

# Banking Sector in Bangladesh: *Moving from Diagnosis to Action*

Presented by

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Dhaka: 8 December 2018



# Acknowledgement

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Sincere thanks to *Dr Debapriya Bhattacharya*, Distinguished Fellow, CPD, *Professor Mustafizur Rahman*, Distinguished Fellow, CPD, *Dr Khondoker Golam Moazzem*, Research Director, CPD and *Mr Towfiqul Islam Khan*, Senior Research Fellow, CPD for their suggestions.

The authors have also benefitted from participants of an expert group consultation.

# 1. Introduction

# 1.1 Context

- **The banking sector of Bangladesh has expanded over the years in terms of number of formal institutions, higher number of financing instruments, and bigger volumes of assets.**
- **However, the sector has been facing a number of serious challenges due to malpractices, scams and heists.**
- **These have affected the overall performance of the sector which are reflected through various efficiency and soundness indicators.**
- **Repeated concerns have been expressed by relevant stakeholders regarding the constant deterioration of banking performances and its potential implications for the sustainability of the sector.**
- **Given that the financial sector of the country is mainly bank based, poor health of the banking sector will also impact on economic growth. Therefore, rectifying the problems is critically important.**
- **While much has been talked about, it is time to act to address the problems. For the next government, the banking sector should be a priority for action.**

# 1.2 Objectives

- ❑ **As the country prepares for the national elections on 30 December 2018, CPD felt the need to bring the issues of banking sector performances to the notice of the political parties. CPD has been continuously flagging the issue for many years.**
- ❑ **The broad objective of this study is to revisit the major challenges in the banking sector during the past decade and make suggestions to act upon those.**

*Specific research questions are:*

- i. What has been the performance of the sector across major indicators?**
- ii. What policy and institutional measures have been taken to improve governance in the banking industry and what are their outcomes?**
- iii. How conducive the role the central bank is in ensuring sound governance of the banking system**
- iv. Which should be the priority areas for the next government to overcome the challenges of the banking sector?**

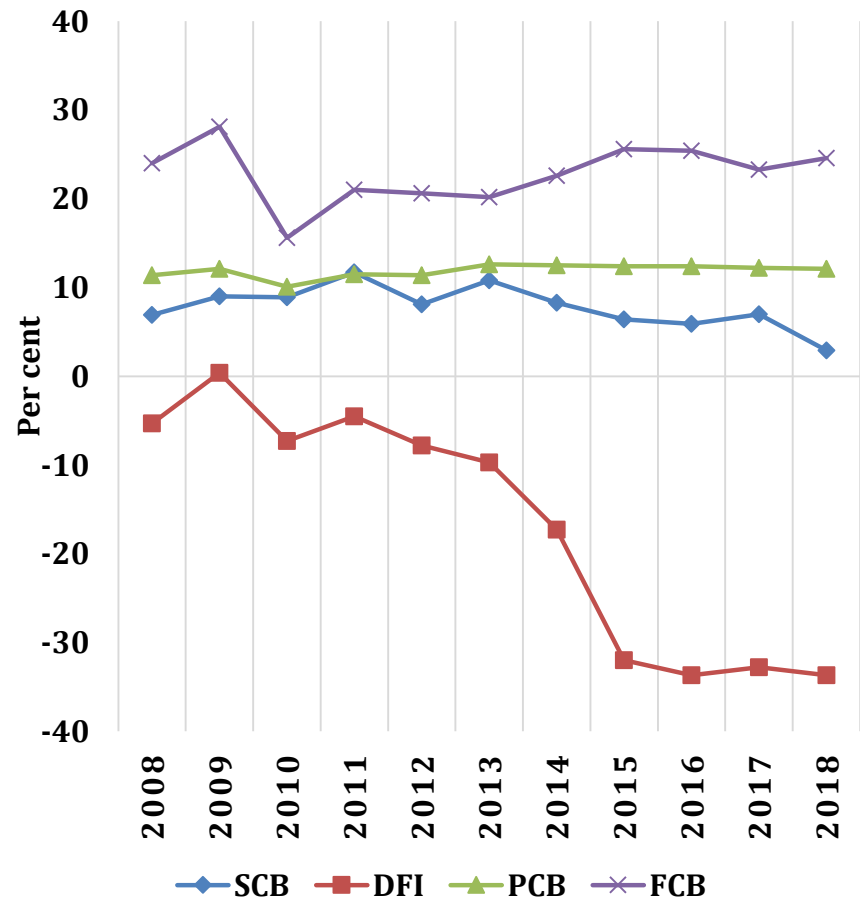
**The study is mainly based on secondary information. A number of experts have been consulted in order to understand the dynamics of the sector and related problems and how to move forward.**

## **2. Performance of the Banking Sector**

# 2.1 Capital Adequacy Status

- **Bangladesh Bank's Guidelines on Risk Based Capital Adequacy (2014) state that banks in Bangladesh must maintain a minimum total capital ratio of 10% (or Minimum Total Capital plus Capital Conservation Buffer of 12.5%) by 2019, in line with BASEL III.**
- **State-owned commercial banks (SCBs) have failed to maintain minimum capital adequacy requirements since 2013.**
- **Development finance institutions (DFIs) are critically under-capitalised.**

Figure 1: Capital to Risk Weighted Assets Ratio



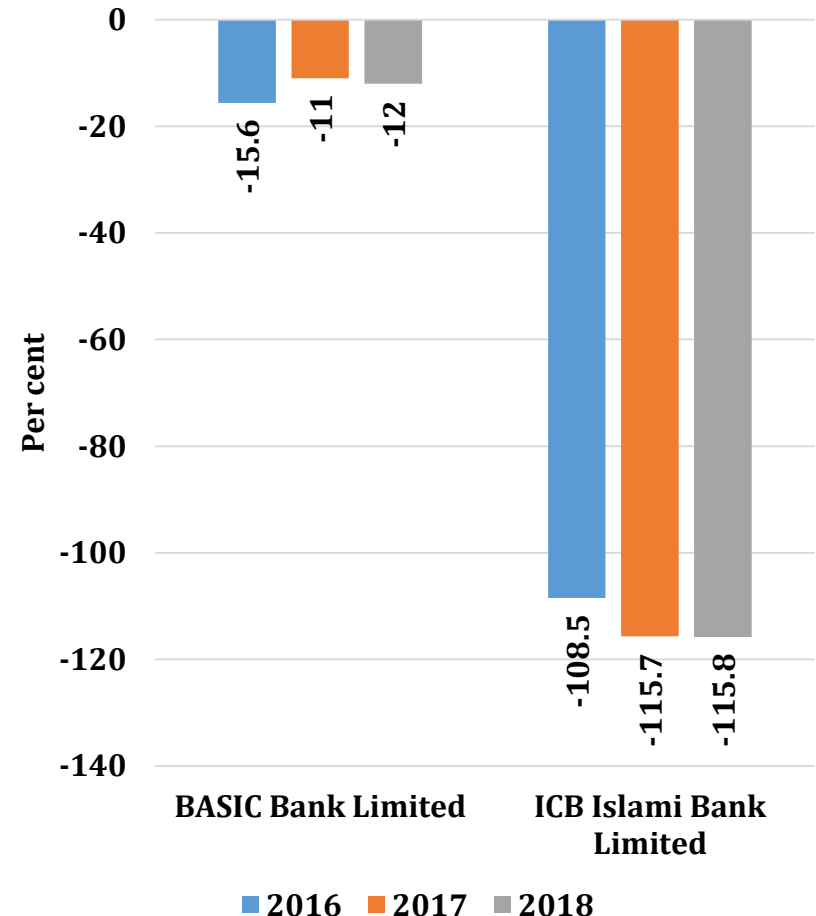
Source: Bangladesh Bank

Note: Data for 2017 and 2018 are as of June

# 2.2 Capital Adequacy Problems of Banks

- **Both BASIC Bank and ICB Islamic Bank are critically under-capitalised.**
- **BASIC Bank has not recovered from its massive scam during 2009-2013**
- **ICB Islamic Bank inherited a bankrupt institution from Oriental Bank, although all its problems are not hereditary**

