



Win back trust to thrive

Bankers, analysts say cumbersome KYC, high NPLs, direct and indirect taxes discourage depositors

STAFF CORRESPONDENT

Bangladesh's financial sector is suffering from a crisis of trust among savers in the face of continued governance failure, said top bankers and economists yesterday.

"Trust is the crux of the issue in any financial sector. It is the major determinant of survival," said Fahmida Khatun, executive director of the Centre for Policy Dialogue.

Khatun's comments came at a dialogue styled 'Experts meet on How Financial Institutions can attract small savers', organised by The Daily Star at its office in Dhaka.

Coupled with this, political interference, high bad loans, lengthy and cumbersome account opening procedures and direct and indirect taxes are keeping a large number of people away from keeping their money with the formal financial system.

As a result, a huge amount of money is floating in the informal system -- popularly known as 'under mattress' -- depriving the economy from funds for investment.

The views are shared at a time when banks are struggling with liquidity crunch, loan scandals and high amounts of bad loans -- a situation that has eroded confidence of many depositors.

At the same time, withholding tax on interest income of savers, value-added tax on services of bank accounts

as well as excise duty on balance in accounts are also acting as deterrents for savers.

Since fiscal 2008-09, gross domestic savings rose 3.89 percentage points to 23.93 percent of GDP in fiscal 2018-19, according to Bangladesh Economic Review 2019.

Until December 2018, banks had 9.52 crore accounts with Tk 10.82 lakh crore in deposits.

A number of reforms were implemented in the banking sector since the 1990s, according to Khatun.

"Just as we were starting to see the results, we got a shock. And it is not just the regulatory or policy related issues. There is also interference of powerful people," she said, adding that the powerful people are politically connected.

Loan scams took place one after another violating rules and this practice has encouraged private banks to become corrupt and engage in ill-practice.

Khatun, citing investment by state banks to rescue Farmers Bank, said: "This is an incentive for ill-practice. Private greed is financed by public money. Let them fail."

"The main factor remains trust," said Mominul Islam, managing director and chief executive of IPDC Finance.

Even at an interest rate of 6 percent, people are willing to give their deposit to a financial institution that they trust.

"We see that with Swiss banks,

where people keep their deposits even though the effective returns are negative. To have the trust, we need to now collectively think how we can have better governance in the overall financial system."

Bank.

He went on to cite the examples of Kenya and Tanzania, which have brought a large chunk of money into the formal financial system through an initiative called Mattrass Money.

HIGHLIGHTS

Polymakers should recognise the sector's problem first

Trust should be rebuilt

Governance has to be improved

BB must encourage digital efforts

Political influence should be curtailed

Account opening forms should be simpler

Digital KYC should be allowed

Wrongdoers should be punished

Reforms must continue

A tax threshold should be introduced for savers

A strong bond market needed

Legal and statutory support required for digital transformation

Bangladesh needs to go for cashless transactions

Political commitment key to reform banks

Apart from that, there are some practical problems such as a long Know Your Customer (KYC) form, he added.

Higher savings lead to capital accumulation, which, in turn, generates economic growth, said Mashrur Arefin, managing director and chief executive officer of City

Management.

The initiative entailed inter-industry collaboration between bank, telcos and payment companies with direct support of the government.

In Bangladesh, there is speculation that Tk 1.50 lakh crore to Tk 2.5 lakh crore are under the mattress.

"Electronic KYC is needed.

Readiness of banks in terms of operation and capacity is also needed."

He also placed the blame on banks for the current state of savings.

"They also did not open their doors beyond the lower middle class. We need to understand that the liquidity crisis in banks is unlikely to be over without increased savings."

Income tax, excise duty and VAT on interest earnings from deposits are deterring the lower middle class from going to banks with their hard-earned savings, Arefin added.

"Domestic savings in Bangladesh is low, whereas China and India have high rates of savings," said Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh, while calling for tax-free interest income threshold for small depositors.

Banks are suffering from liquidity problems along with the effect of bad loans and the transfer of Tk 300,000 crore from the banking sector to savings certificates.

Zahid Hussain, former lead economist of the World Bank's Dhaka Office, said a number of good reforms were done.

