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Financial Reforms in the Banking Sector of Bangladesh- An Evaluative Study

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Abstract:
The aim of this study is to summarize the major reforms undertaken in the banking industry of Bangladesh from 1971 to 2015. The Financial Sector Reform is a continuous process. It comprises policy reforms and basic institutional changes in the status and their respective goals. Although Bangladesh became independent in 1971, the financial reform process in our economy started since early 80s with privatization of NCBs and allowing private sector banks and major changes have been brought about in policy areas with our own initiative and also under the surveillance and supervisory guidance of IMF and World Bank. The study suggests some policy implication like Implementing Basel III, Ensuring the optimum utilization of fund, Keeping additional capital and the like.

Introduction:
Financial sector of Bangladesh comprises with commercial banks, non-bank financial institutions, insurance companies etc. However, the banks play the key role in the financial system of Bangladesh. The banking sector in Bangladesh has flourished during the last three decades or so as a result of increased demand of the growing economy.
Before liberation of Bangladesh, the banking and finance industries in erstwhile East Pakistan was owned and controlled by erstwhile West Pakistani owners. Bangladesh inherited a narrow and thin financial sector with six commercial banks which were nationalized, a few foreign banks and two Govt. owned specialized financial institutions.
After liberation of Bangladesh in December 1971, all the financial institutions including the commercial banks carried out their operations in order to achieve the objectives of the government till 1982. At that period, some regulations were formulated and some directions were made to the banks. These regulations were with a view to fulfilling the economic objectives of the government rather than the commercial interest of the banks. Expansion of bank branches was also directed to increase the network of the banking system. As a result, bank branches increased commendably which consequently reduced the population per branch.
Based on the socio-economic consideration, the government formulated the credit expansion policy and banks were directed to sanction credits to public sector enterprises and priority sectors like Agriculture, Export and Small and Cottage Industries in the private sector. Banks were bound to provide funds to the priority sectors with low interest rates. Major portion of these loans became overdue and the profitability of the nationalized commercial banks (NCBs) was declined.
In 1983, the Bangladesh Government initiated “ownership reform” program and allowed private commercial banks (PCBs) to start their business in the industry and to enhance the efficiency of the individual banks. At the same time, government decided to denationalize two NCBs. This initiative was not fully successful due to two major obstacles, namely the undue influence in the credit sanctioning process, and the absence of requirement to report loan classification and provisioning.
The poor performance and weak capacity of the banks, made the government concerned to identify the major problems in the financial system. Later on, a number of reform measures were initiated broadly under the Financial Sector Reform Program (FSRP) and subsequently under Banking Reform Committee (BRC) and Commercial Bank Restructuring Project (CBRP).

Objectives of the study:
The prime objectives of the current study are
1. To highlight the reforms undertaken in the banking sector
2. To evaluate the outcome of the reform measures taken in the banking sector

Literature review:
The banking sector is one of the most important components of the financial system that mobilizes resources for productive investments in a country which in turn contributes to economic development. Real economic growth

goes hand in hand with an increasing amount and diversity of activity of financial institutions, markets and instruments. Well designed and well-developed financial intermediation program and financial system are essential for both the growth concern and the stability perspective. Reform is a dynamic socio-economic process, not a one-shot exercise (**Bhattacharya and Chowdhury).** Financial reform is urgently needed because the major goal of the national economy is sustainable economic growth. Income growth is desirable because everyone wants to improve standard of living, full employment and stable prices are also important goals. There are different views regarding the relationship concerning the economic growth and the financial development. A number of studies were conducted to find the relationship.
Some authors believe that the economic growth mostly depends on finance (Shaw, 1973; McKinnon, 1973). In contrast, some others consider that the relationship between finance and economic growth is insignificant (Lucas, 1988). Benhabib and Spiegel (2000) argued that the economic growth is positively linked to financial development. Moral in his study "Banking Sector Reforms in Bangladesh: Measures and Economic Outcomes" has found the government of Bangladesh undertook ownership reform program, BRC/CBRP programs, liberalized interest rate policy, and adopted risk based capital adequacy norms, inter alia, to foster competiveness and efficiency in the banking system. The study depicts the banking sector still is not free from distortion, fragmentation and oligopolism even after the financial reform measures, as there exits high level of nominal lending rates, high nominal spreads, high non-performing loans in different clusters of banks and clout of the owners and directors.
Ahmed (2007) conducted a study on "Bangladesh Bank reform changes and challenges" and provided an analytical description of the structure of the Bangladesh Bank which reviews the reforms from their inception in 1982 through the current Central Bank Strengthening Project and assesses their impact on the Bank's performance and autonomy.
Raquib found financial sector reform as a continuous process. Study reveals the financial reform process in Bangladesh started since early 80s with own initiative and also under the surveillance and supervisory guidance of IMF and World Bank. He concluded that there is no universally acceptable model of reforms and Reform measures should be country specific tailored to the socio-economic needs.

