

Present Crisis of the Banking Industry of Bangladesh: Causes and Remedial Measures

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Abstract: In recent few years the banking sector of Bangladesh is probably passing through the worst condition in its history. Some major scandals in Sonali Bank Ltd. Basic Bank Ltd., Modhumoti Bank Ltd., Farmers Bank Ltd., and recently Janata Bank Ltd. have fallen this industry in serious trouble. The main objective of this study is to find out the major causes behind the present crisis in the banking industry of Bangladesh and also recommend some suggestions as remedial measures. The researchers have found that the political interventions in various levels, unethical practices/ corruption, unhealthy competition among prevailing banks are some of the major causes of the present prevailing crisis in this sector. Many banks are in capital shortage and have fallen in liquidity crisis. Extensive strategy formulation and proper implementation by all the stakeholder institutions have now become imperative to get rid of this crisis.

Key Words: Liquidity crisis, default loan, money laundering.

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I. Introduction

Few days back Bangladesh has primarily entered in the list of developing countries of United Nation. It is obviously positive news for Bangladesh. But it is a matter of great regret that even after about 47 years of liberation, Bangladesh is still in a nascent stage in terms of developed financial system. Its two capital markets are very much weak, which already have seen major collapses two times i.e. in 1996 and 2010. Hence, the main source of fund for private sector investment is banking industry. But due to political influences in various levels, corruption, unhealthy completion etc. banking sector is now in big trouble. For few months banking industry of Bangladesh is suffering from liquidity crisis. Thus, the interest rate on loan is not only high but also this industry isn't becoming able to meet up the demand of loan. Here, the researchers have tried to analyze the basic short and long term causes behind the present crisis scenarios of the banking industry of Bangladesh and also recommended some suggestions as remedial measure.

II. Literature Review

A number of good studies have been made on the crisis of the banking sector of Bangladesh. Most of them are based on secondary data. A study (Huq & Bhuiyan, 2012) has identified some major problems in Corporate Governance practice in the Banking Industry of Bangladesh. According to 'A Report on Banking Sector of Bangladesh' the problem of banking sector in Bangladesh is widespread and is not related to banking system only. The regulatory entity should be independent but accountable. Mustafa (2017) identified in his study that here was an 'unhealthy competition' among new banks to take over loans from older ones and that his research team also found ill motives working behind it in most of the cases. As per the information of 'Loan write-offs soar' (2018) total written-off loan of the banking sector of Bangladesh from January 2003 to June 2017 was Tk 45,527 crore. Written-off loans are like uncollectible loans. The recovery process of such loan is highly difficult. So, the banks should prevent the corruption so that the vested quarter will not take loans through the unethical process. The banks should beef up monitoring of the recovery process of written-off loans. This type of loans will be recovered in the shortest possible time if the banks strengthen their legal process to resolve the cases with the money loan court. According to Khondoker Ibrahim Khaled, Former deputy governor of Bangladesh Bank in 'Finance ministry can't avoid responsibility for banking sector woes' (2017) the finance ministry should be liable for the miserable situation of the banking sector right now. The two main causes for the unusually high default loans in the state-run banks are the enormous corruption and inefficiency. The lack of good governance is another reason for the deterioration of the banking sector's health. He also thinks that in state banks of Bangladesh, the bad loans account for about 32 percent of their outstanding loans, which is very

unusual. The regulatory body should play a proactive role in case of the private banks that are involved in corruption. Based on the report 'Most banks adopt centralised systems' (2017) the introduction of centralized core banking systems, may be good solution to avert fraud, cut cost and provide real-time services online to customers

III. Rationale of the Study

The crisis in banking industry is deepening day by day. Due to the absence of strong capital market, this sector is the main source of capital of the business organizations of Bangladesh. Finding out the true reasons behind this crisis and effective monitoring and controlling have become imperative. That's why the researchers have tried to find out the major causes behind the present crisis and remedial measures directly from bankers and some other opinions of experts.

IV. Objectives of the Study

The broad objective of the study is to find out the major obstacles of the banking industry of Bangladesh and recommend some policies that can be implemented as remedial measures.