Figure 2: Capital to Risk Weighted Assets Ratio in BASIC Bank & ICB Islamic Bank



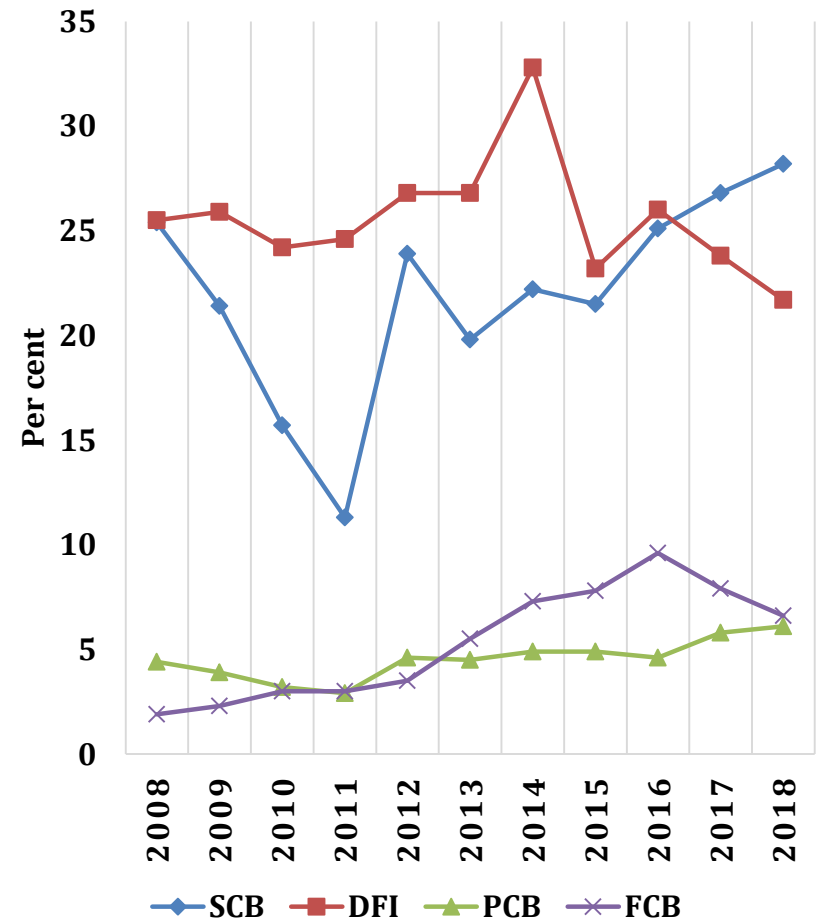
Source: Financial Institutions Division, Ministry of Finance  
Note: Data for 2018 are as of June



## 2.3 Non-performing Loans

- **Non-performing loans (NPL) as a share of total loans is exceptionally high in SCBs and DFIs.**
- **As of June 2018, SCBs had 28.2% NPL, which is highest in the last ten years.**
- **About 47% non-performing loans were concentrated in 5 banks as of end-June 2018 (BB, 2018).**

Figure 3: Non-performing Loans as a Share of Total Loans



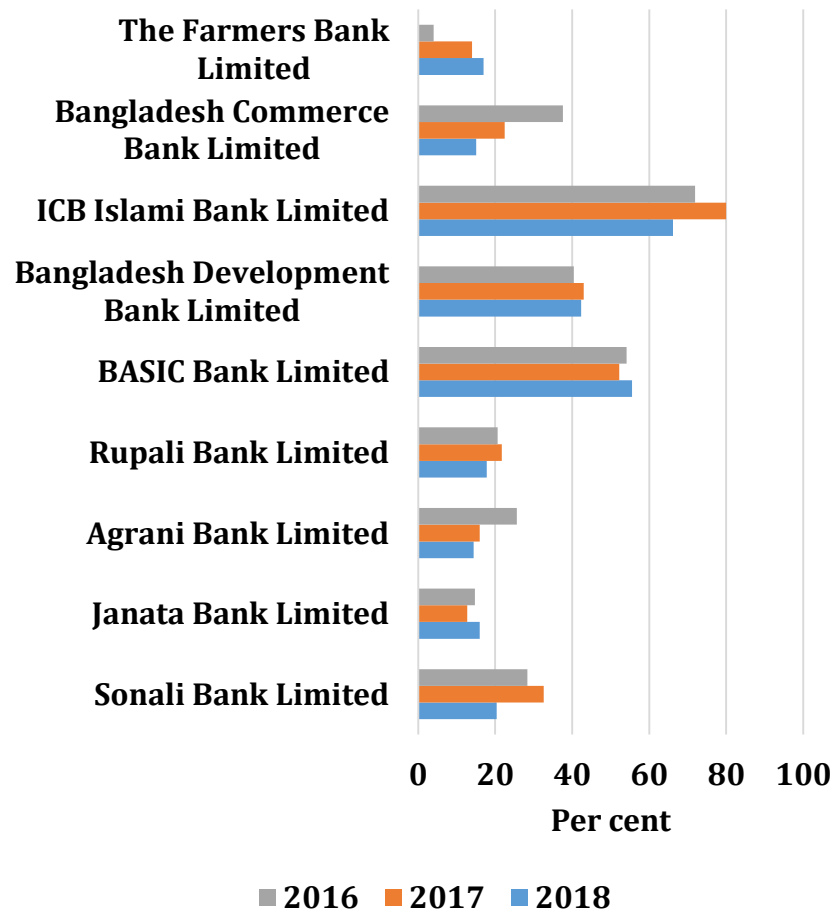
Source: Bangladesh Bank

Note: Data for 2017 and 2018 are as of June

## 2.4 Asset Quality of Banks

- **Classified loans as a share of total loans was more than 10% for 9 banks during 2016-2018.**
- **ICB Islamic Bank had more than 60% and BASIC Bank had more than 50% classified loans during 2016-2018.**
- **The actual percentage of classified loans would be higher if loans were not written off.**

