

University of Global Village (UGV), Barishal
Department of Business Administration

Course Title: Central Banking and Bank Law

Course Code: 0412-725	Credits: 03
Semester End Examination (SEE) hours: 03	CIE Marks: 90 SEE Marks: 60

❖ **Course Learning Outcomes (CLOs):** Upon completing this course, students should be able to

CLO1	Develop a deep understanding of negotiation theories, strategies, and frameworks, including distributive and integrative bargaining, to effectively analyze and plan negotiation scenarios.
CLO2	Build advanced interpersonal skills to communicate effectively, manage conflicts, and influence stakeholders, ensuring mutual understanding and beneficial outcomes in diverse managerial contexts.
CLO3	Demonstrate the ability to apply negotiation techniques in complex, real-world situations involving multiple parties, cross-cultural dynamics, and ethical considerations to achieve organizational objectives.
CLO4	Cultivate self-awareness and critical thinking to evaluate negotiation performance, adapt strategies to changing circumstances, and make data-driven decisions that balance value creation and value claiming.

❖ **Course plan specifying Topics, Teaching time and CLOs**

SL. No.	Topic	Hours	CLOs
1	Introduction to Negotiation:	5	CLO1 CLO2
2	Negotiation	5	CLO1 CLO3
3	Strategy and Tactics of Distributive Bargaining	4	CLO3 CLO4
4	Factors That Facilitate Successful Integrative Negotiation	3	CLO2 CLO3
5	Perception and Negotiation	4	CLO1

			CLO4
6	Ethics In Negotiation	3	CLO2 CLO3
7	Global Negotiation	3	CLO4 CLO2
8	Managing Difficult Negotiations	4	CLO1 CLO3

**Course plan specifying content, CLOs, Teaching Learning and Assessment Strategy
Mapped with CLOs: (TLS= Teaching Learning Strategy, AS= Assessment Strategy)**

Week	Course Content	TLS	AS	CLOs
1	INTRODUCTION TO CENTRAL BANKING: Definition of Central Bank, features or characteristics of Central Bank, objectives of Central Bank, functions of central bank.	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) 	CLO1 CLO2 CLO3
2	CREDIT CONTROL OF CENTRAL BANK: Techniques or methods of credit control-quantitative method selective method. Bank rate, interest rate, and prime rate. Repurchase option rate London interbank offer rate.	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ 	CLO1 CLO2
3	BANK RATE POLICY: Bank rate policy, open market policy, reserve ratio policy, primary reserve, and secondary reserve, required reserve and access reserve,	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Exercise ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Class Test 	CLO1 CLO2
4	BANK RATE POLICY: Definition of cash reserve ratio, definition statutory liquidity ratio, differences between cash reserve ratio and statutory liquidity ratio.	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Exercise ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Class Test 	CLO1 CLO2
5	BANKNOTE: Note issue by Central Bank, major principles of note issue, methods of note issue by Central Bank, definition of paper standard merits of paper standard.	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Exercise ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) 	CLO1
6	CENTRAL BANK POLICY: What is monetary policy, monetary tools to control money supply, discuss the various of money, functions of money. Central bank is guardian of money market,	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Exercise ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) 	CLO1 CLO2

7	<p>CENTRAL BANK POLICY:</p> <p>The central bank is the lender of the last resort, central bank is the banker of government, central bank is the banker of all banks.</p>	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Exercise ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) 	<p>CLO1</p> <p>CLO2</p>
8	<p>CENTRAL BANK POLICY:</p> <p>What is a clearing house, what is scheduled bank and non-scheduled bank, differences between scheduled bank and non-scheduled bank, differences between Central Bank and commercial bank.</p>	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Exercise ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Class Test 	CLO2
9	<p>AN OVERVIEW OF AUTOMATED CHEQUE CLEARING SYSTEM:</p> <p>Clearing House [NIKASH], Process Flow of Manual Clearing House, BACH Components and BACH Implementation History, Basic Requirements.</p>	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Exercise ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Class Test ▪ 	CLO2
10	<p>AN OVERVIEW OF AUTOMATED CHEQUE CLEARING SYSTEM:</p> <p>Basic Component and Features for BACPS, MICR Cheque Line, Business procedure of BACPS, Presenting Banks and Paying Banks Responsibilities, Benefits of BACH</p> <p>Manual CH Vs BACPS.</p>	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Exercise ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Class Test 	CLO2
11	<p>BANK COMPANIES ACT, 1991</p> <p>Bank companies act 1991- Key Provisions, Bangladesh Bank Order, 1972- Key Provisions, Financial Institutions Act, 1993, Anti-Money Laundering Act, 2012, Bankruptcy Act, 1997.</p>	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Exercise ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Class Test ▪ 	CLO2
12	<p>ROLE AND POWERS OF THE BANGLADESH BANK:</p> <p>Role of the Bangladesh Bank, Powers of the Bangladesh Bank, Structure and functions of regulatory authorities.</p>	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Exercise ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Class Test 	CLO2
13	<p>SECURITIES AND EXCHANGE COMMISSION (SEC):</p> <p>Structure of Securities and Exchange Commission (SEC), Functions of Securities and Exchange</p>	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Exercise ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) 	CLO1