Methodology of the study:
The present study is based on secondary data. The main sources of data used in this study are secondary data collected from various publications and annual reports of Bangladesh Bank, annual reports of different commercial banks and statements submitted to Bangladesh Bank. However, the secondary data are carefully scanned prior to using them in the report. In this regard, the secondary data collected from different sources are compared with those of departmental database to complement and enrich the secondary published data in order to arrive at a logical conclusion.

Findings and Analysis:
"The package of macro-economic, micro-economic, institutional and regulatory measures taken to restore fragile banking systems to financial solvency and discipline is known as Banking sector Reform" according to Sheng (1996).

Banking sector reform is an inevitable process. This reform measures are taken if the existing structure of bank cannot fulfill the desired level of economies of scale in operation. Disastrous banking system known as banking fragility, crisis, distress, failure, collapse, insolvency and so on sometimes might cost the real sector severely. These sorts of banking sector problems have called for "banking reforms" on the part of the concerned banking system.
Some authors consider that strengthening regulatory and supervisory framework is the essential part of reform process.
According to Caprio and Klingebiel (1997), "without having an efficient and effective set of prudential regulations from the governing authority, the financial markets and the institutions are vulnerable and face trouble to survive during the time of financial catastrophes." According to S. Golubović and N. Golubović (2005), "the foundation of an appropriate laws successful reform is to enact and enforcement of and regulations."
After liberation, to exercise state control over the financial assets, to save an abandoned banking system from the collapse, to spread the coverage of the banking system to the rural areas for mobilizing financial resources, and to provide easier access to bank financing to a wider constituency of borrowers drawn from a less privileged background, the government nationalized all financial institutions except for a few foreign banks. In the above backdrop, the government undertook several reform measures to improve competition and efficiency in the banking system, which are as follows:

1. The Ownership Reform Program (1982-1989):

The ownership reform program or privatization of banks was initiated in 1982. As a part of ownership reform program, the government denationalized two out of six nationalized commercial banks (SCBs) and allowed the operation of local private banks. This policy has been aimed at bringing about efficiency through competition in the banking sector and gradual privatization of the 4 NCBs which then hold 60% of the total bank deposits.

At present our banking sector has accommodated 32 private commercial banks, 8 private Islamic commercial banks, and 9 foreign commercial banks. Besides we have four state owned commercial banks and some specialized banks. Under the present policy of liberalization, scope exists for operation of more indigenous private sector banks and foreign owned banks keeping a very cautious watch over the overall performance of the economy in the years to come. Money market has been expanded and with gradual computerization and electronic banking customers' services have been improved due to the increasing competition among banks.

1.1 Effects of this reform

The ownership reform program (1983-89) helped increase in financial intermediation in the economy. The rate of growth of deposit in the private sector banks became higher than that of NCBs. Higher efficiency in deposit mobilization. Providing better services to customers was found in private banks

Table -1: comparative share of different categories of Banks in Total Banking Activities (1983-1989)

Year	Branch Expansion				Deposit Mobilization(Tk. in Crores)			
	SCBs	DFIs	PCBs	FCBs	SCBs	DFIs	PCBs	FCBs
1983	3270 (71.04)	780 (16.94)	536 (11.64)	17 (0.37)	5215.1 (83.13)	367.4 (5.86)	226.5 (3.61)	464.4 (7.40)
1989	3560 (64.12)	1146 (20.64)	824 (14.84)	22 (0.40)	11597 (64.10)	859 (4.75)	4266 (23.58)	1369 (7.57)
	Deployment of Credit (Tk. in Crores)				Operational Efficiency (profitability in per Tk.100)			
	SCBs	DFIs	PCBs	FCBs	SCBs	PCBs	All Banks	
1982-83	4069 (70.39)	1298 (22.45)	124 (2.15)	290 (5.01)	0.23	0.16	0.32	
1988-89	9898 (53.88)	3822 (20.81)	3563 (19.4)	1087 (5.91)	0.002	0.15	0.11	

Source: Compiled from various issues of Bangladesh Bank Economic Trends, Schedule Banks Statistics, and Annual Reports of different years.

Pitfalls of this Reform:

During this period the overall banking efficiency declined. The reasons behind this are mentioned below:

1. the presence of collusive behavior among banks followed by directed credits of the government
2. improper accounting system for recording accrued interest income,
3. lack of supervision on the part of Bangladesh Bank,
4. inadequate support for debt recovery,
5. absence of prudential rules and regulations
6. improper allocation of credits which created huge nonperforming loans (NPLs) in the name of "sick industry syndrome"
7. the private sector banks' operation were concentrated in the urban commercial centers mainly

2. Financial Sector Reform Program (1990-1995)

The financial sector reform program (FSRP) was launched under Financial Sector Adjustment Credit (FSAC) of the World Bank in 1990. The World Bank and USAID financed the program and the International Monetary Fund provided technical assistance.