The specific objectives are:

- i. To analyze the present scenarios of the banking industry of Bangladesh.
- ii. To find out the major causes behind the recent crisis of the banking industry of Bangladesh.
- iii. To recommend some short and long-run suggestions to get rid of this crisis based on the opinions collected mainly from bankers and some other experts.

V. Methodology of the Study

Data collection: Data for this study is collected from two sources are as follows:-

- i. **Primary data:** An open-ended questionnaire was distributed to the bankers of various positions of both public and private commercial banks of Bangladesh. There were 55 respondents of this questionnaire who were at least in officer rank.
- ii. **Secondary data:** As secondary sources of data the researchers have used here various research articles published in some international journals, some renowned daily newspapers of Bangladesh, website of Bangladesh Bank etc.

This study is basically a qualitative research which is an outcome of the data primarily collected from bankers through open-ended questionnaire. For specialists' opinion the researchers have reviewed some recent reports and interviews published in various renowned newspapers of Bangladesh. In this study both short and long-run causes of the present crisis scenario in the banking industry have been tried to find out. To make a short list and ranking of the top causes behind the present crisis based on the responses of 55 respondents, simple tally system has been used by the researchers. In the policy recommendation section simple explanation has been made just based on problem findings.

VI. Limitation of the Study

The researchers have identified the following major limitations of this study:

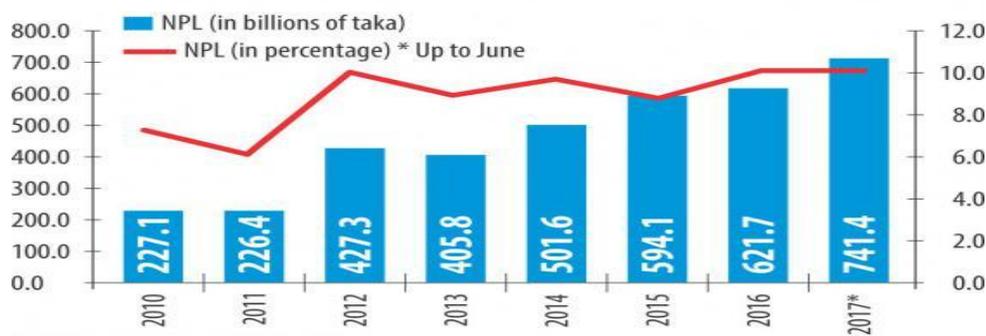
- i. The number of respondents isn't so large.
- ii. Bankers have been given priority in this study and not other stakeholders.
- iii. Respondents have natural fear to involve themselves with such study. So many real things mayn't come out.

VII. Present Critical Scenarios of the Banking Industry of Bangladesh

The banking industry of Bangladesh is presently in a deep crisis. The amount of default loan is increasing day by day. On the other hand, presently this sector is in acute liquidity crisis due to some reasons. Political interventions in various levels, corruption & unethical practices, and unhealthy competition among banks are further intensifying the crisis. The lack of good governance, accountability, and transparency are in everywhere in this sector. This sector has given birth some scandals over the past few years. For Example- 'Hallmark-Sonali Bank Loan Scam was a scam perpetrated by the largest State Owned Commercial Bank (SOCB) of Bangladesh, Sonali Bank Ltd. by giving a loan of BD Taka 3400 crore (almost USD 454 million) using scam documents between 2010 and 2012'. (Source: Wikipedia). The Basic Bank Ltd., another state-owned commercial bank of Bangladesh, was in the best condition before 2009. But after the appointment of a politician as its chairman this good bank turned into a bad bank with its about Tk4500 crore default loan. The hacking of some of the reserves of Bangladesh Bank, crisis in Modhumoti Bank Ltd., and Farmers Bank Ltd. have also further intensified the present critical conditions of this industry. Recent news of scam of another state-owned Janata Bank Ltd. with AnonTex Group is also a new addition to the present crisis in the banking industry of Bangladesh. According to 'Finance ministry can't avoid responsibility for banking sector woes'

(2018) in Bangladesh the default loan account for in state-owned commercial banks 32% of their total outstanding loan. “This is highly unusual -- no country can run the banking sector with 32 percent bad loans.”- said to Daily Star; Khondkhar Ibrahim Khaled, former deputy governor of Bangladesh Bank. According to ‘Managing the banking sector fault lines’ (2017) the amount of non-performing loan is increasing in an alarming rate.

