

Hall-Mark fraud: Lessons for the banking system

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ANY wonder if, but not all agree that the failure of Sonali Bank, Ruposhi Bangla Branch to prevent the fraudulent misappropriation of Tk.3,607 crores by Hallmark Group (Tk.2,668 crores) and others is the biggest scandal in the banking industry. In recent times, several such frauds -- (a) misappropriation of Tk.622 coroes by one Nurunnabi in Chittagong in 2007 through a false local letter of credit, (b) embezzlement of Tk.596 crores withdrawn without cheque from Oriental Bank in 2006 (alleged Hawa Bhaban connection), and (c) transfer of Tk.300 crores by forgery from five banks by one Om Prokash in 2002 -- were not as heinous as bank defrauding. Perhaps more damaging has been the transfer in their personal accounts of more than Tk.4,500 crores by the powers that be from the mother account of the infamous Destiny Group before the eyes of the banking authorities several months into the first sighting of the alleged fraudulent and illegal deposit taking from the members of the public.

One cannot but be shocked as to why conclusive, exemplary and drastic punishment could not be meted out to the culprits whose guilt was proven and whose actions could grievously hurt the banking system. Luckily, members of the public still retain their confidence in the banking system as the custodian of deposit known as *amanat*, the symbol of highest trust. If the political masters and the society as a whole, including the civil society, the media (objective and unified voice) and the judiciary, do not shrug off the complacency and bring major reforms in the banking management, the people may have to face anarchy.

Several other related incidents need to be recalled as rude reminders of indifference to serious matters. The writing off of bank loans and interest charges of the defaulters against hundred percent provisioning makes the default rate lower but definitely gives rise to moral hazard in addition to encouraging further default by the mighty. Most alarming has been the abandonment in 2009 of the time honoured and most effective practice of promoting the Deputy Managers (DGM) of the NCBs and DFIs through competitive selection process led by Bangladesh Bank. Thus, the Bangladesh Bank exercise of an independent committee preparing unified fit list for promotion to General Manager's position has been replaced by a parochial, particular bank based, promotion by the respective Board of Directors of an NCB or DFI. A proliferation of the positions of Deputy Managing Directors (some banks even have five) without properly defined TORs and accountability has also hurt the banking management. Recent debacle in the capital market, which hopefully will not perpetuate, has to be primarily traced to the banking system's failure to regulate and control rampant "investment" of

commercial bank resources meant for industrial loan and SME credits to the secondary market. This results in bonanza of dividend for the equity holders of the suddenly profit making commercial banks. Certainly a golden opportunity was lost in 2007-2008 when the NCBs were merely "incorporated" into limited companies in name only without causing a transfer of at least 50% of shares to the members of the public for breaking the monopoly ownerships of the government which continued to "appoint" 100% of the Board of Directors and MDs, DMDs of the NCBs and DFIs. The resultant asymmetry in the jurisdiction of the central bank's authority over the NCBs as it has over the Private Commercial Banks (PCB) may be a cause of misgovernance in the NCBs as manifested in recent times.

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There is an ongoing debate as to which of the concerned organs of the state, the government, Bangladesh Bank or Sonali Bank, is mainly responsible for the Hall-Mark scandal. It would be fair to say that if the government decides to tighten the screws and tie the loose ends transparently and effectively run the banking system through an accountable apparatus, the ills will be minimised in a long term perspective. But an immediate need is replacing reactivity to the crises by a proactive strategy of anticipating and guarding against the loopholes and an agile system of inspection by Bangladesh Bank. The cardinal principle of acting on the inspection report recommendations on the day of inspection must replace drawing these at home or office soonest. It may also be wise to review the frequency of traveling aboard by the senior executives of the central bank.

The forgery of the Hall Mark Group in the Ruposhi Bangla Branch of Sonali Bank was going on for two years now and the illegalities were first detected in three branches by a GM in January 2012. The recommended inspection although orally approved by the MD in January could not be started until April allegedly due to resistance of a DMD. The manager of Ruposhi Bangla branch was to be transferred in the normal process two years ago but stayed on until recently to perhaps facilitate the Hall-Mark Group forgery; his extension could not have been without the explicit consent of the top management of Sonali Bank. Whatever plea may be cited, top management of Sonali Bank is primarily and mainly responsible for the Hall-

Mark Fraud. If it was under duress from its Board or the powerful politicians, an MD or DMD worth her / his salt should have handled it firmly within the framework of law unless she / he was a party to the loot. On paper, the Board of the bank is responsible for policy formulation and the management headed by the MD is responsible for managing the affairs of the bank under the law, rules, regulations and policy decided upon by the Board. Thus the Board's liability is of secondary order.

Why has the Bangladesh Bank recommended dissolution of the Sonali Bank Board for the Hall-Mark scam only two weeks before its expiry! BB was perfectly within its right to make such a recommendation under Article 46 of the Banking Company Act as amended. But it is very difficult to understand why BB's own inspection network could not trace the illegalities earlier and why the initial recommendation spared the mainly responsible organ, the top management of Sonali Bank.

