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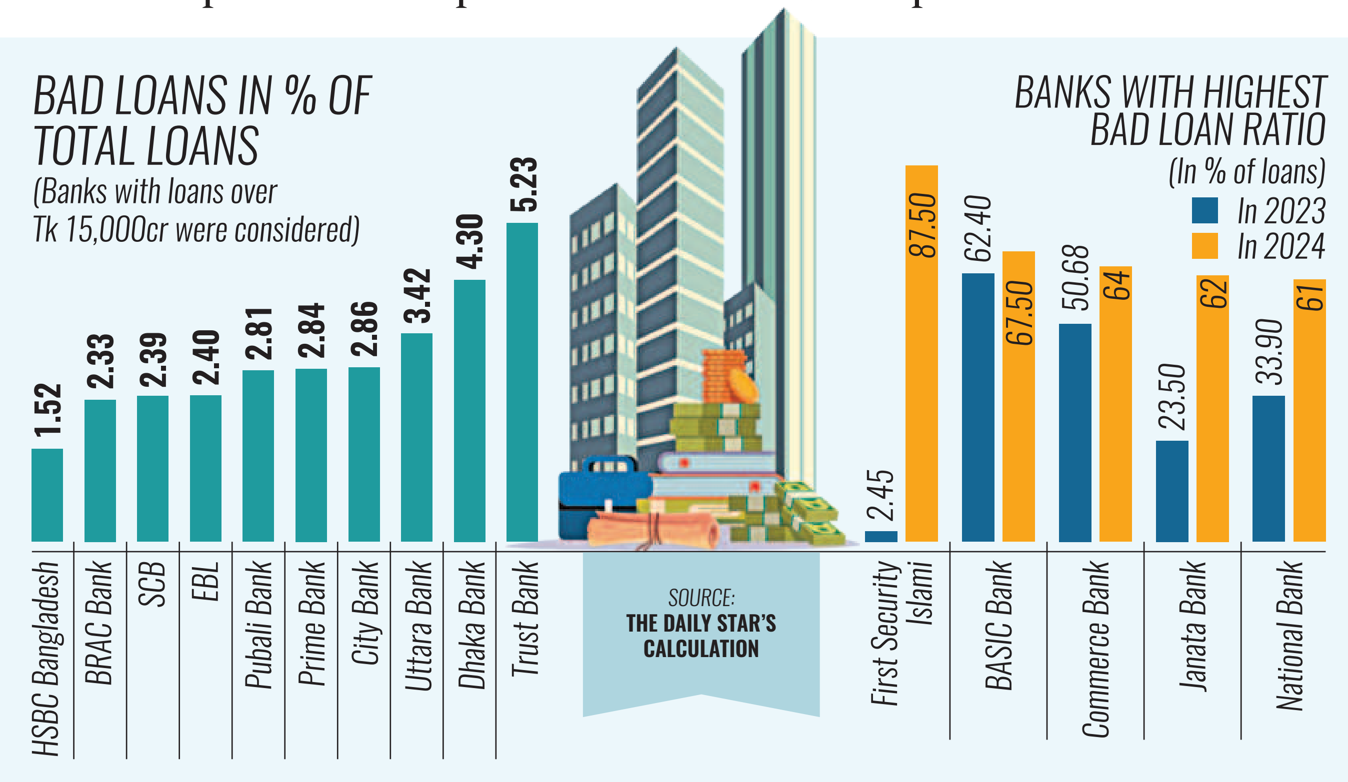
Star BUSINESS

21 banks bucked rising bad loan trend in 2024

Effective risk checks helped them keep bad debt below 5% despite turmoil

Part 4
INSIDE BANKING



AHSAN HABIB

Twenty-one banks managed to keep their bad loan ratios under 5 percent of their total lending, even amid turbulence last year that rattled the sector and eventually pushed up the industry average of bad loans to 16.8 percent.

Banking experts say this outcome was due mainly to sound governance, effective risk controls, early warning systems, and a strong focus on loan recovery. Multinational banks and several local lenders have been following these practices.

Excluding newer banks, Citibank NA, State Bank of India, and Commercial Bank of Ceylon kept their bad loan ratios below 1 percent in 2024, although their lending volumes remain small.

HSBC Bangladesh and Bank Al-Falah both recorded bad loan ratios under 2 percent.