Effects of this reform

FSRP indicates that the reform measures were implemented satisfactorily. But from the viewpoint of desired outcome, the results were not very encouraging. It can easily be understood from the following table of distribution of Deposits, Advances and Net Profit by category of banks.

Table-2: distribution of Deposits, Advances and Net Profit by category of banks

Year	SCBs			PCBs			FCBs			DFIs		
	Share of deposits (%)	Share of Advances (%)	Net Profit (Tk. in crore)	Share of deposits (%)	Share of Advances (%)	Net Profit (Tk. in crore)	Share of deposits (%)	Share of Advances (%)	Net Profit (Tk. in crore)	Share of deposits (%)	Share of Advances (%)	Net Profit (Tk. in crore)
2005	40.0	37.4	-1209.41	47.0	45.6	954.7	17.2	7.3	470.1	8 5.8	9.7	-240.68
2006	35.2	32.7	-4415.92	51.3	47.7	931.54	8.1	11.8	624.12	5.4	7.8	-123.00
2007	32.6	33.1	-809.10	53.5	51.4	1995.75	8.5	8.2	723.33	5.4	7.3	-143.62
2008	29.6	31.1	897.68	56.6	54.2	2818.66	8.4	8.0	1138.42	5.4	6.7	-167.17
2009	28.6	28.6	2533.58	59.0	57.4	3947.72	7.0	7.4	708.78	5.3	6.6	40.16
2010	28.1	28.5	1176.26	60.9	58.8	6032.03	6.1	6.6	645.62	4.9	6.1	105.76

Source: Bangladesh Bank, Economic Trends, various issues, Bangladesh Bank, Annual Report, various issues.
Note: (1) Net profit figures are after Tax.
(P) = Provisional

Pitfalls of this reform:

The FSRP failed to curb NPLs of the banking system of Bangladesh. For instance, in 1990, 26.09% of the total loans were classified as NPLs, which increased to 32.04% in 1995.

It also failed to address the issue of efficient resource allocation in terms of access to credit by productive sectors.

Interest rate deregulation could not instill competition in the sector rather the banking sector remained somewhat fragmented and oligopolistic.

Besides, management efficiency in the SCBs could not be perceptibly improved despite implementation of new operational and management/loan quality assessment tools such as the capital adequacy and the loan classification and provisioning system.

This implies that the FSAC placed more emphasis on economic deregulations rather than on broadening of the prudential regulation and supervision for the sector.

3. BRC/CBRP Restructuring Measures (1996-2002).

A number of problems prevailed in banking sector although FSRP was taken. So just before the expiry of FSRP term, the government formed the "Banking Reform Committee (BRC)" in October 1996. Subsequently, in May 1997, government undertook another project, namely "Commercial Bank Restructuring Project (CBRP)". CBRP was also funded by the WB. The broad objectives of BRC were to place recommendations in regard to Improve debt recovery environment of banks, Increasing income, reducing expenditure and upgrading service standard of banks, improving the personnel quality of the banks, Strengthening supervisory capacity of Bangladesh Bank and Any other related important issues, considered by the committee. Whereas The CBRP mainly focused to identify urgent course of actions needed for continuing the pace and progress on improving the supervisory and regulatory framework of the commercial bank, enforcement of the power of Bangladesh Bank in loan monitoring, restructuring the legal framework related to finance and banking. (www.bea-bd.org/site/images/pdf/44.pdf)

Effects of this Reform

Year	SCBs			PCBs			FCBs			DFIs		
	Share of deposits (%)	Share of Advances (%)	Net Profit (Tk. in crore)	Share of deposits (%)	Share of Advances (%)	Net Profit (Tk. in crore)	Share of deposits (%)	Share of Advances (%)	Net Profit (Tk. in crore)	Share of deposits (%)	Share of Advances (%)	Net Profit (Tk. in crore)
1997	60.26	53.03	16.77	28.19	26.94	199.73	6.40	5.77	135.02	5.15	14.26	-209.12
1998	60.21	51.09	-5.98	27.22	25.58	160.97	7.36	5.21	149.43	5.02	17.92	-261.02
1999	59.91	50.08	-16.66	27.54	25.92	178.44	6.99	5.21	149.70	5.56	18.07	-296.70
2000	55.81	48.53	24.58	30.30	29.16	309.97	7.93	5.22	220.46	5.96	17.09	-532.37
2001	50.92	46.50	38.28	36.49	34.87	514.48	6.85	6.85	256.81	5.64	11.77	-79.81
2002	50.32	45.56	19.88	36.84	36.16	458.79	7.02	6.81	224.08	5.82	11.47	-114.64