GROSS NON-PERFORMING LOANS OF BANKING SECTOR



SOURCE: BANGLADESH BANK

Graph: Our source-The Daily Star(Online), 21.11.17

According to ‘Banking in jeopardy’ (2017) at the end of September 2016, the figure of bad debt stood at Tk65,731 crore, but a year later this figure had increased to more than Tk80,307cr. In the last three months, the amount has increased by nearly Tk6,000cr. It may be added that until June 2017, the defaulted loan stood at Tk74,148cr. The total figure is more than 30% of Bangladesh’s 2017-18 budget and equivalent to about 13% of our Gross Domestic Product (GDP) at constant price.

As per the information of Finance Minister recently shared in The National Parliament of Bangladesh we came to know that, In Bangladesh up to 30th September,2017 there were seven banks with in their capital shortage. Among them the capital shortage of the four state-owned commercial banks was Tk 7 thousand 626 crore and 26lac.Out of which:

- Sonali Bank had shortage of Tk 3 thousand 140 crore and 41lac
- Rupali Bank- Tk 689 crore 90 lac
- Janata Bank- Tk 1thousand 272 crore 93 lac
- Basic Bank- Tk 2 thousand 522crore 99 lac

On the other hand, there were three private commercial banks in capital shortage of Tk 1 thousand 791 crore 20 lac up to that date.Out of which:

- Commerce Bank- Tk231 crore 31lac
- Farmers Bank Tk 74 crore 76 lac
- ICB Islami bank Tk 1 thousand 485 crore 13 lac
- (Source: Daily Prothom Alo, 26.02.18)

The Finance minister also made informed the Parliament that up to 30th September,2017 the amount of provision shortage of state-owned commercial banks were Tk 7 thousand 567 crore 46 lac. From financial year 2005-2006 to 2015-2016 in 10 years government has given banks tk 10,272 crore as capital. At present the default loan in banking sector is tk80,307 crore (Source: Daily Jugantor, 28.02.18).

VIII. Causes of the Present Crisis of the Banking Industry of Bangladesh

Now it is one of the talk of the tongue about the banking sector of Bangladesh is liquidity crisis. By summarizing the experts’ opinion collected from various newspapers and the responses of 55 respondents of our study, we can identify the following recent causes behind the liquidity crisis of the banking industry of Bangladesh. Some of our valuable respondents think that this crisis has been started after two incidences. One, Farmers Bank failure to make payment 508 crore money of environmental fund. Another, withdrawal from private bank 500 crore taka of Gas, Electricity, Telecommunication sector and deposited to State own commercial bank. These two causes have also been acknowledged in a recent newspaper report. (Source:The Daily Prothom Alo, dated 21.03.18).

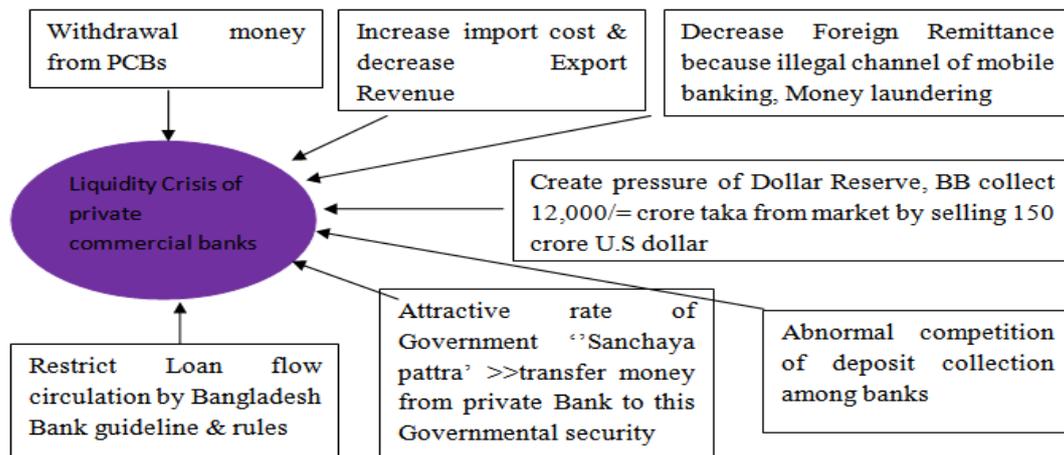


Chart: Major causes behind the present liquidity crisis of private commercial banks of Bangladesh