Figure 4: Classified Loans as a Share of Total Loans

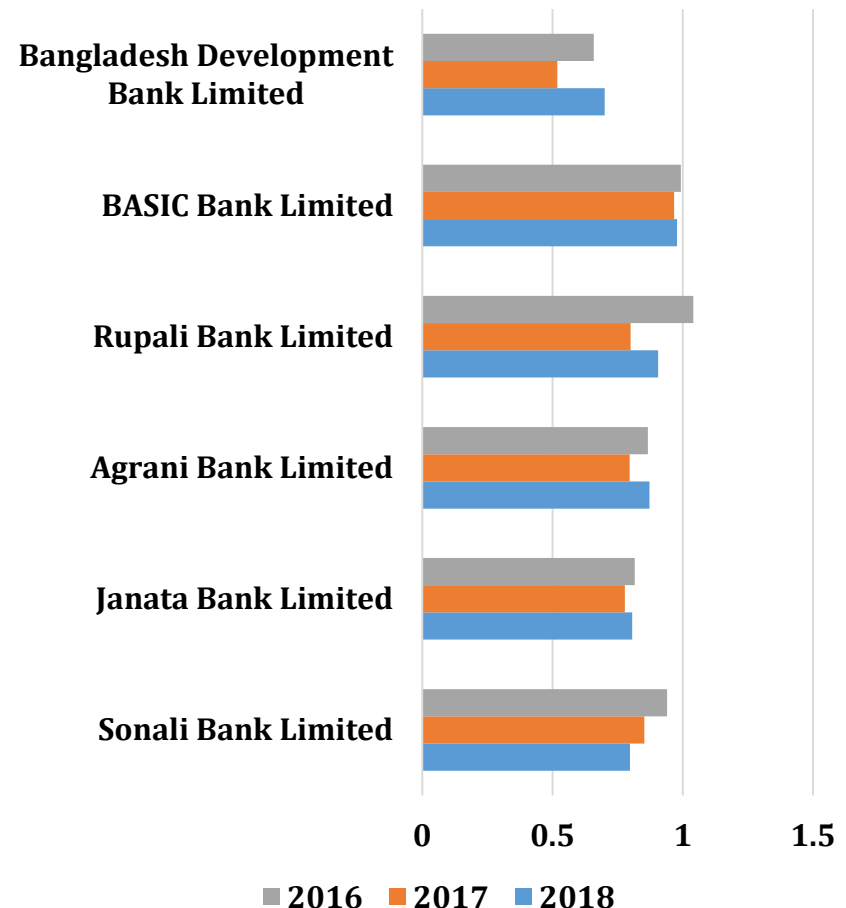


Source: Financial Institutions Division, Ministry of Finance  
Note: Data for 2018 are as of June

# 2.5 Management of State-Owned Commercial Banks

- During 2016-2018, all SCBs had expenditure-income ratios greater than 0.5.
- This reveals poor management effectiveness of these banks during this period.

Figure 5: Expenditure-Income Ratio of State-Owned Commercial Banks



Source: Financial Institutions Division, Ministry of Finance  
Note: Data for 2018 are as of June

## 2.6 Return on Asset & Equity

- In terms of Return on Asset (ROA) and Return on Equity (ROE), the performance of FCBs, PCBs, and SCBs deteriorated.
- As of June 2018, ROA and ROE of the banking industry stood 0.3% and 5.3% respectively.
- However, performance of FCBs and PCBs were much better as compared to that of SCBs during 2008-2017.

Figure 6: Return on Asset

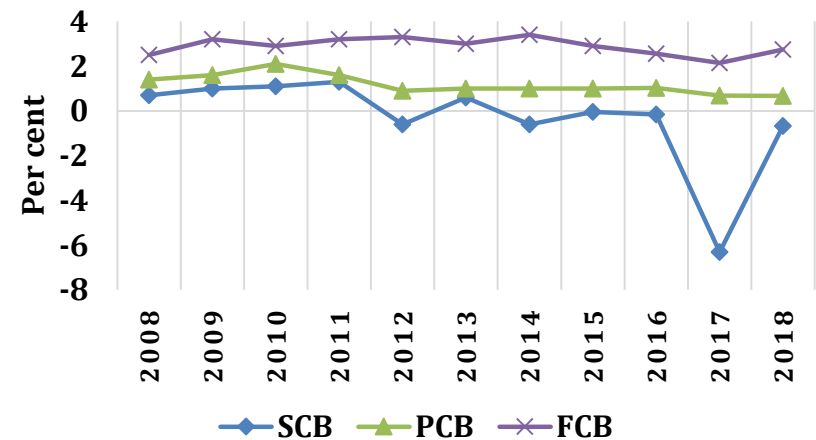
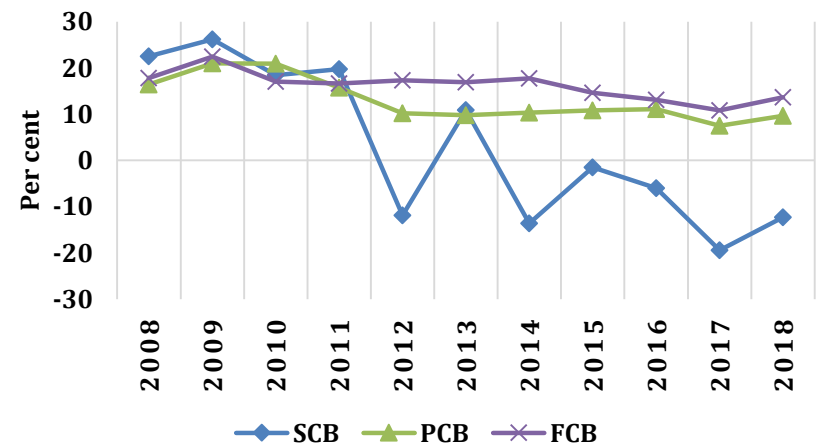