For instance, a number of criteria were set for selection of bank directors, but they are yet to be enforced.

"We have to ensure enforcement of the fit and proper criteria. And we also have to stop reversals of reforms that we saw in the last two-three years."

Ensuring macroeconomic stability is critical.

"When there will be downturn in the economy the first thing that would be affected is savings. Volatility is not good for saving," he said, adding that 50 percent of the population are unbanked and 65 percent of them are women.

The high transaction costs and excise duty on bank are not helping depositors.

"Tax on retained earnings will discourage corporate savings," he added.

Bangladesh is one of the fastest growing economies but its banking asset is only 40 percent of the GDP, said Arif Khan, chief executive and managing director of IDLC Finance.

It is 125 percent in Vietnam and 94 percent in India.

"It is not encouraging," he said, adding that high default loans is one of the major problems for the financial sector.

He cited the case of People's Leasing and Financial Services that is set to be liquidated. Its default loans accounted for 55 percent of its total outstanding loans.

"This did not build up overnight. Where were we when it was building up?"

The problem will not disappear unless the issue pertaining to governance failure and ensuring exemplary enforcement of the law are not addressed, he added.

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আপনাদের আস্থায় বেড়ে উঠছি অবিরাম

ব্যবসায়িক স্বচ্ছতা, সুশাসন ও দক্ষতা নিশ্চিত করেছে আমাদের অব্যাহত সাফল্য এবং আপনাদের আস্থা ও নির্ভরতা দিয়েছে আমাদের এগিয়ে যাবার অনুপ্রেরণা।

১৯৯৭ সাল থেকে আমরা অবিরাম বেড়ে উঠছি আপনাদের আস্থায়। বৃথ সহ ২৭টি শাখা এবং ১৮০০ এরও বেশি দক্ষ জনবল নিয়ে আমরা আছি আপনাদের পাশে দেশের অন্যতম বৃহৎ আর্থিক প্রতিষ্ঠান হিসেবে। ব্যবসায়িক দক্ষতা দিয়ে লক্ষাধিক সম্মানিত গ্রাহকের বিনিয়োগকৃত অর্থের স্বচ্ছ ও সঠিক ব্যবস্থাপনা এবং বিনিয়োগ সুনিশ্চিত করছে অর্থের পূর্ণ নিরাপত্তা এবং আমরা অর্জন করেছি আপনাদের মূল্যবান আস্থা।

মোট পরিশোধিত মূলধন ৫১৩.১৮ কোটি টাকা
মোট ডিপোজিট ৫১৫১.৫৩ কোটি টাকা

মোট ইকুইটি ৮৬৭.৮১ কোটি টাকা
মোট ঋণ ৬৫৮৮.৮৭ কোটি টাকা

মোট সম্পদ ৮২৫২.৯৩ কোটি টাকা
মোট বিনিয়োগ ৩৩৩.৫৬ কোটি টাকা

স্বচ্ছ ও জবাবদিহিমূলক কর্মকাণ্ড এবং নির্ভরযোগ্য পারম্পরিক সহযোগিতায় আমরা অর্জন করেছি AA₃ ও ST2 ক্রেডিট রেটিংসহ (CRAB প্রদত্ত) একাধিক দেশী ও আন্তর্জাতিক স্বীকৃতি। এই সাফল্যের যাত্রাপথে আমরা আন্তরিকভাবে কৃতজ্ঞ আমাদের সম্মানিত সকল গ্রাহক, শুভানুধ্যায়ী, পৃষ্ঠপোষক এবং নিয়ন্ত্রক সংস্থার সদস্যদের প্রতি।

আমাদের বিশ্বাস, অবিরাম অগ্রগতির ধারায় শ্রেষ্ঠত্ব প্রমাণের মাধ্যমে আমরা ক্রমশ পৌঁছে যাবো উৎকর্ষের শিখরে এবং আরো সুদৃঢ় করবো আপনাদের আস্থাকে।

বিস্তারিত তথ্যের জন্য যোগাযোগ করুন ৯৬৩২৫ আমাদের অনুসন্ধান করুন