8.1 Withdrawal of money from private commercial banks(PCBs): “Bangladesh Bank Governor Fazle Kabir from a annual conference of Agrani Bank dated February 17,2018 has sought the finance minister's intervention to stave off pressure to withdraw government funds from private banks, which has been creating an artificial liquidity crisis and bumping up interest rates for lending. Citing the case of cash-strapped Farmers Bank, the BB governor said many government organizations are now scrambling to withdraw their deposits, including those for development programmes, from private banks.” (Source: The Daily Star,18.02.18). Again, the Chairman of ‘Association of Bankers Bangladesh(ABB)’ and managing director of Dhaka Bank-Syed Mahbubur Rahman also identified this problem as one of the prime reasons behind this crisis.(Source: The Daily Jugantor, 08.03.18).

8.2 Increase import cost and decrease export revenue: As per a recent news of a renowned newspaper we can be able to know that in first five months of current financial year LCs for import have been increased by 88%.Here it has been also identified that in November, Bangladesh Atomic Energy Commission opened LC of 1,138 crore dollar with Sonali Bank for Rooppur Nuclear Power Plant. After this incidence the dollar crisis has been acute. (Source:The Daily Prothom Alo dated 21.03.18).The government claimed that the industrial outlook was good but the actual fact and figures did not reflect that, said AB Mirza Azizul Islam, a former finance adviser of a caretaker government, told “The export earnings have failed to register a satisfactory growth in the recent period, indicating that the industrial sector has not been run properly.”(Source: The Daily Star,28.12.17). Some of our valuable respondents also identified this problem as one of the key reasons for crisis. According to them, this problem has been started to intensify after the downward situation in our main exporting sector-i.e. RMG (ready made garments) sector. Again some other think that now our Government is financing its some mega projects from its own source. Thus for importing raw materials and other ingredients pressure on dollar price is increasing. Thus for meeting up the import payments banks’ cost has increased. Thus it is one of the major causes of liquidity crisis.

8.3 Decrease foreign remittance because illegal channel of mobile banking, money laundering: Some of our respondents identified it as another top cause of liquidity crisis. Though it is not only a short term problem. According to them remittances is not coming through proper channel and thus not coming to banks. “The country’s inward remittance dropped to a six-year low to \$13.61 billion in the just-concluded year as many expatriate Bangladeshis preferred illegal channels to banks while sending money to their relatives, Bangladesh Bank officials said.(Source: The Daily Newage, 02.01.2017).”

8.4 Create pressure of dollar reserve, BB collect 12,000/= crore taka from market by selling 150 crore U.S dollar: “The central bank governor has recently said in an annual conference of Agrani bank about the exchange rate: the high import growth and the comparatively lower export and remittance growth have put a pressure on the foreign exchange rate. The BB injected about \$1.5 billion in the foreign currency market to keep the exchange rate stable. As a result, more than Tk 12,000 crore flowed to the central bank from banks, he added.” (Source: The Daily Star,18.02.18). Our valuable respondents also identified it as one of the major causes of liquidity crisis of banks.

8.5 Restrict loan flow circulation by Bangladesh Bank guideline & rules: In a recent report of a newspaper some banking specialists identified the strict obligation to maintain Advance-Deposit Ratio(ADR) by central

bank on 30th January, as another prime cause of liquidity crisis. (Source: The Daily Jugantor, 08.08.18). Though the time limit of the adjustments of the investments of banks with this ratio (85% to now 83.5%) has been extended from June to December this year, liquidity crisis is becoming acute. On the other hand, about this BB's move to lower the banks' ceiling for loan-deposit ratio, the governor has opposite opinion. He said "Of the 57 banks, the loan-deposit ratio of 38 banks is lower than 83 percent already. To adjust to the new ceiling, banks will have to increase the total deposit by Tk 11,000 crore. Of the amount, Krishi Bank, Rajshahi Krishi Unnayan Bank, BASIC Bank and Farmers Bank would have to increase it by Tk 6,000 crore, while the rest need to increase by Tk 5,000 crore altogether. So, it is not right to say that a liquidity crisis has been created in the banking sector due to slashing of the ratio." (Source: The Daily Star, 18.02.18).