Whatever the stance the government may be taking it is well nigh impossible to accept that such a fraud could take place without the connivance and blessings of some powerful political bosses. In the interest of long term and the approaching general election, government would do well to dissociate itself with the corrupt and bring them to book after due process of law.

In the backdrop of one of the worst banking scandals, the following steps may be considered:

1. Those who are in charge of economic management may adopt the golden rule of "speak less do more" and "if talk do it in one voice;"
2. Significant reforms are necessary in financial and banking management which, have been long overdue. A finance and banking reforms commission may be set up;
3. Bangladesh Bank's capacity for effective, objective, transparent and accountable bank supervision may be enhanced, including enlargement of professional staff, extension of its authority over the NCBs and adoption of a separate pay scale;
4. The policy of scapegoat suspension must be changed to keeping the suspects in position for a specified period under strict instruction to recover the defrauded money or at least to arrange credible collateral of substance;
5. The society may discourage media trial in favour of prompt and effective inspection to point out the guilty;
6. In appointing the NCB and DFI Boards, there may be a reservation of 40% quota for non-political professionals.
7. Duties, responsibilities and powers of the Board and the management of a bank must be clearly delineated and enforced.

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Eidonomics: Linkages and leakages from consumption

RIZWANUL ISLAM

DURING the days leading to Eid, news on both electronic and print media had been replete with stories of people shopping, going home, going on vacation, etc. The messages conveyed through them have focused on issues like high prices of goods, difficulty in getting tickets for travel, crowded trains, buses and launches, bad state of roads, traffic jam, etc. But there is one message running through all of them, though not mentioned explicitly, viz., the role of domestic market in the economy of Bangladesh.

Indeed, in a country like Bangladesh where there is a sizeable population and incomes of people are increasing at a steady pace, growing domestic market can play an important role in giving further boost to the economy. The author of the present article has, on more than one occasion, pointed out the importance of a two-pronged strategy for economic growth and development in Bangladesh -- focusing on external as well as the domestic market.

Although savings is important for an economy like that of Bangladesh, consumption also plays an important role by creating market for goods and services which in turn creates incentive for investment. Private consumption accounts for three-fourths of GDP in Bangladesh. Every taka spent on domestically produced goods and services creates linkage effects on the economy.

Think of items bought frequently during the run up to Eid -- garments and other textiles, shoes, jewellery, toys, etc. To the extent they are produced domestically, they create linkages with other sectors of the economy and thus help boost activities throughout the economy. However, such linkages may not be created if the items consumed are imported from abroad. In that sense, there may be leakages from the potential linkage effects of consumption. Some examples of consumption with linkages and leakages may help:

Linkages: (i) domestically produced manufactured goods like garments, shoes, jewellery, toys, etc. creating linkage effects for other sectors of the economy that supply inputs, (ii) domestic travel by rail, bus, launch, creating linkage effects on production, maintenance and repair of the means of transport as well as services provided in the sector, (iii) domestic tourism, creating linkage effects for transport, hotel, restaurants, souvenirs, etc. All these linkages have positive implication for

growth output as well as employment.

Leakages: (i) imported consumer goods resulting in the loss of linkage effects on the domestic economy (except for services relating to the import and marketing of the goods), (ii) international tourism (depriving the domestic tourism sector of potential clients). These leakages imply loss of potential output and employment growth.

Is it possible to associate the linkages and leakages mentioned above with income groups of consumers -- at least in a broad way? Yes, it is. For example, people from the lower and lower-middle income groups are

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more likely to buy domestically produced goods (except of course cheap imported products), use means of transport like bus, launch and rail, and undertake domestic tourism. People in upper income groups are more likely to buy imported consumer goods, travel by private vehicles (if they travel within the country) and go abroad for tourism. This pattern becomes apparent if one follows the class differences in purchases of consumer goods, in travel as well as tourism undertaken in the run up to and during Eid. The conclusion that follows from the above typology of consumption is that the distribution of income is an important determinant of whether the linkage or leakage effect will be stronger.

What is the relative size of the various classes of consumers mentioned above? The answer to this question is not easy without a survey specifically aimed to collect this kind of information. One may, however, make some guesstimates, at least tentatively. First, consumption of imported goods, international tourism, travel by private vehicles, etc. are likely to be undertaken by consumers in the top 10% in the income scale. At the other end of the scale, those who are below the poverty line (30% of the population) are unlikely to contribute to economy boosting consumption of the type that we

are talking about here. To be on the conservative side, one may also add another 20% of the population whose consumption also may be of basic type and is not the subject of today's discussion. That leaves us with 40% of the population (or nearly six and a half crore people) whose consumption may create linkage effects for the domestic economy.