	Commission (SEC), Structure of Ministry of Finance, Functions of Ministry of Finance.			
14	REQUIREMENTS AND PROCESS FOR ESTABLISHING A BANK: Requirements for Establishing a Bank- Promoters and Shareholders, Capital Adequacy, Business Plan, Corporate Governance, Infrastructure and Technology.	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Exercise ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) 	CLO1
15	REQUIREMENTS AND PROCESS FOR ESTABLISHING A BANK: Process for Establishing a Bank- Application Submission, Initial Review, Detailed Evaluation, Inspection and Verification, Approval in Principle, Final Preparations, Final Approval and Licensing.	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Exercise ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Class Test 	CLO1 CLO2 CLO3
16	Bank Law	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion ▪ Exercise ▪ Assignment 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Class Test ▪ 	CLO1 CLO2 CLO3
17	Review Class	<ul style="list-style-type: none"> ▪ Lecture ▪ Discussion 	<ul style="list-style-type: none"> ▪ Question & Answer (Oral) ▪ Class Test 	CLO1 CLO2

Assessment and Evaluation

- 1) **Assessment Strategy:** Group Discussion, Class tests, Case Study, Term Paper, Presentation.
- 2) **Marks distribution:**
 - a) **Continuous Assessment:**
 - Class attendance is mandatory. Absent of 70% classes; disqualify the student for final examination only authority recommendation will be accepted with highly reasonable causes.
 - Late submission of assignments is not allowed. Late submission of assignments will be only taken with highly reasonable causes and 20% mark will be deducted.

To pass this course student will have to appear mid-term and final examination.

b) Summative:

❖ **CIE- Continuous Internal Evaluation (90 Marks)**

Bloom's Category Marks (out of 90)	Test (45)	Assignments (15)	Quiz (15)	External Participation in Curricular/ Co-curricular activities (15)
Remember	10			Bloom's affective domain: (Attitude or Will) Attendance: 15 Copy or Attempt to copy: -10 Late Assignment: -10
Understand	05	05	05	
Apply	10		05	
Analyze	05	05		
Evaluate	10	05	05	
Create	05			

❖ **SEE- Semester End Examination (60 Marks)**

Bloom's Category	Test
Remember	10
Understand	10
Apply	10
Analyze	10
Evaluate	10
Create	10

3. Make-up Procedures: Dates for exams will be strictly followed. No makeup exam (Normal case), for exceptional case university rules and regulation should be followed

Recommended Books:

1. Theory and Practices of Banking by Dr. Muhammad Kamruzzaman
2. Rajesh, R, Sivagnanansithi, T (2009), "Banking Theory: Law and Practice", TataMcGraw Hill Publishing Company Ltd.
3. Central Banking in Theory and Practice by Alan S. Blinder

Reference Books:

4. Introduction to Central Banking by Ulrich Bindseil, Alessio Folia
5. Bank Company Laws of Bangladesh by Prof. Dr. Md. AltafHossain

Week-1

Slides: 2-12



Central Bank

Lesson-1

What Is Bank

-
- A financial institution which collects idle money temporarily from the public and lends to other people as per need
 - Bank is such an institution which creates money by money only.”-----**W. Hock**
 - Bank is such a financial institution which collects money in current, savings or fixed deposit account; collects cheques as deposits and pays money from the depositors account through cheques.

Functions of Bank

- ✓ Receiving Deposits
- ✓ Accommodation of loans and advances
- ✓ Creation of Loan Deposits
- ✓ Creation of medium of exchange
- ✓ Contribution in foreign trade
- ✓ Creation of Investment Environment
- ✓ Remittance of Money
- ✓ Help in trade and commerce
- ✓ Act as a trustee
- ✓ Help in Foreign Exchange business

Introduction to Central Bank

- A national bank that provides financial and banking services for its country's government and commercial banking system, as well as implementing the government's monetary policy and issuing currency.
- Central Bank is the lender of the last resort

Functions of Central Bank

- **Traditional or general functions**

- **Issue of notes and coins**
- **Government Bank**
 - economic adviser
 - maintains Government accounts
- **Banker's Bank**
- **Lender of the last Resort**
- **Reservoir of foreign currency**
- **Clearing House**
 - settlement of inter bank transactions
- **Credit Control**
 - Change in bank rates
 - Open market operation
 - Change (increase or decrease) in reserve- ratio