8.6 Attractive rate of Government "Sanchaya pattra" or Saving Certificate >>transfer money from private Bank to this Governmental security: Some of our valuable respondents have identified this problem as one of the major causes of liquidity crisis. Few months back this scenario was present in Bangladesh. Though now for last two months this scenario is different in the market. Recently due to acute liquidity crisis in the month of January, 18, specially in private commercial banks, interest rate on loan reaches to double digit from single digit. For some banks it has become 16%-17%. (Source: The Daily Jugantor, 08.03.18). On the other hand, the recent average interest on deposit has become 9%-13%. Which were 12%-14% in 2012; 8.61% in 2013; and 5.22% in December, 16. Again, at present average call money rate is 4.28% which is highest after November, 2015. (Source: The Daily Prothom Alo, 21.03.18).

8.7 Abnormal competition of deposit collection among banks: In December 2017 private sector loan of banks was increased 18.13%, in November 19.06%, October 18.63%, September 19.40%, August 19.84%, and July 16.94%. (Source: The Daily Jugantor, 08.03.18). From another report we can find that, the excess liquidity in the banking sector decreased to Tk 90,000 crore in the first week of November from Tk 1.06 lakh crore in the last week of June. It was Tk 1.23 lakh crore in December 2016. (Source: The Daily Star, 31.12.17). Due to this situation and causes already stated above, Private commercial banks are facing the present liquidity crisis. Now there remain a unhealthy competition among banks to collect the deposits. Some of our respondents pointed out that, now their authority keeping them in serious pressure on this issue by setting monthly target of Tk 50 lac in some cases. In most of the time they are not becoming able to fulfill this target, which mounting their mentally upset situation.

8.8 Long-run causes of present crisis scenarios: Now for finding the long-run causes of the present crisis scenario in the banking industry of Bangladesh the researchers have tried to analyze the issues pointed out by the respondents of their open-ended questionnaire which have been collected from bankers. To make a short list and ranking of the top causes behind the present crisis based on the responses of 55 respondents, simple tally system has been used by the researchers. Thus the following top issues have been highlighted:

Rank	Long-run Causes to the present crisis
1 st	Political influence
2 nd	Lack of following proper guidelines in case of loan sanctioning and disbursement
3 rd	Lack of sound monitoring of the loan
4 th	Unhealthy competition among banks and aggressive banking
5 th	Unethical practices/corruption
6 th	Lack of skilled manpower/management
7 th	Weak monitoring/supervision of Bangladesh bank
8 th	Lack of good governance, accountability, and transparency
9 th	Control of the banking industry by some groups/families
10 th	Excess number of banks in Bangladesh
11 th	Low quality of assets
12 th	Weaknesses of law
13 th	Lack of advanced technological use
14 th	Default tendency of the borrowers to repay the loans and lack of remarkable punishment
15 th	Loan rescheduling and restructuring
16 th	Unstable capital market
17 th	Inadequacy of effective risk management system
18 th	Fund transfer to outside of the country and diversification
19 th	Low remittance
20 th	Lack of confidence of general people on banks

1st Political influence: Almost 100% of our respondents have identified that the political influence is the top most cause to the present crisis of the banking industry of Bangladesh. They highlighted the present crisis in banking industry as a long-run outcome of the political influence in this sector. They pointed out some direct

and indirect manner of political influence. They identified the followings as key ways of influence: Giving license of new banks in political perspective, appointment of board of directors (note: respondents identified it as most influential factor), priority of political identity during loan sanctioning, giving special facilities in loan recovery/restructuring/rescheduling to politically affiliated defaulters, lack of tendency of remarkable punishment to them etc.

