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INNOVATION KEY FOR THE FUTURE

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As digital banking becomes more and more popular, security becomes paramount.

VISUAL: REHNUMA PROSHOON

Banking innovation key to prosperity

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service providers in a unified ecosystem. Following all these digital shifts, Bangladesh Bank has aligned the nation's banking industry with the future of banking through digital banking guidelines and the recent issuance of digital banking licenses. As digital banking becomes more and more popular, security becomes paramount. Banks are aggressively investing in comprehensive cybersecurity measures, including data encryption, fraud detection systems, and intrusion prevention technology. Initiatives like the Guideline on ICT Security for Banks and FIs by Bangladesh Bank set the tone

first for the banking sector in Bangladesh.

A 2023 survey by PricewaterhouseCoopers (PwC) and the Association of Banks, Bangladesh (ABB) revealed that 86 percent of participants gave process redesign and digitalisation top priority because they saw the opportunity for business development in retail banking, which is followed by corporate banking and SME. When asked to choose the most essential technological area in which they expect to spend in the upcoming years, API-enabled integration platforms were the top choice of 43 percent of the respondents. Investment in API-enabled platforms highlights a commitment to open banking

to financing for high-potential ventures, promoting financial inclusion.

To increase liquidity in the country's banking sector, banks should also start discussions with foreign lenders for getting access to various purpose-driven credit lines. They can partner up with foreign institutions such as Multilateral Development Banks and subsequently channel the funds in the local market on the basis of certain given criteria. This measure would not only help banks broaden their sources of funds but would also help them adhere more to corporate and regulatory governance due to requirements of the credit line providers.

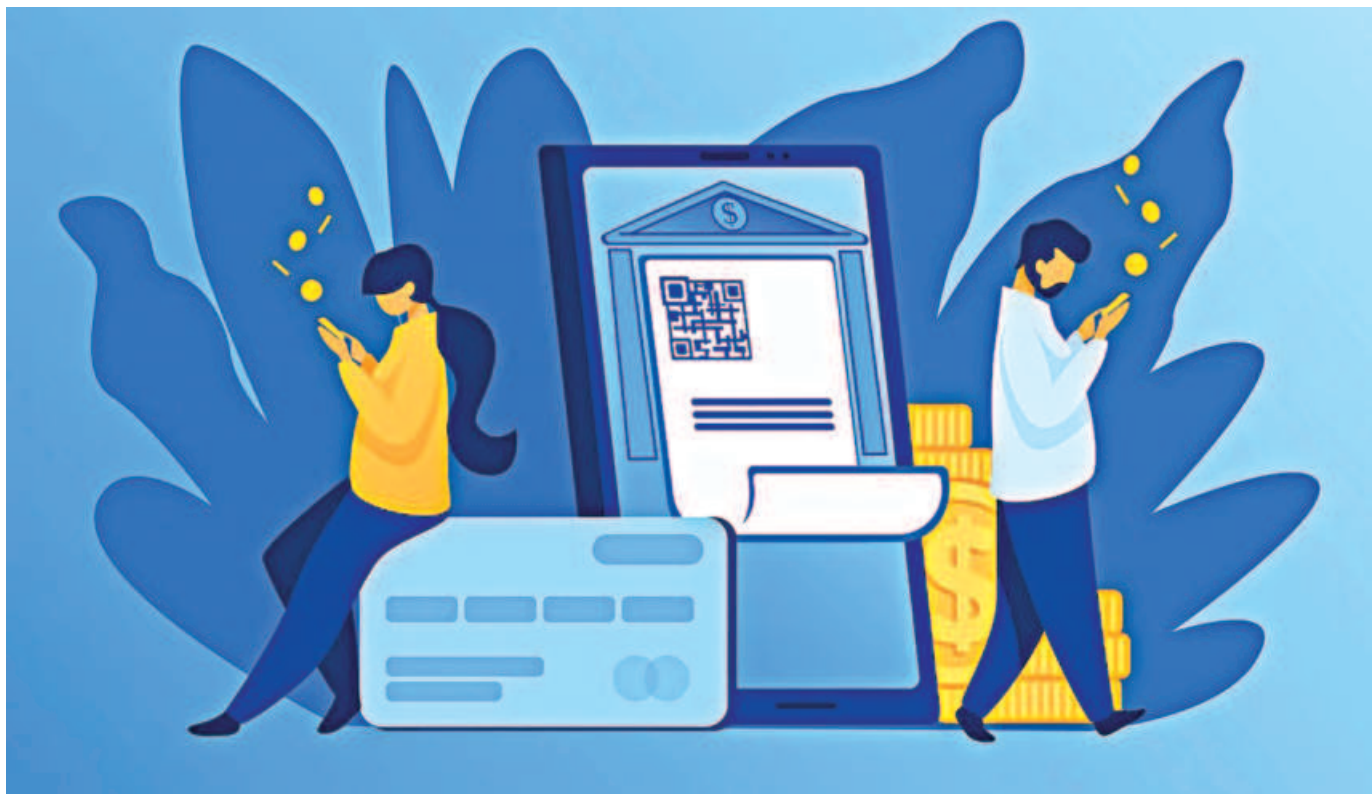
entrepreneurial ecosystem and stimulate economic growth.