Among banks with a loan portfolio over Tk 20,000 crore, the top performers were BRAC Bank, Standard Chartered Bank, Eastern Bank, Pubali Bank, Prime Bank, and City Bank, each maintaining bad loans below 3 percent of their total disbursements.

"Good governance is the key to keeping bad loan ratios low," said Mashrur Arefin, chairman of the Association of Bankers Bangladesh (ABB), a platform of the managing directors and CEOs of banks.

He said that in a well-managed bank, the management team must work independently, and board members should not interfere with or push for loan approvals.

Arefin added that the credit risk department should also work independently from the business team to assess loans objectively.

"If the credit risk team can work freely, it reduces the risk of a loan turning sour," said Arefin, who is also the managing director and CEO of City Bank.

Woori Bank, Uttara Bank, and Dhaka Bank each reported bad loans between 3 and 5 percent of their total lending.

Trust Bank, Dutch-Bangla Bank, Jamuna Bank, Mutual Trust Bank, Habib Bank, Shahjalal Islami Bank, NCC Bank, and Bank Asia all reported ratios under 10 percent, well below the industry average of 16.8 percent in 2024.

Referring to his experience at Eastern Bank PLC (EBL), where the bad loan ratio stayed under 3 percent, EBL Managing Director and CEO Ali Reza Iftekhar said, "We always prioritise recovery by building an efficient and dedicated recovery team."

"Facing a difficult year like 2024, we tightened client screening and strengthened our recovery setup by bringing in capable people," he said.

EBL has focused equally on expanding its business and reducing bad loans, the CEO said, adding that many successful strategies have been applied to cut non-performing assets.

"When we take on new clients, we follow a professional approach. Most bad loans come from reference clients," added Iftekhar, a former ABB chairman.

Among the newer banks, Shimanto Bank, Community Bank, Modhumoti Bank, Midland Bank, Meghna Bank, Bengal Commercial Bank, and Citizens Bank reported bad debt ratios between 0 and 5 percent.

Of the 50 banks that have released financial reports for 2024, nine reported bad loan ratios between 10 and 20 percent, while 11 fell into the 20 to 40 percent range.

Mamun Rashid, former CEO of Citibank NA Bangladesh, said foreign banks maintained a structured approach to credit risk, including protocols for early warnings, portfolio monitoring, and distressed asset management.

"Foreign banks follow rigorous early alert systems and continuous loan reviews," said Rashid, who also worked with Standard Chartered Bank and ANZ Grindlays Bank.

He commented that special committees meet regularly to identify emerging risks before loans fall overdue. These reviews often lead to quick measures to limit exposure.

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Banks can use offshore banking deposits as collateral: BB

STAR BUSINESS REPORT

The Bangladesh Bank (BB) has allowed banks to use foreign currency deposits of non-resident account holders in their domestic banking units as collateral against financing for resident companies, firms, and individuals.

The central bank issued a notice in this regard, stating that OBUs can accept deposits in foreign currency from non-resident Bangladeshi nationals, persons of Bangladeshi origin, foreign nationals, enterprises, companies or firms registered and operating abroad, foreign institutional investors, etc.

From now on, these funds can be used as collateral by banks for lending to resident companies and individuals. In such cases, banks must satisfy themselves regarding the bona fide relationship between accountholders and borrowers in Bangladesh, such as non-resident Bangladeshis (NRBs) and their beneficiaries, foreign shareholders or investors and their investee companies, etc.

NRBs can also avail loans by keeping their foreign currency deposits as collateral, as per the notification.

The collateral can be used for extending short-term working capital loans in local currency, it said, adding that there will be no charges or fees against such collateral, the circular noted.

The notification also allows banks to maintain a margin, if necessary, to absorb exchange rate risk.

In the event of loan default, banks may liquidate the foreign currency collateral, subject to the observance of necessary formalities, the notification added.

In addition to foreign currency deposits of OBUs, balances held in private foreign currency accounts and non-resident foreign currency deposit accounts can be used as collateral for Taka lending. However, balances held in international banking (IB) accounts maintained with OBUs cannot be used as collateral for lending, the circular stated.

Industry insiders said that foreign-owned companies hailed the decision of the central bank as a milestone. They added that it is not easy to arrange collateral locally for foreign-owned companies to borrow from the banking system.