Source: Bangladesh Bank, Economic Trends, various issues, Bangladesh Bank, Annual Report, various issues.
Note: (1) Net profit figures are after Tax

From the table it is clear that the share of SCBs in total deposits declined from 61.33% in 1996 to50.32% in 2002. But the share of PCBs increased from 27.83% to 36.84% during the above period (1996-2002). On the other hand, the share of FCBs increased from 5.30% in 1996 to6.81% in 2002. Similarly, the share of DFIs' also increased from 5.54% to 5.82% during the period 1996-2002.
In regard to advances, SCBs' share in advances declined from 52.88% to 45.56%, PCBs'share sharply increased from 26.73% to 36.16%, the share of FCBs also increased from5.40% to 6.81%; but the share of DFIs sharply declined from 14.99% to 11.47% during the FSRP period 1996-2002.
The amount of net profit of the SCBs during the same period declined from Tk. 28.11 crore to Tk.19.88 crore, whereas PCBs' net profit increased fromTk.137.87 crore to Tk.458.79 crore. FCBs also remarkably earned Tk.224.08 crore in 2002from Tk.98.72 crore in 1996. Importantly, the net loss of DFIs declined from Tk.292.07 crore to Tk. 114.64 crore during the period of 1996-2002.

Pitfalls of this Reform

1. It failed to curb the NPLs of the banking industry. For instance, the NPL ratio of the banking system reached to the highest level (41.11%) in1999, although it reduced to 28.01% in 2002.

2. There was also unsatisfactory performance with respect to the settlement of cases in Money loan court under the PDR Act.

3. Poor recovery, withdrawal of refinance and interest rate band aggravated the negative flow in the rural banking after the BRC/CBRP program instead of improving it. In fact, the scheduled banks' advances to the agricultural sector reduced to 11.27% in 2002 from 21.07% in 1990

(Schedule Bank Statistics, various issues, Bangladesh bank)

4. Policy Reforms

4.1 Capital Adequacy of the Banks

Before introduction of FSRP our banking sector was unconcerned about Minimum Capital Requirement. Although it was mandatory under section 13(2) of the Bank Companies Act, **1991 to provide 6% of total demand** and time liabilities as capital, very few of our banks could fulfill the condition. Almost all the banks were under capitalized and because of provision shortfall and deteriorating condition of asset quality, further erosion of capital was faced by the banking sector.
Hence in order to safeguard the interest of depositors and bring about a universally accepted status of our banking sector, risk weighted capital adequacy requirement has been introduced from January 1996. Then it was mandatory for the banks to maintain **8% of the assets in risk weighted manner since 1996**.
With a view to strengthening the capital base of banks and making them prepare for the implementation of **Basel-II Accord**, banks are required to maintain Capital to Risk-Weighted Assets ratio 10% at the minimum with core capital not less than 5% effective from December 31, 2007.
However, minimum capital requirement (paid up capital and statutory reserve) for all banks will be Tk.200 crore as per Bank Company (Amendment) Ordinance, 2007. Banks having capital shortfall will have to meet at least 50% of the shortfall by June, 2008 and the rest by June, 2009. Revaluation reserves of held to maturity (HTM) securities (up to 50% of the revaluation reserves) has been added to the components of supplementary capital. Besides, 'Hedging the price risk of commodity transactions' has been included in Short-term self liquidating trade related contingencies**.**(www.asiatradehub.com/bangladesh/banks2.asp)

4.2 Exchange Rate Policy:

Towards liberalization of foreign exchange transactions, a number of measures were adopted since 1990s. Bangladeshi currency, the taka, was declared convertible on current account transactions (as on 24 March 1994), in terms of Article VIII of IMF Article of Agreement (1994). As Taka is not convertible in capital account, resident owned capital is not freely transferable abroad. Bangladesh adopted Floating Exchange Rate regime since 31 May 2003. Under the regime, BB does not interfere in the determination of exchange rate, but operates the monetary policy prudently for minimizing extreme swings in exchange rate to avoid adverse repercussion on the domestic economy. In the **forex market** banks are free to buy and sale foreign currency in the spot and also in the forward markets**.** (www.asiatradehub.com/bangladesh/banks2.asp)