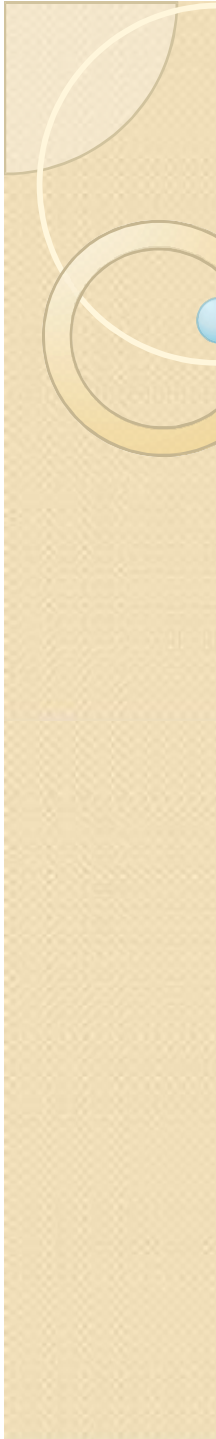


- **Purposeful functions**

- **Control Currency Market**
- **Stabilize Price-Level**
- **Employment opportunities**
- **Adviser and Representative of Government**

History of Central Bank

- ✓ **Early history**
- ✓ **Bank of Amsterdam (Amsterdamsche Wisselbank)**
- ✓ **Bank of Sweden (Sveriges Riksbank)**
- ✓ **Bank of England**
- ✓ **Spread around the world**
- ✓ **Naming of central banks**
- ✓ **21st century**



Lesson-2

Some Central Banks in the World

- ❖ Federal Reserve System
- ❖ Reserve Bank of Australia
- ❖ Bank of Canada
- ❖ People's Bank of China
- ❖ Deutsche Bundesbank
- ❖ Reserve Bank of India
- ❖ Bank of Japan
- ❖ State Bank of Pakistan
- ❖ South African Reserve Bank
- ❖ Central Bank of the United Arab Emirates

Central Bank Of Bangladesh



- ✓ **Bangladesh Bank**
- ✓ **Headquarters:**
Dhaka, Bangladesh
- ✓ **Established:**
16 December 1971
- ✓ **Governor :**
Fazle Kabir (11th)
- ✓ **Currency :**
Taka
- ✓ **Reserves:**
US\$33 billion

History of Establishing BB

- ✓ Previous Name (Before Liberation War) was **State Bank of Pakistan**
- ✓ After the Liberation War, the Government of Bangladesh reorganized the Dhaka branch of the State Bank of Pakistan as the central bank of the country, naming it **Bangladesh Bank**.
- ✓ Bangladesh Bank was established as a body corporate vide the **Bangladesh Bank Order, 1972 with effect from 16th December 1971**.
- ✓ **Constitutional Basis:**
P.O.No. 127 of 1972

Week- 2
Slides: 13-23

Branches of Bangladesh Bank

- ✓ Motijheel
- ✓ Sadarghat
- ✓ Bogra
- ✓ Chittagong
- ✓ Rajshahi
- ✓ Barishal
- ✓ Khulna
- ✓ Sylhet
- ✓ Rangpur
- ✓ Mymensingh

Objectives of Bangladesh Bank

- ✓ To regulate the issue of the currency and the keeping of reserves;
- ✓ To manage the monetary and credit system of Bangladesh with a view to stabilizing domestic monetary value;
- ✓ To promote and maintain a high level of production, and to foster growth and development of the country's productive resources for the national interest