"The new policy will support these companies to avail Taka loans against the collateral of foreign currency deposits maintained in Bangladesh by their shareholders or parent companies. This will encourage foreign investment in Bangladesh," they said.

Illegal imports of cosmetics threaten local industry: experts

STAR BUSINESS REPORT

The domestic cosmetics industry will not sustain unless dishonest importers are strictly monitored and their undue dominance in the market is curbed, experts said.

Despite the sector's growing production capacity, the continued influx of unethical imports could derail progress in industrialisation, deter new investment, and stall local productivity, they opined.

If the government fails to rein in these unscrupulous traders, the cosmetics sector could become increasingly import-dependent, which would not only weaken the local industry but also cause a substantial loss in national revenue, they added.

The sector experts made the remarks at a seminar titled "Export potential of the cosmetics and skincare industry: no more fake and substandard products."

The Association of Skin Care and Beauty Products Manufacturers and Exporters of Bangladesh organised the event at the office of the Directorate of National Consumers' Right Protection (DNCRP) in Dhaka yesterday.

Speakers at the seminar said dishonest importers are becoming desperate to resist the new customs policies of the National Board of Revenue (NBR), which aim to curb false declarations, under-invoicing, duty evasion, and the supply of expired or low-quality products in the market.

"Tax evasion and consumer deception are now open secrets. Consumers are being cheated with these counterfeit products and facing serious health risks," said Jamal Uddin, secretary of the association.

He stressed the need for policy support to promote local production and make quality products affordable for consumers.

Jamal Uddin also added that encouraging the production activities of global brands in Bangladesh by making essential raw materials more accessible, while increasing tariffs on finished imported cosmetics, would significantly help grow the local industry and entrepreneurship.

Imports in the colour cosmetics segment alone were officially valued at around Tk 500 crore in the last fiscal year, according to NBR data.

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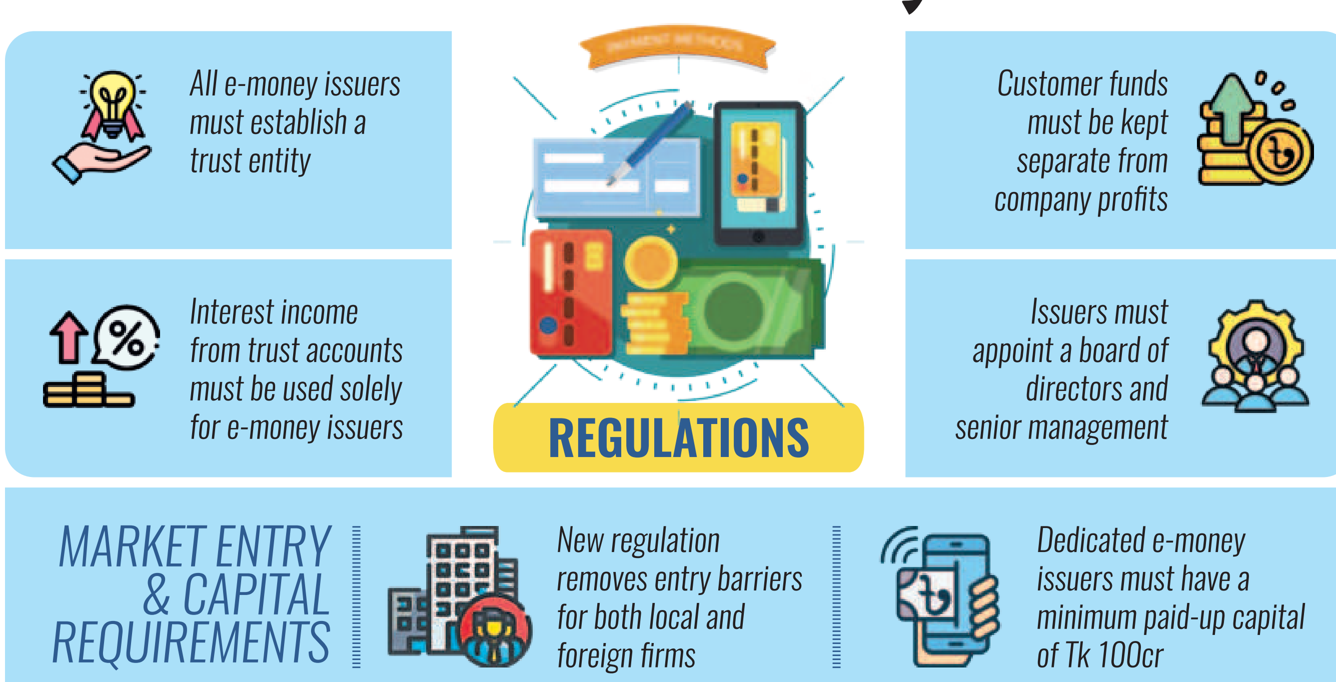
New regulations in the offing to tackle e-money fraud