2nd Lack of following proper guidelines in case of loan sanctioning and disbursement: This point is in the second highest position in terms of the responses of our respondents. According to their responses shortage of enough collateral, poor quality of collateral assets, application of proper credit appraisal systems, unskilled manpower, lack of proper sources of credit information etc. further intensified the poor quality of loan investment of banks. Some of them highlighted that the Credit Information Bureau (CIB) can't provide real picture of all borrowers. "Because many large defaulters are becoming able to remove their name from defaulter's list using various mechanism. Recently said a managing director of a public bank keeping him anonymous)." (Source: The Daily Jugantor, 08.03.18). So, a defaulter of one bank can easily take loan from another bank.

3rd Lack of sound monitoring of the loan: This cause is in the 3rd highest position in terms of the responses of our respondents. Some of our respondents also identified that sometimes banks are reluctant to this issue. According to our respondents the following factors are mainly responsible for this barrier: - unethical practices and nepotism, political affiliation of borrowers, lack of proper training etc.

4th Unhealthy competition among banks and aggressive banking: This issue is in 4th position in terms of the responses of our respondents. The following events revealed in a research paper, "Loan takeover in Bangladesh: Is it a healthy practice?" presented by Mohammed Sohail Mustafa, associate professor of the Bangladesh Institute of Bank Management (BIBM), at a roundtable organized by the Bangladesh Institute of Bank Management, on November 23, 2017, can help us to understand the mechanism of the prevailing unhealthy competition among banks. *Firstly* The renowned company at first took loan from a old bank and eventually being unable to abide by the terms and conditions of loan even after the loan was rescheduled, the company approached a fourth generation bank which took over the loan despite the business going bad. The company is now listed as a defaulter with the new bank, paying not a single installment in the past eight months. *Secondly* In another instance, the research paper showed how a good loan turned into a bad one due to unhealthy competition. A borrower of the real estate sector was properly paying installments against a second generation bank's Tk 200 crore loans when a new bank offered a 1.5 percent interest discount, an additional credit of Tk 100 crore and maturity extension from the ongoing eight to 12 years. The borrower accepted it, but his business in the sector declined, causing it to face difficulties in paying the installments. Ultimately, the borrower became a defaulter. (Source: The Daily Star, 24.11.17).

5th Unethical practices/corruption: According to the respondents of our questionnaire it is one of the main obstacles of our banking sector and one of the prime causes of non-performing/default loan. They identified the cases like loan sanctioning, loan monitoring, evaluating of collateral, loan appraisal, loan take-over, restructuring, loan rescheduling, and in some others cases this unethical practices and nepotism are noticed.

6th Lack of skilled manpower/management: Respondents identified that for the use of sophisticated technology by banks there not enough skilled manpower/management in many banks. They noticed that this problem is specially large in public banks. Some of them pointed out this issue as one of the prime causes of low service quality. Again, some others have tried to make an association between this issue and the hacking of the reserve of Bangladesh Bank, which was occurred few months back.

7th Weak monitoring/supervision of Bangladesh Bank: Respondents also highlighted it as one of the major causes of the present crisis in banking industry of Bangladesh. Lack of timely monitoring and actions also one of the big reasons behind the present bad condition. Some of our respondents also think that some of the present guidelines and rules should be amended to effectively control the banking industry of Bangladesh.

8th Lack of good governance, accountability, and transparency: Some of our respondents identified it as an acute problem of banking industry of Bangladesh. They pointed out that the directors/chairman/management-all should be accountable/responsible for non-performing loan. Some of them addressed that the recent scandals of banking industry like Hallmark-Sonali Bank; director conflict and default loan of Basic Bank, crisis of Farmers Bank, Anon Tex Group's loan distribution issue by Janata bank etc. are the outcome of the lack of good governance, accountability, and transparency.

9th Control of the banking industry by some groups/families: _Recently at a roundtable organized by the Bangladesh Institute of Bank Management, on November 23,2017), Khondkar Ibrahim Khaled, former deputy governor of Bangladesh Bank, said the banking sector was under the grip of “some miscreant owners. For instance, he also said a private bank's managing director was changed thrice in three years due to the interference of unprofessional owners.” (Source: The Daily Star, 24.11.17). Again, the ‘Bank Company (Amendment) Bill, 2018’ was passed in the Parliament on 16th January in this year allowing the doubling of number of directors in a bank board from a single family and extending the tenure of directors. As per the amended law, four members of a single family instead of existing two can hold the post in the board of directors of a bank at a time, while a person can hold the post of a director for nine years continuously instead of current three years. (Source: Bangla News 24.com, 16.01.18). Experts as well as many of our respondents fear that the move would badly affect the banking sector.

