

Problems of the Banking Sector and Suggested Remedies

The following are the views of **S S Nizamuddin Ahmed**, Managing Director of Rupali Bank on various problems faced by the banking sector in the country with probable remedies suggested.



Names of the borrowers having overdue of Tk 1.00 cr and above for more than one year, may be published in the newspapers.

Problem 3: Banks at present cannot foreclose mortgaged properties without the intervention of the court which is a long drawn complicated process.

Suggested solution: By legislation, banks may be given the right to foreclose securities without going through the court.

Problem 4: While the banks need peaceful atmosphere for vigorous recovery activities and growth, often unhealthy trade union activities hamper such working atmosphere.

Workers should be permitted to contest in any election or hold any public office without adjustment of their overdues.

Problem 1: While classifying advances, in the list of illegible securities, collaterals by way of land and buildings are not considered. As a result huge advances are getting classified year after year although such advances are adequately secured.

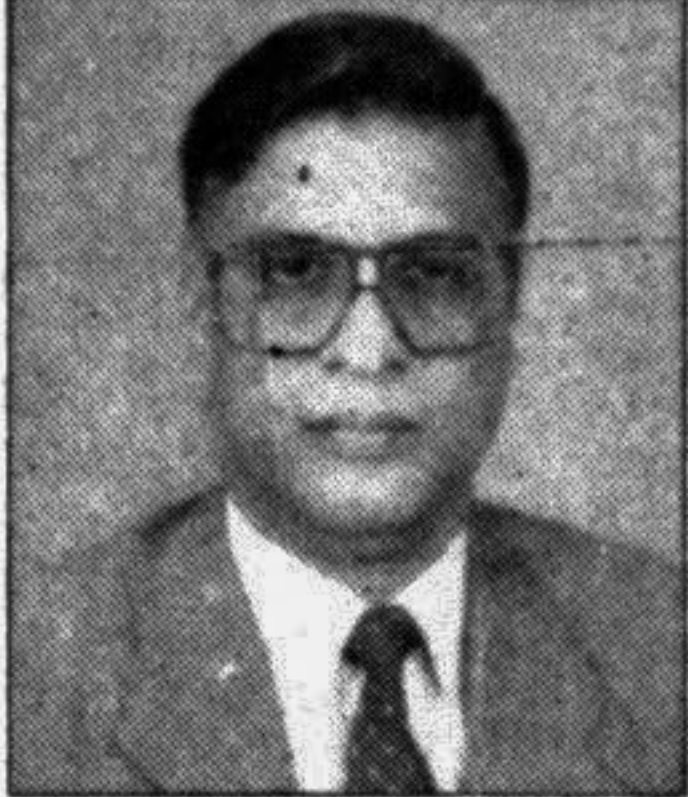
Suggested solution: Advances which are adequately secured by collaterals by way of land and buildings should not be classified.

Problem 2: A large number

of bank borrowers do not repay their overdues in the hope that in the future, Government may write off their outstanding loans like agricultural credits.

Suggested solution: Government should clearly declare that there shall be no further remission of principal and interest like agri-credit and in case the Government extends such remission, individual bank should be given 100 per cent cover as the banks do not have income to cover even a part of it. No defaulting borrowers

The following are the views of **M Aminuzzaman**, General Manager, Pubali Bank Limited



There are problems in each sector of the economy and banks have their own. The problems the banks face are detailed below:

Lack of courage, leadership and vision in chief executives and lack of professionalism and transparency in senior management for running banking operation.

Tendency to maintain status quo and not willing to take difficult decisions by the management.

Tendency to run the bank in old-style and failure to impress and motivate subordinates.

Tendency to manage bank's affairs by appeasement to different pressure groups.

Capital inadequacy and inadequate provisions for classified loans and advances.

Surplus liquidity and poor fund management. This area is neglected by most of the banks.

Poor quality lending due to improper assessment of credit proposals. In many cases references and recommendations are important than the merit of case.

Tendency towards collateralised lending without considering economic viability of business/projects.