4.3 Interest Rate Policy

Under the Financial sector reform program, banks are free to charge/fix their deposit (Bank /Financial Institutes) and Lending (Bank /Financial Institutes) rates other than Export Credit. At present, Loans at reduced rates (7%) are provided for all sorts of export credit since January 2004. With a view to controlling the price hike and ensuring adequate supply of essential commodities, the rate of interest on loan for import financing of rice, wheat, sugar, edible oil (crude and refined), chickpeas, beans, lentils, onions, spices , dates and powder milk has been temporarily fixed to a maximum of 12%. Now, banks can differentiate interest rate up to 3% considering comparative risk elements involved among borrowers in same lending category. With progressive deregulation of interest rates, banks have been advised to announce the mid-rate of the limit (if any) for different sectors and the banks may change interest 1.5% more or less than the announced mid-rate on the basis of the comparative credit risk. Recently Banks have been advised to upload their deposit and lending interest rate in their respective website.
(www.asiatradehub.com/bangladesh/banks2.asp)

4.4 Loan Classification and Provisioning

In order to strengthen credit discipline and bring classification and provisioning regulation in line with international standard, Bangladesh Bank issued a master circular on loan classification and provisioning through BRPD circular no 5 dated June 5, 2006. The revised policy covers an independent assessment of each loan on the basis of objective criteria and qualitative factors which is appended below : Any Continuous Loan/Demand Loan if not repaid/ renewed within the fixed expiry date for repayment will be treated as past due/overdue from the following day of the expiry date.
A Continuous Loan/Demand loan/Term Loan which will remain overdue for a period of 90 days or more will be put into the "Special Mention Account (SMA)". Interest accrued on "Special Mention Account (SMA)" will be credited to Interest Suspense Account, instead of crediting the same to Income Account.
A Continuous Loan/Demand loan is classified:

a. as 'Sub-standard' if it is past due/over due for 6 months or beyond but less than 9 months

b. as `Doubtful' if it is past due/over due for 9 months or beyond but less than 12 months and

c. As `Bad/Loss' if it is past due/over due for 12 months or beyond

If any installment(s) or part of installment(s) of a Fixed Term Loan is not repaid within the due date, the amount of unpaid installment(s) will be termed as `defaulted installment'.
In case of Fixed Term Loans, which are repayable within maximum five years of time- If the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 6 (six) months, the entire loan will be classified as "Sub-standard",
If the amount is equal to or more than the amount of installment(s) due within 12 (twelve) months, the entire loan will be classified as "Doubtful" and
If the amount is equal to or more than the amount of installment(s) due within 18 (eighteen) months, the entire loan will be classified as "Bad/Loss".
In case of Fixed Term Loans, which are repayable in more than five years of time and if the amount of 'defaulted installment' is equal to or more than the amount of installment(s) due within 12 (twelve) months, the entire loan will be classified as "Sub- standard". If the amount is due within 18 (eighteen) months, the entire loan will be classified as "Doubtful" and if the amount is due within 24 (twenty four) months, the entire loan will be classified as "Bad/Loss".
(www.asiatradehub.com/bangladesh/banks2.asp)

4.5 Performance Planning System (PPS)

Performance Planning System (PPS) comprises of setting a concrete goal on the part of a banker based on his priorities and followed by a well-defined action plan to achieve that goal. Through this goal statement and action plan, the concerned banker can keep himself up to date in terms of his performance. PPS also facilitates the immediate senior authority to monitor the progress of his subordinates including those concerning loans. PPS has been introduced in all NCBs for recovery and other functions.
All the branches of NCBs (excepting their overseas branches) have been covered by PPS by 1995. It was expected that the employee appraisal system would be developed in the light of the PPS. The controlling authority can easily judge the initiative and efforts made by the employees. Objective appraisal system is consistent with the psychological principle that people work better when they have definite goals.

5. Institutional Reforms

5.1 On-site and Off-site Supervision

Under FSRP, major change has been made in the on-site and off-site inspection area of Bangladesh Bank.
Bangladesh Bank has introduced a number of reporting forms and returns to be submitted by the commercial banks regularly. On the basis of those returns, Bangladesh Bank prepares a composite rating on yearly basis for each bank. This rating is known as CAMEL rating. Based on the CAMEL rating, Bangladesh Bank gives Early Warning Signal (EWS) to a particular bank which is facing problems. CAMEL comprises of the following five performance measures and these components are explained below:

i. Capital Adequacy
ii. Assets Quality
iii. Management efficiency
iv. Liquidity
v. Earning performance

The CAMEL RATING system is based 'upon an evaluation of five crucial dimensions that are to be evaluated are Capital Adequacy, Asset Quality, Management, Earnings & Liquidity.
Each of these dimensions is to be rated on a scale of 1 through 5 in ascending order of performance deficiency. Thus, '1' represents the highest, '5' the lowest level of operating performance. Problem banks are identified based on the acuteness of the problems indicated by these ratings.
More coordinated efforts are made constantly and among different departments relating to bank supervision. Large loan review cell and early warning system have been introduced in Bangladesh Bank as a part of prudential supervision.
Finally, restructuring of commercial banks by improving the accounting system, internal control, human resource development, improvement to professional issue is another area looked after by FSRP.

