch management also needs to visit the businesses and meet the potential customers to attain the business target. Thus, it pays to select the new branch employee well ahead of launching the operation and allow them to stay in the proposed area to get insight about the locality before starting the operation. The study found from the discussion with the new branch management that people care about the attitude of the branch official towards them in providing services. So, apart from the pricing of the product that remains beyond the control of the branch, skill and behavior of the employee turn out to be the significant success factors for a new branch.

A bank, thus, should consider the soft skill of the employees for appointment in the new branch.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-SEVEN

Strong R&D Division: Any sort of business expansion requires sound planning and prediction utilizing all available information. The quality of decision to expand branch network is significantly expanded if it is supported by the analysis of the location profile in terms of nature of business activity, banking habit of the people, the opinion of the banks operating in the proposed area, and the recent performance of the branches. All these pre-launching analysis is better performed if there is a dedicated Research and Development Division in a bank. But, with few exceptions, there is a dearth of effective and well-equipped R&D units in terms of skilled manpower.

So, a full-fledged Research and Development Department is required for all banks to ensure the thorough analysis that is required for determining the optimal number of new branches and locating the best possible site of branches.

TITLE AND AUTHORS

FINANCIAL LITERACY AND MANAGERIAL CAPACITY OF WOMEN ENTREPRENEURS IN SMALL FIRMS AND ACCESS TO FORMAL SOURCES OF FINANCE

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OBJECTIVES

- To point out the regulatory and policy initiatives (financial and non-financial) of central bank regarding financing and development of women- owned small enterprises in Bangladesh;
- To show the existing facilities and status of women -owned small enterprise financing by banks;
- To identify the level of financial literacy and the managerial capacity of women entrepreneurs and their access to formal financial sources; and
- To examine the relationships between resources (financial literacy and managerial capacity of the owner-manager) and access to finance for women owned small firms.

BRIEF METHODOLOGY

Based on the background, the study intended to examine how resources affect access to formal sources of finance for the women-owned small firms operating in Bangladesh. According to the concept of resources, two important resources (financial literacy and the managerial capability) were used to formulate the proposed research framework to examine their impact on the access to formal sources of finance on women-owned small enterprises. The study was mainly the demand side driven rather than the supply side. However, some higher officials of commercial banks were interviewed to get some ideas regarding women entrepreneurs' financing and barriers and challenges for such financing. The study measured financial literacy by adapting 10 questions from different categories. Managerial capability was measured by two dimensions, using 14 items and adapted 11 items to measure financial access.

The research followed both qualitative and quantitative method. The unit of analysis was the women owned small firms. As the list of women owned small firms, including their addresses is not available, the research considered the purposive sampling technique and a structured questionnaire was used for collecting data from the women entrepreneurs. Responses from a total of 344 questionnaires were used for the analysis and the response rate of this survey was 62.46%. Through the quantitative method, the study examined the relationships between independent and dependent variables. Both descriptive and inferential statistics were used to analyze data. The descriptive statistics were used to describe the respondents' profile and the level of financial literacy and managerial capability of women entrepreneurs. For inferential statistics, SPSS version 22 was considered.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Banks Can Consider Reducing the Interest Rate: From the survey it is evident that about 83.45 percent entrepreneurs claimed existing interest rate was high. They also informed that many banks and financial institutions impose different service charges and processing fees in addition to existing interest rate which ultimately enhances their effective rate of interest.

Banks can consider reducing the rate by searching for low cost funds. In this case, Bangladesh Bank, government or any other donor agencies may provide low cost funds to the commercial banks. In addition, banks may offer lower interest rate to the borrowers, who have willingness to accept a collateralized loan contract relative to unsecured loans. Moreover, there may be a credit guarantee scheme which provides guarantee to the banks for risk sharing that ultimately help to reduce interest rate.

FINDING & RECOMMENDATION-TWO

Minimizing the Excessive Collateral Requirements: Banks are less inclined to accept the balance of a checking account, finished commodity, guarantees of another company or a bank and securities as collateral. Survey results showed that 80.81 percent of the respondents considered security and guarantee is the real problem for obtaining loan from the formal sector.

In addressing this problem, commercial banks can finance against the strong personal guarantee and good business prospects. Besides, banks can use collateral substitute such as cash flow-based lending, extensive monitoring, social security, association guarantee, etc.

FINDING & RECOMMENDATION-THREE

Addressing Documentation Problems: Most of the businesses are family oriented and they do not maintain proper documents necessary for their business. From the survey it is observed that 29.36% of the entrepreneurs claimed documentation as the obstacle for accessing finance from the formal sector.

In this connection, banks may prepare their customers and make them understand regarding the types and need of documents. Besides, government and other relevant authorities can ease the documents obtaining process by establishing separate counter for the women entrepreneurs in various departments across the country.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FOUR

Long Loan Processing Time: Most of the entrepreneurs (84.01 percent) claimed that banks take long time to process the loan. Even they had to visit many times to the banks for getting loan.

In this regard, relationship officers should provide the prospective women entrepreneurs a check list in the first interaction so that the borrower might clearly visualize all the loan requirements. In addition, banks may adopt standard loan approving procedures based on information technology and maintaining better information management that may help them to reduce loan processing time.

FINDING & RECOMMENDATION-FIVE

Bankers' Negligence: There was a common statement by the women entrepreneurs that banks are not interested to provide loan to them. However, bankers had disagreements with the statement and argued that they must maintain minimum requirements and to justify the loan.

However, bankers should have good customer relationship, positive and caring attitude towards the women entrepreneurs. On the other hand, banks should follow the central bank instruction to make two entrepreneurs ready in every branch and to provide loan at least one entrepreneur.

FINDING & RECOMMENDATION-SIX

Proper Transaction Record: From the survey it was observed that women entrepreneurs do not maintain proper transaction record. In the survey, 52.61% of the entrepreneurs acknowledged that due to the lack of their accounting knowledge and expert accounting people in their businesses they were unable to keep the record properly.

To eliminate the problem, women entrepreneurs should be encouraged to use proper accounting records on their business transactions by educating them to know the benefit of accounting and financial information. In this case, Bangladesh Bank, commercial banks, SME Foundation, NASCIB, Women chambers and other stakeholders can organize training activity to educate the women entrepreneurs in recording business transactions and preparation of structured financial statements.

FINDING & RECOMMENDATION-SEVEN

Low Level of Financial Literacy: From the finding, it is evident that the level of financial literacy among women entrepreneurs was very low.

Entrepreneurs' should highly concentrate on building such literacy through exercising and participating in financial knowledge and skills development programs available for them. In addition to their own efforts, the government and other related organizations should provide more training to them for enhancing their efficiency level regarding financial literacy. Besides, different trade bodies can also offer some effective training to develop their financial skills and knowledge. Moreover, all other stakeholders, including central bank and the SME Foundation, should design some cost free or low-cost literacy development programs and encourage them to participate as it may enhance their literacy level and subsequently ensure greater access to formal sources of finance.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-EIGHT

Developing Managerial Capability: The finding also revealed that managerial capability is an important predictor for financial access of women entrepreneurs and their managerial capacity was near average.

Hence, women entrepreneurs should develop relevant and required capacities that help them to manage overall businesses operations. They should participate in some capacity development programs currently available to them. The government and other stakeholders should undertake some capacity development programs and provide trainings that are suitable for their capacity enhancement. In addition to that, financial institutions may provide different support services to women entrepreneurs for better management of their businesses such as consultancy services and counseling.

FINDING & RECOMMENDATION-NINE

Better Access to Finance: The survey result showed that 40.70 percent enterprises received loans from banks, while 59.30% enterprises did not receive any loan from the banks.

Therefore, to ensure better financial access, government and trade associations may initiate building a good relationship between businessmen and bankers by participating in discussions, seminars, and symposiums. By developing a close and good relationship among these players, each side will understand and be able to sensitize the problems and constraints of the other side. This is the best way to reduce lack of understanding banking procedures by the businessmen and use of onerous and unfriendly banking procedures on the part of banks in making loans to women entrepreneurs.

TITLE AND AUTHORS

OCCUPATIONAL STRESS AND JOB PERFORMANCE OF EMPLOYEES IN BANKS: BANGLADESH PERSPECTIVE

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OBJECTIVES

- To identify the stress level of bank employees;
- To analyze the sources of occupational stress;
- To examine the relationship between stress and job performance in banks; and
- To find out the ways of reducing occupational stress of bank employees in Bangladesh.

BRIEF METHODOLOGY

The study used primary and secondary data. Primary data were collected from the bankers using a semi-structure questionnaire to examine the level of stress and its impact on job performance of the employees (from officers to EVP rank) in banks during May to November, 2019. Responses from a total 592 sample respondents from 45 different banks (out of 62 banks) were used to analyze the data. “Workplace Stress Scale” developed by Marlin Company, North Haven, CT and the American Institute of Stress, Yonkers, New York were used to measure the stress level. The study used Factor Analysis (FA) data reduction model by SPSS-23. Cronbach’s Alpha test for data reliability and KMO and Bartlett’s Test for sampling adequacy test were used. A multiple regression was developed to show the impact of stress on job performance of employees. Moreover, a Focus Group Discussion (FGD) discussion was conducted with the heads of Human Resources Department (HRD) and Bangladesh Bank (HRD-1) to understand the level of stress, occupational stress measurement, and policy initiatives to reduce or optimize occupational stress of the employees in banks.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Target Fulfillment: Higher target fulfillment is one of the main sources of occupational stress of the bank employees. The targets include deposit mobilization, disbursement, recovery and others.

The target should be fixed based on the rational industry growth rate in Bangladesh. Top management should turn their attitude from target fulfillment to business sustainability.

FINDING & RECOMMENDATION-TWO

Working after Office Hour: Working hour is another source of occupational stress.

It should be strictly enforced by the management that bank employees do not have to stay at office beyond the standard working hours, except in case of emergencies.

FINDING & RECOMMENDATION-THREE

Role Conflict: Role conflict between the line manager and the employees is another key source of occupational stress. Role conflict indicates that line managers demand different types of work at different times that mismatch with the employees' usual work.

The branch managers should assign roles among the employees aligned with their job descriptions.

FINDING & RECOMMENDATION-FOUR

Role Overload: Supervisor or line managers demand excess work, effort and responsibility from the employees in the bank branches or head offices. Line managers mostly rely on few employees to fully complete the jobs, which automatically creates imbalanced role distribution among the employees in the department.

Trustworthy, efficient and ethical employees should be developed by moral guidelines and counseling.

FINDING & RECOMMENDATION-FIVE

Unwanted Promotion: Undeserved promotion of colleagues is a source of occupational stress of bank employees. Employees who are not qualified for promotion are getting promotion. This situation creates stress on employees who are qualified enough and are also taking more stress.

Undeserved promotion should be eliminated. Promotion should be given to the qualified employees only. Top management should not allow any kind of nepotism, persuasions and references.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-SIX

Poor Relationship with Supervisors and Peers: Absence of good relationship between supervisor/line managers is another source of occupational stress employees. Friendly environment among the employees in the department/branch is necessary for increasing productivity in the organization.

To reduce poor relationship with supervisors and peers, frequent meetings among the supervisors and employees can be organized. Further, open door policy for handling employees' grievances can be used in the department/branch.

FINDING & RECOMMENDATION-SEVEN

Technological Up-gradation: Bank's internal technological un-gradation is happening frequently. Changing work environment due to technical up-gradation is also creating stress among the employees.

State-of-the-art and long-term based software and technological set-up are required to reduce this occupational stress of bank employees. Moreover, proper training on software and technological up-gradation is necessary to address its impact on employees' occupational stress.

TITLE AND AUTHORS

COMPETITION, CONCENTRATION AND BANKING SECTOR STABILITY

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OBJECTIVES

- To review the policies and practices relating to competition, concentration and banking sector's stability;
- To investigate the status of competition and concentration in the banking sector; and
- To assess the impact of competition and concentration on the stability of banking sector.

BRIEF METHODOLOGY

The study is based mainly on secondary data. The data were collected from Bangladesh Bureau of Statistics (BBS), Bangladesh Bank, Ministry of Finance and the balance sheets of individual banks in Bangladesh. The study used a panel regression model to understand the relationship between concentration and stability of the banking sector in Bangladesh for the period 2014-2018. The study constructed a unique balanced data set, using the bank level annual data comprising seven SOCBs, thirty eight PCBs and seven FCBs. Two panel regressions were estimated with each regression having measures of stability, Z-score and NPL ratio as dependent variables along with the set of bank-specific variables, concentration index and macroeconomic indicators as independent variables. Besides, the researchers also interviewed industry experts and academics to enrich the quality of the study.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

All-Purpose Banks: In the banking sector, every bank has become All-Purpose Banks and all are trying to make business in all areas. As a result, the market share is divided among all the players and no one can enjoy the benefits of niche market operation.

Bank owners and management can think of segmenting their market effectively and targeting them through innovative products.

FINDING & RECOMMENDATION-TWO

The Nature of Competition: The competition apparently seems to be aggressive in some banks of Bangladesh, though the desired one should be progressive. Due to the unhealthy state of the competition, banks are facing problems in their operations.

The senior management and Board should device policies and strategies for making the competition peaceful. In this regard, the central bank, along with other stakeholders, can strengthen the regulatory requirements and may formulate policy, if needed.

FINDING & RECOMMENDATION-THREE

Adoption of Technology: A zone of competition is present in terms of technology adoption to the core banking operation. Proactive banks always want to make sure the comfort of their customer due to the continuous changes of technology. Pioneers are always ahead in this regard.

There still remains ample scope of integrating all banking activities under the digitization efforts to foster smooth operation and facilitate customer transaction.

FINDING & RECOMMENDATION-FOUR

The Nature of Concentration: The Indices derived in the study clearly indicate that the banking sector is moderately competitive and concentrated. But, there are some kinds of concentration in different functional areas among different group of banks. The majority of the market players are not competing enough in all the areas. It may invite instability in the long run.

Bank management should think of diversifying their operations in all the prospective areas, so that they become stable in the long run which will be beneficial for the overall banking sector.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FIVE

Formation of Financial Stability Council: Globally, in many developed and developing countries, no single statutory authority or body is explicitly tasked with the responsibility for ensuring financial stability. For instance, they have already formed Financial Stability Council, Inter-Agency Forum etc., comprising key regulators with joint responsibility. In some cases, the roles and responsibilities of each of regulators in promoting financial stability has also been clarified in the enacted laws.

In Bangladesh, it is high time to form Financial Stability Council with joint responsibility to ensure long run financial stability of the country.

FINDING & RECOMMENDATION-SIX

Introducing Innovative Instruments: Different countries of the world have introduced many tools like Financial risk dashboard, Systemic risk survey, Annual industry-wide stress test, Early warning systems, Credit conditions, market expectations surveys, Probability-of-default model for large corporate borrowers, Evolution of real estate prices, Indebtedness and currency mismatches in the corporate sector, etc. in search of banking sector stability.

The regulators and policy makers of the banking sector in Bangladesh might consider introducing the above tools, where applicable, to ensure the banking sector stability.

TITLE AND AUTHORS

SALE OF NATIONAL SAVING CERTIFICATE: BENEFICIARIES AND INTEREST RATE MISMATCH

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Monograph

OBJECTIVES

- To see the trends of instrument-wise sale of NSCs at different points of time;
- To identify the composition of beneficiaries in terms of instrument, gender, occupation, and income level;
- To examine the interest rate structure and thereby identify interest rate mismatch; and
- To determine the impact of interest rate differential, gross national income, market return and income tax rate on investment in national saving certificates.

BRIEF METHODOLOGY

Both primary and secondary data were utilized in this study. Secondary data were collected from the Bangladesh Bank, the Directorate of National Savings and the Ministry of Finance, GOB. A survey of the individual investors was conducted using a questionnaire to examine their motives/behavior and perception behind the purchase of NSC. Sample respondents were selected from Dhaka city in such a way that it included all possible varieties in terms of gender, age, profession, types of saving instruments and educational level. The study also covered the users from all categories of transaction points such as NSD, Post Office, Commercial bank, and Bangladesh Bank. Samples were selected in different days in different trade centers. Responses were taken from the investors through face-to-face interviews to get unbiased results. So, applying the randomness as well as convenience, the study survey included the opinion of 246 investors in NSC. In analyzing data, CAGR, ratios, simple growth rate, etc. were applied, and both tabular and graphical approaches were followed. Afterwards, an econometric analysis were conducted to know the impact of interest rate differential, gross national income, market return and income tax rate on investment in national saving certificates.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Status of National Saving Certificates in Bangladesh: Among the 17 saving instruments available in the country, investment was concentrated into a few instruments, namely, family saving certificate, 3-monthly profit bearing saving certificate, pensioner saving certificate, 5-year saving certificate and post office fixed deposit account. Investment in these saving certificates was increasing steadily year on year basis which was evident from CAGR.

Concentration of selling securities in few instruments might be burden in future as the government entails to pay a good amount of money at a time. Additionally, benefits were also going to, more or less, to the same group of people. Authority might think to encourage people to buy instruments with different duration and structures by changing some existing features of instruments, if necessary.

FINDING & RECOMMENDATION-TWO

Instruments-wise Outstanding Amount of NSCs and Interest Rate: In 2010, the highest amount of outstanding stocks was in the form of 3-monthly profit bearing savings certificates (Tk. 235.95 billion), followed by Post Office Fixed Deposit scheme (Tk.116.66 billion) and 5-year Bangladesh sanchayapatra (Tk. 114.39 billion). Pensioner sanchayapatra and wage earner development bond were two other widely bought savings instruments. In 2018, the highest amount of outstanding stocks was in the form of family savings certificates (Tk. 917.41 billion), followed by 3-monthly profit bearing savings certificates (Tk. 590.92 billion) and Post Office Fixed Deposit account (Tk. 284.30 billion). After experiencing declining trends from 2010 to 2013, the 3-monthly profit bearing sanchayapatra and Post Office Fixed Deposit account registered steady growth up to 2018. Among all the savings certificates, family savings certificate witnessed extraordinary growth amounting Tk. 917.41 billion in 2018 compared to only Tk. 0.85 billion in 2010. Among the instruments, 5-year Bangladesh sanchayapatra experienced steady growth during 2010-2018. Considering the compound annual growth rate (CAGR) of all the instruments for the period of 2010-2018, family savings certificate ranked the top (CARG 117.41%).

As Family Savings Certificate got huge acceptability, authority might examine whether investors of this instrument belonged to the target group of people of the society. Additionally, as mentioned in recommendation 1, some features of this saving instrument might be added to the other instruments for enhancing their popularity among savers.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-THREE

Original Budgeted Amount of Borrowing and Actual Amount of Borrowing by Government through NSCs: Government's borrowing through NSCs exceeded the original budgeted amount in some of the years during 2007-2018. In 2010, the actual amount of borrowing was more than 3.5 times than the original budgeted amount. The reverse situation was, however, observed during 2011-2013 when actual borrowing was far less than the original budgeted amount. In 2012, government borrowed only 4% of the budgeted amount through NSCs, followed by 11% in 2013. In 2007, government borrowing through NSCs was exactly at par with the original budgeted amount. The amount of both budgeted and actual borrowing through NSCs increased over the year 2007-2018. During this period, CAGR of original budgeted amount of government borrowing through NSCs was 24.96% t which was 29.92% for actual amount of borrowing.

Government may consider to reduce the gap between initial budgeted amount of borrowing through selling certificates and actual amount of borrowing so as not having to pay excess interest payment on the savings instruments.

FINDING & RECOMMENDATION-FOUR

Deposit (FDR)-NSCs Ratio: The outstanding amount of FDR was higher than that of NSCs for the entire period of 1998-2018. Although FDR-NSCs ratio declined during 2001-2002, it showed increasing trend after 2002 and continued till 2013. Again, the ratio started to decline from 2014 and continued till 2018.

Banks might contemplate to add new financial and non-financial features with deposit schemes, to thereby motivate savers to invest a substantial portion of their funds against FDR besides parking in NSCs.

FINDING & RECOMMENDATION-FIVE

Anatomy of investors of NSCs: The majority of the investors of NSCs (65%) were relatively educated (undergraduate or above), and over half (53%) of them were aged 30-50 years. Housewives, service holders (private and public), and retired employees were the major purchasers of NSC. Major sources of income for purchasing sanchayapatra salary income, previous savings, business income, house rent, and transfer income. Higher interest rate and the feeling of security were the two major factors affecting buyers' decision. Bank deposit was ranked at the top of the list of alternative forms of savings, followed by investing in business and physical asset. 'ParibarSanchayapatra' and Quarterly Profit/ Interest Based Sanchayapatra were the most popular instruments among all other types of NSC because of the highest interest rate and the facility of withdrawal of interest on a monthly basis. A large variation among the individual investors was found in their dependence on sanchayapatra income for maintaining their livelihood. About 20% of NSC holders were depending heavily on NSC income to the extent from 80% to 90% of their total family expenditure. It was hard to get the real expectation of the people about the future movement of sanchayapatra interest rate because of their unwillingness to accept a lower interest rate in the future.