Wealth management is another frontier with great promise. The number of bank accounts in Bangladesh with deposits above Tk 1 crore rose from 1,06,520 in September 2022 to 1,13,586 as of September 2023. With a 6.06 percent year-on-year increase in high-value bank accounts, Bangladesh is witnessing a surge in its affluent population. This presents a golden opportunity for financial institutions to offer tailor-made wealth management services. Imagine a one-stop solution including investment advice, personalised healthcare access, and seamless estate planning—a holistic approach that leverages existing customer relationships



The banking sector should look forward to becoming a one-stop shop for all financial needs.

VISUAL: COLLECTED



Bangladeshis are increasingly taking control of their finances through their smartphones.

VISUAL: COLLECTED

for a secure digital financial ecosystem.

AI-powered chatbots are revolutionising customer service by providing round-the-clock support for routine tasks, responding to inquiries, and resolving minor issues. Banks are continuously enhancing their mobile applications, creating one-stop platforms for a variety of financial needs. From account management and bill payments to investment options, Bangladeshis are increasingly taking control of their finances through their smartphones. BRAC Bank introduced the Astha Lifestyle digital banking super app in 2023, marking a

and collaboration, further fuelling the digital revolution.

Disruption extends beyond mere payment processing to transforming customer onboarding, product design, and risk management. By FY22, 23 banks had completely adopted digital e-KYC onboarding, while 18 had only partially done so, according to Bangladesh Bank. As a consequence, the onboarding procedure that formerly took 4-5 days, now needs only 4-5 minutes. AI-powered credit assessment tools offered by Fintech are changing the game by assessing borrower credibility and enabling access

BEYOND TRADITIONAL LOANS AND PRODUCTS

The future of banking lies in expanding beyond traditional models. One such avenue is venture capital (VC) financing. The landscape of bank involvement in VC is constantly evolving globally. For venture capital-related projects, JPMorgan Chase, Capital One, and other leading banks have specialised investment arms. Innovative entrepreneurs, pursuing high risk, high reward ventures, often face a funding gap that VC investments can bridge. By venturing into the VC space alongside traditional loans, banks can help the emerging

and unlocks new avenues for growth.

The introduction of bancassurance in March 2024 will provide Bangladesh's developing financial system with a new facet. This business strategy, which enables banks to sell insurance products within their branches, brings the convenience and trust associated with banking to the insurance industry. For Bangladesh, a nation with a comparatively low insurance penetration rate, this has enormous opportunity. Bancassurance may simplify the procedure and increase public knowledge of the advantages of insurance products by making them easily accessible to a larger audience. As a result, people and families may become more



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financially literate and have more security in the future.

The banking industry could also look into the derivatives market for hedging risks. An example of such would be to engage in currency swaps to manage their foreign currency exposure. This involves exchanging one currency for another for a specified period, providing liquidity and managing currency risk. The derivatives market in Bangladesh is highly untapped. To engage in the derivatives market, banks could establish specialised trading desks or offer derivative products to their clients, providing them with tailored solutions to manage their financial risks. However, it is crucial for banks to have a robust risk management framework in place, including sophisticated modelling and analytics, to navigate the complexities of the derivatives market and ensure prudent financial practices. By participating in the derivatives market, banks can enhance their ability to optimise returns, manage exposures, and offer comprehensive financial services to their clients.

Open banking is another growing concept gaining traction globally in which banks exchange financial information with approved third-party service providers with the approval of their clients. This opens the door for cutting edge financial services and products that are customised to meet the demands of each individual, fostering a more dynamic and competitive financial market.

However, to ensure that such developments are effectively taking place, banks would also be required to spend heavily on R&D and capacity development. R&D would essentially include exploring emerging technologies from similar or model countries, understanding market trends,

and proactively addressing future challenges. Investing in R&D ensures a proactive rather than reactive approach to innovation.

Human resources would also have to be strongly trained so that they can themselves adapt to the innovations and also pass on new knowledge to the market. R&D and capacity development are areas in which the banking sector may work in close collaboration with the government.

THE KEY TO UNLOCKING PROSPERITY

Essentially, the banking sector should look forward to becoming a one-stop shop for all financial needs. There is no denying the difficulties, yet the banking industry's inventive spirit in Bangladesh offers optimism. It is imperative to tackle the key problems of NPLs by employing strong credit evaluation procedures and efficient debt settlement tactics. Enhancing governance by implementing measures for accountability and transparency can increase investor trust and unlock vital resources. Technology plays a crucial role in this transformative journey.

Implementing an agile risk management framework, empowered by advanced analytics and fintech solutions, can mitigate credit risks and unlock avenues for infrastructure financing.

Bangladesh can turn its banking sector into a potent growth engine by embracing digitisation, investigating novel financial models like venture capital and wealth management, and fostering a culture of collaboration. This is not just about numbers or transactions; it's about empowering entrepreneurs and individuals, unlocking the potential of small businesses, nurturing a thriving economy, and building a brighter future for all.