10th Excess number of banks in Bangladesh: Presently there are 57 scheduled banks in Bangladesh. Experts and many of our respondents consider this number as excess for the economy of Bangladesh. They also identified the present aggressive banking problem as one of the negative outcomes of the excess number of banks in this economy.

11th Low quality of assets: According to the experts and our respondents banks are not becoming able to find out good quality sectors for their investment. After downturn in RMG sector and reduction of FDI in Bangladesh, this problem has been further intensified. So, it is another cause of increasing non-performing loan.

12th Weaknesses of law: “Generally defaulted clients get time from The Honorable Court and again misuse their basic right to get ‘stay order’ and extent the stay order period repeatedly, which prolongs the process of loan recovery using judicial action. Unfortunately, there is no option to prevent the clients from the frequent extension of the stay order”, said one of our respondents. Again, with the help of this ‘stay order’ defaulters keep themselves away from listing their name as defaulters in Credit Information Bureau (CIB) database. Thus easily such defaulters can take loan from another bank by hiding their true information. Actually, according to our respondents, there remain many lapses of present law related to banking. Which are creating big problems in this arena.

13th Lack of advanced technological use: Some of our respondents think that our banking sector is still in backward position compared to some neighboring countries. That’s why we didn’t be able to protect our central bank’s reserve from hacking.

14th Default tendency of the borrowers to repay the loans and lack of remarkable punishment: Many of our respondents identified this point as a prime cause of intensifying the crisis of banking industry of Bangladesh and reaching such an alarming position today.

15th Loan rescheduling and restructuring: In this regard misuse of political power, corruption, and nepotism hindering the prime objectives of rescheduling and restructuring of loan.

16th Unstable capital market: Some of our respondents highlighted that, due to unstable capital market of Bangladesh, banks aren’t becoming able to collect money from this market. On the other hand, they aren’t becoming able to make large scale investment in this market.

17th Inadequacy of effective risk management system: In a recent research paper, “Loan takeover in Bangladesh: Is it a healthy practice?” presented by Mohammed Sohail Mustafa, associate professor of the Bangladesh Institute of Bank Management (BIBM), at a roundtable organized by the Bangladesh Institute of Bank Management, on November 23,2017), it has been revealed that “the borrower was sanctioned 1.5 times what it was eligible to get, which was sufficient to classify the loan.” (Source: The Daily Star, 24.01.17). Our respondents also notified that the risk management systems of the most of the banks aren’t well-furnished.

18th Fund transfer to outside of the country and diversification: Most of our respondents have identified that fund transfer and diversification are also major causes behind the present crisis scenario of banking sector. They pointed out that through over invoicing or money laundering fund commonly are transferred to the outside of this country. Again according to them, taking loan mentioning for one purposes and whereas using for another purposes i.e. purchasing land or some risky assets, is also one of the big causes of default loan.

19th Low remittance: Due to mainly downturn in export of RMG product our remittance income isn't so good. Again, major parts of our remittances isn't coming using formal channel. That's why pressure has been created in dollar price. That's further intensifying liquidity crisis of banks.

20th Lack of confidence of general people on banks: Because of several recent scandals in banking industry and very recent Farmer's Bank failure to pay the tk508 crore of environmental fund many government organizations are creating pressure to withdraw their funds from private commercial banks. Thus general people also losing their confidence on banking industry and withdrawing their deposits from private commercial banks.

