

# When will regulators act like regulators?

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ON October 2, the headline on the first page of the *Financial Express* was "Banks' stock market exposure set at 40%, BB denied control over SCBs." This means that, in the proposed amendments to the Bank Company Act (BCA), 1991, the maximum limit of a bank's exposure to the capital market has been set at 40% of the total paid-up capital of a bank. The existing exposure limit of a bank is 10% of its total liabilities as stipulated in the existing BCA (amended), 2003. On October 3, other newspapers also had news on this subject and said that this decision will benefit the stock market in Bangladesh as banks will be able to invest more once the amendment comes into effect. All this pointed out two facts: one, the market is smart, and the other is there was severe regulatory failure.

In reality, none of the newspapers provided the correct information on the proposed amendment. So, a clarification is needed. The proposed amendment says that banks will be able to invest in the stock market 40% of the sum of their total paid-up capital, share premium and statutory reserve, not only paid-up capital. All these three components -- total paid-up capital, share premium and statutory reserve -- are subset of total equity on the balance sheet. Total equity component of a bank can include many other items beyond those three elements. Many times, banks' statutory reserve could be higher than paid-up capital. Share premium could be zero to any amount.

Reporters and analysts of those newspapers believed that setting banks' stock market exposure at 40% would increase banks' investment in the stock market. But data don't support that conclusion. Because of the nature of the business, banks' total liability is much higher than its paid-up capital or even total equity. To make our analysis easier and consistent across the board, let's assume that in the amendments of Bank Company Act, banks are allowed to invest 40% of their total equity instead of only paid up capital, share premium and statutory reserve. Generally speaking, sum of paid up capital, share premium and statutory reserve is lower than total equity of a listed bank. And I have already mentioned that paid-up capital, share premium and statutory reserve are elements of total equity component on the balance sheet.

I have studied balance sheets of 2011 of 21 listed Bangladeshi banks. The table has all the bank names and numbers. For 9 banks, out of 21, 10% of the total liability is even greater than total equity. For all the sample banks, 10% of total liability is more than double when compared with 40% of the total equity. On average, 40% of total equity looks like 4% of total liability. Thus, in the proposed amendment, banks' ability to invest in the stock market is actually reduced, on average, by more than 60% when compared with existing exposure limit, i.e., 10% of the total liabilities. So, if

Table 1: Balance Sheet Items of 2011 of Different Banks						
Bank Name	Total Liability (In ml tk)	10% of Total Liability	Total Paid Up Capital (In ml tk)	Total Equity (in ml tk)	40% of Total Equity	40% of total equity will be % of total Liability
AB Bank	139389	13939	3686	15015	6006	4
Al-Arafah Islami	94779	9478	5893	11989	4796	5
Bank Asia	105538	10554	5255	12606	5042	5
BRAC Bank	123598	12360	3212	9603	3841	3
City Bank	98208	9821	5055	17915	7166	7
Dhaka Bank	95743	9574	3590	9294	3718	4
Dutch-Bangla	113913	11391	2000	8941	3577	3
Eastern Bank	103174	10317	4527	14407	5763	6
Exim Bank	115240	11524	9224	14469	5788	5
IFIC Bank	85112	8511	2768	6685	2674	3
Islami Bank	361762	36176	10008	27614	11046	3
Jamuna Bank	79865	7986	3648	7303	2921	4
Mercantile Bank	106894	10689	4968	9659	3864	4
NCCBL	92062	9206	5942	11622	4649	5
Premier Bank	68278	6828	3819	6673	2669	4
Pubali Bank	140882	14088	6708	16409	6564	5
Rupali Bank	129586	12959	1375	15251	6100	5
Shahjalal Islami	99312	9931	4453	7917	3167	3
Standard Bank	68082	6808	4061	6871	2748	4
Trust Bank	71172	7117	2661	5864	2345	3
Uttara Bank	87680	8768	2875	9639	3855	4
Average						4

proposed amendment comes into effect, it will actually force banks to reduce their investment in the stock market substantially.

The market also responded immediately to that "false" news. On October 2, DSE General Index (DGEN) increased 2.55%, or 117 points. Out of 2.55% increase in DGEN Index, banking sector alone represented 1.31%, or 60 points. On October 3, a newspaper also confirmed the effect of that forged news and wrote: "Stocks gained for the second day, riding on investors' optimism fuelled by the newly set exposure limit of commercial banks in the stock market." However, the market is smart. It found the loophole and quickly adjusted as necessary, which was reflected in the subsequent market returns. After the October 2 market rise, stock market declined for the next 4 consecutive business days.

Of course, an investor shouldn't believe news blindly. Still responsible journalism is required for a stable market in Bangladesh. Digging-down into an issue is a primary condition for responsible reporting. Spreading fake information, intention-

ally or unintentionally, will just increase volatility in the marketplace. Also false information and inadequate analysis from the mainstream media will discourage fundamental investing, which SEC has been trying to promote among investors.