5.2 Creation of Credit Information Bureau (CIB) and Its Impact

A Credit Information Bureau (CIB) has been created by Bangladesh Bank in December, 1992 and its operation started from 1993. CIB has created for following reasons:

a) To restore and strengthen the credit discipline and

b) to provide adequate reliable credit information among banks

c) To collect all credit information of the borrowers having outstanding loan of Tk. 10.00 lacs and above from all the banks and non-banking financial institutions.

d) To provide credit information to all banks and financial institutions to facilitate loan Sanctioning, renewal and rescheduling from the computer data base.

e) To prepare credit reports for using the Government and international financial institution and to provide relevant data on bank credit for research and studies.

f) To prepare and provide Credit Risk Rating of the borrowers to banks.

The CIB is an important land mark in the banking sector reform process in the country and as a data bank for bank credit is contributing significantly in quickening loan processing and decision making in loan approvals. CIB also has a meaningful impact on banks regulation and supervision by the Central Bank in various ways, like approving new banks, and branches, sectoral credit planning, etc.

5.3 Large Loan Reporting System (LLRS)

Large loan reporting system was introduced by the Bangladesh bank to keep a control and supervision on a regular basis in the process of sanctioning loans having bigger amount. By July 1995, 78 percent of new large loans of NCBs have been reported by LLRS. Now, almost all large loans are reported by LLRS. In the mean time, Bangladesh bank has formed a separate section in the Department of Banking operation and development (DBOD). The commercial banks have to seek permission from the section prior to sanction any large loan. This section closely monitors and reviews the issues of larger loans of the banks. The responsibility of the section is to advise the concerned banks to take immediate appropriate actions if any loan is assumed undue risky.

6. Legal Reforms

6.1 The Banking Companies Act, 1991

The Banking Companies Act, 1991 was enacted in February 1991 in order to make the role of Bangladesh Bank authoritarian in dealing with licensing, monitoring, regulating and supervising the banking sectors. The Act was subsequently amended twice in 1993 and 1995 which empowers Bangladesh Bank further. Order, 1972, the Bank Company Act, 1991 and the Banks Nationalization Order, 1972 have been amended during the period 2003 with a view to further strengthening the activities of the banking sector, bringing dynamism and extending greater autonomy to the central bank.

6.2 Artha Rin Adalat Act, 1990

In order to recover the defaulted loans, Artha Rin Adalat Act, 1990 was enacted in 1990 in order to recover the defaulted loans. Prior to setting up of Artha Rin Adalat, there was no special law for recovery of loans. Banks had to file cases in sub-judge commercial courts to sue any defaulter. However, the disposal of cases was procrastinated due to long legal procedures and over burdened judges. Enactment of the Artha Rin Adalat Ain 2003 to provide mainly for speedy procedures for obtaining decrees and execution. Provision was also made for Alternative Dispute Resolution to ensure early settlement of disputes through settlement conference and negotiations.

6.3 The Financial Institutions Act, 1993

The Financial Institutions Act, 1993 was formulated to deal with the affairs of Non-Banking Financial Institutions (NBFIs). As per provision of this Act, cautious approach is taken to issue license for new NBFIs and monitoring and supervision of the existing NBFIs are being made to ensure their sound operation.

6.4 Bankruptcy Act, 1997

The Bankruptcy Act, 1997 has been enacted in March 1997. According to the Bankruptcy Act, all the District Judges are deemed as bankruptcy courts and they are empowered to authorize Additional District Judge to deal with and dispose of bankruptcy issues. Apart from these, two exclusive Bankruptcy Courts in Dhaka and Chittagong were set up. All these courts were institutes in addition to the financial loan courts.

7. Financial initiatives (from 2009 – onward)

The global the world faced financial crisis in 2008. The role of financial sector regulators came under sharp scrutiny worldwide following this crisis. The Bangladesh economy and its financial sector came out largely unscathed from the crisis, with timely and proactive policy responses.

As the country's monetary authority and financial sector regulator Bangladesh Bank (BB) opted to proceed further forward, hastening ongoing reforms and taking up fresh ones, based on a new five year Strategic Plan for 2010-2014 drawn up in the November 2009 senior management executive retreat. The reforms are mentioned in following

7.1 Currency management and payment systems:

Bangladesh bank has brought revolutionary change in currency management and payment systems of banking sector in Bangladesh. These are discussed below:

7.1.1 Bangladesh Automated Clearing House (BACH)

Bangladesh Automated Clearing House (BACH) is the first ever electronic clearing house. Its operation has been started live in Dhaka from 7 October 2010. It has two components –

i. Bangladesh Automated Cheque Processing System (BACPS) and

ii. Bangladesh Electronic Funds Transfer Network (BEFTN).