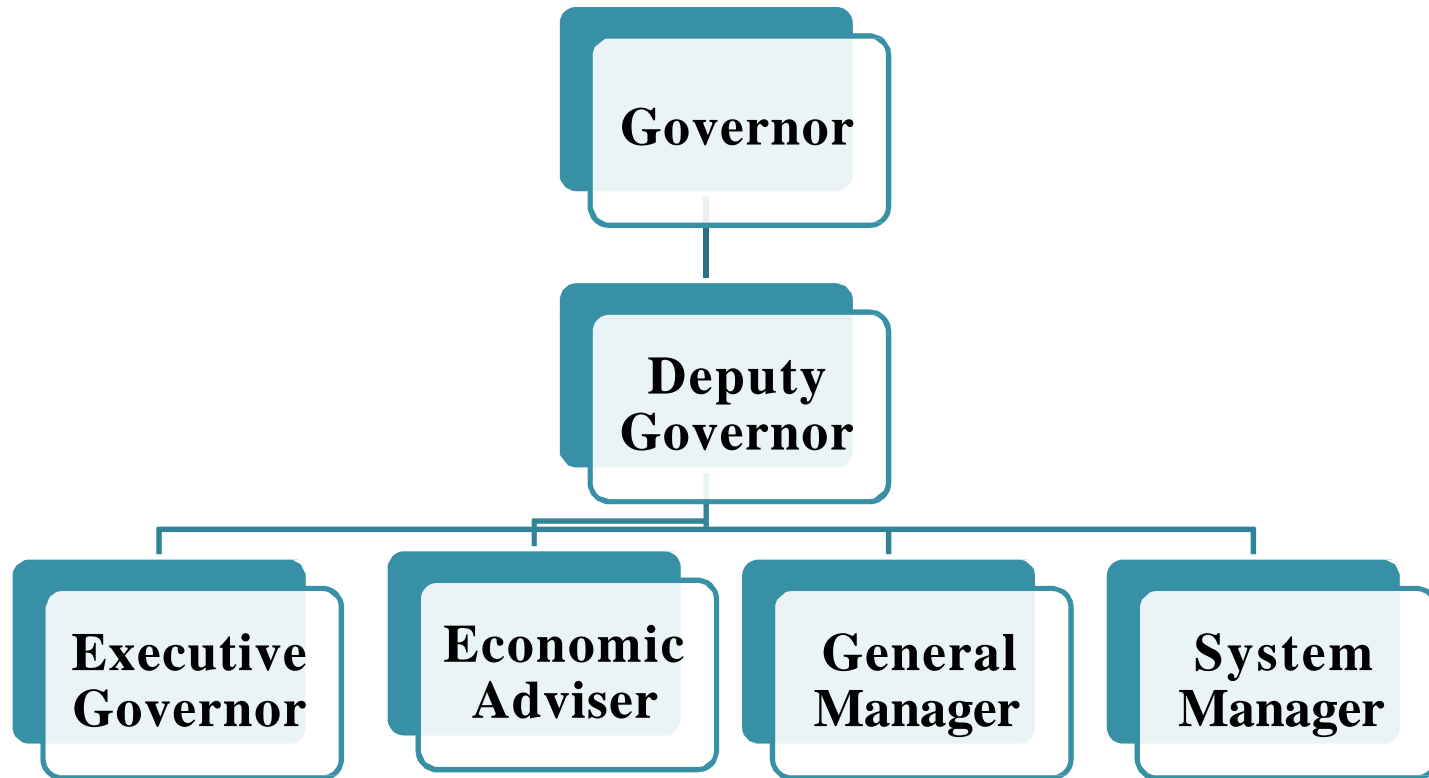
Mission Of Bangladesh Bank

- ✓ Formulating monetary and credit policies;
- ✓ Managing currency issue and regulating payment system;
- ✓ Managing foreign exchange reserves and regulating the foreign exchange market;
- ✓ Regulating and supervising banks and financial institutions, and advising the government on interactions and impacts of fiscal, monetary and other economic policies

Functions of Bangladesh Bank

- ✓ Formulation and implementation of monetary and credit policies.
- ✓ Regulation and supervision of banks and non-bank financial institutions, promotion and development of domestic financial markets.
- ✓ Management of the country's international reserves.
- ✓ Issuance of currency notes.
- ✓ Regulation and supervision of the payment system.
- ✓ Acting as banker to the government .
- ✓ Money laundering prevention.
- ✓ Collection and furnishing of credit information.
- ✓ Implementation of the Foreign Exchange Regulation Act.
- ✓ Managing a deposit insurance scheme .

Bangladesh Bank Hierarchy



Distinguish between Central Bank and Commercial Bank

S.L	Central Bank	Commercial Bank
1	Central Bank is established under Government ownership.	Commercial Bank is established under both govt. and private Ownership.
2	Central bank is conducted exclusively under Government control.	Commercial Bank is conducted under central bank's control.
3	Central Bank organizes, controls and administers currency market.	Commercial Banks are the members of the currency market.
4	Note issue is the primary function of central bank.	Commercial Bank cannot issue notes.

5	In case of any crisis, central bank Last resort lends commercial bank as a last resort.	Commercial Bank gets assistance from central bank in case of need.
6	Central Bank controls foreign exchange.	Commercial bank helps central bank in controlling foreign exchange.
7	Central Bank acts as a clearing house for settlement of inter-bank transactions.	Commercial banks are the members of the clearing house. They settle transactions through clearing house.
8	Central Bank represents the country or state	Commercial Bank represents the Customers.
9	Central Bank formulates policy on development Work.	Commercial bank participates in the development program Initiated by the central bank.