Poor net interest earning for the banks due to high percentage of classified loans.

Unfair practices and pressure tactics by trade unions. There are undue interference by employees union in day to day administration and unwillingness of bank's management to face the situation and handle

the union activities in straight forward manner.

Poor customer services
Traditional banking practices without offering new products in the market.

Absence of MIS and negligible use of computers.

Poor management of human resources and lack of training facilities in banks.

Absence of proper performance evaluation and recognition of performers. Non performers are allowed to continue and as a result banks are burdened with surplus staff.

Too many branches in rural areas by commercial banks which are non profitable and poorly managed and supervised.

Role of Head Office is not supportive to the branches rather it is administrative in nature.

Field units seldom get prompt decisions. Too much of hierarchy and lack of co-ordination in interdepartments in Head Office.

Conflict at the top management and conflict between chief executive and the Board (mostly on personal ground, not on professional issues).

Government should take the following steps to help restore enabling environment in banks for better performance and overall progress in national economy:

In nationalised banks, chairman and members to the Board be appointed from people in the field of trade and commerce, not on the basis of

political affiliation.

Govt nominee on private banks should also be appointed from reputed professional people, not necessarily from the ministry who normally remains preoccupied with official works and can give very little time and attention to the Board meeting.

The role of the Board and the management should be clearly defined so that congenial atmosphere exists in banks.

Board of directors should deal in policy planning, review in implementation of its policy, and formulate lending criteria, suggest human resources development, bank's expansion programme and areas of other operation on the basis of management's recommendation.

The Board should formulate promotion policy and avoid direct involvement below the rank of DGMs. However, they should approve all promotions recommended by the management if the same is proposed within the framework of the guideline.

The Board should approve credit proposals of big amount and delegate Chief Executive

adequate authority in sanctioning loans and advances and foreign exchange related transactions. However, CEO should exercise his authority through credit committee for big loans so that proper evaluation is made to minimise the risk.

Most of the directors of the private banks are potential investors. It has been observed, many serious and successful investors are unwilling to disclose their financial and project profiles for fear of disclosure to their competitors.

Removal of the Managing Director or CEO by the Board should have concurrence of Bangladesh Bank.

Routine monthly confidential meeting between Governor of Bangladesh Bank and Chief Executives of the Banks be held where major problems are discussed and solutions found.

To recapitalise banks as per regulatory requirement, Govt. should take immediate steps to force the existing shareholders to inject fresh capital failing which new investors be invited to take up shares. If necessary foreign banks be allowed to acquire substantial shares and participate in the management jointly to improve the quality of operation.

Bangladesh Bank should perform its supervisory role in a very positive manner to help the banks overcome their problems. The attitude of the officials of the central bank have to be changed from controlling role to a supportive role. Both offsite and onsite inspection should be objective in nature and irregularities detected must be dealt with firmly in total disregard of influence and pressure.

Suggested solution: Measures may be taken by the Labour Directorate to bring about desired discipline and healthy union activities in the banking sector.

Suggestion for Possible Policy Change

(A) Bankruptcy Act should be passed to deal with the related problems.

(B) Good borrowers may be given various incentives by way of making available to them prime rates of interest on lending and reduced rates of interest who pay loans before maturity.

(C) General Managers should ordinarily be posted at their parent banks as far as practicable.

Bank should not be pressurized for quick lending. No bank could be comfortable with surplus fund and commercial bank will be forced to lend for attaining profitability. Default culture should not be encouraged and refinancing of sick industries should be left to the judgement of bank's management.

To strengthen banks, if necessary, merger should be encouraged.

New banks may be allowed to enhance competitiveness and introduce more of modern banking.