Availability of various NSCs was necessary for the marginal savers with a sensible rate of interest rate. In this connection, an analysis can be carried out to find out how and to what extent the target investor groups benefitted from investing their hard-earned money, or whether benefits are going to the pockets of influential groups of the society.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-SIX

Smoothing of NSC Operations and Availability of NSCs: Although the respondents did not mention major difficulties while purchasing NSCs, they pointed out that purchasing and encashment of benefits took relatively more time.

Purchasing and encashment of Sanchyapatra could be made less time consuming through full automation of the system and deployment of additional manpower, if needed.

FINDING & RECOMMENDATION-SEVEN

Interest Rate Mismatch between NSCs and Banking Deposit Instruments: To examine the FDR of 3-year with NSCs of either 3-year term or 5-year term, it was found that interest rates of 3-year FDR relative to aforesaid NSCs affected the sale of NSCs moderately. Another important point to note is that the interest rates of NSCs remained almost fixed for a long time. In fixing interest rates, banks had to adjust their rates with NSCs for attracting deposits to meet their funds requirements, even sometimes ignoring monetary policy stance. However, interest rate differential of NSCs over 3-year FDR rate was not as much as it was claimed to be. The interest rate on NSC of 3-year Three Monthly Profit Bearing Sanchayapatra and FDR of 3-year & above were 11.04% and 10.17%, respectively, at the end of June 2018.

Interest rates of all saving instruments were always expected to be fixed by the market, as it was a core objective of Financial Sector Reform Project (FSRP) held in 1990s. A coordinated approach among all stakeholders would be required for keeping interest rate differential at a minimum level.

FINDING & RECOMMENDATION-EIGHT

Impact of interest Rate Differential, Gross National Income, Market Return and Income Tax Rate on Investment in NSCs: A significant long run positive association between gross national income and investment in NSC was found. Also, increasing access of safety net programs to multiple groups along with growing aging population attributed to the huge amount of investment in NSCs. A similar inference was also found between rate of income tax and investment in NSC, as co-efficient showed positive sign with significant t-value. Rich people with high tax bracket were increasingly investing a substantial amount of their savings in NSC. Interest rate differential between NSCs and FDR was not found statistically significant determinant for investment on NSCs. Finally, share market return was showing statistically insignificant positive impact on NSC investment, which was not matching with the theory.

The government may consider the aforesaid empirical evidence for its policy formulation with a view to sourcing funds for its development programs from general public through sale of NSCs.

TITLE AND AUTHORS

AN EVALUATION OF HUMAN RESOURCES OF IT DEPARTMENTS IN BANKS OF BANGLADESH

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OBJECTIVES

- To evaluate the current status of HRM of IT department in banks;
- To analyze the gap between expected and actual quality and performance of employees in IT departments;
- To evaluate the occupational hassle, mental, physical and financial health of IT professionals of banks;
- To assess the job contentment of professionals belonging to IT department on the basis of some selected indicators;
- To compare IT employees with Business Employees (Non-IT) in all aspects of HRM; and
- To suggest some course of actions for better IT employee management.

BRIEF METHODOLOGY

Both primary and secondary data were utilized in this study. Primary data were mainly collected from the IT and business departments of banks through a semi-structured questionnaire. Questionnaires were sent to all heads of IT and HRD of the banks of which 43 questionnaires from head of IT and 18 questionnaires from head of HRD were received. This study covered 8 government banks and 35 private commercial banks including 5 Islamic banks. Separate set of questionnaire were sent to IT and business employees of banks who were selected by using Stratified Random Sampling technique. Two focus group discussions (FGD) were held with heads of IT and HRD, separately. Regarding secondary data, various publications of BB, BB circulars, annual reports of banks, previous reports of BIBM on HR review and policy guidelines, and related published research articles were reviewed.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

ICT HR Management Budget: Still banks have been facing a lot of problems regarding IT employee management due to dearth of long term visualization, proper design and initiatives, scarcity of manpower, meager IT budget, and lack of appropriate and advanced training.

To overcome these problems, bank should allocate certain portion of their annual profit for ICT HR development budget to be used for ICT manpower development and keep them updated about contemporary technology. Leadership quality and efficacy of IT project execution team should be developed for successful design and implementation of banking computerization projects.

FINDING & RECOMMENDATION-TWO

Skill Development: Budget for training, security and audit were very low in last five years, though it slightly increased for security in 2018. By ignoring these three sectors, it is not possible to ensure better security for banks. About 3% of total IT budget was spent for training purpose and CTOs are not pleased regarding this matter.

Bank administration should increase their level of understanding and appreciation that there is no substitute to improve ICT skill in banks because ICT is swiftly changing platform and more sophisticated and diversified Cyber-attacks/frauds are also increasing. IT management should improve their communication skill to influence executive management that there is no alternative to cultivate ICT skill (particularly on IT Governance, IT Project Management, Network and Database Administration, IT Audit, IT Risk Management and IT/Cyber Security).

FINDING & RECOMMENDATION-THREE

IT Roadmap for HR development in IT: Research shows that 88% of the banks did not have a documented and approved IT Roadmap for IT professional development while only 12% had some level of IT Roadmap for IT professional development but those roadmaps were not formally approved by the Management/Board.

A technology roadmap for IT professional should be formulated by bank management that can help the CIO to perform more in line with the business strategy of the institute.

FINDING & RECOMMENDATION-FOUR

Technology Awareness among Top Level Executives: Top management of banks was not up to date with the latest high-tech development, resulting a gap between them and banks' IT employees.

To overcome this gap, Bangladesh Bank or BIBM may arrange IT Awareness Programs for Top Level executives and Bangladesh Bank may enact a guideline to ensure that every year MD and DMD of every bank take part in IT awareness programs.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FIVE

Physical Health of IT Employees: There were various health problems like overweight, blood pressure, diabetes, eye sight problem, spinal cord problem, spondylosis, back pain, chronic headache, etc. of IT and business employees in private and public banks.

Refreshment time might be increased to reduce such health problems. Regular health checkup is essential for employees. Mandatory health insurance can be imposed for every employee. Awareness may be increased among IT employees of having balanced food and avoiding the habit of taking fast food to prevent overweight problems.

FINDING & RECOMMENDATION-SIX

Mental Health of IT Employees: On an average IT employees work for 10-12 hours. Even at mid-night and on holidays they have to work to run the online banking business.

Long working hours reduce the productivity and efficiency of IT employees. It is needed to ensure IT employees take regular breaks. Even if it's just 5 to 10 minutes to go and grab themselves a brew or have a chat, it'll give them a chance to refresh. Banks may ensure holiday and leave facilities for their IT employees.

FINDING & RECOMMENDATION-SEVEN

Financial Status of IT Employees: Business employees are getting more salary than IT employees in both private and public banks. Although the salary deviation is not too high, private employees always expect higher salaries compared to those in the public sector. Overall economic status of IT and business employees is very close. However, the non-monetary benefits of IT employees are unsatisfactory.

Management can consider this issue seriously to overcome this problem. Special allowance can be given to compensate IT employees for extra works beyond office hour and on holidays to minimize this gap.

FINDING & RECOMMENDATION-EIGHT

Job Satisfaction Factors: We found the most important factors that affect job satisfaction of IT employees are 'Financial Rewards and Opportunities for Promotion', 'Training and Employee Development Activity', 'Challenges Toward the Working Environment', 'Variation in Core Duties', 'Leadership Capacity', 'Boring Lifestyle', 'Transportation Facilities' and 'Workload Balancing'.

Management may consider these factors to make their employees skilled, happy, loyal, productive and efficient in their professional life.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-NINE

IT Employee Turnover: If employees are not satisfied about their job, unrest may prevail hampering security and operations of the banking sector. Employees change job for various reasons. Career development (40.7%) and job safety (39%) are the two main reasons why staff change jobs. Around 30% IT professionals changed their jobs 1 to 3 times, 23% 4 to 6 times and only 14% (mainly the top level professionals/head of IT) more than 7 times. One third IT employees did not switch job (most of them are newly recruited professionals who have been waiting for experiences and looking for better opportunities).

To reduce the turnover rate it is needed to recruit right people following a transparent selection process. Then the recruited employees need to be trained. After a certain period of time job rotation is required to avoid stickiness to a specific desk. On time and escalated promotion (if necessary,) financial benefits like competitive salary, bonus and on time increment, recognition and reward may motivate them for better job satisfaction resulting in reducing turnover rate.

FINDING & RECOMMENDATION-TEN

Development of Central Database for Employees: There is no central database of the employees working in the banks. For recruitment at the top management post such as MD/CEO, commercial bank requires Bangladesh Bank's approval. In that case, BB conducts 'fit test'. BB checks employment history from very beginning of his/her career. Absence of central HR database makes it difficult task for BB. Moreover, a central HR database can help the commercial banks to check the employment history, fraud and forgery, ethics and integrity, qualification, career progress, switching rate of the employees etc.

It is recommended for developing a central HR database either with the joint collaboration by the banks or BB may develop it.

FINDING & RECOMMENDATION-ELEVEN

Development of an Employee Association: To protect against unethical pressure for quitting job, grievance handling and protection of employee rights, it is necessary to establish an Employee Association like CBA/Trade Union. About 50% employees (both IT and business) have opined that there is need for Employee Association to protect their rights.

In this regards, employees of all banks may come forward to establish a Central Employee Association to unite them under the same umbrella. Individual bank employees may also establish an Employee Association within the bank.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-TWELVE

Role of BIBM: IT Heads of 83% banks demanding more contribution of BIBM and agreed that in-depth training can be provided to IT employees by BIBM.

BB may provide necessary assistance to BIBM to equip more ICT related manpower and resource. Blending program can be organized jointly by software and hardware vendors (IBM, Oracle, Microsoft, Cisco, etc.), skilled IT professional of different banks and academicians from different organizations (in home and abroad). Specialized training, certification (like certified E-banker) and post graduate program (like Masters in E-banking) for IT professionals of banks may be directed by BIBM. BIBM may invite the senior executives of different banks frequently for dissemination of changing knowledge regarding IT.

FINDING & RECOMMENDATION-THIRTEEN

Developing a Specialized IT Institutes for Banks: BB has been operational for a long period to raise the overall IT frame of banking sector. Suitable guidelines and monitoring of BB has also been aiding for the development of the IT departments of different banks. IT Heads of 83% banks demanding more involvement of BB to develop this sector and agreed that banking sector should have a separate specialized institute of IT for gathering technological knowledge and sharing electronic banking experiences, problems and way out.

A specialized Information Technology Institute like IDRBT (Institute for Development and research in Banking Technology), India, may be set up for the purpose of Research, Development and Consultancy in the area of Banking and Financial Technology. BB, with the help of BIBM may take initiatives in this regard and may form a committee taking member from the schedule banks to take necessary steps to setup the institute.

Briefs on
Review Reports on Key Functional Areas

TITLE AND AUTHOR

REVIEW OF CREDIT OPERATIONS OF BANKS

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OBJECTIVE

- The main objective of this study is to review different aspects of credit operation of banks in 2018.

BRIEF METHODOLOGY

The credit operations in banks in 2018 have been reviewed, using both primary and secondary data. Primary data were collected by administering a semi-structured questionnaire. Although the questionnaire was sent to the heads of credit/credit risk management department of all banks were respondents, filled-in questionnaires were received from 32 banks consisting State-owned Commercial Banks (SOCBs), Private Commercial Banks (PCBs) including Islamic Banks, and Foreign Commercial Banks (FCBs). Secondary data sources include various publications of Bangladesh Bank like Bangladesh Bank Annual Reports, Economic Trends, Bangladesh Bank Bulletin, Scheduled Banks Statistics, newspapers, and circulars and manuals of Bangladesh Bank. Five cases on different issues regarding credit operations were analyzed to get an insight into the causes of success/ failure. The policy brief was finalized by taking into account the opinions given by the discussants and participants of the review workshop.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Decreasing Agriculture Loan: The amount of loan to the agriculture sector fell 9 percent year-on-year to Tk 7,475.60 crore between July and November, 2018. The ongoing liquidity crunch in the banking sector has left an adverse impact on the disbursement of farm loans, thereby creating difficulties for farmers in growing crops.

Apart from SOCBs and SBs, private and foreign banks were required to come forward to provide necessary financing to the agriculture sector. Notably, each bank is responsible to follow the central bank's policy of setting aside at least 2 percent of their total loans for the agriculture sector. Private and foreign banks might also go for wholesale banking in collaboration with SOCBs and SBs to fulfill the aforesaid regulatory requirements.

FINDING & RECOMMENDATION-TWO

Punishment for Habitual Defaulters: As of September 2018, the ratio of NPLs stood at 11.45 percent of the total outstanding loans. Habitual defaulters were the main perpetrators. When banks stepped into realizing the defaulted loans, the habitual defaulters went to courts and created an impediment to recover the default loans. Almost Tk. 75,000 crore of default loans was pending with the money loan courts till September 2018 because of the long drawn-out process to settle the cases.

A concerted initiative of the Government, Bangladesh Bank and commercial banks was required to be undertaken immediately to give exemplary punishment to these willful defaulters. Existing Artha Rin Adalat Ain 2003, if necessary, might be reformed to collect default loans within a short period of time. The authority concerned might also set up a dedicated bench with the High Court to settle the cases pertaining to default loans.

FINDING & RECOMMENDATION-THREE

Finding out Buyers for Selling Mortgaged Assets: In most cases, the banks failed to find buyers for the mortgaged assets after getting decrees in their favor to float tenders to sell the mortgaged assets when defaulters were unable to make payment in line with verdicts.

In this situation, keeping provision in the Act is necessary to get the ownership of the mortgaged properties very shortly if banks applied for ownership on this asset.

FINDING & RECOMMENDATION-FOUR

Sanctioning Loan without Matching Cash Flow: Amount of cash flow generated from operation of business is required to be analyzed carefully for understanding the movement of cash throughout the year; however, this was not done in most cases.

Therefore, banks should examine borrower's Cash Flow to make sure about the borrower's capacity to repay the loan. Banks may meticulously calculate the four ratios as per the Internal Credit Risk Rating (ICRR) system, depending on accurate information for knowing the repayment capacity of the borrower.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FIVE

Non-Consideration of Global Liability in Assessing Credit Proposal: While allowing credit facilities to a customer, the exposures of the group with other bank(s)/financial institutions are not being taken into consideration in many cases resulting in excess fund going to the customer which are used in non-business sector.

While sanctioning credit facilities to a group, it is necessary to undertake assessment of borrower's overall debt repayment capacity. Bangladesh Bank (BB) may consider to circulate the names of borrowers among banks, who have global exposures amounting to Tk. 100 crores and above or any amount the BB feels reasonable.

FINDING & RECOMMENDATION-SIX

Unhealthy Competition among the Banks: Unhealthy competition among banks regarding giving loan has resulted in vulnerability in the banking industry, as most such loans became defaulted. Also, in the process of unhealthy competition, banks provided money to borrowers beyond the borrowers' eligibility.

Guideline for loan takeover might be introduced by the regulatory authority. Besides, banks must analyze the borrowing company's business capacity, yearly turnover and reason behind transferring loans to another bank.

FINDING & RECOMMENDATION-SEVEN

Lack of Accountability of Security Assessor: The security assessors are free from accountability for assessing value of the security. Though collateral is secondary protection, it gives comfort to the banks. At the time of disposal of collateral, it was found that the assessed value was much higher than the actual value. Moreover, they did not confirm about control of the owner on the collateral security.

Therefore, collateral security assessor should be brought under accountability. The assessor must comment on control on the collateral security, as well.

FINDING & RECOMMENDATION-EIGHT

Absence of Accountability of Bank's Lawyer Regarding Forged Land Documents: The borrower sometimes places fake land documents to obtain loan. Lawyers did not give clear opinion on the genuineness of the ownership of the collateral property and its chain of documents.

Therefore, lawyers must be brought under accountability. For any unprofessional declaration, lawyer's business license should be challenged with Bar Council.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-NINE

Scarcity of Financial and Industrial Data: Scarcity of reliable and efficient source of industry data, including price verification, have long been impeding the credit operation in banks. In most cases, bankers prepare fresh financials with inputs obtained from the clients' logbook or even from interviews with borrowers.

Therefore, banks may create data bank with relevant information for its own use by collecting data from suppliers, buyers, employees, spouse of the borrowers, etc. Banks may gradually go for 'Tablet Based Banking' for collecting and storing data safely. Private sector can also be motivated to act commercially as the suppliers of reliable data along with the verifier of information. Bangladesh Association of Banks (BAB) and Association of Bankers, Bangladesh (ABB) can take joint initiative to create a reliable data bank where BIBM can also contribute. Notably, BIBM has already taken an initiative for creating a reliable data bank with macro, bank and share market specific data.

FINDING & RECOMMENDATION-TEN

Rise in Written-off Loan and their Recovery: The average written off loan as percentage of total loan in 2018 was 12.77 percent, significantly higher than in 2017 (4.64%); however, regarding recovery of written off loan, it was 4.28 percent in 2018 compared to 7.26 percent in 2017. Therefore, it is evident that the written off loan as percentage of total loan increased whereas the recovery rate of such loan decreased in 2018 compared to 2017.

Therefore, banks should take reasonable action to reduce NPL so that the amount of written off loan will reduce through proper borrower selection, marketable security, strong third party or corporate guarantee, loan for productive purpose. On the other hand, after loans have been written off, vigorous recovery strategies should be implemented for collecting loan.

FINDING & RECOMMENDATION-ELEVEN

Cluster Financing: In different parts of the country, multiple clusters are producing a variety of products like footwear, electrical, plastic, agar-attar, light engineering, handloom and cricket bat. Had financing been available at flexible terms and conditions with lower interest rate, clusters would have become the center of development of MSMEs. For ensuring the regional development across the country, cluster financing was initiated and encouraged by BB.

Banks may finance directly to clusters or they can go for whole sale financing with collaboration of banks and NBFIs in financing MSMEs. At present, banks are accepting personal guarantee, land, building, machinery, hypothecation of goods, third party guarantee, registered mortgage of immovable asset, etc. in cluster financing. Banks may go a step forward to finance different clusters without taking collateral security but accepting social security and maintaining close relationship with cluster leaders and enterprise owner.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-TWELVE

Loan to New Sectors: In 2018, 20 percent banks disbursed loan to new sectors/industries whereas 80 percent banks were confined to old business. Compared to 2017, a negative attitude was found among the banks in disbursing loans to new sectors, which actually decreased in 2018 by 54.55 percent. This trend indicates that banks are showing least interest to finance new sectors.

Therefore, banks should come out from this mindset. In yearly revised credit policy, each bank may keep a certain percentage of funds for financing new sectors and factories. If possible, a separate fund can also be created from each year profit amount of banks to finance new sectors.

FINDING & RECOMMENDATION-THIRTEEN

Corporate Governance in Banks: Absence of good corporate governance in banks is a strong barrier to maintain quality of credit operation in banks. Intervention of directors in day-to-day functions of banks was a regular phenomenon in several banks in 2018. This intervention creates moral hazard, creates daisy chain in credit operation and deteriorates the financial health of respective banks.

Therefore, roles and functions of the board and management must be practiced as per the definition and clarification given in Bank Companies Act (Amendment 2013) 1991 and Guidelines on Credit Risk Management (CRM) for Banks, 2016. Additionally, the government may fix a set of qualities before appointing somebody as director in SOCBs and DFIs. BB may closely monitor the progress of different classes of Memorandum of Understanding (MoU) with SOCBs and DFIs to strengthen corporate governance and quality of credit operation in banks.

FINDING & RECOMMENDATION-FOURTEEN

Financing Single Client by Multiple Banks: Financing large corporate businesses by multiple banks leads to excessive loan amount over requirements. It allows borrowers to divert excess funds to other purposes mainly in speculative businesses or in procuring properties. In this situation, borrowers fail to generate sufficient cash flow from its operation to service debt. It compels borrowers either to become default or to repay loans of one bank by the fund borrowed from another bank.

Examining the existing credit facilities with all banks along with proper credit need assessment before sanctioning any new loan amount is sine-qua-none to avoid this situation. Apart from checking CIB report from BB and collecting NOC from existing lending banks, close communication among banks may be helpful. Club financing could have been useful in this regard.