Figure 7: Return on Equity

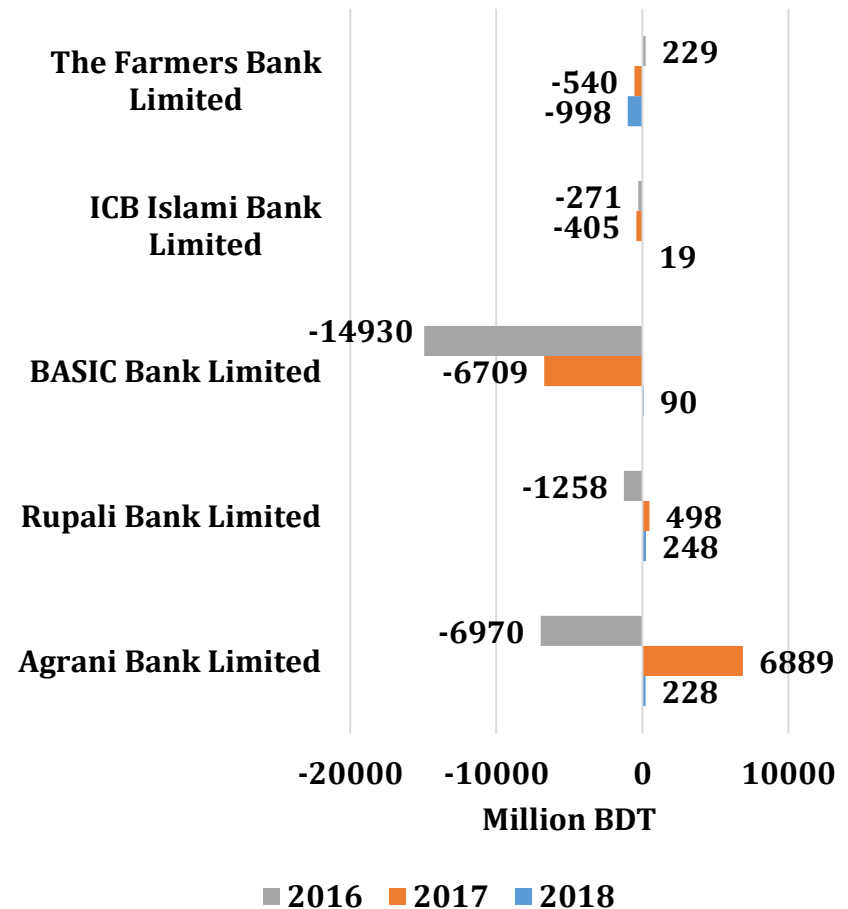


Source: Bangladesh Bank  
Note: Data for 2017 and 2018 are as of June

# 2.7 Loss Making Banks

- ICB Islamic Bank and The Farmers Bank have been making losses in the last 3 years.
- BASIC Bank, Rupali Bank, and Agrani Bank made huge losses in 2016.
- However, losses made by BASIC Bank alone was greater than the losses of all other banks combined.

Figure 8: Net Profit (in million BDT)

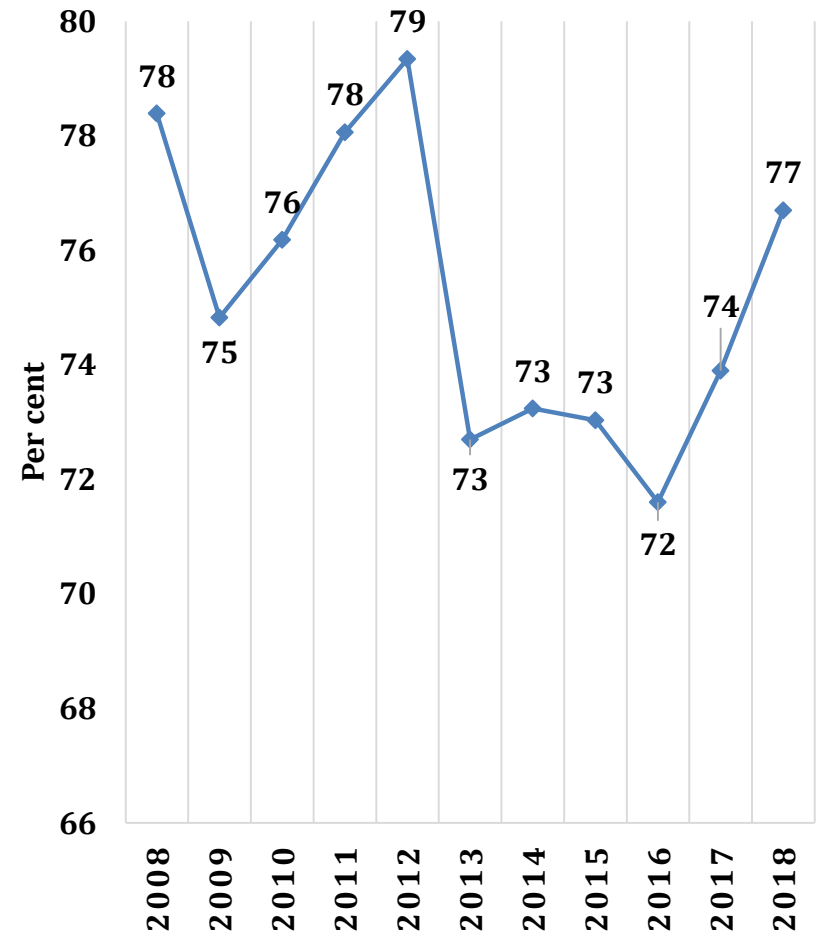


Source: Financial Institutions Division, Ministry of Finance  
 Note: Data for 2018 are as of June

# 2.8 Liquidity Management

- A fluctuating Advance-Deposit Ratio (ADR) was observed over the last ten years
- This indicates inefficiency in liquidity management of some banks
- During last few years, the banking industry faced more than two unusual incidences of both liquidity surpluses and liquidity shortages

Figure 9: Advance-Deposit Ratio of Banks

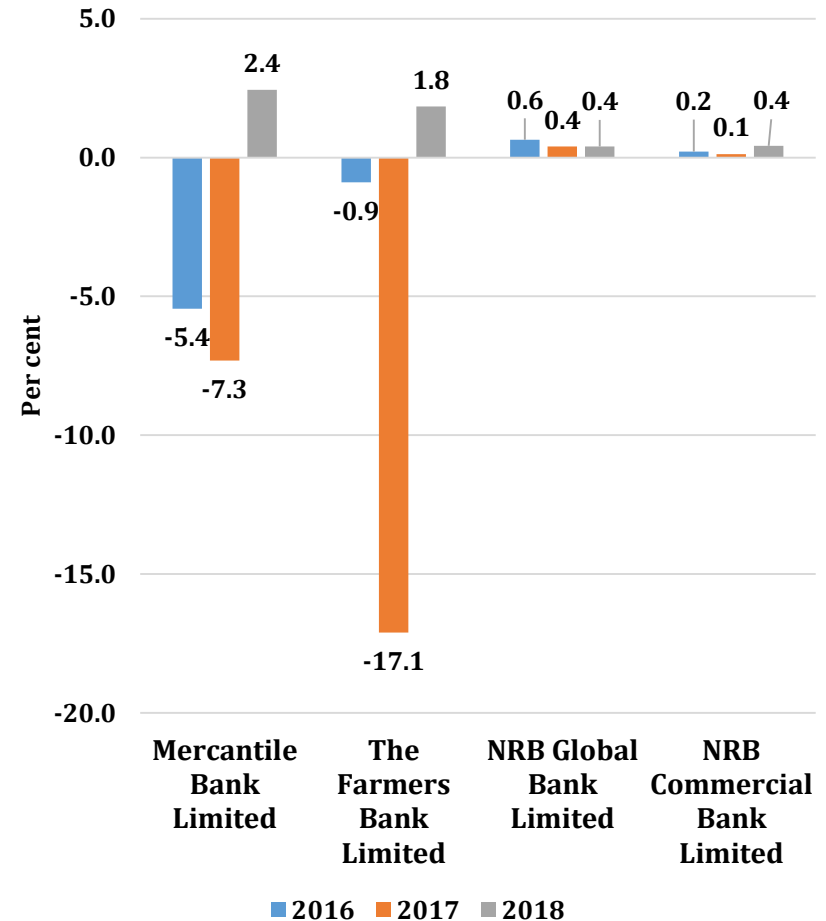


Source: Bangladesh Bank  
Note: Data for 2018 is as of June

# 2.9 Liquidity Crisis in Banks

- **Fourth generation banks such as The Farmers Bank, NRB Global Bank, and NRB Commercial Bank faced liquidity crisis during 2016-2017.**
- **The problem was particularly acute in the case of The Farmers Bank, which had to be bailed out by the government.**
- **In May 2018, four state-owned banks and a financial institution signed share purchase agreements with The Farmers Bank to inject BDT 765 crore into the bank (The Daily Star, 2018).**