IX. Steps to be taken as remedial measures

Following are some short and long-run steps may be taken as remedial measure:

- i. Formulation of an Advisory Committee taking representatives from all important stakeholders and experts for the analysis of the banking industry of Bangladesh. Based on the policy recommendations by such committee government should go forward.
- ii. IMF recommended the following suggestions: as a requirement of BASAL III, maintain adequate Capital Requirement, maintain qualitative standard of asset, reduction of default loan, maintain proper provision, monitoring & surveillance of large defaulters, properly following Core Risk-Management Guideline, reduction of forced loan.(Source: Daily Jugantor,08/03/18).
- iii. "Without political positive intension and intervention the problem in banking industry couldn't be solved"- said Dr. Salehuddin Ahmed, Ex-governor of Bangladesh Bank. Again, the chief economist of The World Bank of Dhaka Office, Dr. Zahid Hossen also identified 'the lack of real initiatives' as main reason behind this ongoing crisis (Source: Daily Jugantor: 28.02.18). Most of our respondents also urge to take immediate step from government.
- iv. Financial Division of The Ministry of Finance, Peoples Republic of Bangladesh, has recently proposed 27 agenda(short, medium, and medium term) for the removal of present crisis in banking industry of Bangladesh. According to our respondents of this study these must be quickly and properly implemented. Some of the recommendations are. (Source: Daily Jugantor,28.02.18).
 - Publishing the list of default borrowers in web sites
 - Correction of new loan approval policy
 - Formulation of new policy about security & collateral
 - Discouragement in opening of new branch of new banks and extension of "agent" and "mobile" banking as alternatives
 - Separate guideline for the fitness and proper test in case of the appointment of directors in banks
- v. According to *Go for centralized banking to reduce risks, costs* (2018) Banks in Bangladesh should adopt a centralized banking system as it helps lenders reduce costs as well as credit and operational risks. Ahmed Kamal Khan Chowdhury, a former managing director of Prime Bank, said the system also improves efficiency and ensures responsibility and accountability of bankers. He said had Sonali Bank been a centralized bank, the Hall-Mark scam could have been averted. So this banking system may be started by other banks.
- vi. "The banks should adopt a cautious policy on the habitual defaulters so that they are not allowed to get credit in the coming year. The banks should put effort into recovering classified loans from the beginning of next year (i.e.2018)," (*Banks should manage liquidity with caution* 2017).
- vii. **The followings are some summary steps to be taken:** Banking sector must be free from any kind of political intervention and government must lead from the front. Bangladesh Bank must monitor and try to reduce prevailing unhealthy competition and loan takeover. Higher authority of every bank should modernize their credit risk management (CRM)-i.e. loan appraisal, disbursement, monitoring system etc. Banks must ensure the good governance, accountability, and transparency within their institutions and obviously must ensure exemplary punishment for their internal corrupted employee. Bangladesh Bank should also modernize its monitoring systems and implement them on time. Proper training must be ensured for the bankers at various levels. Every bank should use sophisticated information technology with trained personnel to keep up with the pace of globalization.

Some other recommendations: (note: these are mostly identified by The Ministry of Finance of Bangladesh but absence of proper implementation is a highlighted issue)

Short term recommendation

- Formulation of a central information store house of land and property taken as collateral and strengthening Credit Information Bureau(CIB)

- Formation of separate bench in High Court for quick resolution of the cases related to banking sector
- Formulation of policies for giving incentive to bank officials in case of success in loan recovery and making punishment in case of failure
- Evaluation of targets of bank officials of branch offices in every 3 months interval
- Strengthening internal monitoring and control systems of banks

Midterm recommendation

- Becoming ensure about working capital before loan disbursement and if necessary making amendment of related guidelines
- Formulation of guideline in appointment of skilled surveyor or credit rating agency who evaluate collateral
- Formulation of monitoring cell in each bank as well as in Bangladesh Bank for tk100 crore or more default loan
- For storing the data of borrowers a central KYC unit should have to be formulated under the supervision of Bangladesh Bank
- Analyze of the cash flow condition in case of loan proposal evaluation
- Setting targets for CEOs & MDs and timely evaluating
- Monitoring the activities of the board of directors

Long term recommendation

- Conversion of government banks into corporate institutions by issuing shares
- Establishment of data disaster recovery site outside of Dhaka

X. Conclusion

The crisis in banking industry is deepening day by day. Double digit interest rate on loan is a big barrier of the expansion of the economy. If we don't be able to expand our economy, in the long-run our export income would decrease, unemployment problem would be further intensified, and current GDP growth rate will be deteriorated. So the Government, Bangladesh Bank, The Ministry of Finance of Bangladesh should formulate short, medium, and long-term strategies for coming out of this present crisis situation as well as ensuring a sustainable development in the banking sector of Bangladesh.

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