

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.

Problem 1: While classifying advances, in the list of illegal 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



Names of the borrowers having overdues 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.

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.

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 affair 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

Continued from page 13

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

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 borro-



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

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 should 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.

The writer is General Manager, Pubali Bank Limited.

die union activities in straightforward 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

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