Clearing House [NIKASH]

- Clearing is the process by which an individual cheque / instrument is exchanged between collecting and paying bank within the same region through Central Bank mechanism.
- Clearing function is a financial service that provides clearing and settlement for inter-bank transactions.
- In Bangladesh there are Ten(10) Bangladesh Bank regional Branch and thirty three (33) Sonali Bank Branch (on behalf of BB) perform this function.
- In commercial banks, Clearing operation is centralized at clearing branch, i.e. Branch maintaining account with Bangladesh Bank or Sonali Bank where acting as representative of Bangladesh Bank for clearing purpose.

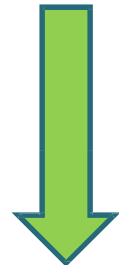
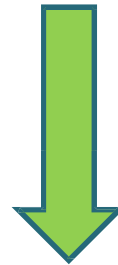


Clearing House]



Manual Clearing
House

Bangladesh Automated
Clearing House (BACH)

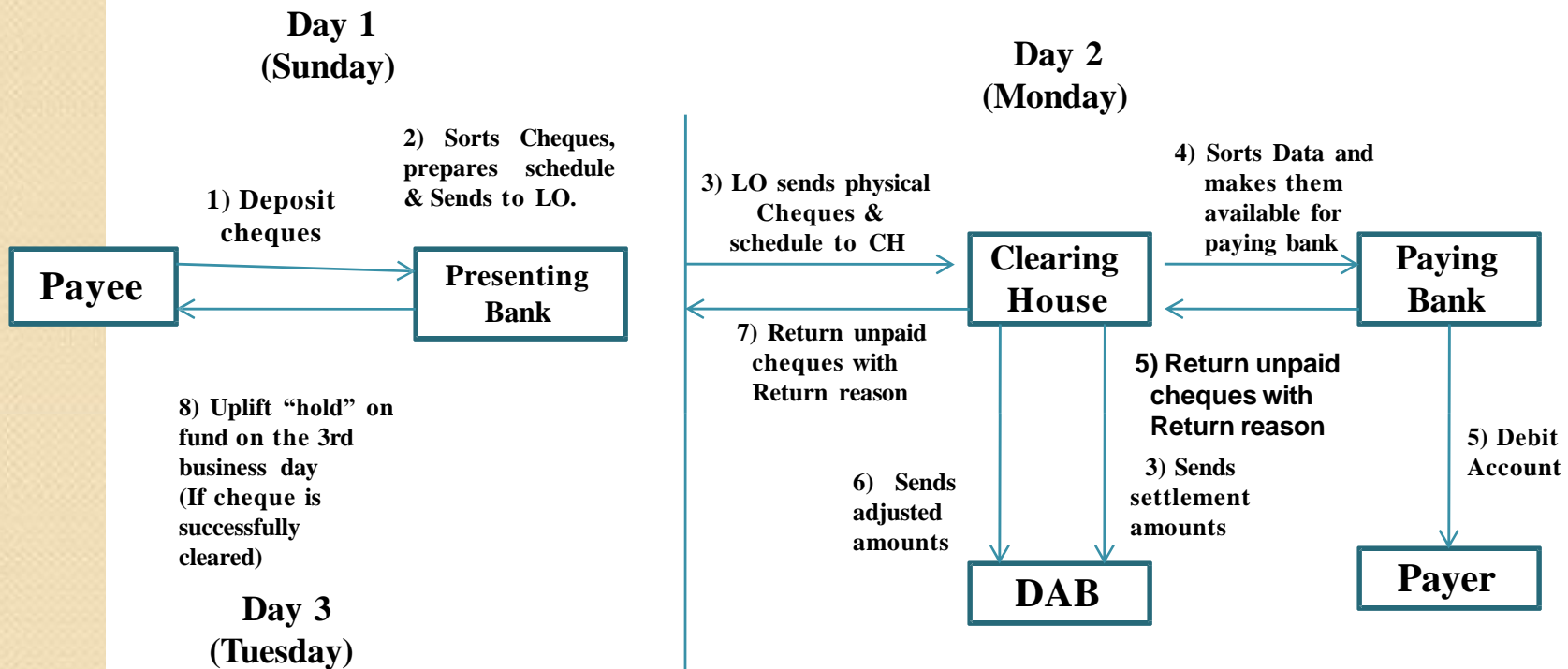


Cheque/DD/PO

BACPS

BEFTN

Process Flow of Manual Clearing House



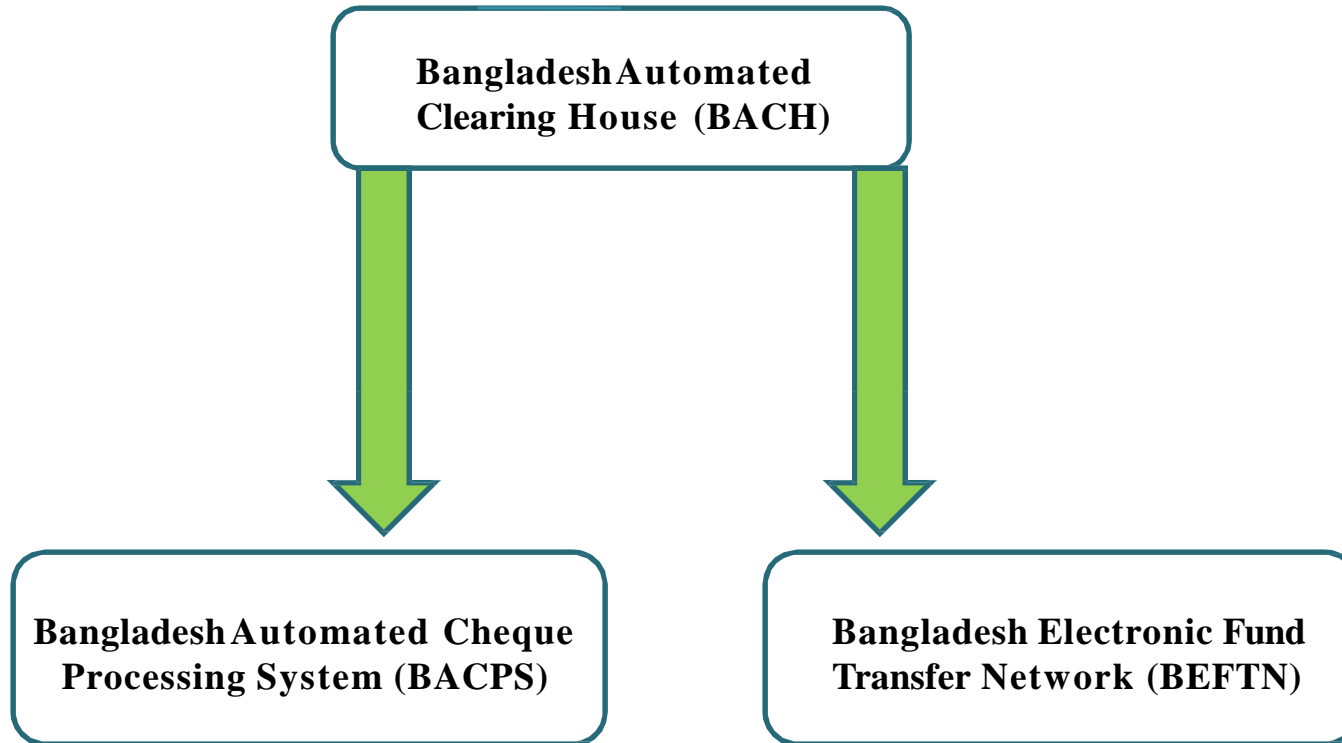
DAB= Deposit Account Bivag

- Maintain liaisons account with Bangladesh Bank i.e. DAB.
- Maintain Bangladesh Bank Shadow ledger.

Week- 3

Slides: 24-35

BACH Components





LESSON

-3

BACH IMPLEMENTATION HISTORY

BACPS :

- Bangladesh Bank started project on 2008 partnership with Department for International Development (DFID), UK
- Payment & Settlement System Regulation issued on 2009
- MICR Cheque issue started from 2009