MD MEHEDI HASAN

The banking regulator is expected to soon introduce a new regulation to ensure transparency and discipline in the issuance of e-money and tackle fraud using virtual money, according to officials familiar with the matter.

Titled 'Regulation for E-Money Issuers in Bangladesh-2025', the new rules are set to come in the backdrop of reports of embezzlement by mobile financial services (MFS) provider Nagad through the fraudulent issuance of Tk 645 crore in e-money without maintaining the required currency reserve.

Currently, banks, MFS providers, and payment service providers (PSPs) are allowed to issue e-money, provided it is backed by adequate cash funds.

In the new regulation, an E-Money Issuer (EMI) must establish a trust entity under the Trusts Act, 1882, according to a draft seen by The Daily Star, prepared by a committee of the Payment Systems Department.

As per the draft, the trust entity will be the custodian of Trust and Settlement Accounts, which hold the balances against which e-money is created, as per the draft guideline.

Currently, e-money issuers like MFSs and PSPs are maintaining trust and settlement accounts with different banks but do not have a trust entity.

Under the new regulation, such accounts will hold only the money paid for e-money by e-money account holders and will not be blended with the capital, working capital, or operating funds of the EMIs, a senior official of the Bangladesh Bank explained to The Daily Star.

"The funds held in the trust settlement account may earn interest or be invested in government securities at a certain percentage.

"This would generate interest income, and at least 80 percent of this interest income must be spent on the operations of the e-money system, with the aim of reducing operational costs," the official, speaking on condition of anonymity, said.

This money cannot be used for bonuses, marketing campaigns, or any similar expenses, they added.

Currently, only banks and government enterprises are able to set up e-money issuers, such as bKash, Nagad, and Rocket. But in the new regulation, barriers to entry into the e-money business have been removed from the previous bank-led or government enterprise model.

Any local or international firm, subject to compliance with the criteria in the guideline, can apply to the central bank for an e-money issuer licence, as per the draft regulation.

The BB official said the new regulation would encourage the integration of innovation by fintech firms in the e-money business to pave the way for a cashless Bangladesh.

"This is expected to increase competition, expand e-money services to all possible use cases, and reduce costs through expansion of the ecosystem. It will also help tackle fraud," they added.

Furthermore, under the new regulation, e-money issuers can operate in three modes: PSP (Payment Service Provider), which currently provides e-wallet services except for cash-in and cash-out services; authorised EMIs, operated as a business unit of a scheduled bank or financial institution with the

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PGCB, Railway allowed to expand optical fibre networks

MAHMUDUL HASAN

The telecom regulator has decided to permit the Power Grid Company of Bangladesh (PGCB) and Bangladesh Railway to extend their optical fibre networks beyond their respective grid lines and railway tracks in a bid to improve internet connectivity across the country.

The Bangladesh Telecommunication Regulatory Commission (BTRC) made the decision recently, according to relevant documents seen by The Daily Star.

The move marks a reversal of a decade-old restrictive policy by the regulator, which in 2014 prohibited the two state-owned transmission infrastructure providers from connecting telecom operators' towers using their existing fibre optic cables laid along power grids and railway tracks.

The directive had effectively restricted their ability to expand, paving the way for other Nationwide Telecommunication Transmission Network (NTTN) licence holders to get additional benefits and dominate the market.

Abu Nazam M Tanveer Hossain, a telecom expert, said such restrictions seemed more focused on facilitating other NTTN licensees than the access network operators.

"On top of that, this restriction also slows down the whole process of connectivity by making it more complex and expensive. Every licensee in the transmission sector should be given equal opportunity to compete in the market," he added.

Shahed Alam, chief corporate and regulatory officer at Robi Axiata PLC, echoed a similar sentiment.

"We believe that all licensees operating under a specific category should be treated equally and fairly to ensure a level playing field. It is therefore deeply concerning that Bangladesh Railway

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