FINDING & RECOMMENDATION-FIFTEEN

Waiving Interest: Interest waiving against bad loans adversely impacts good borrowers and encourages habitual defaulters. This exemption raises the question about due diligence by banks while sanctioning loans.

Therefore, banks may be very selective in waiving interest rate and it must be in line with BB's direction.

TITLE AND AUTHOR

REVIEW OF TRADE SERVICES OPERATIONS OF BANKS

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OBJECTIVES

- To discuss overall activities of trade services operations of banks for the year 2018;
- To discuss regulatory aspects and operational issues of trade services by banks in Bangladesh; and
- To identify the key challenges of trade services operations for future course of action.

BRIEF METHODOLOGY

The study is based on both primary and secondary data. Secondary data were obtained from different publications related to international trade payment and finance practices, including ICC documents and publications/reports of BB and MOF. Primary data were collected, using a questionnaire survey with both open-ended and close-ended questions. The surveyed sample banks and selected AD branches of commercial banks were selected purposively, based on four considerations: (i) trade payment and finance practices of banks; (ii) AD branches that are involved in all types of and large volumes of trade payment and trade financing transactions; (iii) different administrative divisions of the country; and (iv) practices within and outside EPZs, and trade services under on-shore and offshore arrangement. Of the different region, trade services issues of Chattogram were specifically focused. The survey was administered in 40 head offices/ major branches - 20 commercial banks located in Dhaka, and 20 branches of banks in other divisional towns. Sample banks included 2 SCBs, 16 PCBs of different generations, and 2 FCBs. Five offshore banking units were also covered. Interviews were conducted with the dealing officers and in-charge of foreign trade divisions of the selected bank branches.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Local Regulation to Complement UCP 600 for Effective LC Operation: Letter of Credit (LC) remained the most widely used method of payment in the country. And there are also several instances of malpractices and fraudulent activities associated with LC operations. Poor drafting of LC clause became a matter of concern to many of the trading partners. As an extensive user of LC, the country's practices are examples to many of the key stakeholders in the globe. In spite of the improvement, there are instances of delay in payment and spurious discrepancies in handling documents under LC.

For handling fraudulent activities in LC, there should be applicable supportive local laws/set of rules alongside universally accepted guiding rules like UCP 600. Time has come to have separate LC law for the country. This can be achieved either by enacting separate law like in USA, China and Vietnam. A separate bench in the court may be needed to ensure effective use of regulatory machinery in the circumstance of growing complexity. It is also essential to work on the poor drafting of LC clause to uphold the country's reputation for due competitiveness.

FINDING & RECOMMENDATION-TWO

Use of Bank Guarantees and UPAS: There have been evidences and symptoms of increasing cross border bank-guarantee practices over the last few years. Though there are reporting arrangements of the BB, the true exposures of international bank guarantees by banks cannot be identified from these. In offshore banking, UPAS remained the key component on the asset side, and the volume increased. Though the total volume of short-term and long-term foreign loans facilitated by banks increased consistently, the growing trend of short term credit was particularly visible.

Time has come to identify the exposure of banks on international bank guarantees; and it seems crucial now to formulate guideline/sets of rules for international bank guarantees and adopt international rules associated with international bank guarantees and standby LC. The volume of short-term foreign currency exposures are not high considering the country's foreign exchange reserves; however, the increasing trend needs to be monitored consistently.

FINDING & RECOMMENDATION-THREE

Legally Enforceable Purchase-Sale Contract: In most cases, the contract or purchase-sale contracts have not been legally enforceable for ensuring optimum protection of the traders. Traders do not have adequate awareness on the issue. For sound purchase-sale agreement, it is essential to have coverage of a regulatory framework.

Alongside ratifying the UN Vienna Convention on Contract of Sale, there should be clear instructions in regard to the other non-ratifying countries on legal coverage. BB may also revisit the four-month repatriation requirement in export transactions considering some recent challenges associated with usance payment arrangement.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FOUR

Addressing the Challenge of Correspondent Banking Relationship: The impact of the de-risking has now rebounded to some extent with the intervention of some development institutions to bridge the gap between uncertainty in regulator expectation and compliance program of global correspondent banks. However, the role of certain banks as advising bank, nominated bank under LC, and collecting under documentary collection changed remarkably. Some traders and banks in Bangladesh were also facing challenges.

Multinational banks and major trading partners need reliable information to have confidence on the banks of the country. BB may think of assessing and publishing status report on de-risking measures and correspondent banking relationship every year.

FINDING & RECOMMENDATION-FIVE

Addressing Trade Based Money Laundering (TBML) and Challenge of Identifying Fair Prices: Incidences of TBML remain a growing concern for policy makers and central banks across the globe. Though the available sets of AML rules in the country are in line with globally accepted standards, still there is lot of scope to improve their enforcements. BB is working on a TBML guideline which is expected to bring positive changes regarding better enforcement of the AML rules.

Greater use of LC offers better protection, monitoring and control of the regulatory authority. Bangladesh is having favourable circumstance in this connection. Any attempt to move towards open account in line with global trend might prove to be risky from the point of view of TBML. As banks have obligation of ensuring the 'competitive' prices of importable items and 'fair' prices of exportable, banks have to find out an effective mechanism to implement the obligation.

FINDING & RECOMMENDATION-SIX

Promoting the Use of Technology and Capacity Development: The market transformation of international trade is bringing notable alteration in the trade services techniques. Adoption of technology and modernization has no alternative. Time has come to undertake preparatory work to keep pace with on-going global trade digitization movements and embracing distributed ledger technology for efficient trade services and addressing related financial crimes.

It is time to ensure adequate support for the market participants to embark on modern technology in the process of trade services facilitation. Alongside investing on capacity development of the bank executives, awareness initiatives for the traders should get due emphasis to ensure competitiveness and to minimize risks in trade services by banks.

TITLE AND AUTHOR

REVIEW OF TREASURY OPERATIONS OF BANKS

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OBJECTIVES

- To discuss the conceptual issues of treasury operations in banks;
- To describe the regulatory framework of treasury operations;
- To find out the different functional areas and activities performed by the treasury department of banks; and
- To identify challenges faced by treasury departments of banks and to put forward some recommendations.

BRIEF METHODOLOGY

To review the treasury operations of banks in Bangladesh, both primary and secondary data were used. A questionnaire was designed to collect primary data from different banks. For this purpose, a total of 50 banks were selected. However, only 22 banks sent responses to the questionnaire. Secondary data were collected from different departments and various publications of Bangladesh Bank, Annual Reports of commercial banks and published literature mainly from the period 2014 to 2018. Besides, treasury manuals of different banks were reviewed. The responses from the banks were compiled and analyzed.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Coordination Gap between Business Target and Yearly Budget: Bank sets yearly business target and prepares the budget accordingly. The problem lies with the fixation of the target as these are not in line with the ALM indicators. The situation puts the treasury people in double sword situation. On one side, they have to provide the necessary support for ensuring the achievement of the business target. On the other side, they are responsible for complying with different ALM indicators as suggested by the Bangladesh Bank; otherwise, bank will be held responsible for the noncompliance of the regulatory instructions. Treasury people are in real dilemma to ensure the proper balance between the above mentioned circumstances.

It is important for the bank management to consider this issue before setting the business target. Management should set a realistic business target in consultation with the treasury people, so that both business target and regulatory compliance can be ensured.

FINDING & RECOMMENDATION-TWO

Direct Benefit vs. Inherent Cost: Business people are target oriented and look to achieve the target set by the management. They always look for the direct benefit from the business. Sometimes it is difficult for them to understand the inherent cost of the business and that may be higher than the direct benefit. As such, bank may face unexpected outcome from the business. This situation is easily realized by the treasury people. But conflicting situation may arise with business people, as they fail to understand the dynamics of business and the complexity of the entire situation.

All the business people must have a clear understanding of the overall cost of business. Proper training and awareness program can be initiated to enhance the overall knowledge and capacity of the bank employees.

FINDING & RECOMMENDATION-THREE

Issues Related to Commercial Paper: Banks were issuing commercial paper for supporting the short-term funding requirement for the large corporate borrowers. The instrument became very popular within a short period of time, and a significant amount of fund was raised through commercial paper. But, no regulation for commercial paper was available at that time. Bangladesh Bank issued necessary guideline in this regard to ensure the proper regulation in this sector. But the regulation somehow discouraged both the issuer and the borrower as the issuance of commercial paper has stopped in recent times.

Short-term fund (STF) has started to increase again as an alternative to commercial paper which will create fund management problem in the long-run. So, the central bank should consider the situation and bring the necessary policy initiatives to deal with the issue for the betterment of the banking sector.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FOUR

Impact of Negative Current Account Balance: The current account balance was negative in 2018 even after high export and remittance growth and moderate import growth. A negative current account balance is one of the reasons for depreciation of the local currency, especially in the context of Bangladesh. The country observed depreciation of BDT because of high demand of the USD. The situation could have been worse, if the Bangladesh Bank did not take the initiatives to stabilize the forex market by selling the USD. On the contrary, this initiative was against the essence of the market base economy. As a result, distortion in the market was observed and banks found themselves in a difficult situation to adjust with the market condition.

As the market is experiencing the crisis of USD, banks should consider their forex position and estimate the payment obligation, while opening the LC to avoid unfavorable situation in the forex market. Also, the central bank should practice prudent policy measures to avoid any kind of market distortion.

FINDING & RECOMMENDATION-FIVE

Problems of OBU Guideline: Bangladesh Bank recently issued OBU guideline which has created lots of debate among the bankers. Several questions have been raised about the new guideline by the end users. Bankers were unable to understand the rationality of some of the points of the guideline. Also, it is important to note that OBU is neither under treasury department nor under business department. As per new regulation, treasury has a very important role in the every aspect of the OBU business. Actually the importance of treasury division has increased manifold and the same for the ID has reduced in the present context.

Treasury's role should be clearly identified in the OBU organogram and OBU business can be undertaken considering the ALM indicators for the overall management of the business. The Bangladesh Bank should evaluate the shortcomings of the OBU guideline so that the ultimate target of the guideline can be achieved.

FINDING & RECOMMENDATION-SIX

Different Time Schedule for Different Transactions with the BB: Bangladesh Bank has maintained different time schedules for settling different transactions with the commercial banks, which created enormous problem in the market. It is a long demand from the part of the treasury departments to resolve the issue by introducing a single settlement time. Also, there is no common platform for those working in the treasury department to discuss money market issues with the central bank.

The Central Bank can consider introducing single settlement time for all transactions which will ultimately ease the difficulty. A common forum of discussion can be initiated in consultation with those working in the treasury department for the overall benefit of the market.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-SEVEN

Impact of Stress Test: The Bangladesh Bank conducts stress test on commercial banks to assess their resilience on certain types of risk factors. The result of the test has not been encouraging, as a good number of banks fail to qualify the test which means the non-compliant banks are vulnerable to different types of risk factors. The most vulnerable risk factors are increase in overall NPL and increase in NPL due to default of top borrowers.

The result may not be alarming at this moment as the imposed risk factors are hypothetical, but the concerned banks should take it seriously and act accordingly to protect them from any type of future uncertainty. Otherwise, it will not only affect the existence of individual banks but also jeopardize the stability of the entire financial system.

FINDING & RECOMMENDATION-EIGHT

Ensuring Depositors Confidence: The main capital of the banking business is the trust of the depositor. As long as the depositor has the belief on a bank, they will maintain their relationship with that particular bank by putting their deposit. Once the trust is gone, it will be very difficult for the bank to bring back the depositor again. A number of scams and fraudulent activities were observed in the banking sector during the last few years. Even in one case depositors had to suffer a lot to get back their deposited money. These types of activities erode the confidence of the depositors and eventually depositors move away from the banking sector. This will not only hamper the banking sector but also result an economic downturn.

It is the high time for all the concerned authorities to take firm initiatives for protecting various fraudulent activities, so that confidence of the depositors can be restored and growth of the country can be ensured.

TITLE AND AUTHOR

REVIEW OF INTERNAL CONTROL AND COMPLIANCE OF BANKS

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OBJECTIVES

- To find out the strengths and weaknesses of ICC operations;
- To identify the changes in recent times by comparing the ICC environment with the previous year; and
- To identify the problem areas as well as success factors in ICC operations, and suggest some possible measures for better functioning of ICCD of banks.

BRIEF METHODOLOGY

The study reviewed and summarized the activities of ICCD for the year 2018, using both primary and secondary data. Primary were mainly collected from the ICCD of banks through a questionnaire with a combination of open-ended and close-ended questions. The data were collected from 29 scheduled banks from all categories viz. State-owned Commercial Banks (SOCBs), Specialized Banks (SBs), Private Commercial Banks (PCBs) including Islamic banks, and Foreign Commercial Banks (FCBs). Regarding secondary data, various publications of BB, Basel guidelines, framework/standards issued by COSO, Institute of Internal Auditors (IIA), previous review reports of BIBM on ICC, and various published research articles were reviewed. Findings of the survey result have mainly been presented in tabular forms, along with some graphic presentations. The findings incorporate the discussion held at BIBM based on a keynote paper presented at a workshop.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Status of Supervisory Rating: Bangladesh Bank uses CAMELS rating in determining the required kinds and degree of interventions for the banks. Rating assigned by BB on the status of compliance with the ICC guidelines is given weight in calculating CAMELS rating of bank. Banks have developed their risk management capacity in terms of ensuring compliance with the regulations, developing the human resource capacity, adopting the industry best practices in different areas and so on. But, the dilemma is that all these developments did not pave the way for getting a good supervisory rating by the banks. The overall standing of the banks in CAMELS and ICC rating is not an encouraging one.

Banking industry including the central bank may dig out the problems in ICC environment to improve ICC rating along with overall CAMELS.

FINDING & RECOMMENDATION-TWO

Position of Head of ICCD in the Hierarchy: The head of ICCD should have required authority and work time to discharge the responsibility. It is, thus, the regulatory requirement for the banks to appoint someone positioned in two steps below the CEO as the head of the ICCD. But, there was a large degree of variation from the regulation.

As the position of the ICCD head along with his/her experience and expertise matters for the establishment of a vibrant and robust internal control culture in a bank, concerned authorities should consider the matter for strengthening ICCD.

FINDING & RECOMMENDATION-THREE

Maintaining Database on Cost and Impact of Internal Audit: Only few banks maintain cost and return profile of IA functions and apply necessary methods of calculating the cost incurred and the impact on value coverage of the bank.

As it makes the net contribution of IA visible, it is expected that the rest of the banks will do the same exercise.

FINDING & RECOMMENDATION-FOUR

Customization of Policy by the Individual Bank: The smooth growth of the banking activities in a safe and sound manner requires a parallel development of a number of operational/policy/procedural guidelines. However, BB is helping the capacity development of the banks by taking a lead role in issuing various operational guidelines.

So, it should be the responsibility of an individual bank to customize or to develop its own policy, considering its business strategy and requirements without violating the spirit of BB regulations. In absence of this, it will create a vacuum in internal control environment.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FIVE

Audit Automation: Automation of entire audit operation executed by ICCD certainly increases scope, efficiency and effectiveness of the audit activity. However, only few banks already have fully automated activities of ICCD. The automation process has also proved to be cost effective for these banks.

So, it is advisable for the other banks to think about automating the ICCD operations.

FINDING & RECOMMENDATION-SIX

Observations of External Auditors on ICS and IA: External auditors are supposed to give independent opinion on the adequacy of internal control system, including internal audit; and give recommendations to address observed deficiencies. The review team found almost identical comments even the banks suffering huge loss in the last few years due to large scale corruption. The auditors made satisfactory observation on the internal control system of a bank, even though they expressed dissatisfaction about the accuracy of reporting which makes the report inconsistent.

So, the scope and responsibilities of the auditors needs to be revisited to make the audit worthwhile.

FINDING & RECOMMENDATION-SEVEN

Integration of Different Units of Audit: A strong and effective internal control system requires the various functions of internal audit to be performed independently. Internal audit does not necessarily mean the on-site verification of the branch operations, it also includes examination of documents and operations sitting in the desk (off-site surveillance), using the real time data. Follow up of compliance with the observations arising from the on-site and off-site surveillance will be better performed by treating that (follow-up) as a part and parcel of internal audit division. However, the present structure of ICCD does not combine all units under a single umbrella.

A layout of Internal Audit Division has been proposed by the research team which combine all three units of ICCD under a single umbrella. In fact, the proposed approach perfectly matches to the provision of the Bank Company Act, 1991 where the independence of internal audit has been made obligatory. The regulatory authority may think to introduce the approach for the banking industry of Bangladesh.

FINDING & RECOMMENDATION-EIGHT

Revision and Clarification of ICC Guidelines: The dynamics of banking environment requires some modifications of the existing regulations. A number of dimensions have been added in the revised guideline on ICC. Clarification of the components introduced in the guideline such as the formation of a Senior Management Team (SMT) and its relationship with the MANCOM may be helpful for discharging the responsibilities of the different managerial layers.

It would be helpful for the banking community to implement the ICC guidelines if they got proper clarification of some aspects of the guidelines. Besides, ensuring the full compliance with the earlier ones is expected before issuing new one.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-NINE

Health Report: Most banks were largely compliant relating to preparation and submission of health reports to the board and the central bank. But, the question is whether there is any meaningful link of the health report with the ongoing risk management capacity/ internal audit plan and whether the report gets into attention of the top management including the board? The research team does not get any significant link with the preparation of the report and the decision making process.

As the report contains some crucial aspects of a bank and a significant efforts are deployed for the preparation the same, bank-management may think to utilize some inputs from the report in their decision making process.

FINDING & RECOMMENDATION-TEN

Lack of Corporate Culture: The owners (principal) take a relatively long term view of their business, whereas the CEOs (agent) remain shortsighted caring mainly about maximizing profit. This conflicting goal in modern corporate world is best resolved by the internal control system established by the board. But, the evidence suggests that the demarcation line between the responsibility of the CEO and the role of the directors is getting blurred in recent periods. The intervention by the board into the daily affairs is not uncommon, that inhibits the development of professionalism in the banking norms.

The difference between the de jure and de facto freedom of the top management has become a matter of concern for the development of good governance in the banking sector. Therefore, the authorities may try to establish true corporate culture in the banking industry of Bangladesh.

FINDING & RECOMMENDATION-ELEVEN

Disincentives for the Dishonest Behavior: Bank failure is treated as contagious and in a bank-based economy like ours, any large scale shock in the financial sector hits the real sector and inflicts huge burden on the society. Evidence suggests that wide-scale corruption and violation of laws, if not dealt with severely, creates huge moral hazard and ultimately produces unbearable loss for the society.

So, the regulatory environment should detect any major event of fraudulent practice or financial crime at an early stage by imposing severe punishment to the persons responsible for such events.

TITLE AND AUTHORS

REVIEW OF HUMAN RESOURCE MANAGEMENT OF BANKS

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OBJECTIVES

- To review overall activities of human resource operations of banks for the year 2018;
- To discuss regulatory and operational aspects of human resource activities of banks;
- To examine the trend of human resource operations of banks for the period CY2014-2018; and
- To identify the key issues and challenges of human resource operations of banks for future course of action.

BRIEF METHODOLOGY

Both primary and secondary data were collected to fulfill the objectives of the study. Primary data were mainly collected from the HRD of banks through a semi-structured questionnaire. Fifty-eight questionnaires were sent to the heads of HRD, of which thirty questionnaires were received. This study covered four state-owned commercial banks and DFIs, 19 private commercial banks excluding Islamic banks, six Islamic banks, and one foreign bank. A focus group discussion (FGD) with the General Manager of Banking Regulation and Policy Department (BRPD), Human Resources Department (HRD)-1, HRD-2 and Financial Sector Support and Strategic Planning Department of BB was also conducted. Moreover, this study conducted questionnaire survey to explain bank employees' perception on the HR practices, particularly relating to talent acquisition, development, motivation, lead the talent and maintenance. Total, 310 questionnaires were sent to the sample respondents, of which 300 responses were analyzed. 10 were not analyzed because of ambiguous responses. Besides, some cases on HR issues were analyzed.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

HR Reporting Structure: Currently, there was neither a standard structure of the human resource operations' reporting for the commercial banks in Bangladesh nor a reporting requirement by the central bank (except some specific areas of HR). Although BB has reporting requirement in a standard structure/format for Internal Control and Compliance (ICC), Asset Liability Management (ALM), Credit Risk Management (CRM) etc., the human resource management reporting requirement was limited. Further, some banks used Human Resource Information System (HRIS) to perform human resource operations and their reporting activities, while the most banks had no HRIS to perform the human resource operations.