- BACPS Rules & Procedure Circular issued on 17.01.2010
- Live Day Simulation (LDS) started on 04.08.2010
- BACPS go Live operation started on 07.10.2010

BEFTN :

- BEFTN Operating Rules issued on 10.08.2010
- BEFTN Live operation started on 28.02.2011



1. BASIC REQUIREMENTS FOR BACPS

- Establishment of a single point of Truncation.
- Following the scanning standard
- Procurement & installation of cheque processing software and integration it with Participating Bank Module (PBM) server.
- Establishment of Communication link.



BACPS FEATURES

- New CH Instruments design with **MICR code line**.
- **Image exchange** instead of physical movement of instruments.
- **Returns : only the data**, not the image.
- **Physical instruments will be stored by the presenting bank.**
- **Central Image Archive in BB.**

Two types Clearing Cheques for two clearing sessions:

- **High Value Cheques**: valued BDT 5 lac & above (Clearing & Settlement through HV Clearing Session). Previously known as ‘**Same Day Clearing**’.
- **Regular Value Cheques**: less than BDT 5 lac (Clearing & Settlement through RV Clearing Session).



o Clearing Sessions Time Line :

Clearing Window	Cut Offs		
	Presentment	Return	Settlement
High Value Clearing	12:00 hrs	15:00 hrs	15:01 hrs
Regular Clearing	12:30 hrs	17:00 hrs	17:01 hrs

- ✓ For Branches the cut-off time is **one hour ahead of BB cut-off time** for smooth operation.