Unfortunately, the whole situation is also an example of regulatory failure. None of the regulatory organisations -- Bangladesh Bank, Securities and Exchange Commission (SEC), Dhaka Stock Exchange (DSE) -- came up with a proper explanation of the proposed amendments in the Bank Company Act (BCA), and ultimately general investors had to pay the price. No one was brought to justice for misleading investors. It takes years to instill confidence among investors but needs just a second to destroy it. The incident actually raised serious doubt on SEC's effort to control rumour and manipulation in the stock market. When will the regulators actually act like regulators?

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# Mobile banking

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FINANCIAL inclusion ensures access to cost-effective, appropriate financial services and products in a fair and transparent manner to all sections of society, including the vulnerable, poor, and un-banked remote villages. Many initiatives have already been taken so far -- such as nationalisation of banks, the lead-bank scheme, setting up of regional rural banks, service-area approach like special accounts for the agri credit holders, self-help groups -- but still only 13% of the population has bank accounts.

Against this backdrop, mobile banking may be a good option for financial inclusion. However, mobile banking and mobile payments are not interchangeable. The two terms are differentiated by their service provider-to-consumer relationship; financial institution-to-consumer versus commercial institution-to-consumer for mobile banking and payments, respectively.

It has been widely argued that mobile banking will speed up financial inclusion and bring more un-banked people under the banking system and the fast expanding mobile telephony has opened windows of opportunity for creative partnerships of banks and mobile telephone companies in devising cost effective arrangements for delivery of financial services.

Recently released Bangladesh Bank statistics confirm that around seven lakh people have opened mobile bank accounts and transacted Tk.713 crore up to May, 2012. The central bank has so far issued certificates to 23 banks or its subsidiary to introduce mobile financial services. Among those, 14 banks and subsidiary have already launched their services. They are planning to reach out to the rural and un-banked population, of which 45% are mobile phone users. Under the service, any mobile handset with subscription to any of the six existing mobile operators of Bangladesh would be able to utilise the service.

A wide spectrum of mobile/branchless banking models are evolving. The bank-led model has the potential to substantially increase financial services outreach by using a different delivery channel (retailers/mobile phones) and target markets distinct from traditional banks, and may be significantly cheaper than the bank-based alternatives.

Mobile financial services include disbursement of domestic and inward foreign remittances, salary disbursement, government allowance payment and tax payment. Out of 47 banks operating in Bangladesh, 37 are fully online, four partially online and six are in the process of going online. Around 79% banks now offer online banking services. Experts, stressing on security system of the banks that should be strengthened for the electronic services, suggested that banks should launch mobile banking to reach their services to the un-banked people, who number around 5.8 crore. This may sound new-fangled and strange in a situation when people are scared

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of the swindling in the banking sector. On that premise, the days of traditional banking might go through massive change. Business people want a system that will allow them to open letters of credit from their offices, which will save time and money. In the context of poor inter-bank connectivity in absence of cyber law, expensive internet and a lack of awareness are the obstacles to effective e-commerce. People do not have time to stand in long queues to get banking services, so mobile banking has become important, particularly when almost the entire country has come under mobile phone network.

A World Bank research based on a poll of 150,000 people in 148 countries shows that 2.5 billion people do not have bank accounts. This is 59% of the population in developing countries. Some of the reasons why people don't have bank accounts are the high cost of traditional banking products, the distance that must be traveled to get to banks and amount of paper work involved in opening accounts. However, the report shows that mobile banking is being used more and more to solve these problems. As Robert Zoellick, immediate past president of the World Bank put it: "Providing financial services to the 2.5 billion people who are un-banked could boost economic growth and opportunity for the world's poor."

It is expected that with the advent of technology and increasing use of mobile phones, the use of mobile financial functionality would enable customer connect across the entire customer life cycle more comprehensively than before. According to a Reserve Bank of India (RBI) report released on August 23, 13 million individuals used mobile banking services in India in 2011-12. The report said 49 banks saw 25.6 million mobile banking transactions, worth Rs.1,820 crore, in the same period. The transactions had grown 200% in volume and 175% in value.

In this scenario, current mobile banking objectives of building relationships, saving time, reducing cost, and achieving new revenue stream will transform to enable new objectives targeting higher level goals such as building the brand of the banking organisation. Innovative emerging technology and functionalities would create new ways of lead generation and developing deep customer relationship, and mobile banking would provide superior customer experience with bi-directional communications. What is needed is an innovative business model and cautious but supportive regulatory framework addressing the key concerns of security of deposits, low transaction costs, convenient operating time, minimum paper work, frequent deposits and easy access to credit and remittances -- all tailored according to the income and consumption pattern of the targeted population.