Uniform reporting structure for the human resource operations is required for the commercial banks to strengthen HR activities. Bangladesh Bank may take necessary initiatives to introduce separate HR reporting structure for the commercial banks.

FINDING & RECOMMENDATION-TWO

Background of Heads of HRD: 76% of heads of HR were from non-HR background, while only 24% were from HR background. HR background indicates the employees who have either HR graduation or HR diploma or HR experience in the banking industry.

HR practices in the banking industry are different from the HR practices of other industry, which needs to be streamlined.

FINDING & RECOMMENDATION-THREE

Employee Turnover Rate: The current employee turnover rate was around 5%, which has declined from around 7% from the year 2017. Importantly, the employee turnover rate increased to about 10% from around 7% in the private commercial banks while it has decreased by four times to 2.5% from 9.8% in the state-owned commercial banks.

The private commercial banks should seriously consider this factor to reduce employee turnover rate by ensuring good work environment, reducing job stress, better compensation (salary and benefits), good employee relationship with management, career growth, learning and development, etc.

FINDING & RECOMMENDATION-FOUR

Job Hierarchy: The number of hierarchy in the sample banks varied considerably which creates confusion among the employees of different banks. In some cases, bank officials may lose their job seniority. There are maximum 33 job ladders in private commercial banks, while the minimum 10 ladders are there in the state-owned commercial banks.

Job hierarchy among the commercial banks should be minimized and uniformed. Bangladesh Bank (BB) may take necessary steps to fix maximum number of job ladders among the commercial banks and can develop job grade like state-owned commercial banks.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FIVE

Ethical Leadership: 61% employees believed that the violations of ethical code of conduct among the bank employees are increasing which is alarming for the banking industry. Most importantly, 49% employees said that there is an absence of ethical leaders in the banking industry.

Ethical leadership plan should be developed and groomed from the very beginning of the employee socialization/orientation program. Analysis of employees' parents' biography and the employees' moral codes and ethics should be conducted before the final selection of potential employees by bank management.

FINDING & RECOMMENDATION-SIX

Developing Soft Skills: Harvard University noted that 80% of achievements in career are determined by soft skills and only 20% by hard skills. This study found that only 6% soft skill training was given to the employees while 94% were hard skill training.

Developing interpersonal skill, motivation, team leadership, good presentation, good communication and networking skills, ethics and integrity etc. should be emphasized more.

FINDING & RECOMMENDATION-SEVEN

Taking Bonds: 83% banks took bonds from newly recruited employees, while 70% banks employees noted that there was no ethical justification for taking bond/ original certificates from the newly appointed employees.

Taking bonds from the employees reduces banks' reputation and there is no justification to create obstacles of up growing these employees rather the banks have to practice good corporate culture and good governance to retain these talented employees.

FINDING & RECOMMENDATION-EIGHT

Comprehensive Master Circular for HR Operations: there is an absence of master circulars or guidelines on human resource operations for the commercial banks in Bangladesh. Further, there is no standard practice manual for employee recruitment and selection (except some higher level posts and issues), compensation and benefits, job hierarchy, employee designation or its equivalency, training and development, leadership succession, practice of HRIS, transfer and promotion (except some circulars by BB), and others.

A comprehensive master circular or guideline on HR operations for the commercial banks may be developed by Bangladesh Bank.

FINDING & RECOMMENDATION-NINE

HR Forum: The human resource policies, principles, theories, tools and techniques are the same around the globe. However, the practice of such policies, principles, theories, tools and techniques varies, based on the HR practitioners. The practice of HRM varies in the banking sector of Bangladesh also.

An HR forum can be formed to share knowledge among the Heads of HRD in the banks. It will reduce discrepancies in HR practices among the Heads of HRD.

TITLE AND AUTHOR

REVIEW OF IT OPERATIONS OF BANKS IN BANGLADESH

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OBJECTIVES

- To discuss the IT based products and services in the banking sector;
- To analyze the activities of IT departments of banks in 2018;
- To examine the comparative status of IT operations of banks for last few years; and
- To identify the challenges and suggest future courses of actions in ensuring better and secured IT operations of banks.

BRIEF METHODOLOGY

Both primary and secondary data were collected to accomplish the objectives of the study. Secondary information were collected from various publications of BB and BIBM, research articles, and websites of Bangladeshi banks. Primary data were mainly collected from the IT departments of banks, using a structured questionnaire. A total of 34 banks were selected purposively, based on the consideration that the sample banks should represent all categories of banks in terms of ownership, number of branches and state of computerization. The study covered 4 state-owned commercial banks, 2 specialized commercial banks and 28 private commercial banks.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

ICT Infrastructure: Still 4% percent of banks have not started real time centralized online banking, meeting the Category-1 architecture due to lack of long term vision, proper planning and initiatives, shortage of manpower, poor IT budget, weakness of business process reengineering, delay in procurement process and lack of appropriate and advanced training.

Bank should allocate certain portion of their annual profit for ICT budget. This budget may be spent for ICT infrastructure development and manpower training. Leadership quality and efficiency of IT project implementation team should be developed for successful design and implementation of banking automation projects

FINDING & RECOMMENDATION-TWO

Skills Development: Budget for security, training and audit was very low during last five years, though it slightly increased for security in 2017 and 2018. By ignoring these three sectors, it is not possible to ensure better cyber security for banks. About 3% of total IT budget goes for training purpose, and CTOs are not satisfied regarding this issue.

Bank management should increase their level of understanding and appreciation that there is no alternative to develop ICT skill in banks because ICT is rapidly changing platform and more diversified and sophisticated Cyber-attacks/frauds are also increasing. Management approves IT budget for system implementation but they are reluctant on training for IT skill development especially in the area of IT security, IS Audit and IT risk management. Specialized training, certification and post graduate program for both general bankers and IT professionals of banks may be conducted by BIBM.

FINDING & RECOMMENDATION-THREE

Replacing ATMs by CDMs and Cash Recycler Machines (CRMs): Only three banks installed CRMs and about 143 CRMs have been installed by these three banks. In 2018, there were 1365 CDMs in the market compared to 1129 in 2017.

Bank management should take proper strategy and initiatives to increase the number of CRMs and CDMs instead of ATMs so that we can reduce the number of branches and ATMs as well as operating cost.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FOUR

E-commerce and OPGS: About 42% banks have Online Payment Gateway Service (OPGS) for e-commerce payment processing. Most banks provide e-payment services for e-commerce, using credit and debit cards. The growth of using mobile banking and Internet banking as payment methods is not satisfactory.

Banks should increase their facility to use these payment methods to promote e-commerce in Bangladesh. Proper marketing strategy and initiatives may be taken by banks to promote both e-merchants and consumers for e-commerce transactions. The revenue from the commission of online transactions may be a good source of income for banks. Bank management should give more attention into this business. Otherwise, this prospective earning source of business may be diverted to other competitors.

FINDING & RECOMMENDATION-FIVE

Management Information System: Two-thirds of banks have a separate MIS department. A separate MIS department can be dedicated to ensure precise, timely and accurate generation of MIS report. A large number of banks infrequently revise the MIS report format.

Banks may develop Data Warehouse to produce MIS report from various data sources and in various formats with trend analysis. We would therefore recommend that the banks especially the larger banks may use Data Warehousing along with BI software tools to generate ad-hoc reports of online MIS, DSS and EIS.

FINDING & RECOMMENDATION-SIX

Corporate Intranet System: Approximately 72% banks have web portal and corporate intranet system with limited scale of operations such as viewing of employee information, bank's circular with a search engine, enterprise group collaboration, audio/ video chatting among employees with IP Phone, online attendance and leave application. The study shows that banks which adopted the intranet system were not able to implement all facilities of corporate intranet system. Since this facility enhances the employee performance, the rest of the banks (28%) should avail this facility since its cost of implementation is not significant.

With a view to increase productivity of bank's employees and reduce administrative expenses, banks should take immediate steps to develop effective Corporate Intranet System covering all possible facilities or services.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-SEVEN

DC and DRS Management: 100% DCs and 90% NDCs are built in Dhaka in high-rise buildings having risks of earthquake and fire. Also, 25% banks have Far DC (FDC) which are operating as second DRS. The 45% banks which have FDCs at Dhaka and Gazipur are at high risk of earthquake, because both DC and DRS are situated in the same seismic zone which is not recommended by BB. Another alarming issue is that 55% banks having FDCs at separate seismic zone (Jessore, Rajshahi and Khulna) are not hot. In that case, they might not be able to run business operations or critical services quickly after any disaster like earthquake.

Banks should take immediate plan to set up DRS at separate seismic zone and both government and BB may take initiatives to provide robust infrastructure and support services for maintaining reliable operations from DRS. Using proper scientific plan (virtualization of server/storage, KVM switch, smart rack and other standard solutions), banks can ensure optimum utilization of space and reduce the area of DC/DRS to minimize the operating cost.

FINDING & RECOMMENDATION-EIGHT

Live Testing of Business Operation from DRS: Regular and periodic testing of DRS increases confidence and expertise of recovering data and business operation of banks in case of any disaster. However, only 72% and 73% banks tested live operation from DRS in 2017 and 2018, respectively. Among them, most of the live tests were done on holidays— especially on Saturdays (10 a.m. to 4 p.m.). They were afraid of testing during working hours. Frequency and duration of live test is also unsatisfactory. Only 37% banks run all business functions during live operation from DRS.

Banks should have proper policy and guidelines of business continuity and disaster recovery management. Bank authority should have active participations and close monitoring to ensure effectiveness of the policy related to ITDRP.

FINDING & RECOMMENDATION-NINE

Effective IT Security Measures: Managed Switch (Layer-3), Next Generation Firewall (NGFW) and E-mail Gateway can play vital role to ensure network security in banks. Only 50% banks fully implemented NGFW, 20% banks configured Managed Switch (Layer-3) at branch level and 40% installed E-mail Gateway. Only 20% banks implemented SIEM. ISOC is a dedicated site where enterprise information systems are monitored, assessed, and defended, but only 10% banks implemented it. About 60% banks maintained Intelligent and Automated Transaction Monitoring System. Only 20% banks integrated Business Intelligence (BI) with their transaction monitoring system. About 40% banks had Intelligent and Automated Security Patch Management for OS and Applications. Two-thirds (67%) of banks implemented real time screening system. Only 55% banks maintained SOP for their critical systems/services. At the end of 2018, 3 banks in Bangladesh achieved PCI DSS. However, 45% of banks are in progress to implement this standard.

Through SOPs banks can be benefited by reducing employee training time and working errors, enhancing productivity, meeting legal requirements, establishing a chain of command and easily transferring work. Banks should take special care to successfully implement these IT security measures.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-TEN

Cost Minimization for IT System and IT Operation in Banks: 87% banks mentioned that they have IT cost minimization plans, most did not have any comprehensive and approved document of cost minimization strategy and plan. There was very weak scenario of considering and implementing all the appropriate factors to reduce IT cost by banks. Most banks (80%) have virtualization technology, but scale of application is very limited. Only 4% banks used Container Orchestration Tools. Banks should use Container Technology and Orchestration Tools to manage the lifecycles of containers efficiently. Only 12% banks were using private and public cloud services. Among them, three foreign banks were using public cloud services in real sense.

Therefore, the banking sector should develop effective policy for virtualization technology and cloud computing ensuring reliability and data security. For this purpose, banks should maintain a comprehensive and effective IT cost minimization strategy and plan for their IT system.

FINDING & RECOMMENDATION-ELEVEN

Access Control System: A central ACS monitored and audited by the separate security management team of the IT division is an excellent way to get control over the whole IT system. However, only 48% of the banks had such control system. Rest of the banks should have such system to reduce the IT risk arising from the attempt of unauthorized access or executing undesirable commands. Among the banks those implemented ACS, it is seen that 60% of the banks did not prepare any report to see the list of unauthorized access and preserve it.

Banks should have Access Control Policy and review it each year. Banks should also maintain sound monitoring system for accessing log of critical devices.

FINDING & RECOMMENDATION-TWELVE

Role of Bangladesh Bank: BB has been working for a long period to develop the overall IT infrastructure of banking sector. IT Heads of 83% banks agreed that banking sector should have a center for sharing electronic banking experiences, problems and solutions. Proper guidelines and monitoring of BB have also been helping the IT departments of different banks to expand in right way.

BB may take initiatives to develop an Information Sharing and Analysis Centers (ISACs), where the members can discuss and share their opinion regarding the various IT operational and security issues to mitigate the risks and be aware about the latest security threats. Moreover, BB can play a vital role in setting up a cell/wing, including a data bank for all of the commercial banks to help collect and share up-to-date information regarding current status, growth and problems of the banking sector. BB, with the help of BIBM, can take initiatives in this regard. Moreover, a Computer Emergency Readiness Team (CERT) may be formed for disaster recovery of the banking and financial sector. A specialized Information Technology Institute may be set up for the purpose of Research, Development and Consultancy in the area of Banking and Financial technology of our country.

BB conducts ICT inspection in commercial banks on sample basis once in a year and duration is very short (two to three days) which is not good enough as ICT is a very vast area and all of its components have direct impact on business. In practice, IT audit should be comprehensive and effective, not based on sample. Frequency of ICT inspection should be increased. More stringent and specific audit mechanism aligned with international standards best practices should be incorporated in supervisory review/audit by BB. Also BB may conduct system and functional audit. More skilled ICT audit personnel of BB may be sent for onsite supervision. They should be more equipped with penetration and vulnerability assessment tools and international norms and practices to get the real scenario of the banks in the ICT sector.

TITLE AND AUTHOR

REVIEW OF ISLAMIC BANKING OPERATIONS OF BANKS

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OBJECTIVES

- To depict Islamic banking and its regulatory environment in global and local context;
- To discuss Islamic banking services, activities and operations in Bangladesh for the year 2018 compared with that of 2017;
- To identify success factors and problem areas of Islamic banking operations; and
- To recommend courses of action for improvement of Islamic banking operations in Bangladesh.

BRIEF METHODOLOGY

To review Islamic banking activities and operations of Bangladesh, both primary and secondary data were collected to achieve the objectives of the study. Primary data were collected through a questionnaire administered to Islamic banks. Secondary data were gathered from different journals and publications related to Islamic banking practices in global economies and in Bangladesh. For this purpose, the study used data published by Islamic Financial Services Board (IFSB), Bangladesh Bank (BB), Central Shariah Board Islamic Banks in Bangladesh (CSBIBB) and concerned banks. The paper covered all full-fledged Islamic banks, and conventional banks having Islamic banking branches and windows.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Enactment of Islamic Banking Act and Development of HR with Islamic Banking

Knowledge: Currently, there is no separate Act to guide Islamic banking activities in Bangladesh. The central bank issued a guideline for Islamic banks in 2009. As observed, for expansion of the industry and sustainable development, there is a need of skilled human resources. In the current situation, facilitating Islamic banking education alongside modern banking education is an immediate need.

At this moment, it is need of the time to introduce more comprehensive guidelines to bring greater transparency and accountability of the industry. The human capital involved in Islamic finance and banking must be trained in the relevant field in accordance with the demand of the sector. An effective training on Islamic banking must blend basic banking, Islamic finance and banking, Shariah rules and state law at school and college level. In this regard, a certification course on Islamic banking may be introduced in our country and banks may give preference to these certified experts for recruiting, placement and promotion.

FINDING & RECOMMENDATION-TWO

Initiative to Introduce Cash Waqf and Introduction of Commodity Murabaha in Bangladesh:

The Holy Quran encourages Muslims to perform charity and donation in order to receive multiple rewards from Allah (SWT). Islamic banks may consider to introduce some products in line with this. Commodity Murabaha is around 24.2% of total Shariah financing of the globe, whereas in it is nil in Bangladesh. It is a form of a short-term finance based on Murabaha contract and generally used for the buying and selling of commodities in the international market. It is commonly used by banks in Bahrain, Saudi Arabia, Qatar, Malaysia, Kuwait and United Arab Emirates.

Cash Waqf serves as a Waqf instead of the popular building or land. It is very flexible and thus allows distribution to the poor anywhere. This will aid the development of human capital which will invariably create a productive workforce, thus assisting in poverty alleviation. With a productive workforce, GDP will increase, unemployment will decrease and thereby income inequality gap will be bridged. Initiative should be taken to devise its modus operandi in consultation with Shariah scholars in Bangladesh.

FINDING & RECOMMENDATION-THREE

Central Shariah Board with Supervisory Authority and Shariah Appellate Bench at High

Court: Central Shariah Board for Islamic Banks of Bangladesh (CSBIBB) is working for ensuring Shariah-compliant transaction. They try to find out a better approach for Shariah implementation in daily banking activities. There is no separate Appellate Bench at High Court to settle dispute related with Islamic banking and finance.

Executives of CSBIBB argue that this body should be established as a Shariah Supervisory Authority so that they can ensure Shariah compliance of the Islamic banks. A separate Shariah Appellate Bench may be established in High Court for handling the cases related to Islamic banking. Apart from this, a dedicated post of Deputy Governor may be created in Bangladesh Bank for dealing in Islamic banking operations and activities.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FOUR

Striving for More PLS Mode of Financing and Introduction of Longer Term Deposit Product in Islamic Banks: The amount of PLS (Mudaraba and Musharaka) mode of financing is considerably low in Islamic banks. One of the main reasons is that entrepreneurs of high yielding projects show reluctance to get finance under this mode. Another reason is lack of honesty and integrity among the mass investment clients. Moreover, both conventional and Islamic banks do not collect deposits for longer period of time. Fluctuation of interest rate is the main reason in this regard.

In this case, Islamic banks can invest in high-yielding innovative projects. Moreover, scholars and expert bankers of the country need to take initiatives for ensuring innovation and greater use of PLS tools of Islamic banking. Islamic banks may think to introduce deposit product for longer period which will not invite market risk because of usage of Mudaraba principle.

FINDING & RECOMMENDATION-FIVE

Introduction of Sukuk for Efficient Liquidity Management: Since Sukuk is playing a vital role in the global Islamic financial market, introduction of Sukuk has become the need of the time to expand the Islamic banking activities in Bangladesh. Sukuk may help government, central bank, corporates and Islamic banks for mobilizing fund and liquidity management.

Banking industry as well as government may thin to issue Sukuk. Furthermore, central bank may think to design Shariah-compliant REPO and reverse REPO instruments for Islamic banking industry. Besides, the industry may devise Shariah-compliant derivative products for better risk management.

FINDING & RECOMMENDATION-SIX

Creation of More Shariah Auditors and Expansion of More Islamic Branches in Rural Areas: Most of the executives of internal control and compliance department, especially internal audit, believe that regular audit should cover Shariah aspects of the auditee. However, at this moment, all internal auditors do not have such capacity to do so. Islamic banking services address specific needs of those who don't currently use conventional finance for religious reasons.

Therefore, a rigorous training program should be undertaken to create more Shariah auditors for the Islamic banks in Bangladesh. The bankable unbanked people will be included in the system of financial services by setting up Islamic bank branches in remote areas and thereby it promotes financial inclusion. Thus financial inclusion is not possible by using only conventional banking services.

TITLE AND AUTHOR

REVIEW OF SUSTAINABLE BANKING ACTIVITIES BY BANKS

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OBJECTIVES

- To review literature on concepts, policy and practices of sustainable banking in the global context;
- To discuss policy interventions to promote sustainable banking activities in Bangladesh; and
- To review sustainable banking trends and operations in the country to identify future course of actions by the banking industry and the policy makers.

BRIEF METHODOLOGY

The study is based on both primary and secondary data. Published articles on sustainable banking, country experiences on sustainable finance initiatives, published data by Bangladesh Bank and BIBM studies were extensively used to examine sustainable banking drives and their implications in the context of Bangladesh. Primary data were collected by administering an open-ended questionnaire to the Sustainable Banking Units of 24 banks. Some case studies on the benefits and challenges of selected banking products targeting the vulnerable sections were also included in the paper. Besides, concerned officials of four departments of Bangladesh Bank - Sustainable Finance Department, Agricultural Credit Department, SME and Special Programs Department, and Financial Inclusion Department were consulted in the process of identifying barriers to sustainable banking.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Sustained Profitability and Financial Sustainability: Social and environmental issues may easily draw attention of the stakeholders when banks are profitable and stable. For ensuring sustained profitability, the key institutional issues, especially corporate governance of the banking industry, must receive due importance. Addressing financial crimes and ensuring compliance requirements are other priorities to ensure asset quality, sustainability and stability.

Bangladesh Bank needs to install enforceable incentive structure, both positive and negative, to address the critical challenges of corporate governance, financial crime, and compliance. The central bank requires strong governmental support to improve governance culture in banks, which is crucial to improve asset quality and sustained profitability.