BASIC COMPONENT OF BACPS

There are two Basic Component of BACPS.

- **CITS** : Cheque Imaging and Truncation system - Cheque Truncation is a system of cheque clearing and settlement between banks based on electronic data or image or both without physical exchange of instrument.
- **MICR**: Magnetic Ink Character Recognition is a recognition technology based on the characters printed with magnetic ink or toner and process by being magnetized.



MICR CHEQUE LINE

- MICR characters are printed information on documents so that the code line information can be captured by magnetic recognition.
- When scanning the cheques, the system automatically read the MICR code line of the cheque.
- MICR code line consists of:
 - **Cheque serial number** (7 digits)
 - **Bank's & Branch routing number** (9 digits)
 - **Account number** (13 digits)
 - **Transaction code number** (2 digits)
- Example: 7518154 240275358 0020310154122 10

MICR Cheque Line			
Chq No	Routing No	A/C No	Txn



MICR CHEQUE

140275353

TRUST BANK LTD.
Dilkusha Corp. Branch.

NOT OVER TK. = **1037863 = ONLY 0779226

মার্কেটাইল ব্যাংক লিমিটেড
Mercantile Bank Limited

MPO No
A

Main Branch

DATE 1 1 0 5 2 0 1 1
D D M M Y Y Y Y

Pay Trust Bank Ltd. Dilkusha Corp. Br. Kuliarchar Packaging Ind. or Order
Ltd.

The Sum of Taka Ten Lac Thirty Seven Thousand Eight Hundred Sixty Three only. TK = 10,37,863.00

0090209050002

Authorized Signature


Authorized Signature

⑈0779226⑈ 140275353⑈ 0090209050002⑈ 19

Chq No	Routing No	A/C No	Txn
MICR Cheque Line			



কম্পিউটার of 1CRCheque


 ইসলামী ব্যাংক বাংলাদেশ লিমিটেড
 Social Islami Bank Ltd.
 Foreign Exchange Branch, Dhaka.
 Local Office: Foreign Branch 125273888

No. MSH 0498530

Date 10/11/2013

Pay To A.K.M. Shahjahan Hossain Or Bearer

The Sum of Taka Two lac fifty thousand only TK 2,50,000/=

A.K.M. Shahjahan Hossain
20501020200082001

10498530 125273888 10

Instrument No. (7 digit) Routing No. (9 digit) Ins. A/c No. (13 digit) Instrument Type (2 digit)

Rear View

Endorse Here

10, 13400060528

Do Not Write Stamp or Sign below This Line

10, 01711187739

Bank / Branch of First Deposit

CLEARING
11 NOV 2013
SOCIAL ISLAMI BANK LTD.
Foreign Exchange Branch, Dhaka

Payee's Account Credited For Social Islami Bank Ltd. Foreign Exchange Branch, Dhaka

Area of Endorsement

195272327 02807283 101113

Payee's A/C no. & Phone No Clearing Stamp Endorsement & Sign Endorsement

2. BEFTN

- ✓ The **Bangladesh Electronic Fund Transfer Network (BEFTN)** will operate as a processing and delivery centre providing for the distribution and settlement of electronic credit and debit transaction among all participating banks.

- ✓ BEFTN provides for a Variety of EFT payment application.
 - a. Customer Applications:
 - CIE: Customer Initiate Entry.(Utility Bill)
 - PPD: Pre-arrange Payment & Deposit Entry.
 - Direct Deposit(Payroll, Remittance, Dividend & Refund Warrant)