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The New York Times EXCLUSIVE

# The right way for Turkey to intervene in Syria

SONER CAGAPTAY

TURKEY was the first country to take direct military action against the government of Bashar Assad since Syria's uprising began in the spring of 2011. And tensions are escalating further: earlier this week, the Turkish government sent 25 F-16 fighters to an air base near the border with Syria and on Wednesday it forced a Syrian passenger plane to land in the Turkish capital, Ankara, where suspected military aid shipments were taken off the plane.

The shelling along the Turkish-Syrian border is a critical development. The Assad regime is already busy fighting the Free Syrian Army near the Turkish border, where it has been bombing towns and villages. Precision artillery targeting is difficult, and the Syrian military is not known for its accuracy. What's more, many rebel-held areas lie right next to the Turkish border. Hence even if the Syrians try not to shell Turkish territory, they are quite likely to cause inadvertent damage, potentially killing Turkish citizens -- as happened on Oct. 3, when Syrian artillery landed in Akcakale, a Turkish border town.

As long as Syrian shells continue to fall on Turkish territory, Turkey will respond in kind. As Prime Minister Recep Tayyip Erdogan said, "although Turkey does not want war, it is close to war." If the situation continues to escalate, Turkey's history suggests that it is likely to follow one of three paths: continued low-intensity shelling, cross-border strikes or an actual invasion.

The first response for Ankara would be to continue the current pattern of shelling across the border every time Syria targets Turkey. This would weaken Syrian forces in some areas near the Turkish border, letting the F.S.A. fill the vacuum. This wouldn't create a contiguous safe haven, but it would lead to pockets of F.S.A. -- held territory inside Syria under a de facto Turkish security umbrella.

The second would combine shelling with cross-border raids to target Kurdish militants in Syria. Turkey's policy, after all, is not just about Syria. It also depends on the Kurdistan Workers' Party, known as

the P.K.K., and its Syrian affiliate, the Party for Democratic Unity, or P.Y.D. Turkey views the P.K.K. as an existential threat, and the P.Y.D. is reportedly already active in Syrian towns near the Turkish border, though the group has said it does not plan to fight Turkey. If Turkey believes that Kurdish militants are turning Syria into a staging ground for operations against Turkey, the Turkish military would strike decisively, as it did against Kurds in northern Iraq after Saddam Hussein's rule effectively ended there in the 1990s. Ankara might go for the "northern Iraq option" once again to prevent Kurdish militants from taking control of northern Syria.

Finally, if things get worse along the border, causing more Turkish casualties, Turkey may go even further, staging a limited invasion to contain the crisis as it did in Cyprus in the 1970s. At that time,

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Ankara waited patiently for the United States and the international community to come to its aid in Cyprus. When such help did not materialize, Turkey took matters into its own hands, and landed troops on the island.

Nato has already issued a statement that it will defend Turkey against Syria. Yet if Turkey decides that the international community is not going to actually help stave off the Assad regime's aggression, it may choose the Cyprus option. The Turkish president, Abdullah Gul, has suggested that Ankara may be getting closer to its threshold, declaring on Oct. 8 that "worse-case scenarios" are looming in Syria and calling upon the international community to act.

The Cyprus scenario is the least desirable for Turkey. Full-scale war is not in its interest, especially if Turkey launches such a campaign without

American backing. And Nato support under Article 5 of the alliance's charter, which calls for all Nato members to come to the defense of any member that is attacked, would be harder to muster. Article 5 has been activated only once in Nato's history and that was after the 9/11 attacks. Moreover, European nations like France haven't in the past been keen to come to Turkey's defense. A unilateral war against the Assad regime would also irritate the United States and anger Russia and Iran, Ankara's rivals in Syria -- a serious concern because Moscow and Tehran have a track record of supporting Kurdish militants.

The northern Iraq option would not necessarily raise America's ire, but it would expose Turkey to further P.K.K. attacks, including ones backed by Iran. Tehran already appears to be encouraging the P.K.K. to punish Turkey for its stance in Syria. Major attacks could hurt Turkey's economy and erode Mr. Erdogan's popularity.

This leaves Turkey with the status quo -- retaliating to Syrian artillery fire by shelling across the border. Yet this will not solve the Syria crisis. Only an effective arms embargo and a multilateral intervention to create safe havens for civilians will stop the slaughter.

The cost of intervention in Syria may be high now, but the price will only increase for all nations if civilian massacres continue unabated. Currently, Syria looks eerily similar to Bosnia in the early 1990s. When the world did not act to end the slaughter of Muslims there, jihadists moved in to join the fight, and they sought to convince the otherwise staunchly secular-minded Bosnian Muslims that the world had abandoned them and that they were better off with jihadists. In Bosnia, the international community intervened before it was too late. If Syria radicalizes, becoming a jihadist safe haven, it could become a Sisyphean task to normalize it. Afghanistan is a case in point.

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