FINDING & RECOMMENDATION-TWO

Linking Sustainable Banking with SDG and National Goals: Sustainable banking agenda and activities covering green banking and CSR, agricultural financing, micro and small enterprise financing, and financial inclusion drives are very clearly connected with the SDGs that the country is targeting to achieve by 2030. Implementation of the ‘National Financial Inclusion Strategy’, finalized recently, would add an additional dimension in this direction.

BB has been undertaking measures to promote sustainable banking agenda in line with government’s sustainability drives. The central bank needs more coordinated approach to link sustainable banking initiatives with that of SDG goals and ‘National Financial Inclusion Strategy’ by escalating the roles and involvements of banks.

FINDING & RECOMMENDATION-THREE

Shifting from Regulatory to Collaborative Approach: Policy driven and ‘Regulatory Approach’ may not bring optimum outcome, and can only create the initial foundation of sustainable banking drives. Ultimately, the motivated market participants have to take the ventures forward.

In Bangladesh, it is now right time for transforming from ‘Regulatory Approach’ to ‘Collaborative Approach’ for ensuring ownership of the market participants and giving the right kind of push to sustainable banking. ‘Adoption of a set of Sustainable Banking Principles’ by the central bank and Associations of Bankers/banks might be useful in initiating and developing the collaborative approach.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FOUR

Addressing Market Distorting Elements: The current green financing market has distorting components that are working as disincentives for some market participants. Some NBFIs have relatively better access to the concessional and donor funds for on-lending. It is good for the economy, but market distortion needs to be addressed.

For ensuring wider participation of banks and NBFIs, all market distorting factors must be handled through right market segmentation. Undertaking a separate research on the market segmentation would be useful.

FINDING & RECOMMENDATION-FIVE

Target Fixation of Green Financing with Incentive Structure: In spite of some remarkable changes, several areas of green financing remained untouched. Some of these are important and relevant from the point of view of green growth. Attainment of the target of 5% green credit disbursement does not appear achievable by banks.

Financing for waste management, bio-diversity, and green transportation should get due emphasis to support green growth of the country. Considering the global experiences, potentials of ESCO Model could be explored for energy efficiency in garments and textile. For optimum outcomes, the central bank may think of fixing different targets of green loan disbursement for different banks/NBFIs with the tagged negative and positive incentive structure.

FINDING & RECOMMENDATION-SIX

Linkage Model for Greater Reach: Direct bank/NBFIs' lending to the end users does not seem feasible in all scenarios of green and small scale financing. In several instances, using intermediary and partnering organizations are offering better outcomes, especially linkage approaches of some NGOs/MFIs at ground level are really encouraging.

For effective linkage model, the capacity of the partnering organization must be enhanced to obtain optimum outcome. For banks/NBFIs, it is not always easy to identify and assess the efficiency of a financial intermediary to channel fund to the rural and semi urban areas. BB may think of assessing and enlisting some local level capable NGOs/MFIs to do the job as financing intermediary.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-SEVEN

Effective Use of CSR Funds: Contribution from CSR funds improved remarkably in terms of the volume allocated by banks. Besides, BB's Disaster Management and Social Responsibility Fund are good additions. Currently, most CSR funds of banks/NBFIs are used for philanthropic purposes.

CSR funds of banks may be used to offer subsidy to the sustainable financing activities to incorporate the use of CSR funds within the core banking functions. BB may encourage banks/NBFIs in this regard. Appropriate use of Climate Risk Fund considering risk premium might be an upcoming agenda.

FINDING & RECOMMENDATION-EIGHT

Market Development for Agricultural Financing: In spite of several initiatives, financing and market development in agriculture has received less attention. Though warehouse receipts system by itself or as part of commodity exchange arrangement contributed significantly in several developing and neighboring countries, Bangladesh could hardly reach near that level. Micro insurance has also been very successful in several instances. There are huge potentials of designing and offering credit and insurance products targeting the agricultural sector of the country.

Policy interventions are required to install a Warehouse Receipt System in the country. It is time to undertake initiatives to install a commodity exchange or a formal platform for the price discovery of agricultural products. Moreover, at the policy level there should be coordinated approach of BB and IDRA to offer policy supports for designing need-based crop insurance to support smallholder farmers.

FINDING & RECOMMENDATION-NINE

Cluster Financing for SMEs: Cluster financing approach has been successful in a number of developed and developing countries as an alternative channel for effective small and micro enterprise financing. Though banks have finances in the SME clusters (in terms of geographic proximity), cluster approach is missing in SME financing.

Effective cluster financing may be ensured when clusters are developed with due policy support. To realize the goal, the primary task is to work on developing SME clusters.

FINDING & RECOMMENDATION-TEN

Promoting Technology Driven Inclusive Product: Technology driven approach is much more effective to bring unbanked poor people under the coverage of financial services. As the penetration level of mobile banking is very high in the country, it can bring a revolution in financial inclusion, if used properly. Agent banking is also showing market potentials.

Policymakers may further promote expansion of mobile banking with simplified features and lower prices. Complete enforcement of e-KYC might bring remarkable positive benefits in giving a big push to the mobile, agent and other sustainable banking drives.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ELEVEN

Addressing Market Distorting Elements: There is huge scope for enhancing financial literacy, both for clients and bankers. Bankers, especially those engaged at the branch/field level, have limited knowledge on sustainable financing products, uses, benefits, technical aspects.

Banks need to invest more resources in outreach, demonstrations, training and motivation programs for the bank officials and the intermediaries/suppliers, and thereby making them more aware and motivated on the technical aspects of green and sustainable products and financing mechanisms.

FINDING & RECOMMENDATION-TWELVE

Sustainability Reporting and Transparency: Sustainability reporting practice by banks is the foundation for effective disclosure and transparency; however, only a few banks could manage to achieve the milestones.

Banks should be promoted to disclose individual sustainability report, using the globally recognized GRI standards. Bank officials should be trained to accomplish right disclosure and transparency approach.

TITLE AND AUTHOR

REVIEW OF REGULATORY REPORTING REQUIREMENTS FOR BANKS

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OBJECTIVES

- To discuss the changing trends of regulatory reporting requirements by banks in the global context;
- To review regulatory reporting requirements by banks in the context of Bangladesh; and
- To identify key challenges associated with regulatory reporting practices in the banking industry of Bangladesh and put forward certain recommendations.

BRIEF METHODOLOGY

Both primary and secondary data were collected to fulfill the objectives of the study. Secondary data were gathered from different publications related to regulatory reporting. A questionnaire survey was conducted in credit, trade services, finance and accounts departments, treasury, risk management and the offices of the CAMELCO of banks. A total number of 21 banks of different categories were covered under survey. A good number of senior bank executives from commercial banks were consulted.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Installing Formal Reporting Governance Model: Bangladesh Bank has been engaged in enforcing compliance and reporting requirements for the banking industry of the country. Reports required by the BB and their compilations and publications are important documents for assessment of financial stability and strength by the stakeholders, both at home and abroad. There are scopes to install formal reporting governance framework and strengthening internal coordination.

Central Bank should think of installing a formal governance model by identifying and documenting policies, accountability structure, incentive framework, and performance measurement criteria for effective reporting requirements and compliances. In addition, internal coordination and capacity development of the executives should be improved for data validation and data sharing to ensure effective compliance environment.

FINDING & RECOMMENDATION-TWO

Developing Right Approach for Regulatory Reporting: Notable transformation has taken place in recent years in terms of introducing new regulations and reporting requirements of the Bangladesh Bank. Most of these are prudential regulations and related reporting requirements to ensure more stringent rules to restrict banks against undertaking excessive credit related risks; for ensuring transparency; and for addressing financial crimes. These have visible implications in the volume of regulatory reporting, efforts and costs. These are burdensome, but cannot be bypassed.

BB must come up with more proactive measures to make bank management understand that there is no scope to consider compliances and regulatory reporting requirements as operational hazard, rather these are risk management tools. BB and bank managements should work together to develop right kind of positive approach and mindset of the bankers in general to address the complexity.

FINDING & RECOMMENDATION-THREE

Need for Internal Governance and Control Mechanism: Generally, banks operating in the country have reporting arrangement and all are attempting to comply with the increasing regulatory requirements. However, other than some multinational and a few local banks, most banks do not have sound internal governance and control mechanism for managing effective compliance requirements.

To comply with the increased regulatory reporting requirement and demand, reporting banks are required to install a sound internal governance and control mechanism. There should be structured arrangement for data collection and screening, report preparation, review, and communication of regulatory reports. This is connected with sustainable banking business.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FOUR

Avoiding Data Duplication and Redundancy: Increased regulatory reporting requirements are imposing huge cost burden on the banks. There are evidences of some duplications of regulatory reporting to different departments of the Central Bank. These have cost and business implications for the banking industry, especially for the smaller size banks.

Though there are initiatives on the part of the central bank to address data duplication and redundancy issues, apparently there is lot of scope for improvement. To relieve smaller size banks from compliance cost burden, the regulatory reporting requirements may vary according to the size of the reporting banks, the use of products and the associated risks.

FINDING & RECOMMENDATION-FIVE

Regulatory Reporting to Address Financial Crime: Growing financial crimes is a cause of concern for the policy makers and the central bank of Bangladesh, especially trade based money laundering. In this connection, the country's reporting requirements and perspective cannot be matched with major developed countries like USA, EU or Canada. Sometimes, bank management face challenges in convincing their board to get due support for undertaking AML measures.

In the context of Bangladesh, relying on formal trade payment arrangement and stringent reporting and monitoring framework are very relevant for restricting financial outflows through trade channels. Trade facilitating banks need more effort and investment in this connection. Board members of banks should be brought under awareness program for better compliance and regulatory reporting requirements.

FINDING & RECOMMENDATION-SIX

Coordination among Stakeholders for better Regulatory Reporting: Greater harmonization and standardization of data, and greater coordination among the key stakeholders are seen as the key elements for addressing systemic risks and for ensuring effective regulatory reporting and compliance requirements.

Supervisors and industry must have formal platform for sharing thoughts on the necessity of regulatory reporting, necessary arrangements and demand for greater compliance. Regarding this, alongside bank management, Bangladesh Association of Banks (BAB) and Association of Bankers Bangladesh (ABB) have roles to play.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-SEVEN

Automated Regulatory Reporting: In essence, it would be very difficult to get away with regulatory compliance without installing an adequate level of automation. It is, therefore, not surprising that emerging technologies and business models are equipping banks with the needed strategies and capabilities to address these challenging new requirements.

Banks have no option but to invest in RegTech. In particular, artificial intelligence (AI), big data and distributed ledger technology have some promising applications which are currently being evaluated by the global banking and financing industry. The current template driven regulatory reporting model may be replaced by cube based arrangement. In near future, regulators and banking industries must embrace updated technology to create an effective platform for automated regulatory reporting.

FINDING & RECOMMENDATION-EIGHT

Skilled Bank Employees for Accurate Regulatory Reporting: Trained, well informed and efficient employees are the key. Skilled and capable bank executives should be placed for pursuing such vital roles. However, with the introduction of new sets of compliance rules and regulatory requirements, banks, in general, could not undertake the required volume of capacity development initiatives.

Training and capacity development institutes, especially the Bangladesh Institute of Bank Management (BIBM) and the Bangladesh Bank Training Academy (BBTA) may be extensively engaged to undertake capacity development programs for better compliance. BBTA or BIBM may also organize joint training programs with the concerned department of BB following the introduction of a new regulatory reporting and compliance requirement. Top management and board of banks should also be brought under capacity development programs for better enforcement.

Briefs on
Research Papers of
the Research Workshops

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ADDRESSING TRADE BASED MONEY LAUNDERING IN BANGLADESH: AN ASSESSMENT

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OBJECTIVES

- To discuss relevant issues related to trade services and the associated anti-money laundering initiatives in global context;
- To discuss trade services activities by banks and related efforts to address trade based money laundering in Bangladesh; and
- To recommend for enforcing a sound control mechanism to address trade based money laundering in Bangladesh.

BRIEF METHODOLOGY

Both primary and secondary data were used to fulfill the objectives of the study. Secondary data were collected from documents prepared and published by the agencies like The Hong Kong Association of Banks, FATF, APG, BAFT, ICC, Wolfsburg group, BIBM and BFIU. To gather primary data, a questionnaire survey was conducted with open-ended and close-ended questions targeting the offices of CAMELCO of banks. The draft 'Guidelines for Prevention of Trade Based Money Laundering' was extensively consulted to formulate the questionnaire. A total number of thirty banks responded to the survey. The issues identified in the paper were presented in a research workshop and finalized by accommodating the comments and views of the participants.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Ratification and Enactment of Regulation: Sound regulatory framework in trading might be a good support to the TBML prevention efforts. In most cases, the contract or purchase/sale contracts have not been legally enforceable for ensuring optimum protection in trade transactions in Bangladesh. For sound purchase/sale agreement, it is essential to have coverage of a regulatory framework. In addition, for handling fraudulent activities in LC, the country does not have supportive local laws/set of rules alongside universally accepted guiding rules like UCP 600. Regarding the increased use of international bank guarantees, though there are reporting arrangements of the BB, the true exposures of international bank guarantees by banks cannot be identified.

Alongside ratifying the UN Vienna Convention on Contract of Sale, there should be clear instructions for the traders and banks on the contracts with other non-ratifying countries. Time has come to enact a separate LC law like USA, China and Vietnam. It is important to identify the exposure of banks on international bank guarantees and formulate domestic guideline/ rules and adopt international rules associated with international bank guarantees and standby LC.

FINDING & RECOMMENDATION-TWO

Arrangement and Practice to Draw Adequate and Reliable Data: KYC is probably the most critical component of the TBML control mechanism. Regarding customer level risk assessment, service providing bankers are to comply with trade related CDD/EDD in addition to the regular CDD/EDD. Moreover, trade service providing banks need adequate data and skilled employees to analyze information on risk components covering trade customers' business patterns, geographic locations and products as the key parameters of the customer level risk assessment.

Banks must develop arrangements and practices to draw adequate and reliable data for regular CDD and EDD analyses. Front desk officers should be trained adequately to improve their capabilities to assess trade based KYC.

FINDING & RECOMMENDATION-THREE

Infrastructure for Risk Management: Ensuring adequate infrastructure is a key challenge for installing control mechanism as a measure to deal with TBML. Volume of transactions and size of service providers might be key determinants for installing the required infrastructure when cost is a big issue. Trade service providing banks are already burdened with huge compliance related expenditure in recent years.

For infrastructure level risk assessment, banks need to adopt standard sanction screening process, database on regular transactions, subscription for publically available online commodity pricing website, and vessel tracking system. Banks may work on collective or group efforts to share cost burden where feasible.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FOUR

Identifying Competitive Price by Banks: Importers are obligated to import goods at maximum competitive prices, and banks are advised to take usual and reasonable cautionary measures to ensure that the price of the goods concerned is competitive in terms of prevailing price in the international market and are also advised to verify, if needed. It is really difficult for banks in the absence of relevant business information on differentiated products. Moreover, many products are not traded in public markets and their market prices are also not publicly available.

A guidance paper from the regulatory authority for the trade service providing banks may be helpful to comply with price competitiveness requirements following a uniform approach.

FINDING & RECOMMENDATION-FIVE

Enterprise Risk Management: Enterprise risk management is a relatively new area in the risk management framework. It is about an approach by the entire institution through senior managements' engagement in TBML risk assessment and mitigation. At enterprise level risk assessment, reviewing policies, changing trends, and typologies related to TBML are the key issues.

Banks should work on adopting effective enterprise risk management frameworks where board and top management can play an effective role to offer due support for handling TBML risks by their employees.

FINDING & RECOMMENDATION-SIX

LC as a Risk Management Tool for Handling TBML: Shadow banking is a barrier to ensure sound control framework. There is no doubt that technology driven and relatively recent supply chain trade finance products have their own advantages. However, several of these cannot be brought under comprehensive regulatory and control framework. Greater use of LC offers better protection, monitoring and control of the regulatory authority. Bangladesh is having favorable circumstance in this connection.

Any attempt for the gross movement towards open account in line with global practices might prove to be risky from the point of view of TBML. A policy driven risk management criteria should be applied before moving towards innovative trade products.

TITLE AND AUTHORS

EFFECTIVENESS OF RISK MANAGEMENT DIVISION OF BANKS: AN ASSESSMENT

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OBJECTIVES

- To understand the role of RMD in handling various risks;
- To assess the effectiveness of RMD in managing risks in banking activities; and
- To identify the issues/challenges and their remedies for ensuring the effectiveness of RMD.

BRIEF METHODOLOGY

The paper is based on both primary and secondary information. Primary data were collected from the banks using a questionnaire. The questionnaire was sent to the risk management division of different banks. A total number of 33 banks (3 state-owned commercial banks, 1 specialized bank, 26 private commercial banks and 3 foreign commercial banks) responded. The response from the sample banks were accumulated, compiled and analyzed to identify the effectiveness of risk management division of banks. Secondary data were collected from global literature, various publications of Bangladesh Bank and BIBM.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Absence of Risk Culture: Effective risk management program starts with the Board and top management. However, in case of Bangladesh, the scenario is somewhat different. Here, the Board and top management of the bank perceive risk management solely as a regulatory mandate; rather than as an important means of enhancing competitiveness and performance, which means they are less supportive of such efforts. Banks are yet to be habituated to risk-focused culture. This is important as banks with a strong culture of risk management and ethical business practices are less likely to experience potentially damaging risk events and are better placed to deal effectively with those events that do occur.

Banks' Board should play leading role in promoting risk culture in the banks for the better management of the risk. Senior management should implement risk culture in the bank.

FINDING & RECOMMENDATION-TWO

Policy and Framework: Sound risk management in banks calls for well documented policy and framework. Policy should outline the responsibilities of different executives engaged in management of risk. Most commercial banks are yet to have an organized framework, particularly relating to operational risk management. The policy framework should contain the role of governance, risk appetite, risk policies and procedures, risk identification and assessment techniques, risk modeling, reporting and control, and mitigation techniques.

Therefore, Loss database, RCSA, KRIs and scenario analysis are building block of risk management framework. Comprehensive operational risk management framework should be developed and implemented in the banks. Moreover each bank should create, maintain and update anonymous operational loss database for preventing recurrence of operational loss. In addition, national level operational loss database may be created and maintained.

FINDING & RECOMMENDATION-THREE

Risk Research and Policy Development Desk: As per newly issued BB risk management guideline, banks are required to establish five risk related desks. Among these, credit risk, market risk, operational risk and liquidity risk related desks are already there in the RMD organogram. But, the fifth one i.e. Risk Research and Policy Development Desk is a challenge for some banks. Survey data also show that the banks are yet to set up their Risk Research and Policy Development Desk which is crucial for the policy and system up-gradation.

Since banks invest a huge sum of money as part of their business, they may have a good research team to identify emerging, profitable and less risky business sectors. Banks should not consider R & D as a cost center only but rather as an integral part for ensuring safety of investment.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FOUR

Assessment of the Capital Requirement of the Bank by RMD in Place of FAD: One of the most important task of the RMD is to assess the capital requirement and proper capital planning. Banks are still divided in terms of identifying the responsibility of the above tasks. The assessment and planning is still done by FAD in some cases, as was also observed from the survey findings.

This dilemma needs to be solved and the tasks should be brought under the RMD framework as expected. Responsibility of assessing the capital requirement and proper capital planning may be entrusted to the risk management division. If needed, capacity of the RMD officials should be enhanced.

FINDING & RECOMMENDATION-FIVE

Critical Role of External Rating Companies: Risk based capital management process of banks is largely rating based. Banks are also desperately trying to increase the number of clients rated in their credit portfolio and they have reported the increase of rated clients as their success. Since rating is still in the heart of the capital adequacy assessment system, quality of rating is a critical issue because of the lessons that the financial sector learned from the global financial crisis.

Therefore, attention should be given on the integrity of the rating given by the ECAs. In this case, role of stringent regulatory oversight cannot be undermined. Moreover internal rating may also help in this case.

FINDING & RECOMMENDATION-SIX

Effectiveness of the Collateral for Mitigation of Credit Risk: Recovery of outstanding loans by selling eligible collateral indicates the effectiveness of the collateral undertaken against the loan. According to the survey data, collaterals are not very effective in most cases though the banks spend most of their time on collateral related formalities at the pre-sanction stage of the loans. Only insignificant fraction of the outstanding loan is eventually recovered from the sale proceeds of the collaterals in most banks.

Each bank should assess the effectiveness of its collateral management system in case of recovering non-performing loans and should work accordingly.