Bangladesh Automated Cheque Processing System (BACPS) is the electronic cheque processing of paper-based instruments, uses Cheque Imaging and Truncation (CIT) technology. The system supports both intra-regional and inter-regional clearing and is based on a centralized processing centre located in Dhaka and in designated clearing regions.

BACPS participants are all commercial banks and related Government offices. Country wide use of MICR (Magnetic Ink Character Recognition) encoded standardized instruments i.e., Cheques, Drafts, Pay-Orders, Dividend and Refund Warrants, etc. has been ensured.

7.1.2 Bangladesh Electronic Funds Transfer Network (BEFTN)

BEFTN is the maiden initiative for electronic (credit and debit) transfer of funds between the banks electronically. It is able to handle a wide variety of credit transfer applications such as payroll, foreign and domestic remittances, social security, company dividends, etc.

7.1.3 Core Banking Software Installation and Inter-branch Connectivity Establishment

Bangladesh Bank instructed the commercial banks to implement Core Banking Solution (CBS) and establish Inter-branch Connectivity among the bank branches. Now almost all of the banks provide the online banking facilities.

7.1.4 Emerging e-Commerce

Bangladesh Bank approved the following e-Commerce activities for the commercial banks:

a) Online payment of utility bills from client's accounts to recipients accounts.

b) Transfer of money from one account of a client to another account in the same bank.

c) Payment/collection of money from/to buyer's bank account to seller's bank account for buy/sale of products under e-commerce

d) Transaction via internet using credit card in local currency.

7.1.5 Emerging m-Commerce

In order to start m-Commerce in Bangladesh, Mobile Network Operators (MNO) have been given permission to sell railway tickets and tickets of cricket matches organized by the Bangladesh Cricket Board (BCB) using mobile technology. Besides lottery tickets are also sold by the MNOs.

7.1.6 National Payment Switch

It is for facilitating inter bank electronic payments originating from different delivery channels e.g. Automated Teller Machines (ATM), Point of Sales (POS), Internet, Mobile Applications, etc. The main objective of NPS is to create a common platform among the existing shared switches already built-up by different private sector operators.

7.1.7 Legal & Regulatory Reforms for electronic payment systems

Bangladesh Bank has published Bangladesh Payment and Settlement Systems Regulations (BPSSR), 2009 on 27 April 2009. In order to give legal and regulatory support to such electronic exchange of images of paper items and electronic transfer of funds.

7.1.8 Others:

1. Printing of currency notes in new design
2. Counterfeit note detection booth\
3. Assistance to law enforcing agencies in detecting forged and counterfeit notes
4. Public Awareness Program
5. Green banking

(www.bangladesh-bank.org/.../14062012)

7.2 Regulatory reforms

There are some regulatory reforms, were taken by Bangladesh bank in recent years. These are mentioned here briefly:

7.2.1 Schedule of charges rationalized

BB has rationalized the charges of some services to ensure the interest of depositors/invertors/customers and advised all Scheduled Banks to display the complete schedule of charges in suitable visible places in their Branches and Head Offices' for the information of their customer and upload the same in their respective websites or the convenience of the customers

7.2.2 Prohibition on Bank Loan for Purchasing Land

BB has prohibited the loan for purchasing land. It is for following reasons:

i. the value of land has increased abnormally

ii. demand for land

7.2.3 Guidelines on Environmental Risk Management (ERM)

A detailed guideline on Environmental Risk Management has been introduced to assess Environmental Risk along with the Credit Risk for an overall credit rating prior to disbursement of loan/credit facility.

7.2.4 Basel-II implementation

To cope with the international best practices and to make the bank's capital more risk sensitive as well as more shock resilient, banks in Bangladesh have entered into Basel-II regime from January 01, 2010after one year parallel run period (2009) with Basel-I.

7.2.5 Guideline on ICT Security for Banks and Financial Institutions, 2010

Bangladesh Bank has prepared a Guideline for Information and communication technology (ICT) Security for scheduled banks and Financial Institutions for all their information systems. The ICT Security Guideline defines the minimum requirements to which each bank must adhere.

7.2.6 Money Laundering Prevention Act, 2012

Promulgation of "Money Laundering Prevention Act, 2012 repealing Money Laundering Prevention Act, 2009 and Anti Terrorism (Amendment) Act, 2012".(www.bangladesh-bank.org/.../14062012)

7.3 Supervision of banks and financial institutions

For proper supervision of banks and financial institutions, the following are taken:

7.3.1 Stress Testing became mandatory for the scheduled banks

Promulgated Stress Testing Guidelines for the scheduled banks in April 2010 and in February 2011 to gauge the resilience of the banking sector against plausible shocks. The development of credit, market and liquidity risks is being analyzed through stress tests. This will continually address risks that the banking industry is exposed to and help the banks to take necessary corrective measures.

