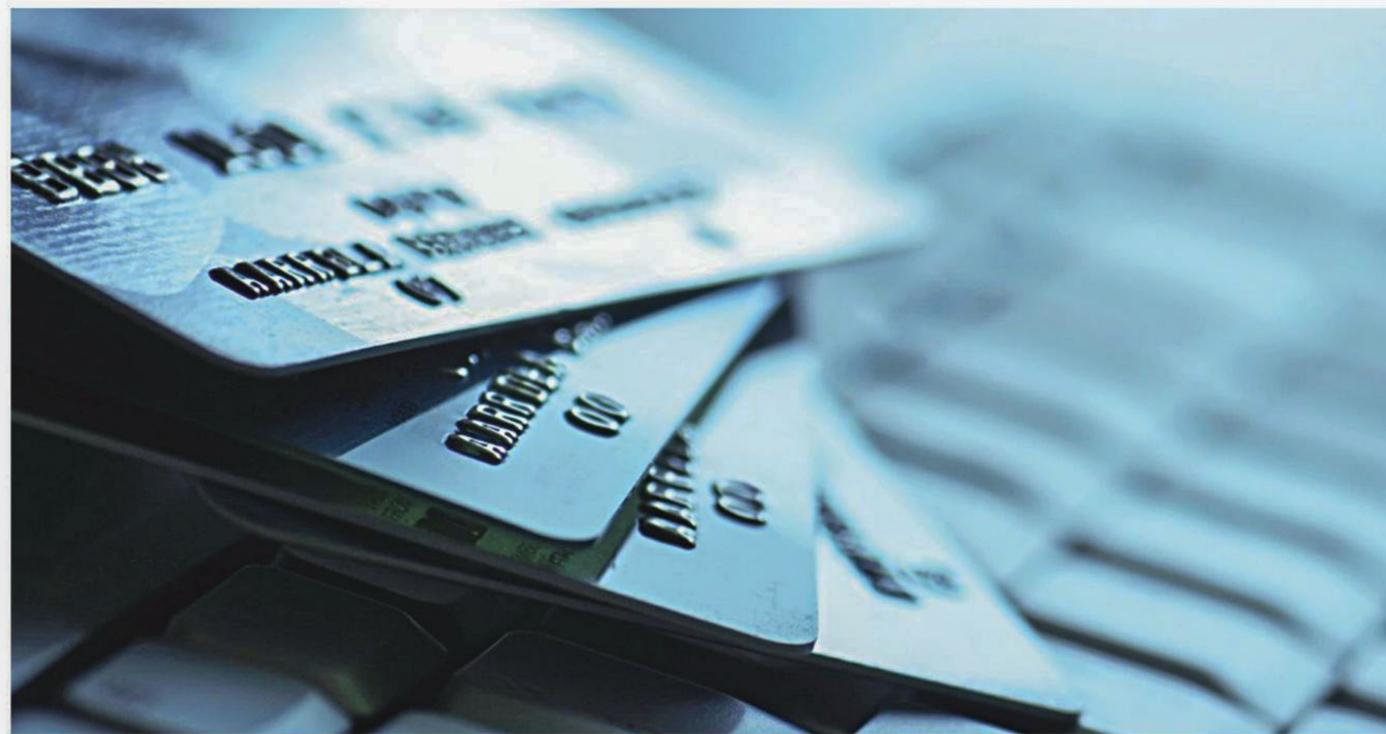


## Better banking for economic success

CONTINUED FROM PAGE 44

At first, Bangladesh Bank failed to even detect and acknowledge that its system had been compromised, and attempted to shift blame elsewhere. In cyber security, detecting, acknowledging, and responding to close a vulnerability quickly is a basic principle; Bangladesh Bank's refusal to do so hurt Bangladesh's credibility in both the financial and the technology sectors. Eventually, an external US based cyber security firm consulted by the bank found malware on Bangladesh Bank's computers. Bangladesh Bank's own internal investigation later found that the malware was installed in January 2016. Bangladesh Bank has yet to confirm fully whether or not this malware was installed intentionally with malicious intent by its own employees, or whether it was employee negligence that allowed the attackers access to the bank's systems. Moving forward, Bangladesh Bank, along with all other banks in the country, must be able to detect and prevent such attacks in order to keep up with a changing technological landscape.

Another aspect of regulatory oversight that is sorely missing from the country's banking system is risk management and creditworthiness appraisal. One of Bangladesh Bank's biggest challenges will be to reduce the percentage of non-performing loans (NPLs) from the banking sector. The percentage of NPLs, especially in SCBs, has been exceedingly high, and has been a primary focus of banking sector reforms in the past. However, prior reforms have been unsuccessful in reducing the NPLs to satisfactory levels. The government's recent programme to restructure large NPLs is the latest attempt to solve this issue. However, allowing restructuring only for larger loans creates other issues. It creates a culture of impunity for major loan defaulters, who are allowed to restructure and postpone payment indefinitely,



while continuing to borrow further from banks and increase their levels of debt even further. This lack of consequences for major loan defaulters and the bank management that allows them to keep borrowing is one of the major causes for the high non-performing ratio in state-owned banks, and in the banking sector in general. It creates a culture of impunity that encourages more irresponsible lending and borrowing.

There are several steps that can be taken to improve the efficiency of Bangladesh's banking sector and tackle the challenges outlined above. First, the banking sector should accelerate the

rate of technology adoption, along with investing in training bank employees in appropriate use of technology. In particular, all bank employees should be trained on basic cyber-security precautions to thwart cyber-attacks like the 2016 heist, and the Sonali Bank hacking. In addition to regular training, there should be strict oversight and accountability for employees and their use of bank technology. The use of technology rather than manual interventions by employees can also reduce opportunities for corruption and mismanagement, and an electronic paper trail of financial activities will result in better accountability and transparency.

The banking sector should also invest in further training for internal control and compliance. This will assist in holding employees accountable, both when it comes to security breaches, and when it comes to credit risk mismanagement. In addition to this, the banking sector needs to make further investment for human resources (HR) capacity buildup. The Bangladesh banking sector has made big strides in capacity buildup through prior reforms, but is still lagging behind comparable countries' financial sectors. An increased investment in capacity building in this area will improve the medium and long term prospects of

the banking sector.

If the concerned authorities take all the steps outlined above, Bangladesh's banking sector can thrive in the years to come. The country has already taken great strides forward over the last 45 years since independence, and must continue to improve the financial infrastructure to ensure financial stability, economic growth and development in 2021 and beyond.

*The writer is Chairman, Financial Excellence Limited, Former Managing Director & CEO, Agrani Bank Limited, and Former President & CEO, Southeast Bank Limited.*

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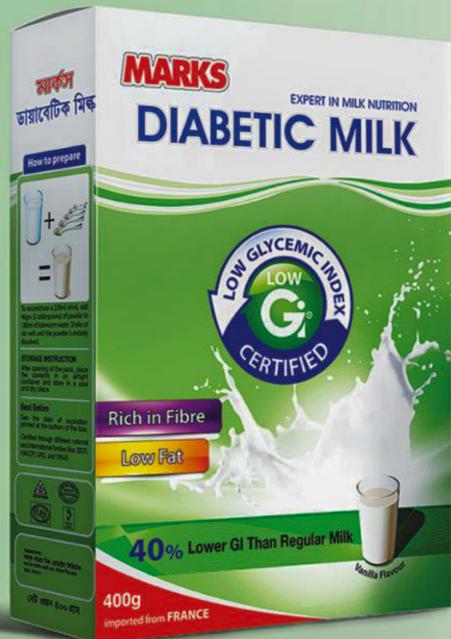
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