Figure 10: Liquid Assets as a Share of Total Assets



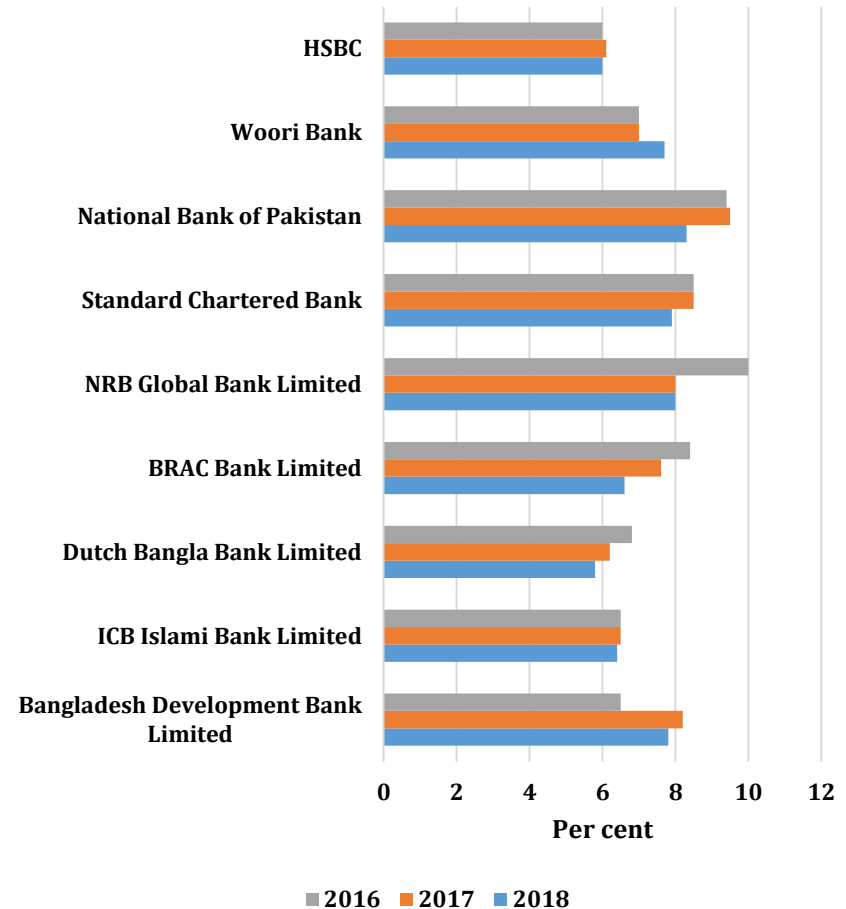
Source: Financial Institutions Division, Ministry of Finance

Note: Data for 2018 are as of June

# 2.10 Interest Rate Spread

- **9 banks consistently maintained an interest rate spread greater than 5% during 2016-2018**
- **While some of these were troubled banks, others were simply taking advantage of lax regulations**

Figure 11: Interest Rate Spread



Source: Financial Institutions Division, Ministry of Finance  
Note: Data for 2018 are as of June



# **3. Major Scams, Irregularities, & Heists in Banks**

## 3.1 Scams, Irregularities and Heists as reported in the media (contd...)

<b>Bank/ Institution Involved</b>	<b>Scam</b>	<b>Measures</b>
<b>Sonali, Janata, NCC, Mercantile and Dhaka Bank (2008 -2011)</b>	<b>Bank loan of BDT 4.89 crores with forged land documents (Dhaka Tribune, 28th August 2013)</b>	<b>On August 1st 2013, the ACC filed cases against Sonali Bank, Fahim Attire Limited and some individuals; after the investigation BDT 1 crore was returned to Sonali Bank (making the total BDT 4.89 from initial 5.89 crore). (Dhaka Tribune, 2nd August 2013; New Age, 2<sup>nd</sup> August 2013; The Daily Star, 2<sup>nd</sup> August 2013)</b>
<b>BASIC Bank (2009-2013)</b>	<b>Embezzlement of BDT 4,500 crores through fake companies and dubious accounts. (The Daily Star, 28th June 2013)</b>	<b>In September 2015, the ACC filed 56 cases against 120 people on charge of swindling. (New Age Bangladesh, 13th August 2018)</b>

# 3.1 Scams, Irregularities and Heists as reported in the media (contd...)

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<b>Bank/ Institution Involved</b>	<b>Scam</b>	<b>Measures</b>
<b>Sonali Bank (2010-2012)</b>	<b>Hall Mark and some other businesses embezzled BDT 3,547 crores. (The Daily Star, 14th August 2012)</b>	<b>In October 2012, the ACC filed 11 cases against 27 people, including Hallmark Group Chairman and Sonali Bank's 20 former and present officials. (Dhaka Tribune, 11th July 2018)</b>
<b>Janata Bank (2010-2015 &amp; 2013 to present)</b>	<b>Fraudulence by Crescent and AnonTex involving BDT 10,000 crores. (Dhaka Tribune, 3rd November 2018)</b>	<b>On 30th October, 2018, an inquiry committee, headed by an Executive Director of BB, submitted a report to the BB on the scam. (Dhaka Tribune, 3rd November 2018)</b>

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# 3.1 Scams, Irregularities and Heists as reported in the media (contd...)

<b>Bank/ Institution Involved</b>	<b>Scam</b>	<b>Measures</b>
<b>Janata Bank, Prime Bank, Jamuna Bank, Shahjalal Islami Bank Ltd and Premier Bank (June 2011-July 2012)</b>	<b>Embezzlement and laundering of BDT 1,174.46 by Bismillah Group and its fake sister concerns. (The Daily Star, 7th October 2016)</b>	<b>On November 3, 2013, the ACC filed 12 cases against 54 people over the scam. (The Independent, 11th September 2018)</b>
<b>AB Bank (2013-2014)</b>	<b>Money laundering of BDT 165 crores. (The Daily Star, 12th June 2018)</b>	<b>On January 25, 2018, the ACC filed a case against former AB Bank chairman and officials. (The Daily Star, 12th March 2018)</b>

# 3.1 Scams, Irregularities and Heists as reported in the media (contd...)

<b>Bank/ Institution Involved</b>	<b>Scam</b>	<b>Measures</b>
<b>NRB Commercial Bank (2013-2016)</b>	<b>Gross irregularities over disbursing loans of BDT 701 crores. (New Age Bangladesh, 10th December 2017)</b>	<b>On December 29, 2016, the central bank appointed an observer at the bank to restore discipline and corporate governance. (Dhaka Tribune, 7th December 2017)</b>
<b>Janata Bank (2013-16)</b>	<b>Loan scam involving BDT 1,230 crores (The New Nation, 22nd October 2018)</b>	<b>In October 2018, Thermax requested to reschedule the entire loan again (previously restructured in 2015). Janata Bank's board endorsed this proposal by Thermax and sent it to the BB for approval. (The Daily Star, 21st October 2018)</b>