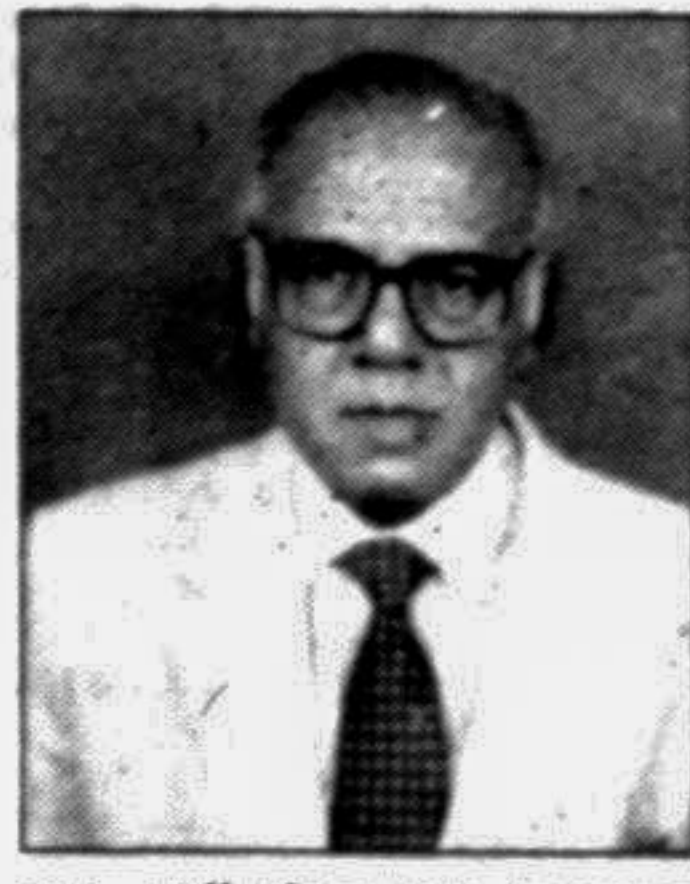
In a market economy environment, the bank should survive on competence and profitability. Non-performing bank should not be allowed to continue and new banks should be allowed to function by fulfilling regulatory requirement. Undue protection to nationalized banks should be withdrawn to create competitiveness in the market.

Selection of Senior Management official should be absolutely on merit.

Government should set examples by appointing dynamic CEOs, departing from existing system of selecting people on seniority basis from NCBs. If necessary, CEOs may be appointed from outside NCBs on contract basis. All incapable and non-productive middle level executives be made redundant either through golden handshake or retirement. Completing 25 years service. Regular recruitment of fresh graduates as management trainees in various banks should be made to create a capable cadre for future management of the banks.

The writer is General Manager, Pubali Bank Limited.

The following are the views of **A A Qureshi**, Managing Director, Bank of Small Industries and Commerce



The current problems of banks in Bangladesh both in private and nationalized sector are clearly hang-over of the past. Despite commonality in the nature of problems however the remedy shall be different in private banks and nationalized banks and again it may vary bank to bank. Major problems faced by banks at present are said to be (a) huge unemployed funds (b) large overdue and stuck-up loans (c) falling incomes and (d) stagnation in management. These problems have been known to exist for sometime now and reforms undertaken for several years are still on. The prognosis are varied and disputable in many areas. The doom is not imminent as few pessimists say. However, it might be interesting for readers if the problems are a bit elaborated.

Surplus Funds

Problem of unemployed funds in the banks are growing with the enlargement of same each quarter. Despite freedom of lending available to the banks the disbursements in commercial and industrial sectors lagged and as a result surplus continued to pile up. The surplus, however, was caused mainly for Govt's unwillingness to borrow from banks. Central Bank stopped issuing Treasury Bonds for over a year now and banks carried cash without any earning. As per statistics available, investments in the year ended on 30th June, 1994 is said to be higher than previous year and yet the employable funds in the banks are growing. Banks are said to find low demand for credit. Such situation need not unnecessarily worry us. After many years of high level loan deposit ratio at above 90 per cent, the present level at 75 to 80 per cent is not a back-step. Banks in many countries are said to have faced this situation at times. In this type of situation banks are required to resort to discipline the cost in one hand and pushing up services in the other which help improve banking in general. Only private sector borrowing cannot absorb such large amount at the moment. Government must have to borrow directly or back borrowings by private sector corporate bodies in vital sectors to solve the problem of excess fund in banking system.