FINDING & RECOMMENDATION-SEVEN

Less Effective Whistle Blower System: About nine-tenths of the respondent banks stated that they have Whistle Blower System in their banks. However, people generally do not speak up about irregularities and malpractices. Besides, the whistle blowers are not always welcomed in most cases by the management. Therefore, there is significant doubt about the effectiveness of the system in most banks.

Employees may be given the freedom to speak up against any kind of wrong doing or dishonest practices. The whistle blowers should also be protected by ensuring the confidentiality. In the absence of such protection, people will never speak up fearing consequences.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-EIGHT

Dysfunctional Business Lines Management: According to Three Lines of Defense (3LD) model, business line managers play very critical role in managing transaction level risks. It is generally assumed that risk management is half done if the front lines are very effective and vice versa. However, in our country front lines are either incapable or are not allowed to work for management of risk, particularly in case of large loans in which loan proposals come from the top.

All loan processing should be initiated from the bottom without any exception. If the senior management has any information, it may be provided to the frontline for completing due assessment without any interruption.

FINDING & RECOMMENDATION-NINE

Effective Risk Monitoring through Automation: Monitoring is an important step in sound management of risk in banks. Use of software in improving effectiveness of risk monitoring is commonly found in the industry best practices. Only core banking software may not be sufficient, as bankers opined in the survey, for effective monitoring of the risks in banks.

Therefore, Customized software, like dashboard, is required by the banks. Besides, IT based MIS is also important for improvement in decision making which will help the bank to minimize the risks. Banks may develop their own software for ensuring effective monitoring.

FINDING & RECOMMENDATION-TEN

Lack of Skilled Risk Management Professionals: It is observed that there is acute dearth of bankers who are well-versed with the techniques of risk management. The commercial banks in Bangladesh are running after a few experts who have knowledge about risk management.

In the absence of skilled and knowledgeable human resources, managing risk becomes a difficult task, which is a serious cause of concern for the banks. Allocation of resources may be enhanced for obtaining internal and external training in related areas of work.

FINDING & RECOMMENDATION-ELEVEN

Risk Management or Risk Compliance: Banks are more interested about risk compliance rather than true sense of risk management. Risk compliance is mostly reactive and prescriptive. Only compliance of regulatory guidelines will not be sufficient, as the guidelines outline the broader aspects of risk management. Moreover, bank specific risk factors are not covered in the guidelines.

In true risk management, banks, however, need to work proactively and sometimes beyond the regulatory minimum requirement to make sure that identified risks are well mitigated.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-TWELVE

Establishing Good Corporate Governance: Risk management is part of internal governance, involving all areas of banks. There is a strong link between good corporate governance and sound risk management. There is no alternative to sound risk management practices for surviving in the competitive environment. Intervention of the board members in the day-to-day decisions of the bank sometimes affect the banks' performance. In the absence of corporate culture, management failed to apply their professional judgment in various decision making process. This type of corporate practices weakens the resilience and stability of banks.

Therefore, banks should adopt good corporate practices for promoting sound risk management.

TITLE AND AUTHORS

BUSINESS FACILITATION IN EPZs/EZs BY BANKS

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OBJECTIVES

- To discuss policy and regulatory arrangement of banking services in the EPZs/EZs of Bangladesh;
- To identify and assess banking services and their trends in the EPZs/EZs of the country; and
- To identify status and challenges in the business facilitation by banks in the EPZs/EZs to draw recommendations.

BRIEF METHODOLOGY

Both primary and secondary data were gathered to fulfill the objectives of the study. Secondary data were collected from different publications related to global EZs, local EPZs/EZs, ICC and BIBM's publications. A survey was conducted for banks of the country using a questionnaire that consists of both open ended and close ended questions. The survey was administered in 20 banks having reasonably good exposures in financing in EPZs/EZs. Some interviews were conducted with the dealing officers and in-charge of OBUs/ADs of the selected banks to get opinions on relevant issues. Concern BEPZA and BEZA officials were consulted to draw opinions. The paper has been finalized by accommodating observations and suggestions of the participants and experts in the research workshop.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Regulatory and Supportive Initiatives and Approaches: Government's goal to reach the targets of setting up of 100 EZs and drawing true benefits out of the establishments is possible by incorporating supportive economic policies, adequate infrastructure and efficient support amenities including banking and financial services. Overall governance situation outside EZs is also critical. Viable businesses in EZs are attractive for investors and also to the financial service providers.

Due supports from BEPZA, BEZA and BHTPA should be ensured for safer financing in the EZs. It is crucial to make EZs attractive to the investors and bankers with adequate regulatory and supportive initiatives.

FINDING & RECOMMENDATION-TWO

Permissible Financing Facilities in the EPZs/EZs: Enterprises operating in the EZs are sourcing banking and financial services mainly from the ADs and OBUs. Though OBUs were initially licensed to offer services mainly to the EPZs/EZs, currently two-third of the banking services are offered by the ADs and a considerable number of beneficiaries of the OBUs are operating outside the areas of EPZs/EZs. With the establishment of EPZs/EZs in the private sector and high-tech parks, new banking and financing avenues opened up for banks. However, there are confusion on permissible activities amongst bankers.

For avoiding confusion and for better understanding, a compiled material may be prepared for the banks and enterprises on the regulatory provisions of the permissible financing facilities in the EPZs/EZs.

FINDING & RECOMMENDATION-THREE

Regulatory Framework for Sound Purchase/Sale Agreement: Contract based trade payment methods are particularly popular to the Type-A industries of EPZs/EZs and FCBs, the key service providers to these enterprises. However, as a whole, a considerable volume of trade and financing are also being offered through documentary credit in the EPZs/EZs, and of the different types of financing back-to-back LC remained particularly relevant. With the passage of time, increasing number of domestic enterprises are also operating from the EPZs/EZs. In is important to have practices of legally enforceable purchase/sale contracts for avoiding legal complications of their transactions.

For sound purchase/sale agreement, it is essential to have coverage of a regulatory framework both within and outside EZs, and thus alongside ratifying the UN Vienna Convention on Contract of Sale, there should be clear instructions for transactions with the other non-ratifying countries.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FOUR

Some Operational Issues are Necessary to be Addressed: Incidences of TBML remain a growing concern for policy makers and central banks throughout the globe. Though the available sets of AML rules are in line with globally accepted standards, still there is lot of scopes to improve their enforcements. BB is working on a TBML guideline which is expected to bring positive changes regarding better enforcement of the AML rules that are equally applicable within and outside EPZs/EZs areas. There are concerns on the equal enforcements of the stringent compliance requirements amongst the stakeholders. Recent DOS circular on the requirement of CRR for offshore operations also became concerning to some service providers. Banks have also concerns on the first claim of the zone authorities on the assets in case of default.

Policy makers may consider these operational challenges and undertake initiatives for better functioning of the EPZs/EZs.

FINDING & RECOMMENDATION-FIVE

Integration amongst BB, SEZs and Other Regulatory Authorities: Introduction of Dashboard and online integration between customs and BB has brought remarkable changes in handling irregularities and strengthening monitoring supervision. Now for sea, land port and airport, custom verifies the data in ASYCUDA. There is no doubt that using technology and greater coordination are paying off to the regulators. Online and ASYCUDA integration with the zone authorities might be very fruitful.

Greater coordination and integration amongst BB, EPZs/EZs and other regulatory authorities are prerequisite for effective trade, financing and monitoring business facilitation services in EPZs/EZs.

TITLE AND AUTHORS

DIGITALIZATION OF DOCUMENTS IN BANKING OPERATION

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OBJECTIVES

- To review literature on the relevance and trends in ‘digitalization of documents’ in banking in the global context;
- To discuss the status, potential benefits and challenges of the efforts of ‘digitalization of documents’ in the banking industry of Bangladesh; and
- To ascertain future course of actions for a digitized banking industry in the country.

BRIEF METHODOLOGY

The paper is based on the review of published reports and data, and an expert group discussion. The ‘literature review’ formed the key foundation of the study, and some country experiences on digitization efforts were gathered from the published information. The phrase ‘digitalization of documents’ indicates the digitization efforts by the stakeholders of the banking industry to have a paperless banking environment.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Policy and Regulatory Environment for Ensuring Digitization: Supportive policy and regulatory environment is the key for digitization. Government and Bangladesh Bank have been very active in supporting and promoting digital transformation of banking. However, the country needs specific direction and legislation regarding ‘digitalization of documents’ regarding e-signature and preservation of documents.

Digital signature or e-signature should be recognized or accepted by all the concerned authorities to remove obstacles in accomplishing the banking operation with digital documents. Government and BB should coordinate to remove confusions and having uniformity regarding preservation of hardcopy documents.

FINDING & RECOMMENDATION-TWO

Reducing Paper Use and Cost through Strategic Planning: Storage of hardcopy forms and other documents for very long period has sizeable cost implications. In practice, banks are even preserving the documents for more than the required period as per the circulars that affect the total operating cost and ultimately the profitability of the banks. Probably, the banking industry cannot move to complete paperless banking in near future in the existing regulatory, operational and social set up.

As an immediate step, cost can be minimized by reducing the sizes of forms that are used by the bankers by tumbling avoidable information. To attain the goal of paperless banking, banks may chalk out comprehensive phasing out options from the existing paper based system through a coordinated strategic planning of the associations, central bank and the ministries.

FINDING & RECOMMENDATION-THREE

Digitization of Documents through IT Infrastructure: The development of technology infrastructure in banks is noteworthy. Most banks have their in-house developed system for implementing the paper-free communication inside the banks and their branches. However, digitization is more than a piece meal approach of adopting technology; or not only about preservation of documents through imaging.

Banks are required to follow a systemic and systematic approach of capturing, preserving, and using documents as part of their digitalization efforts. For comprehensive digitization, most banks need to invest further in IT infrastructure.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FOUR

Acceptance of Electronic Documents for Various Banking Operations: Key banking services like account opening, credit facilitation and trade financing require a bunch of hardcopy paper documents to accomplish the services. Higher documentary requirements means higher costs.

As a market driven approach, associations of the banking industry of the country might take the lead for piloting digitization efforts in general banking, credit and trade services with the consultation of the policy makers and regulators. As immediate steps, it is important to use e-KYC and reducing documentary requirements in different banking services.

FINDING & RECOMMENDATION-FIVE

Facilitating Green Banking Initiatives through Digitization of Documents: Green banking platforms might effectively be used for promoting digitization efforts and reduction of paper use in banking operations. Simply targeting technology might be damaging. From the green banking perspective, alongside reduction of cost it is also about addressing environmental risks.

To address the challenge of environmental degradation associated with increased use of technology and greater use of energy resources, banks have scopes to minimize associated risks relying on available clean technology and renewable energy as part of green banking activities. Promotion of technology in the banking industry should also be tagged with green marketing that might offer better edge to the banks.

FINDING & RECOMMENDATION-SIX

Changing Mindset of the Stakeholders: Awareness and changing mindset of the clients, bankers and major stakeholders is the key to operate in a paperless way or reduce the use of papers for the benefit of banks. All stakeholders are required to feel that digitalization of documents can work for them.

Policy makers and banks should conduct and promote awareness events by narrating global cases on technology adoption and digitization efforts to the key stakeholders of the banking industry. Information on the negative impact of excessive paper use should get focus in such awareness events.

TITLE AND AUTHORS

ADDRESSING CHALLENGES OF THE TRANSFERABLE LETTER OF CREDIT IN BANGLADESH

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OBJECTIVES

- To discuss legal framework and current status of transferable letters of credit;
- To depict benefits of transferable letters of credit in Bangladesh; and
- To identify the challenges associated with transferable letters of credit and put forward issues for discussion.

BRIEF METHODOLOGY

The paper is mainly based on primary data to know the usages and challenges of transferable LCs in Bangladesh. Selected industry experts were consulted to validate certain information and collect cases. Secondary data were collected from different publications related to use and challenges of transferable LCs. The publications of Bangladesh Bank are another source of domestic regulations for transferable LCs in Bangladesh. ICC documents and publications/reports of BB were the major secondary data sources. To gather primary data, a questionnaire survey was conducted. Both open-ended and close-ended questions were incorporated in the survey questionnaire. A Focus Group Discussion (FDG) was conducted with the heads or in-charges of foreign trade divisions of the selected banks for views, and opinions on relevant issues on transferable LCs.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Submission of Export Documents bypassing Transferring Bank is Still a Concern for Bankers and Traders: Deviation from international standard banking practice in handling transferable Letter of Credit is a critical challenge for bankers in Bangladesh. Particularly, the submission of export documents bypassing transferring bank without having any authorization in the LC is still a concern for bankers and traders in the country. Apart from these, unwillingness of transferring bank to transfer LC and forward export documents by the transferring bank to issuing bank or nominated are also other source of dissatisfaction for traders.

To overcome the problem of bypassing transferring bank, trade service division of each bank should issue internal directives for ensuring international standard banking practice. However, in case of no substitution of invoice or draft for transferable LCs, bypassing transferring bank in this context is allowed if LC permits.

FINDING & RECOMMENDATION-TWO

On-line Reporting of Multiple Transfers in Transferable LCs Causes Difficulties for Bankers and Traders: In case of exports from Bangladesh, prior to customs formalities, BB has allowed exporters to submit EXP Forms in on-line monitoring system of BB. In case of transferable LCs, particulars of a transferable LCs are to be reported to BB online reporting portal by transferring bank only. But, in many cases, transferable credit is transferred in part to more than one second beneficiary. In case of multiple transfers, more than one bank is involved in facilitating and financing process. As the regulatory reporting is confined to transferring bank only, banks face operational problem to handle the LC.

To overcome the operational hassles in on-line reporting, BB may consider separate format in on-line monitoring dashboard for proper execution of multiple transferable LCs.

FINDING & RECOMMENDATION-THREE

Absence of Monitoring Buying Houses May Lead to High Trade Financing Risk: The role of Buying House as intermediary in international trade is unavoidable. Particularly they are most reliable in arranging for foreign buyers or sellers by marketing around the word, maintaining quality assurance and providing logistics support. Despite a number of benefits from Buying Houses, bankers and traders are facing some critical challenges from them. For instance, lack of commitment from starting to the end of execution of shipment and inadequate knowledge of Buying Houses sometimes becomes burden in smooth operations of transferable LCs. Good governance of Buying Houses is crucial for the beneficiaries of transferable LCs. Moreover, supervision and monitoring of Buying Houses is another concern for bankers. Consequently, some unscrupulous Buying Houses are damaging the reputation of the export sector.

In this regard, concerned regulator of buying houses may think of rating system of the Buying Houses annually based on their performance and good governance, so that bankers, traders and other stakeholders can mitigate operational risk in handling transferrable LCs.

FINDINGS & RECOMMENDATIONS

FINDING & RECOMMENDATION-FOUR

Automation in Transferring LC and Genuineness of Transferable Sales Purchase Contract Demand More Caution: As observed, the practices of manual transfer vary from bank to bank where there is a chance of operational risk. Moreover, the practice of automation transfer is limited to very few banks. Introduction of automation transfer might bring remarkable changes in handling irregularities and strengthening monitoring and supervision. On the other hand, banks are receiving sales purchase contracts which are being transferred by banks at the request of Buying House to ultimate suppliers. Since genuineness of the contracts is difficult to identify, banks which are facilitating and financing those contracts are facing new type of challenge which was not faced before. The reasons for limited use of automation transfer of transferable LCs might be, in the context of transferable LCs in Bangladesh, the cause that margin or buying house commission is usually known to each other, first beneficiary and subsequent beneficiary (ies). The automated transfer of transferable LCs is not that much cost effective.

For transferable sales purchase contract, bankers should go for enhanced due diligence in handling this kind of sales purchase contracts to keep their trade financing less risky.

FINDING & RECOMMENDATION-FIVE

Frequent Discussion among Regulators, Bankers and Traders May Bring Good Governance in Buying Houses: As per section 5 of the official gazette notification of the Ministry of Textile, Director General (DG) of Textile and Apparel Directorate can convene a meeting of stakeholders, involving public and private organizations and banks, to remove the impeding forces of importing and exporting activities of buying houses. If required, the DG may seek written opinions /views regarding their problems. This type of meeting has become absolutely essential at this moment according to views of the bankers. We know that emergence of conflict is a natural phenomenon among the parties who are involved in the operations of transferable letter of credit. But, there is always scope for solution of the conflicts.

In this regard, frequent discussion or negotiation among the stakeholders across the table is essential to give the win-win-win situation for the relevant regulators, bankers, buying houses, and other stakeholders.

TITLE AND AUTHORS

USE OF INFORMATION TECHNOLOGY IN ENHANCING EFFICIENCY OF INTERNAL CONTROL SYSTEMS

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OBJECTIVES

- To know the present status of internal control system of banks in Bangladesh;
- To identify feasible application of IT in enhancing efficiency of ICS in the banking sector; and
- To formulate some recommendations for improving efficiency of ICS of banks.

BRIEF METHODOLOGY

The study used both primary and secondary data. The research team mainly applied the discussion/interview method with different executives at different key managerial layers as a means of enriching understanding about the possible use of IT in internal control system. As part of that, the team interviewed a set of respondents acting as Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operating Officer (COO), Chief Risk Officer (CRO), Departmental/Divisional/Zonal Head, CAMLCO, Head of Credit Risk Management, Head of Internal Control and Compliance Department, Head of IA, Head of Human Resource Department, Head of ICT and Head of Branch. Also, the team shared views with some experts in the banking industry. Further interviews of some members of BoD were conducted by the team. Moreover, some primary data were collected through a questionnaire sent to 32 banks. The study focused only the operations of scheduled commercial banks. Regarding secondary data, various publications of BB, Basel guidelines, framework/standards issued by COSO, Institute of Internal Auditors (IIA), BIBM, and various published research articles were reviewed.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

National Data Base for Banking Decision: The rapid development of information and communication technology has created the opportunity to utilize the relevant information in numerous ways for the growth and development of business. But, the maximum possible utilization of the advent of IT demands the availability of a large national database of the citizens' information relating to age, gender, occupation, income, location, preference, family structure and so on that assist banks in taking strategic decisions promptly and accurately.

The concerned authorities may establish a national data base for banking. It is also essential to ensure regular update thereof.

FINDING & RECOMMENDATION-TWO

Development of Manpower for ICT Use: Effective and optimum use of IT in ICS depends on the availability of IT infrastructure in terms of having an adequate combination of IT hardware & software as well as the ability of the bank employee in utilizing the maximum benefit from the IT. The observation and discussion reveal that there is a considerable deficiency in the number of bank employee equipped with required level of IT competence.

It is high time to develop ICT equipped manpower by providing required training.

FINDING & RECOMMENDATION-THREE

Audit Automation: Automation of entire audit operation executed by ICCD certainly increases scope, efficiency and effectiveness of the audit activity. However, only few banks already have fully automated activities of ICCD that are permitting them to expand the coverage of their activities with enhanced quality. The automation process has also proved to be cost effective for the banks.

So, it is advisable for the other banks to think about automating the ICCD operations.

FINDING & RECOMMENDATION-FOUR

Maintaining IA Data Base: Only few banks maintained cost and return profile of IA functions and applied necessary methods of calculating the cost incurred and the impact on value coverage of the bank. It makes the net contribution of IA visible to the relevant stakeholders.

It is expected that the rest of the banks will do the same exercise.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FIVE

Development of Customized Dashboard: Maintaining a strong and sound control over the banking operations requires a close and timely monitoring by the different layers of bank management. The failure of a system or standard, whatever its form and magnitude, may be corrected or managed if that is detected at an early stage. Banks may think to device customized dashboard for different level of monitoring.

Therefore, the real time monitoring of movement of the key indicators or status at different levels, including the branch managers, is essential to bring down the risk within the tolerance level or prevent the large loss from occurring inside the bank by developing a set of customized dashboard appropriate for different controlling levels of a bank.

FINDING & RECOMMENDATION-SIX

Ensuring Proper Use of ICT Facilities: A huge volume of quantitative and qualitative information, generated through ICT, is being applied by the bank management. But, the observations suggest that all data/information are not being used to the fullest extent. For the purpose of monitoring, banks are not availing all avenues of ICT.

The willingness and preparedness on the part of the senior bank management is essential to bridge this gap between potential and actual use of IT in running the business. Moreover, the system of formulating strategic plan, setting risk appetite, business growth/profit target, and performance evaluation of the management may be done in more objective and efficient way by the BoD, based on a wider set of real time information generated through ICT.