# 3.1 Scams, Irregularities and Heists as reported in the media (contd...)

<b>Bank/ Institution Involved</b>	<b>Scam</b>	<b>Measures</b>
<b>Farmers Bank (2013-2017)</b>	<b>Fund embezzlement of by 11 companies e.g.: NAR Sweaters Ltd, Advanced Development Technologies etc. involving BDT 500 crores. (The Daily Star, 24th March 2018)</b>	<b>In January 2018, Farmers Bank was directed by the BB to conduct a functional audit on credit accounts with outstanding amount of at least BDT 1 crore in its Motijheel branch. (The Daily Star, 24th March 2018)</b>  <b>In April 2018, the Anti-Corruption Commission (ACC) arrested four accused, including the Farmers Bank's former Audit Committee chairman. (The Independent, 11th April 2018)</b>

# 3.1 Scams, Irregularities and Heists as reported in the media (contd...)

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<b>Bank/ Institution Involved</b>	<b>Type of Scam Amount</b>	<b>Measures</b>
<b>Bangladesh Bank (February 5, 2016)</b>	<b>Heist of BDT 679.6 crores (USD 81 million) by international cyber hackers from treasury account of Bangladesh Bank with the New York's US Federal Reserve Bank. (The Daily Star, 5th August 2017)</b>	<b>On March 19, 2016, the government formed a 3-member investigation committee, headed by former governor of Central Bank Dr Farashuddin. (The Daily Star, 5th August 2017)</b>

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Note: As on 6th December 2018, 83.9 Taka per dollar (Bangladesh Bank).

## 3.2 Total Money Lost through Major Scams, Irregularities, & Heists as reported in the media

<b>Sonali, Janata, NCC, Mercantile &amp; Dhaka Bank</b>	<b>BDT 4.89 crore</b>
<b>BASIC Bank</b>	<b>BDT 4,500 crore</b>
<b>Sonali Bank</b>	<b>BDT 3,547 crore</b>
<b>Janata Bank</b>	<b>BDT 10,000 crore</b>
<b>Janata Bank, Prime Bank, Jamuna Bank, Shahjalal Islami Bank &amp; Premier Bank</b>	<b>BDT 1,174 crore</b>
<b>AB Bank</b>	<b>BDT 165 crore</b>
<b>NRB Commercial Bank</b>	<b>BDT 701 crore</b>
<b>Janata Bank</b>	<b>BDT 1,230 crore</b>
<b>The Farmers Bank</b>	<b>BDT 500 crore</b>
<b>Bangladesh Bank</b>	<b>BDT 679 crore</b>
<b>TOTAL</b>	<b>BDT 22,501 crore (USD 2.68 billion)</b>

Note: As on 6th December 2018, 83.9 Taka per dollar (Bangladesh Bank).



## 3.3 Cost of reported Major Scams, Irregularities, & Heists

- **34% of total allocation for education in national budget of FY2017-18**
- **39% of income tax revenue of GoB in FY2017-18 as of May 2018**
- **78.2% of Padma Multipurpose Bridge (PMB)**
- **64.3% of Padma Bridge Rail Link**
- **62.5% of Matarbari 2x600 MW Ultra-Super Critical Coal-Fired Power Project (MUSCCFPP)**
- **40.9% of Deep Sea Port in Sonadia**
- **19.9% of 2x1200 MW Ruppur Nuclear Power Plant (RNPP) Main Project**

*Source: Monthly Fiscal Report, Ministry of Finance and CPD (2018): State of the Bangladesh Economy in FY2018 (Third Reading)*

## 3.4 BDT 22,501 crore would be enough for

- **Total allocation for health in national budget of FY2017-18 (BDT 20,651 crore)**
- **Dhaka Mass Rapid Transit Development Project (DMRTDP) (Cost: BDT 21,985 crore)**
- **Construction of Single Line Dual Gauge Track from Dohazari-Ramu-Cox's Bazar and Ramu to Ghundum near Myanmar Border (Cost: BDT 18034 crore)**
- **2×660 MW Moitree Super Thermal Power Project (MSTPP) in Rampal (Cost: BDT 16000 crore)**
- **Construction of Bangabandhu Railway Bridge (Cost: BDT 9,734 crore)**
- **Construction of Multilane Road Tunnel under River Karnaphuli (Cost: BDT 8,447 crore)**
- **Deep Sea Port at Paira (Cost: BDT 3351 crore)**

Source: CPD (2018): State of the Bangladesh Economy in FY2018 (Third Reading)

# 4. Cronyism in Banking

# 4.1 Problems of Monopolisation

- **When banks transform from being financial intermediaries to becoming monopolies, they become a growing cause for concern.**
- **The monopolisation of banking is usually accompanied with a deterioration in governance.**
- **When financial capital becomes concentrated into the hands of few, monopolies extract supernormal profits at the cost of the welfare of the ordinary population.**
- **Crony capitalists use banks as vehicles for reaching their goal of financial oligarchy.**

## 4.2 Detrimental Amendments of Banking Company Act

- **Two detrimental amendments of dubious nature have been made to the Banking Company Act in 2018, which undermined the cause of good governance.**
- **The tenure of board of directors was increased from 6 years to 9 years, and up to 4 family members would be allowed to be on the Board, instead of the earlier 2 per family.**
- **These changes are apprehended to reinforce crony capitalism in a sector of the economy already impaired by poor governance.**

## 4.3 Banking Oligarchies

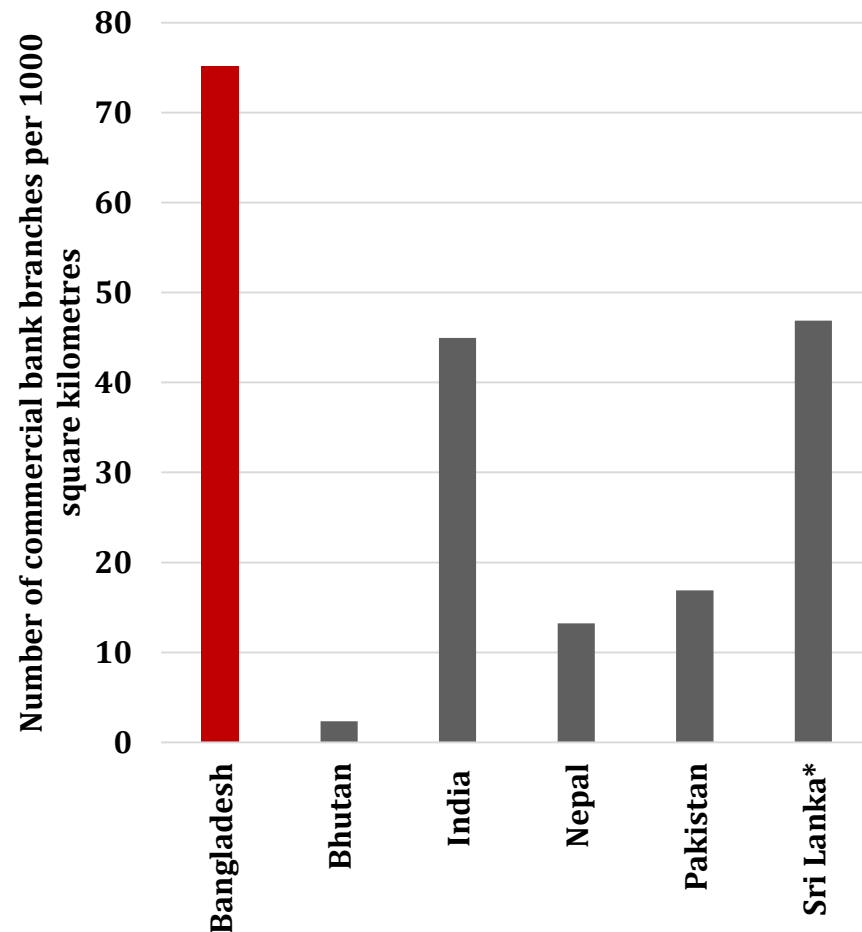
- **In 2017, a single corporation gained control over 7 private commercial banks in Bangladesh (The Daily Star, 2017).**
- **Following this development, there were major changes in the top management of these banks (New Age, 2017).**
- **However, monopolization of banking was not only limited to corporations, but also spread to business families.**
- **Despite being cautioned by the central bank in 2014, two private commercial banks still had 4 or more members from the same family in their Board of Directors, as of 12th January 2018 (CPD, 2018).**