Falling Income in Banks

Income of banks during last two years are showing downward trends. This followed massive classification of loans and stopping interest thereon. Besides, undisposed funds taken at higher rate of interest by way of deposits also are affecting bank's earning. This obviously signals shrinking of bank's ability to take care of contingencies and future developments. Staff incentives similarly shall suffer leading to inefficiency. The fall in income is seen as fall in management in many ways.

Stagnation in Banks

After a brief period of improved services in private banks the overall situation of services in bank remain same as before. Nationalized banks despite introduction of computers at the Head Office level cannot be said to have made any improvement in their delivery system. Private banks, which in the beginning started off well, got stagnated. Except for their counter services which are still considered to be good credit delivery system is not what was feared to be. Two or three private banks have regularly trained their officers whose job knowledge can be said to be satisfactory. If the top management are seri-

Unpaid Loans

Overdue and stuck-up loans in our banks are said to be a major problem. There is no need to find the causes as these are already known. There are disagreement over the figures and methods of classification of loans suggested by reforms quite foreign to our age-old system. Even if there is sagacity in reformist ways of classification, our banks are not prepared to handle this immediately. The popularly advocated views of

banks have developed a distinct preference to maintaining a long position in Dollar-Taka due to apprehension of any-moment downward adjustment of the Taka against US dollar. In other currencies they mostly maintain a square position. Due to lack of proper knowledge and access to global information, dealers are yet to do any forex trading, but eventually it might start on a limited scale, as is the case with neighbouring countries while one leg of the forex deal should be in the home country.

Previously, banks used to settle all their payments in US dollar though the LCs were opened for import from Japan, Germany, Singapore or the UK. Now they are getting more accustomed to the volatility of currency market and dependent on their treasury departments for settlement of payments in the original currencies in which payments have to be settled. Almost 14 banks have taken Reuters money line service to keep themselves in touch with every-moment change in the global market, while six banks including the Sonali Bank have set up dealing rooms. Banks are thinking of taking Reuters dealing system, having wider access to international market and pricing by the Banks. They are also preparing to install SWIFT to smoothen payments and receipts of funds. Now the branches as well as clients can directly contact their respective dealing rooms for finer rates.

Though the world market runs of spot basis (i.e. effective on second working day), Dhaka's interbank market runs on mostly cash basis, i.e. same day value. However, there are some deals done on spot basis, mostly by the foreign banks. Interbank forward market is also picking up gradually. Forward premium is the interest differential between Taka borrowing and FCY deposits.

Most of the deals done in Dhaka are cover deals, that is, to cover buying selling of the clients or banks. Having been in touch with the market changes, a dealer may keep his position open during the day and made best use of market changes. However, the dealer covers the position at the end of the day. But banks here always tend to take a conservative stance and keep their position within the prescribed limit set by the Bangladesh Bank. Here the scope for running a long or short position is rather limited due to the limits set by Bangladesh Bank on the open position and exchange position. Nevertheless,

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Development of Forex Market in Bangladesh

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market is emerging gradually, due to the competitive atmosphere that came in the wake of reforms. Previously, the exchange rate committee set up by the Bangladesh Bank used to fix the exchange rates to be effective on the following day on the basis of previous day's New York closing; for example, Monday's New York closing was applicable on Wednesday in the local market. Now banks