FINDING & RECOMMENDATION-SEVEN

Research and Development Division: Utilization of IT in banking business is a dynamic issue as it is always possible for a bank to increase the application of IT in internal control system. The potential use of IT, however, needs to be identified through rigorous analysis of the business procedures and demands of the customers. All these developmental tasks may be best served by a dedicated Research and Development division in a bank. But, with few exceptions, there is a dearth of effective and well-equipped R&D units in terms of skilled manpower, importance given by the management, and linkage between R&D and strategic decision in our banking sector.

Therefore, a full-fledged Research and Development wing is required for all banks to tap the potential of IT in internal control system of banks.

TITLE AND AUTHORS

IT VULNERABILITY ASSESSMENT AND PENETRATION TESTING IN BANKS

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OBJECTIVES

- To address the existing practices of IT Vulnerability Assessment and Penetration Testing in the banking sector;
- To find the gap of existing practices of Vulnerability Assessment and Penetration Testing in line with the best practices; and
- To identify the challenges and put forward some recommendations for executing effective IT Vulnerability Assessment and Penetration Testing in the banking sector.

BRIEF METHODOLOGY

Both primary and secondary data were collected to accomplish the objectives of the study. Secondary data were obtained from different online and physical sources (websites and published articles). Both interview and questionnaire methods were used for collecting primary information. Primary data were mainly collected from Information security and ICT departments of banks. A total of 32 banks were selected purposively, based on the consideration that the sample banks should represent all categories of banks in terms of ownership, number of branches, state of computerization, and adoption of information security measures. Personal interview, focus group discussion through physical visit to banks, assessing and evaluating supporting documents provided by banks and telephonic discussion were used to gather and validate supportive information.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Comprehensive VAPT Policy, Detailed Guidelines and Procedure for effective VAPT: 21% banks do not have any VAPT policy. 79% banks maintain VAPT policy as a part of ICT Policy but it is not comprehensive and elaborated. Only 15% banks are maintaining detailed guidelines and procedure for performing both internal and external VAPT, but in most of the cases detailed procedure are not documented and approved. Most banks follow BB ICT Guideline to develop VAPT policy and procedure. BB guideline sets minimum criteria and covers only few points (7 controls about VAPT) which are not sufficient to develop VAPT policy and procedure effectively.

Banks should have separate and comprehensive VAPT policy guidelines and procedure and it should be properly documented and must be approved by the management. To ensure effectiveness of VAPT task, banks need to incorporate other global standards.

FINDING & RECOMMENDATION-TWO

Maintaining Dedicated and Skilled VAPT Team: Only 10% banks have separate IT security department, and around 30% banks have dedicated VAPT team. According to the best practice, minimum 4, 3 and 2 skilled members should be engaged for large, medium and small banks respectively in the banking sector. But only 10% banks have CPT professional and training facilities for the team members are inadequate. 45% banks engage CEH professionals in their VAPT team. VAPT teams of 40% banks work under ICT department which is not the best practice. Around 35% banks have recruited CISO, but most of them don't have been given proper rank.

Banks should establish separate and highly skilled IT security department and dedicated VAPT team. With a view to work independently and efficiently, reporting authority of VAPT team should be CISO not CTO or CIO. According to the global practice, CISO should have rank similar level or equivalent to CTO/CIO to work independently, boldly and efficiently. CISO should not compromise with the required arrangement of cyber risk.

FINDING & RECOMMENDATION-THREE

Execution of Comprehensive VAPT in Banks: Comprehensive VAPT is the key requirement of cyber security program. Security weakness in any single area or IT services may create severe cyber threats.

Banks should cover all areas of IT security related services to mitigate cyber risk. Banks should also cover all important areas of IT security services in VAPT task.

FINDING & RECOMMENDATION-FOUR

Signing of NDA with the VAPT Vendor: Surprisingly, some large banks mention that they do not sign NDA for VAPT by vendor. As per survey, 50% banks use unlicensed tools for VAPT. Usually unlicensed software may carry malicious code or spyware.

Before starting VAPT task and issuing work order, banks must sign NDA both with vendor and its engineer(s) engaged for VAPT activity. Since VAPT is very sensitive and diagnose the system vulnerability, banks should not compromise in using licensed tools from well reputed solution provider.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FIVE

Maintaining Proper Phases of Effective VAPT Task: 65% banks are not following five phases for VAPT task in line with the best practices. It is alarming that only 15% banks perform activities under planning phase properly.

It is important for banks to maintain and execute proper planning for a successful security assessment, developing an assessment plan, prioritizing and scheduling assessments, selecting the appropriate assessment approach, and addressing logistical considerations. Banks should cover at least 8 activities adequately under training phase of VAPT task in line with the best practice.

FINDING & RECOMMENDATION-SIX

Perform VA activities covering All Areas: Most of the banks perform VA activities in the areas of Network and Port scanning and Port sweep. 70% and 55% banks perform PT in the area of Guess Password and Taking Control of Port respectively. Other important areas of PT activities are very neglected by banking sector which may create severe cyber risk for banks. The study also reveals weak picture in some important areas of VAPT activities such as use of Process Flow Diagram for Conducting VAPT, Delivery of VAPT Report to Stakeholders, Preservation of VAPT Report, Re-testing of VAPT Report and Activities, and Validation Process of Identified VA Gaps.

Banks should not neglect any area in performing effective VA. Banks' management should have close monitoring on the issue. Sufficient budget should be allocated in performing important areas of PT activities.

Briefs on
Roundtable Discussion Papers

TITLE AND AUTHORS

INTEREST RATE AND EXPANSION OF BANK CREDIT

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Roundtable
Discussion
Series

To be Published in
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OBJECTIVE

- To examine the effect of interest rate on credit growth in the commercial banks of Bangladesh.

BRIEF METHODOLOGY

The paper is based on a review of published reports and data. Secondary data were collected from different departments and various publications of Bangladesh Bank, Annual Reports of commercial banks and published literature for the period 2009 to 2018. The ‘literature review’ formed the key foundation of the study, and some country experiences were incorporated from the published information.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Lending Rate and Demand for Loan: From the demand side perspective, high interest rate on loan is a major obstacle because it creates extra burden to the business by adversely affecting the cash flow, profitability and repayment capacity. Moreover, high interest rate increases the product cost, which negatively affects the competitiveness of the export oriented firms.

Therefore, the lending rate should be reduced to a reasonable level. Initiatives may be undertaken to reduce the lending rate to a tolerable level. Risk based loan pricing may help in this case.

FINDING & RECOMMENDATION-TWO

Deposit Rate, Lending Rate and Spread: Cost of deposit is a key factor for the banks to determine the lending rate. With a view to reducing the existing lending rate most banks reduce their deposit rate. But, reduction of deposit rate may not be a feasible solution as it hurts the savers, especially when the rate reaches below the level of inflation. Low level of deposit rate will discourage depositors from saving, which will eventually affect the supply of loanable fund.

Therefore, it is important for banks to reduce their spread so that lending rate can be reduced for expanding bank credit. Bank should also develop new and innovative deposit products for attracting new depositors, so that the weighted average deposit rate can be rationalized.

FINDING & RECOMMENDATION-THREE

Reducing Cost of Operation through Increased Automation and Centralized Banking: Cost of operation is a key concern for banks as it has an impact on interest rate and profitability. Adoption of modern technology in the banking operation will not only reduce the operating cost through increased efficiency but also enhance the customer satisfaction through quick delivery of services. Some banks have started to shift from traditional decentralized system to modern centralized platform for providing all business activities.

Therefore, increased level of automation, along with centralized banking operational system, might be considered to control the operating cost as well as to ensure better monitoring of business activities.

FINDING & RECOMMENDATION-FOUR

Increasing Focus on Non-interest Income: Now a days, only 'funded business' is no longer considered as the most attractive business; and modern banking has adopted the ancillary business activities (non-interest income) as one of the important strategies to improve profitability considering the less risky character of the same. Ancillary services (non-interest income) are, therefore, of great importance to the future of banking.

Therefore, banks should increase their focus on non-interest income, so that interest rate can be reduced without compromising with the profitability of the bank.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FIVE

Declining Asset Quality and High Lending Rate: It is well known that NPL is a critical challenge for the banking sector of Bangladesh as it increases the lending rate; and some banks are really struggling to address the situation. As provisioning requirement is positively correlated with NPL, so the present NPL scenario prompts the bank management to maintain high level of provision which ultimately affects the profitability of the banks. The whole situation goes against reduction of lending rate.

Therefore, it is important for bank management to ensure prudent borrower selection to promote bank credit quality and sound credit practices, which may eventually help to reduce the lending rate.

FINDING & RECOMMENDATION-SIX

Reducing the Credit Concentration: From various studies, it is observed that credit portfolio of banks is concentrated in different aspects. Among them, large loan concentration and trade credit concentration are critical. Such concentrations have major impact on the quality of bank credit.

Therefore, to bring down the level of credit concentration risk to a tolerable level, banks might consider setting sectoral credit limits for ensuring quality of the asset portfolio. Bank may also focus on other untapped areas to reduce their credit concentration as well as to enhance their credit portfolio for achieving greater economic benefit for the country.

FINDING & RECOMMENDATION-SEVEN

Setting Realistic Profit Target for Maintaining Asset Quality: In last few years, the owners' expectation for profit has increased manifold. As such, bank owners set unrealistic profit target for the bank management ignoring the economic, political and infrastructural reality of the country. Subsequently, management are forced to pursue the unrealistic profit target by not considering or compromising credit quality of banks; and by involving in unhealthy competition.

Therefore, unrealistic profit target should be rationalized by tapping it with macroeconomic indicators, thereby helping banks to maintain good quality credit which will ultimately ensure sustainable profitability.

FINDING & RECOMMENDATION-EIGHT

Policy Formulation for Identifying Willful Defaulter to Reduce NPL: The provision of loan classification norms of the country does not make distinction between willful and other forms of defaults; and there is no requirement to report to the central bank about willful defaulters. Other than the credit related scams, credit default is hardly considered as a criminal offence.

Therefore, willful defaults should be separated from other categories of default and should be considered as a financial crime. As such, willful defaulter may be barred from taking further loan from the banking system. Bangladesh Bank may undertake necessary initiatives for formulating regulations in this regard to reduce NPL.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-NINE

Designing Incentive Structure for Good Borrower: The government is trying to reduce the lending rate with a view to enhance the credit flow to the private sector for achieving higher economic growth. The government has also undertaken some initiatives such as reduction of CRR, increase in the deposit ceiling of state owned organization to the private sector banks, reduction of corporate tax rate for the banking sector, etc. But these initiatives may not serve the purpose of reducing the lending rate as evident from the reality.

In this case government/banks may think of designing financial and non-financial incentive structure for their good clients such as special tax benefit to banks, interest rate rebate to the good borrower, etc. These initiatives may help the banks to lower the interest rate, which will ultimately boost the credit growth for achieving higher economic growth.

FINDING & RECOMMENDATION-TEN

Formation of Asset Management Companies (AMCs) to Curb NPL: It is very important to understand that with the existing amount of NPL, it will be very difficult for most of the banks to reduce their lending rate as the cost of bad debt is very high. From the global experience, it is observed that Asset Management Companies (AMCs) were formed for the disposal of NPLs. The initiatives were successful in different countries around the world.

In this context, Government can think of formation of AMCs in Bangladesh to acquire all the bad assets from the banks. This will help the bank to clean their balance sheet so that they can reduce their lending rate for enhancing good quality credit. Strong policy support and coordination is must in this regard, otherwise the objectives of the AMCs will not be attained.

TITLE AND AUTHORS

CORPORATE GUARANTEE: DOES IT WORK IN RECOVERY OF LOAN?

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OBJECTIVES

- To review the regulatory aspects of corporate guarantee;
- To examine the status of loans and advances in Bangladesh; and
- To analyze the implication of corporate guarantee for recovering loan.

BRIEF METHODOLOGY

The paper was based on primary and secondary data. Primary information was collected by interviewing some higher officials of scheduled banks and NBFIs, academicians, industry experts and researchers. The secondary data were collected from different publications of Bangladesh Bank and BIBM. Extensive literature was reviewed for developing the conceptual aspects. Relevant websites were visited and some research papers and books from home and abroad were also studied for completing the paper. Along with some tabular and pictorial presentation, analysis was also presented in descriptive way.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Credibility of Guarantor: Banks mainly focused on the creditworthiness of client not of the guarantor. However, extended credit may be recovered from the guarantor in case of default of the principal debtor. Guarantee is considered as an important form of security of a loan for ensuring recovery.

Proper assessment by the bank before accepting the guarantee is crucial. Banks should accept the guarantee provided by a credible and solvent entity only. In the absence of these, the guarantee will not be effective in recovery of loan in case of non-repayment by the principal borrower.

FINDING & RECOMMENDATION-TWO

Due Diligence in Documentation: Sometimes, banks do not complete documentation process with due diligence. Consequently, they do not get proper support in litigation process against the guarantor. It is witnessed that there are some negligence related with guarantee agreement weighing lesser importance for ensuring recovery of loan.

Proper documentation is essential while the loan become classified. In this regard, for effective enforcement of corporate guarantee, bankers should perform due diligence in documentation of corporate guarantee.

FINDING & RECOMMENDATION-THREE

Internal and External Rating of Guarantor: As per Bangladesh Bank guidelines, banks are now conducting ICRR for the borrower and asking for external rating. These internal and external ratings of the borrower help banks in credit decision process. However, there are some instances that rating of guarantor was not considered while accepting corporate guarantee.

It is desirable that banks will complete internal and external rating for the guarantors along with the borrower. Consequently, the probability of recovery will reduce in case of default.

FINDING & RECOMMENDATION-FOUR

Relationship between Guarantor and Principal Debtor: It is observed that there are different types of relationship between principal debtor and the guarantor. In case of willful default, having common ownership between principal debtor and the guarantor may not be very effective in recovery of credit.

Banks should be careful about the relationship between the debtor and the guarantor while accepting guarantee. Nevertheless, the mutual guarantee to each other is also create problem in recovery of loan. Therefore, bankers should be more cautious about mutual guarantee.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FIVE

Ensure Proper Accounting and Disclosure of Contingent Liabilities of the Guarantor: It is also evidenced in some cases that a corporate provides guarantees for the loan amount higher than the net worth of the guarantor. It is also found that an inoperative or a losing concern is providing corporate guarantee. Even the accounting reporting of the guarantor is not satisfactory in all the cases. Also the guarantors do not disclose the contingent liabilities. Therefore, it is not possible for banks to determine global liability of the guarantor for assessing actual net-worth of the firm.

Banks should consider net worth of the guarantor along with the debtor. Concerned regulators of the company may take initiative for ensuring accuracy of disclosure.

FINDING & RECOMMENDATION-SIX

Rules and Regulation Regarding Corporate Guarantee: Although there is no separate law or policy for corporate guarantee, some sections of different laws and guidelines including Contract Act, Bank Company Act, Money Loan Court Act, CRM Guideline, ICRRS, etc. have mentioned the procedures of corporate guarantee.

A special regulation or section in the concerned Act may be helpful for the bankers in liquidating corporate guarantee.

FINDING & RECOMMENDATION-SEVEN

Procedures of Corporate Guarantee: It is essential that MOA and AOA of the corporate guarantor should allow providing guarantee along with the board's resolution. Furthermore, guarantee-agreement must be signed by the authorized person. Besides, a floating charge with RJSC (Registrar Joint Stock Companies and Firms) may be created against the guarantor company. However, in some cases procedural lapses have been found.

Proper training, appropriate placement and assigning rational load of the executive help in this regard.

FINDING & RECOMMENDATION-EIGHT

Legal Framework: In case of borrower default, banks have the right to sue in the court against the guarantee like the regular borrower. However, through the writ procedures, guarantors escape themselves with issuing 'stay order' from high court. Therefore, bank experiences a long time for the court decision. Even the decision is in favor of banks, it is quite difficult for the bank to liquidate their assets for loan recovery. Moreover, there are some problems in enforcement of regulations against the unethical guarantor.

In this regard, banks need to have support from Government and judicial system of the country.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-NINE

Corporate Guarantee for Loan Recovery or Banks Comfort: It is observed that banks are not getting full benefit from the corporate guarantee arrangement in recovery of loan due to different problems including regulatory issues, guarantors' strength, accounting disclosures, cumbersome process, long processing of court procedures, etc. Still banks are accepting corporate guarantee for the borrowers.

It is expected that a bank will accept corporate guarantee as a measure of loan recovery, not only as a comfort.

TITLE AND AUTHORS

SUPPLY CHAIN FINANCE IN BANGLADESH

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OBJECTIVES

- To understand conceptual issues on different aspects of SCF;
- To examine the current status of SCF in Bangladesh;
- To present a brief picture of SCF in different parts of the world; and
- To identify the challenges to spread of SCF in Bangladesh.

BRIEF METHODOLOGY

Since very few banks and financial institutions are involved in SCF, no organized published data were found. We collected primary data by sending open-ended questionnaire to selected banks and NBFIs involved in SCF. Second, a 'Focus Group Discussion (FGD)' was organized at BIBM at which the Heads of the SCF department of respective banks and NBFIs participated and provided valuable observations.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Lack of Awareness about SCF: The concept of SCF is relatively new in Bangladesh. Most of the buyers and suppliers still prefer to exercise the traditional banks' services, namely, Letter of Credit, Working Capital Financing, LATR, and LIM in procuring raw materials. Commercial banks are reluctant to launch commonly used products like Factoring, Reverse Factoring, Distributor Financing, Work order financing, etc. So it is high time for all the related parties to be aware of the process and benefits of SCF to compete with the internal market and make the financing method as simple as possible.

A collective initiative of Bangladesh Supply Chain Management Society (BSCMS), banks, NBFIs and different chambers and SME Foundation can create awareness about this financial product. They can form a strong alliance to raise awareness, particularly among anchors/corporate houses about the necessity and benefits of SCF. Arranging supplier conferences, promoting best cases of supply chain finance, and acknowledging the contributions of people and organizations can be very helpful in awareness creation. Additionally, inclusion of SCM and SCF in the syllabus of universities might contribute in building awareness among the business and financial leaders of the country.

FINDING & RECOMMENDATION-TWO

Absence of Regulatory Framework for SCF: To date, there is no regulation for SCF in Bangladesh. BB may take an initiative to prepare a comprehensive guideline for SCF. In 2005, BB gave a policy guideline on domestic factoring. Afterwards, no progress has been observed. A crucial part of the process is to acquire assignments/ consent letter from corporate houses, which proves to be difficult in most of the times.

SCF services are technical in nature and require smooth procedures and monitoring on a regular basis. A sound regulatory guideline from BB, covering mechanics of SCF, assignments procedures, necessary documents, detecting procedures of fraud and forgeries, will not only reserve the rights of the banks/ FIs but will also ensure the best possible interest of mass suppliers in the country. Many countries like China and India have regulatory guidelines on SCF to facilitate this financial service among users.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-THREE

Lack of Uniformity in the Practice of SCF: There is a lack of uniformity in the definition and process of SCF among the involved institutions in Bangladesh. It had already created some degrees of confusion among the related parties to get involved with this facility. FGD discussions identified that some of the commercial banks have already planned to launch this product long ago but their management is in disinclination regarding the process or application of this product. Some banks have been offering SCF for the last few years (2017-2018), but the definition of their product, to some extent, differs from the original essence of SCF. Example: one of the popular SCF solution known as ‘Reverse Factoring’ has been used by some banks as ‘Payables Financing’.

An appropriate procedural guideline on SCF will be able to create a consistent and common understanding about SCF. Areas like standard definitions for techniques of SCF, benefits there from, list of documents required for a transition; risk factor; accounting and regulatory treatment, pricing, etc. need to be covered in the procedural guideline.

FINDING & RECOMMENDATION-FOUR

Performance and Credit Risk: In SCF, consideration of performance risk of suppliers and credit risk of anchors and suppliers is quite important. The financing is made by assessing the length and quality of relationship between buyer and supplier, and creditworthiness of buyer/anchor primarily.

Banks and financial institutions must have a good mechanism to determine the degree of risks associated with SCF. It is more important at the initial stage of transaction. Additionally, a proper reporting format from BB is required to be given to banks and financial institutions for SCF with a view to close off-site supervision.

FINDING & RECOMMENDATION-FIVE

Fake Bill of Supplier: A common problem was the submission of fake bill by the clients to the banks and NBFIs, particularly in paper-based solution. As a result, a substantial number of fake bills had already been financed by different banks which ultimately resulted in NPL.

Financiers need to have a proper checklist of documents along with an effective vetting process to verify the accuracy of submitted documents/bills. However, applying a software based proper platform will reduce this problem.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-SIX

Paper-Based and Software-Based Solutions: Except a few banks and financial institutions, all SCF providers in Bangladesh follow paper-based transaction. Although there is annual maintenance cost and a fee per transaction needed to pay to the platform provider, it is saving time, ensures accuracy of a large number of transactions, provides electronic payment system, and disseminates information among clients.