# **5. Do We Need More Banks?**

# 5.1 High Concentration of Banks and Bank Branches in Bangladesh

- **Mexico has only 47 commercial banks even though the GDP of Mexico in 2016 was about 7.4 times larger than that of Bangladesh in 2016 and the total surface area of Mexico is about 13.2 times larger than that of Bangladesh (CPD, 2018).**
- **Globally, if microstates that have a land area less than 1000 square kilometres are disregarded, Bangladesh has the 8th highest geographic concentration of commercial bank branches (CPD, 2018).**
- **In 2016, Bangladesh had 75 branches of commercial banks per 1000 square kilometres of land, which was the highest in the South Asia region (CPD, 2018).**

Figure 12: Branches of commercial banks per 1,000 square kilometres in South Asia (2016)



Source: IMF Financial Access Survey Data  
Note: \* indicates data for 2015



## 5.2 Bank Licenses as Gifts

- **In 2013, the government approved licenses of 9 new private commercial banks: Meghna Bank Limited, Midland Bank Limited, Modhumoti Bank Limited, NRB Bank Limited, NRB Commercial Bank Limited, NRB Global Bank Limited, South Bangla Agriculture and Commerce Bank Limited, The Farmers Bank Limited, and Union Bank Limited.**
- **All of these banks were backed by politically powerful owners.**
- **License for opening a new commercial bank has, in fact, become a tool for misappropriation of public money.**
- **The fourth generation banks (9 newly approved commercial banks) are beset with large amounts of NPLs and are making losses.**

## 5.3 Excessive number of banks, yet attempts to permit more

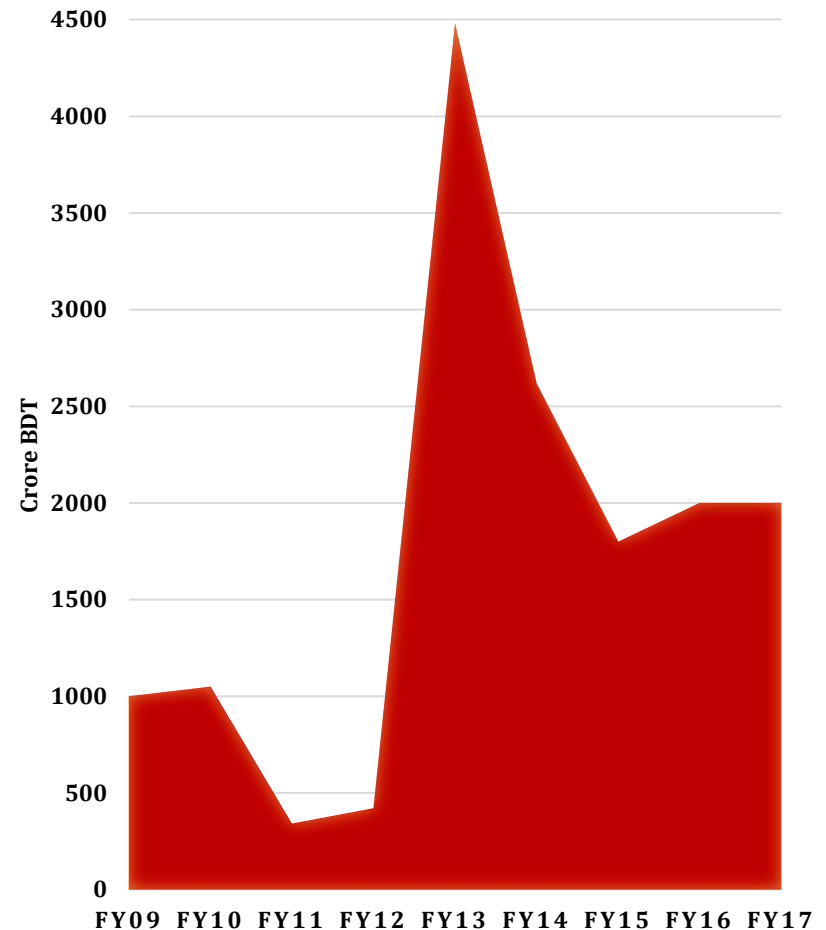
- **According to the Bank Company (Amendment) Act 2013, the central bank will decide to grant licenses to new commercial banks after considering the need for such banks and the overall state of the economy.**
- **Ironically, this principle is not followed in Bangladesh in case of issuing bank license.**
- **95% of the bank officials believed that the fourth generation banks in Bangladesh were redundant (Nabi, 2016).**

# 6. Measures Taken?

# 6.1 Recapitalisation

- **Recurrent recapitalization of SCBs by the government has emerged as an issue of grave concern, and the government has taken recourse to this measure on a regular basis.**
- **It has been estimated that the GoB has spent BDT 15,705 crore in recapitalizing the banks during the period FY2009-FY2017 (Monthly Fiscal Frameworks, Budget Briefs, Finance Division).**

Figure 14: Amount of Recapitalisation (in crore BDT)



Source: Monthly Fiscal Frameworks, Budget Briefs, Finance Division.

# 6.2 Major Reforms in the Banking Sector

<b>Date</b>	<b>Brief Description of Change</b>
2009	Anti-Terrorism Act is passed to address terror financing (GoB, 2009)
2009	Banking and Financial Institution Division is formed within the Ministry of Finance, curtailing the authority of Bangladesh Bank and acting as an obstacle to the monitoring of state-owned commercial banks (FID, 2010)
2009	'Guidelines on Risk Based Capital Adequacy for Banks' is introduced by Bangladesh Bank, in line with Basel II (Bangladesh Bank, 2008)
2011	Whistleblowers' Protection Act 2011 states that no criminal, civil or departmental proceedings can be initiated against a person for disclosing information in the public interest to the authorities, and his or her identity will not be disclosed without his or her consent. (GoB, 2011)