A part of the 40% of the population mentioned above constitutes the so-called middle class which has for some time been the subject of some discussion in the context of the growth of consumer economy. But that kind of discussion focuses more on potential demand for sophisticated consumer goods and consumer durables. The topic of the present discussion is broader than that. Hence, we don't need to confine ourselves to the so-called middle class according to the international definition (used, for example, in a report by the Asian Development Bank in 2010). The class we are talking about is a diverse one who are buyers of a wide variety of consumer goods and services, the purchase of some of which remains concentrated during festivals of various kinds (religious and cultural). And there lies the importance of such festivals from the point of view of a consumption based boost to economic growth.

Given the importance of income and its distribution from the point of view of strengthening the consumption base of the economy and its linkage effects, it is clear that incomes need to increase at a faster pace amongst the lower end of the scale so that the size of the lower middle and middle income group increases further. And there lies the importance of improvement in income distribution -- or at least preventing a further deterioration in the distribution of income.

Consumption during festivals may also create linkage effects for raw materials and intermediate goods. One example is the one-off supply of hides and skins during Eid-ul-Azha. It may be mentioned in this context that although Bangladesh has comparative advantage in the production and export of leather and leather products, the industry in general has not been in good health. And the handling of the one-off burst in the supply of animal skin has not been very efficient. Policies are needed to improve the situation and, in particular, to create stronger incentives for adding value before the hides are exported.

SHIFTING IMAGES

'Eat, pray and love'



MILIA ALI

AS one gets older, one is bombarded with advice from friends, doctors and health freaks on how to prolong one's life and live "healthy." The discussions usually focus on long lists of "things to do and not to do." The common presumption is that everyone wants to live to be ninety and

that, too, a productive ninety!

On top of the "to do" list is losing weight, since shedding pounds might reduce chances of high blood pressure, high blood sugar and osteoporosis. This entails finding a suitable daily food intake which will help one trim down. The first casualty is carbohydrates -- strike bread, rice, pasta off your grocery list. If you have a history of high-cholesterol-ancestors, eggs and red meat are out, too. Cheese and dairy products are grudgingly permitted, but low fat and only if you are not lactose intolerant! Fruits and vegetables, everyone agrees, are healthy. That is, if they are not sprayed with preservatives and grown organically. Sweets? No

I want to find a balance between caution and indulgence -- "the golden mean" as the wise would say. I want to "live," not just count the candles on my birthday cake!

way! Can't risk those extra calories or diabetes!

As for chicken, eat only when there is no bird flu epidemic. Thank God fish is safe. Or is it? Remember the oil spill in the Atlantic two years ago? Apparently we have no idea about the amount of pollutants that sea and river waters contain. If you think you will switch to farm-raised fish -- browse on the internet and you will be horrified to learn about the many harmful fish feed that farms use!

So, did you find five things that you can eat with impunity? I didn't -- at least not without a guilt trip accompanying every morsel of food travelling down my gullet! But wait! If you continue to be hungry after following the prescribed regimen, you can seek relief in stuff like celery and kale juice, "low glycemic index" toast and iron rolled oats -- which, supposedly, also help boost your DNA!

If only eating less would suffice, it would not be so bad! The prescription for a long and healthy life also includes a dose of daily exercise. An hour's brisk walk or yoga or treadmill is the minimum. For more serious calorie burning activity, we have a whole range of choices from aerobics to zumba dancing! The underlying theory seems to be that our bodies were designed for rigorous physical activity and those of us who are not getting the optimum level need to compensate.

There is a third component of the "living healthy" chart. It is mental exercise to help reduce stress, identified as a primary cause of premature ageing and illness. According to spiritual guru Dr. Deepak Chopra: "We are the only creatures on earth who can change our biology by what we think and feel." Consequently, our daily routine must include some form of meditation!

If you are wondering what all this is leading up to, let me come to the point. I was inspired to contemplate on longevity when I read an article about the world's oldest living person, Besse Cooper, who turned 116 last month. Needless to say, I wanted to discover what the ingredients for a long and productive life are. And guess what? Besse Cooper said that her secret was: "I mind my own business and I don't eat junk food." It was as simple as that. Does this mean that all the information that we have accumulated about how to live longer should be trashed? I leave it to you to decide.

Let me end with an interesting anecdote. The year was 1977 and I was living in Cairo. Egypt's most popular singer Abdel Halim Hafez died and the country went into mourning. Wherever I went I would hear people lament: "Oh! To die so young! What a tragedy!" I asked a friend: "How old was he?" She answered: "Only 48!" Now readers, I was in my twenties -- an age when one tends to believe that ageing is not even a remote possibility! I blurted out: "48? But that's not young, that's old!"

Reflecting back on the incident I can't help but smile at my youthful brashness. I have long crossed 48 -- an age that I considered "old" when I was in my twenties. Does this mean that I am living on borrowed time? Actually, I have realised that obsessing about how to prolong one's life is a futile exercise. I don't want to live balancing the calories that I eat and the calories that I burn. Rather, I want to find a balance between caution and indulgence -- "the golden mean" as the wise would say. I want to "live," not just count the candles on my birthday cake!

After all, "life is not measured by the number of breaths we take, but by the moments that take our breath away."

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