7.3.2 Safeguard policy for the banks on capital market activities

Investment policies related to capital market activities for scheduled banks were formulated and implemented, which helped the banking sector to remain unaffected from the capital market price correction of 2010-2011.

7.3.3 Islamic Inter bank Fund Market (IIFM)

The amendment of Islamic Bond Rule, 2004 (draft placed for enactment) and introduction of Islamic Inter bank Fund Market (IIFM) in 2012 to solve the liquidity problem and reduce liquidity risk of the Islamic banks.

7.3.4 Expansion of Non-Banking Financial Institutions

Two new Non-Banking Financial Institution (NBFI) have been given license in last three year, namely,

i. Agrani SME Financing Co. Ltd. and

ii. Bangladesh Infrastructure Finance Fund Ltd

7.3.5 Basel accord implementation for NBFIs

Basel Accord is being implemented in the NBFIs from January 2012after successful test run for a period of one year starting from January 2011. Minimum CAR for the NBFIs has been set at 10%.

7.3.6 Others:

1. Published Financial Stability Report for the first time
2. Integrated Risk Management Guidelines
3. Established Risk Management Unit (RMU) in Banks
4. Risk Based Capital Adequacy (RBCA) guideline Revised
5. Implementation of Basel II accord
6. Accounting Guidelines for Repo Transactions
7. Diagnostic Review Report (DRR)
8. Introduced Digitized Data Reporting System and Software
9. Prudential Regulations for NBFIs

(www.bangladesh-bank.org/.../14062012)

7.4 Financial inclusion

1. Bank account for farmers
2. Bank account for unemployed youth
3. Bank account for hardcore poor\
4. Banking service for physically handicapped People
5. Bank accounts for Freedom Fighters
6. Bank accounts for beneficiaries under Social Security Program
7. Bank account for distressed people
8. Bank Account for Small Life Insurance Policyholder
9. Bank Account for Aila Affected People
10. Loans to farmers for spice cultivation
11. Special Incentives and Performances for Women Entrepreneurs

(www.bangladesh-bank.org/.../14062012)

7.5 EXP integration with bill of exchange:
EXP integration with bill of exchange is very recent reform in banking sector, taken by Bangladesh Bank in 15 February 2015. It is for the smooth operation in case of import and export business.

Recommendations

8.4.1 Implementing Basel III
The third installment of the Basel Accords (see Basel I, Basel II) was developed in response to the deficiencies in financial regulation revealed by the financial crisis of2007–08. Basel III was supposed to strengthen bank capital requirements by increasing bank liquidity and decreasing bank leverage.

8.4.2 To solve the problem of nonperforming loan

a. monitoring and supervision of loans

b. Increasing the provisioning requirement by BB.

c. following loan rescheduling policy **s**trictly that was taken by BB in 2013 in which BB has allowed banks to reschedule loans by fixing their down payment and time limit for repayment on the basis of banker-customer relationship after taking NOC (No Objection Certificate) from the central bank

8.4.3 To solve political instability
Government part and opposition need to come under a peace agreement for political stability. Because political stability is the precondition to make the break through as economic stability cannot be sustained without political stability.

8.4.4 Ensuring the optimum utilization of fund
It is needed to ensure the optimum utilization of fund through achieving desired investment growth, preventing the deterioration of asset quality and maintenance of capital adequacy to absorb the risks.

8.4.5 Keeping additional capital
Banks need to keep additional capital against residual risk, credit concentration risk, liquidity risk, strategic risk, reputation risk, settlement risk, evaluation of core risk management and environmental and climate change risk in addition to credit/investment, market and operational risk under the BB's Supervisory Review Process through Internal Capital Adequacy Assessment Process (ICAAP).

9. Conclusion
In conclusion it can be summarized that Banking sector in Bangladesh has come across a turbulent year facing many odds and pitfalls in the macroeconomic fundamentals. The major challenges faced by the banking industry were low credit growth, increasing trend of non-performing loans resulting to higher provisioning requirements, and surplus liquidity. However it is one of the most important components of the financial system that mobilizes resources for productive investments in a country which in turn contributes to economic development. The banking sector in Bangladesh has flourished during the last three decades or so as a result of increased demand of the growing economy. During this period, the banking sector has also undergone several reforms and fallen under the jurisdiction of a number of acts in a bid to improve the efficiency of the sector. The improved performance has been due to mainly several reform initiatives undertaken since the 1980s.

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