SCF is moving worldwide towards a paperless digitized mode. As digital platform acts to track, validate and authorize each step of the supply chain finance with full document visibility and any payment option from cash to cards and loans and connects a range of counterparties in the supply chain like banks, corporate customers, suppliers, credit insurers, logistics companies, and payment providers for exchanging trade data and assets and seeking financing more easily, all financiers need to utilize platform based SCF mechanism. For Example, in 2018, IPDC Finance Limited, Bangladesh launched the country's first digital supply chain finance platform with 'Blockchain' technology to offer easy and low-cost credit to Micro and Small Enterprises (MSEs).

FINDING & RECOMMENDATION-SEVEN

Consent Letter and Acceptance of Assignment: Anchors in many cases are not interested to give consent letter mentioning they will pay the money to banks and financial institutions instead of paying money to the suppliers. Additionally, large corporates are sometimes reluctant to honor the assignment given by the suppliers in favor of banks and financial institutions.

Awareness about the products and benefits therefrom are necessary to be understood by anchors. Buyers can confirm uninterrupted supply of raw materials, reduce time and costs by reducing number of tiny payments and finally may avail of discount facilities because of SCF arrangements. Banks and Financial institutions can convince buyers to give consent letter by communicating to them the aforesaid benefits.

FINDING & RECOMMENDATION-EIGHT

Limited Number of Reputed Buyers: It is true that large numbers of reputed buyers are not huge in Bangladesh. As SCF facilitates to pass on credit risk from small suppliers to reputed buyers, if we consider only large number of buyers the size of market will not be expanded.

With a view to expansion of market, banks and financial institutions may target Tier-II and Tier-III buyers by considering their previous track record of banking behavior. Apart from these, they may approach different sector corporations, services sectors, and defense organizations, etc.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-NINE

Lack of Common Vision: Common vision of concerned parties about the benefits of SCF necessary for the growth of SCF, which was lacking. Nowhere is this recognition more apparent than in a supply chain. It is necessary to be recognized that if a supplier does well, benefit goes to buyers and vice versa. Of course, altogether benefits of macro economy cannot be overlooked.

Our corporate world needs to change their mindset. Their focus should be on horizontal development in place of vertical development. Supply chain finance collaboration helps drive improved financial performance of all associated with SCF. As a result, the performance of each participant is gradually increased by availing of this financial service.

FINDING & RECOMMENDATION-TEN

Training for Bankers and Financial Executives: Only 119 persons were working with SCF in Bangladesh. The small number is not at all sufficient to penetrate the upcoming vast market of SCF. Additionally, current manpower possibly is not well equipped with the knowledge of SCF. Expertise in IT is also crucial here.

Banks and financial institutions that are offering or going to offer SCF need to prepare manpower with proper training at home and abroad . Additionally, practicing organizations or people of SCF may form an association. This type of association can address different issues necessary for making this financial service successful in efficiently financing numerous suppliers of this country.

TITLE AND AUTHORS

USING US DOLLAR IN FOREIGN TRADE: IS THERE ANY ALTERNATIVE OPTION?

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OBJECTIVES

- To draw a sketch of the use of USD and other currencies in trade transactions; and
- To commend on the country's stand regarding the potential alternatives of using USD.

BRIEF METHODOLOGY

The paper is mainly based on secondary information. Selected industry experts were consulted to validate certain information and collected cases. Secondary data were collected from different publications related to use and dominance of USD in trading and cross border transactions. The publications of Bangladesh Bank is a key source of trading currencies in Bangladesh. The paper has been finalized by accommodating observations and suggestions of the participants and experts in the roundtable discussion.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Dependence on USD for Trade and Other Cross Border Transactions: Dependence on USD for trade and other cross border transactions in the context of Bangladesh is not different from most of the other global economies. Historical evidences and trends clearly support the rationale for huge inclination on the USD throughout the World. Global efforts to search for an alternative to USD have not been successful till date.

In such a scenario, it does not seem logical for a country like Bangladesh to think of searching an alternative reserve currency to replace USD. Using an alternative replacing USD might be very risky.

FINDING & RECOMMENDATION-TWO

Foreign Currency Clearing Accounts in the Chinese Currency: Bangladesh Bank permitted banks to open foreign currency clearing accounts in the Chinese currency however benefits are yet to be realized. Though there is a huge demand for CNY in import payment, bank cannot utilize this opportunity to reduce transaction costs in making import payment in ‘Yuan’. The key reason of non-capitalization of trade settlement is the inadequate supply of CNY in the accounts of Chinese banks. Moreover, banks in Bangladesh are also concerned with the adverse impact of trade war between China and USA.

Ensuring adequate supply of CNY may help realizing the benefits, however, the country needs to follow caution to address the situation of trade war between China and USA.

FINDING & RECOMMENDATION-THREE

Mechanism of Import Payment in Euro: In Bangladesh, a number of UPAS LCs is issued in Euro. Import settlement of those LCs is usually executed by taking loans in Euro or by converting nostro balance of USD into Euro through their correspondent banks. In some cases, banks open LCs in Euro but make payment in USD due to the availability and easy arrangement of USD which makes the current mechanism of import payment in Euro is expensive.

Bangladesh Bank may consider refinancing scheming in Euro to reduce interest charges and to widen the scope of alternative currency.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FOUR

Cross-Border Trade Transactions Using the Currencies of Home Country: There are several global instances of having cross-border trade transactions using the currencies of home countries as part of bi-lateral or regional arrangements. The trends rather increased in recent years having more intense multi-dimensional political and economic power game. Special payment and clearing arrangement for trade transactions have been beneficial for Bangladesh. For example, under ACU mechanism, net interest income is positive which is beneficial for Bangladesh. In the context of Bangladesh, home currency use in certain trade transactions with selected countries may help reducing transaction costs. Policy strategies for effective use of some hedging instruments might be helpful to handle foreign exchange and commodity price risks.

More arrangements for bi-lateral and regional payment and clearing arrangement might be beneficial for the country. Policy makers need to work on appropriate strategies to create supportive platform for effective use of the risk management techniques to minimize transaction costs and exchange rate risks in the country.

TITLE AND AUTHORS

FINTECH AND REGTECH: POSSIBLE IMPACT ON BANKING SYSTEMS IN BANGLADESH

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OBJECTIVES

- To discuss the conceptual issues of FinTech and RegTech;
- To identify global scenario of FinTech and RegTech and its impact in global financial services;
- To show the current status of FinTech and RegTech in the banking and financial sector of Bangladesh; and
- To assess the possible impacts of FinTech and RegTech on banking systems in Bangladesh.

BRIEF METHODOLOGY

Both primary and secondary data were used. Secondary data were obtained from different online and physical sources (websites and published articles). Both interview and questionnaire methods were used for collecting primary data. Primary data were collected through a semi-structured questionnaire. The questionnaire was sent to Head of Information Technology Departments of 58 banks in all categories, of which 32 questionnaires were received. The study covered 4 state-owned commercial banks and 28 private commercial banks.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

FinTech and RegTech awareness among top level executives in banks: According to the survey, 67 percent of the respondents have very high level of awareness about FinTech whereas the awareness level is not satisfactory in RegTech. 58 percent of respondents have a moderate level of awareness about RegTech.

Top level executives should change their mind-set to quick adoption of financial technology to cope up with the upcoming challenges channeled from FinTech firms, especially in the area of retail banking/financial services. Banks should develop awareness and reduce perception gap of bank management on technology adaptability issues.

FINDING & RECOMMENDATION-TWO

FinTech strategy in banks: The study reveals that 65% of banks have a FinTech strategy that means they are ready to face the FinTech wave. But most of the banks do not have any documented and management approved strategies.

Banks should try to give emphasis on the short term and long term strategy formulation. Ironically, FinTech strategy is not documented and well planned in spite of the major challenges faced by the banks. So, the banks should be aware of the strategic planning aligning with the cooperation of the IT professionals to tackle the challenge of the FinTech firms' wave practically.

FINDING & RECOMMENDATION-THREE

Bank FinTech engagement model: According to the study, 75 percent of the respondents believe that collaboration is the best model for engaging banks and FinTech. FinTech firms and banks can solve the market and consumer challenges together, not replacing each other.

So, joint initiatives can be equally beneficial for both sides. Banks need to identify the best approaches towards aforesaid collaboration.

FINDING & RECOMMENDATION-FOUR

Priority areas of IT spending of banks: According to the survey response, 90 percent of the respondents prefer cyber security domain for IT spending in the banks. Banks also prefer spending to compliance, payment/transaction banking and large IT infrastructure revamps.

In order to increase this capital at the compounding rate, the banking segment should increase the privacy issues for both the customers and the banks. Moreover, to create a shield against the strategical attack of the FinTech firms, the banks should initiate innovative services like payment system and most of the services are of IT in nature and so the banks can give significant focus on such IT spending as these will subsequently increase the strength of the banks over the FinTech firms.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FIVE

Technological challenges faced by banks: The survey reveals that cyber threat is the biggest challenge for our banks. Changing customer demands and adapting legacy infrastructure to meet new business demands are also posing challenges to banks.

It is highly expected that the banks, to be competitive in the market, should be proactive to meet the technological challenges.

FINDING & RECOMMENDATION-SIX

Impact of FinTech and FinTech firms in banks: Positive and negative: FinTech as a revolutionary stimulus in the banking sector is emerging significantly with different technological elements like API, Blockchain, AI, etc. 70 percent of the respondents believe that FinTech has an impact on the banking system of Bangladesh whether the impact can be positive or negative. On the other hand, 55 percent of the respondents agree that FinTech firms have a high impact on the banking systems of Bangladesh. Though the innovation of the FinTech is quite formidable, it is likely that the banks adopting the FinTech are accepted to reveal positive appearance in the industry and most of the tech-based elements of FinTech are on the peak of success in the advanced world.

Therefore, Banks should accept the positive impact of FinTech and be aware of the negative impact also. The bankers should be positive with the FinTech and adoption of innovations by the FinTech firms are to be closely observed by the banks.

FINDING & RECOMMENDATION-SEVEN

Technology adoption is the best solution for banks to win the competition: 50% of respondents think that AI will have a significant impact on the banking industry within one year. Following, 30% of responses show that Blockchain Technology will have a greater impact on the financial industry.

To upgrade the banking services in the market, it is the urge of the banks to adopt the technological improvements in the current win-win scenario.

FINDING & RECOMMENDATION-EIGHT

Implementing RegTech Solution by banks: The study finds that 60% banks do not use RegTech solution, rest of the banks are using RegTech solution to some extent for the very limited scale of operations. Using RegTech solutions, banks can be benefited in many ways such as automation of regulatory reporting and workflow process, delivery of regulatory and compliance requirements more efficiently and effectively at low cost.

Bangladesh Bank and bank management may take proper and timely measures to implement RegTech solutions in our banking industry.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-NINE

Cyber Security Strategy in banks: Cyber-attacks are the biggest concern for businesses in Europe, Asia and North America, according to a new survey (November, 2018) of executives by the World Economic Forum (WEF). Fraudulent Transaction monitoring and Cyber risk management have become a crucial issue for banking and financial sector in providing innovative digital financial services. The recent BIBM study on ITVAPT in banks (Research Workshop Paper, November, 2019) reveals that some banks of our country have significant technology gap in terms of cyber risk. With the development of FinTech products and services and increasing demand of business collaboration and system integration between Banks and FinTech firms will also increase the complexity of the existing/legacy system and accelerate security holes & cyber threats from multiple e-channels of DFS. Our banking sector is still behind from best practices of global standard in conducting cyber security risk assessment, developing and implementing IT risk framework.

Bank management needs to move forward in timely manner for building up comprehensive cyber security strategy when the financial services industry continues to leverage AI and ML.

TITLE AND AUTHORS

CROWDFUNDING AND ITS IMPLICATIONS IN BANGLADESH

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OBJECTIVES

- To explore the conceptual framework of crowdfunding; and
- To examine the scope of using crowdfunding as a means of funding in banks.

BRIEF METHODOLOGY

Both primary and secondary data were collected to fulfill the objectives of the study. Secondary data were gathered from different publications related to international standard practices, framework, and laws. Primary data were mainly collected from the Finance and Account Department (FAD) of banks through a semi-structured questionnaire. Fifty-eight questionnaires were sent to the heads of FAD of which 30 filled-in questionnaires were received. This study covered 4 state-owned commercial banks and DFIs, 20 private commercial banks, excluding Islamic banks, and 6 Islamic banks. The review team also conducted a focus group discussion (FGD) with BD Venture to explore the practice of crowdfunding in Bangladesh. BD Venture is one of the crowdfunding platforms in Bangladesh.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Building Trust: “Trust” is one of the key foundations of crowdfunding. However, trust cannot be built overnight. It is an abstract belief deeply rooted in the society. If trust seems to be very fragile in the society, higher chances of malpractices will be rooted in crowdfunding. In contrast, “transparency and accountability” may serve as proxy for trust as they tend to reinforce each other and improve decision-making quality.

Therefore, Bangladesh first needs to ensure transparency and accountability in the crowdfunding system to make the industry successful.

FINDING & RECOMMENDATION-TWO

Formulation of Necessary Laws and Regulations: Crowdfunding is largely an internet phenomenon that is not free from cyber-attack and other fraudulent activities such as money laundering and terrorism financing.

Hence, government and individual crowdfunding platform should take initiatives to check and prevent such threats and dishonest practices by formulating necessary laws and regulations.

FINDING & RECOMMENDATION-THREE

Institute Proper Risk Mitigating Techniques: Crowdfunding is used for financing small firms and technology incubators that tend to have inclination to lower success rate. Small business owners must consider challenges like information asymmetries, high risk, lack of experience using the platforms, limited financial capacity, potentially higher transaction costs, and stolen intellectual property, fraud, and ethics issues thus, investors may incur a capital loss in the absence of proper risk mitigating techniques.

Thus, policy makers must institute proper risk mitigating techniques. One of the risk mitigating techniques could be to build an “investors protection fund” by taking a flat rate on the funds raised by the firms through Crowdfunding Platforms (CFPs).

FINDING & RECOMMENDATION-FOUR

Develop Close Relationship among the Stakeholders: “Close relationship” is another foundation in crowdfunding system, as it expected to reduce agency costs.

Thus, investors, local banks, CFPs, and entrepreneurial firms need to be integrated for achieving a common goal. The government should serve as a facilitator by extending necessary formal and informal supports in this process.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FIVE

Use of Zakat Philosophy: The Muslim community constitutes almost ninety percent of the population in Bangladesh. On religious rule, they pay, “Zakat”, a certain percentage of their income to the poor people, every year.

A portion of this Zakat money can be used to form a “donation-based” crowdfunding, as interest is prohibited under the Islamic Law. Islamic Banks in Bangladesh can take the pioneering role in this respect.

FINDING & RECOMMENDATION-SIX

Crowdfunding Ecosystem: Credible crowdfunding ecosystem requires more than entrepreneurs and willing investors. Supportive factors include, among other things, forward thinking regulations, effective technological solutions, strong social media, and regulated online markets.

Furthermore, accumulation of knowledge, largely in the developed economies, is indeed important to make the crowdfunding ecosystem more efficient and appropriate.

TITLE AND AUTHORS

RELEVANCE OF BLOCKCHAIN FOR BANKS IN BANGLADESH

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OBJECTIVES

- To analyze blockchain technology and its use in financial sector across the globe;
- To discuss the relevance of blockchain technology in the banking sector of Bangladesh;
- To analyze the awareness and readiness of banks regarding implementation of blockchain technology; and
- To identify the challenges and suggest future courses of actions to ensure better and secured blockchain operations in banks.

BRIEF METHODOLOGY

Both primary and secondary data have been collected to accomplish the objectives of the study. Secondary information have been collected from various publications of BB and BIBM, and published research articles and websites. Primary data have mainly been collected from the IT departments of banks, using a structured questionnaire. A total of 34 banks and 100 top level executives related to IT and business operations have been selected based on the consideration that the sample banks represent all categories of banks in terms of ownership, number of branches and state of computerization.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-ONE

Global Use of Blockchain Technology (BCT) and Scope for Banks and Financial Institutes of Bangladesh: Globally many banks, financial institutes and central banks have already adopted BCT in the areas like Digital Currency, Foreign Trade, Cross-border Payments, e-KYC Document Management, Capital Markets, Syndication of Loans, Supply Chain Finance, etc. The use cases of blockchain can broadly be classified into information sharing based and digital currency based applications. The set of use cases of the first category have ready applicability in banking and financial sector. On the other hand digital currencies like bitcoin is the perfect example of the use cases of the second category.

With a good understanding of the various aspects regarding the blockchain technology, it is the right time for its adoption in Bangladesh. In order to identify the potential application areas of BCT in banking, it may be prudent to look at the various use-cases of BCT taking shape across the world. On a pilot basis, banks may setup a private blockchain for their internal purposes. This not only helps them to train human resources in the technology, but also benefits by enabling efficient asset management, by ensuring opportunities for cross-selling, etc.

FINDING & RECOMMENDATION-TWO

Security of BCT: The banking industry requires high security. Blockchain can eliminate the threat or the risk of fraud in all areas of banking. Now a days, blockchain technology is widely used due to its proven tight security. Though 60% CTOs think that blockchain technology is more secured than conventional banking technology systems and if implemented properly then blockchain technology definitely brings some advantages like cyber security to banking industry, but about 22% percent of the respondents do not think that blockchain is a secured system. Moreover, 18% banks don't have any clear idea about security issues.

Though BCT is mainly used for robust security it is seen that most of the banks still not aware about its proven security. Blockchain security testing can be designed to evaluate every aspect of the blockchain from policies, system design through the security of the blockchain itself to ensure the confidentiality, availability and integrity of the entire blockchain.

FINDING & RECOMMENDATION-THREE

Competitive Advantages: BCT is highly scalable and used to automate processes, reduce total number of intermediate business processes, reduce data storage costs, minimize data duplication and enhance data security. About 64% of the respondents believe that blockchain technology is broadly scalable and will eventually achieve mainstream adoption. Blockchain technology can be a competitive weapon to survive in the market. Around 51% banks worried about losing competitive advantages if they do not accept blockchain.

As the technology is very new in Bangladesh, management of all banks may consider making a common roadmap to implement this technology step by step in the banking system for improving competitive advantages.

/// FINDINGS & RECOMMENDATIONS ///

FINDING & RECOMMENDATION-FOUR

Cost of BCT: As blockchain is fundamentally different from the traditional ledger-based approach used in the banking sector, the hardware and software infrastructure will need to be reconstructed from the very basics. Around 43% of the CTOs believe that biggest challenges for adopting blockchain technology is the high cost. Though many banks are interested to invest in BCT in the coming years, about 64% of the respondents do not have any plan to invest in blockchain technology due to high cost.

The top level executives may determine which business functions should move to blockchain first, and how to make this transition. Banks joining together can develop a common fund and build blockchain platforms that will give value for all participants at a reduced cost.

FINDING & RECOMMENDATION-FIVE

Developing Digital Currency: In a bid to evolve towards a cashless society, many central banks around the globe including Canada, England, Sweden, and Netherlands have started exploring the use of BCT for digitizing their currency, and many more are converging to the idea.

From a technological perspective, time has come for initiating suitable efforts towards digitizing the Bangladeshi Taka through BCT. Government of Bangladesh can do this with the help of all stakeholders. BB may take necessary initiatives in this regard.

FINDING & RECOMMENDATION-SIX

Awareness Development and Role of the Central Bank: Perception of banks' top level executives (CEOs and MDs) about how blockchain will change the way of doing business in next 3 years is not very clear. About half of them (49%) think that this technology definitely change the business process, 27% believe the process will be more or less the same as before and 24% are not taking any sides of the two. Some respondents also think that blockchain technology is overhyped. Only 20% banks arranged training program on blockchain and took initiative to explore blockchain in the next 3 years, which is not encouraging at all. Also, only 15% banks have conducted an assessment about the effect of blockchain in banking industry.

It is evident from the findings that the country's banking industry is not ready yet to embrace this new technology. BB may take the initiative of exploring the applicability of blockchain to the Bangladeshi Banking and Financial Industry by conducting a series of workshops or seminars involving all the stakeholders such as the academicians, bankers, regulators and technology partners. In the process, the participants of the workshop may come together to bring out a White Paper detailing the technology, concerns, global experiences and possible areas of adoption in the financial sector in Bangladesh. The government may enact corresponding laws for this technology.



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