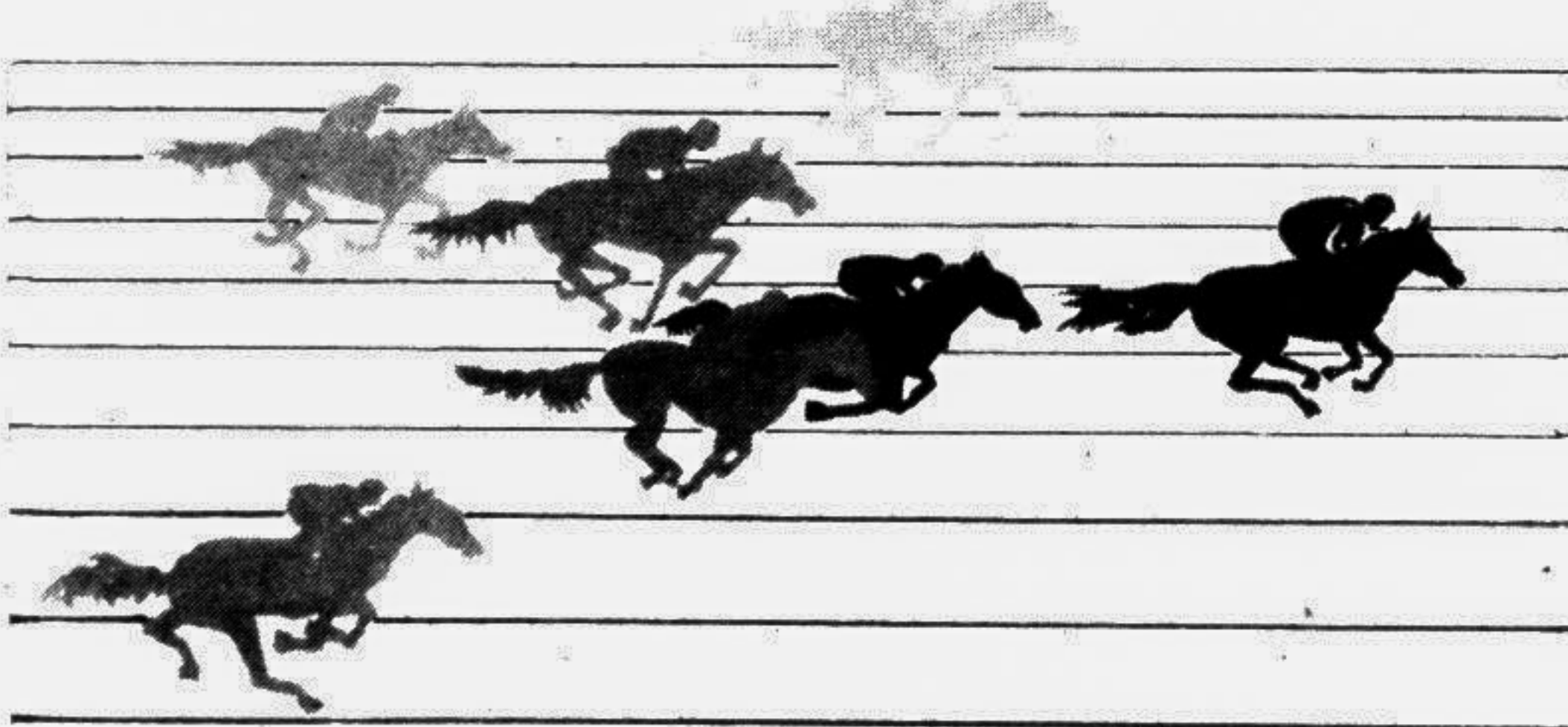
are setting exchange rates on the basis of latest quotes available in the market. An active trading has started on the US dollar-Taka deals. Where the central bank buying rate for one US dollar is Tk 40.15 and selling rate is Tk 40.35, interbank rate for one US dollar ranges between Tk 40.1550 and Tk 40.1650. That means dealers are being compelled to take market position considering the demand and supply situation. Though not much, clients are also getting benefit out of this competition. Once the passbook system is withdrawn, clients will have access to foreign exchange from any bank at competitive price. Forward rates are also being quoted with very thin premium. However, due to very stable position of the Taka, clients are not interested to take forward cover against imports. Daily turnover

in the market would be around US\$10 million (mostly in USD/BDT). Market mostly depends on the nationalized banks like Sonali and Agrani for US dollar and foreign banks like Standard Chartered and American Express for all major crosses. But the foreign banks have the edge over their local counterparts due to their technical know-how of and access to global networking.

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