## 6.2 Major Reforms in the Banking Sector (contd...)

<b>Date</b>	<b>Brief Description of Change</b>
2012	Customer Interest Protection Centre' (CIPC) is established in the head office and branch offices of Bangladesh Bank
2012	Money Laundering Prevention Act gives Bangladesh Bank responsibility for money laundering offences (GoB, 2012)
2012	Bangladesh Financial Intelligence Unit (BFIU) is established for analyzing Suspicious Transaction Reports (STRs), Cash Transaction Reports (CTRs) & information related to money laundering (ML) or financing of terrorism (TF) received from reporting agencies and other sources and disseminating information/intelligence thereon to relevant law enforcement agencies. (Bangladesh Bank, 2012)
2012	Financial Integrity and Customer Services Department (FICSD) department is established in Bangladesh Bank with a view to minimizing fraud and forgery in the banking industry. (Bangladesh Bank, 2014)

## 6.2 Major Reforms in the Banking Sector (contd...)

<b>Date</b>	<b>Brief Description of Change</b>
2013	Bank Company Act is amended. More than two members of the same family are not allowed to be on the board of directors, and the tenure of the directors is restricted to six years. (GoB, 2013)
2013	Anti-Terrorism Act is amended to make provisions for the prevention of terrorist activities and ensure effective punishment for such activities (GoB, 2013)
2014	'Guidelines on Risk Based Capital Adequacy for Banks' is introduced by Bangladesh Bank, in line with Basel III (Bangladesh Bank, 2014)
2014	Bangladesh Bank imposes "Regulations on Electronic Fund Transfer" (Bangladesh Bank, 2014)
2014	Bangladesh Payment And Settlement Systems Regulations is introduced by Bangladesh Bank (Bangladesh Bank, 2014)
2015	Money Laundering Prevention Act is amended to reenact a law regarding the prevention of money laundering and other connected offenses (GoB, 2015)

## 6.2 Major Reforms in the Banking Sector (contd...)

<b>Date</b>	<b>Brief Description of Change</b>
2015	Financial Reporting Act is passed which requires the establishment of a new oversight body, referred to as the Financial Reporting Council (FRC), whose main purpose will be to regulate the financial reporting process followed by the quoted companies (GoB, 2015)
2015	Bangladesh Bank introduces “Guideline on ICT Security for Banks and Non-bank Financial Institutions” (Bangladesh Bank, 2015)
2017	Bangladesh Financial Intelligence Unit (BFIU) issues a master circular directing banks to identify relevant risks, risk tolerance level, and readiness to handle the risks associated with new technology based payment services before launching the product (Bangladesh Bank, 2017)



## 6.2 Major Reforms in the Banking Sector (contd...)

<b>Date</b>	<b>Brief Description of Change</b>
2017	Code of Conduct for banks and non-bank financial institutions introduced by Bangladesh Bank to implement National Integrity Strategy in the financial sector of Bangladesh (Bangladesh Bank, 2017)
2017	Bangladesh Bank introduces Guidelines on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh (Bangladesh Bank, 2017)
2018	Bank Company Act is amended allowing increasing the maximum number of family members on the board of directors from two to four and extending the tenure of the board of directors from six to nine years (Dhaka Tribune, 2018)

# 7. Recommendations

# 7.1 Recommendations

- ***Recognise the problem of the banking sector.*** First and foremost, the challenges of the banking sector should be recognised. A thorough review of the state of the banking sector has to be carried out and more transparency should be established on the state of affairs.
- ***Stop recapitalisation of SCBs year after year.*** The practice of bailing out the losing banks with public money is economically unjustified and morally incorrect.
- ***Be selective in keeping government funds in banks.*** The decision to keep 50 per cent government funds with private banks goes against the spirit of central bank's monetary policy. Only banks with less than 5 per cent NPLs should be eligible for the additional available funds from government entities.
- ***Redesign loan classification norms to identify wilful defaulters.*** Wilful defaulters should automatically come under penal actions on the ground of the misappropriation of the public money. Moreover, banks should be given right to change the management in a defaulted company.
- ***Strengthen internal control departments.*** The internal control department of SCBs is in need of a serious overhaul. During financial scams of the past, it was discovered that the internal control departments either willingly or unwillingly had failed to inform the Board of Directors regarding large losses.

# 7.1 Recommendations (contd...)

- ***Expedite automation and Management Information System.*** Establish transparency in the banking sector, particularly in the SCBs through automated banking practices. All banks must adopt IT based banking services and the Management Information System (MIS) in order to detect malpractices in the banks. IT based banking has become critically important in the face of threat of cyber security.
- ***Develop human resource.*** Lack of capacity building is a perennial problem that besets the SCBs in Bangladesh. Without human resource development through enhanced skills, SCBs will not be able to handle the emerging challenges facing the sector.
- ***Do not issue license to new banks.*** The culture of giving licenses to new banks on political grounds should be stopped. Given the size of the economy, there is no need for new banks. The market is already saturated and new banks have been performing poorly by extracting public money.
- ***Appoint strong administrator to oversee troubled banks.*** Bangladesh Bank should appoint a strong administrator to oversee the operation of troubled banks. A proper audit of the bank should be performed to understand its real health.

# 7.1 Recommendations (contd...)

- ***Formulate exit policy for troubled banks.*** An exit policy for troubled banks needs to be formulated, particularly taking into cognisance the ineffectiveness of the Oriental Bank model.
- ***Initiate reform of judicial process.*** Trial of scams and irregularities cases should expedited and exemplary measures should be taken against the involved people. Speedy recovery of default loans should be implemented through special tribunal for bank defaulters. The number of judges dealing with Money Loan Court Act 2003 and Bankruptcy Act 1997 should be increased to ensure speedy disposal of loan default cases and to reduce backlog.
- ***Appoint Board Members through Blue Ribbon Committee.*** The process of appointing board members should be de-politicised. A highly qualified and experienced committee should be formed to select board members. The culture of selecting board members based on the political loyalty and affiliation must change in order to stop crony capitalism.
- ***Uphold independence of Bangladesh Bank.*** Interference in Bangladesh Bank's activities goes against the spirit of Bangladesh Bank Amendment Bill 2003, which was geared to guarantee the central bank with autonomy.

## 7.2 A Commission for the Banking Sector

- CPD has earlier argued for setting up an **independent commission** for the banking sector in view of addressing emerging challenges.
- The broad **terms of reference (ToR)** of the commission will be to critically assess the problems and weaknesses of the banking industry.
- Such a commission **will suggest concrete recommendations** for prudential banking, and prepare guidelines regarding management, automation, risk management, and internal control.
- The budget should allocate **adequate funds** for setting up this commission.

# 7.3 Commitments from Political Parties during Electoral Debate

*Political parties should have clear commitments in their election manifestos on 5 immediate issues in the banking sector:*

- I. **Recognise the Problem:** First and foremost, the challenges of the banking sector should be recognized. A thorough review of the state of the banking sector has to be carried out and establish more transparency on the state of affairs.
- II. **Autonomy of the Central Bank:** Supervisory and monitoring role of Bangladesh Bank should to be significantly strengthened for smooth functioning of the sector
- III. **Blue Ribbon Committee for Appointing Board Members:** The process of appointing board members should be de-politicised. A highly qualified and experienced committee should be formed to select board members.
- IV. **No New Banks:** Do not issue licenses for new commercial banks.
- V. **Reform of Judicial Process:** Speedy recovery of default loans should be implemented through special tribunal should be set up for bank defaulters. Trial of scams and irregularities cases should expedited and exemplary measures should be taken against the involved people.

# THANK YOU



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