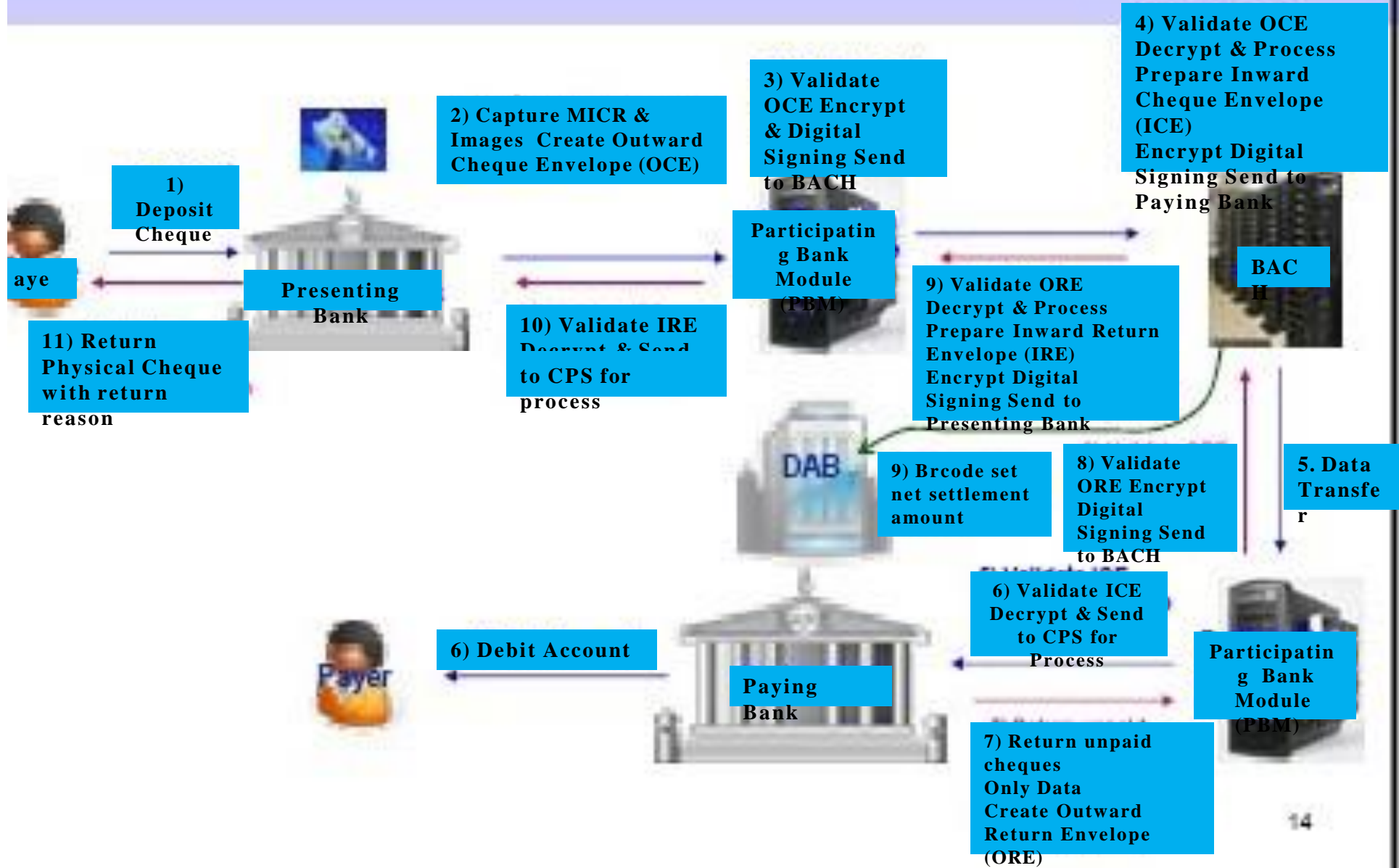
 - b. Corporate Applications:
 - CCD: Corporate Credit or Debit (Corporate Same Group Fund Transfer)
 - CTX: Corporate Trade Exchange.



Week-04

Slides: 36-46

Business Procedure of BACPS



PRESENTING BANKS RESPONSIBILITIES

- ❖ Certifies that the front & back images of the BACPS-Eligible item is a copy of the original negotiable instrument
- ❖ Instrument, Image & data preserve for 06 years.
- ❖ The Presenting Bank shall be responsible for
 - Detecting genuineness of the cheque leaf,
 - Material alteration of Payee Name
 - Amount or Date.
- ❖ In such cases where genuineness can not be verified or material alteration is detected, the Presenting Bank should not submit such cheques to the BACPS.
- ❖ Agrees to submit original cheque available for inspection within 07 Calendar days (if requested by the Paying Bank).
- ❖ If failed to submit, it will result in non-payment of the instrument.
- ❖ Credit to customer A/C on settlement date



PAYING BANK'S RESPONSIBILITIES

- ✓ Comply with the applicable BACPS rules
- ✓ Authorizes Bangladesh Bank to charge the amount of a payment item
- ✓ Indemnify BB for any loss or expense incurred as a result of a breach of agreement.
- ✓ Taking positive pay Instruction from cheque issuer.
- ✓ Digital signature validation.
- ✓ Returned cheques.
- ✓ Internal control.
- ✓ Reconciliation of clearing differences.



BENEFITS OF BACH

- ✓ Shorter clearing cycle.
- ✓ Superior verification and reconciliation.
- ✓ No geographical restrictions.
- ✓ Operational efficiency for banks and Customer alike.
- ✓ Reduction in operational risk and risks associated with paper clearing.



MANUAL CH VS BACPS

Manual CH	BACPS
1. 45 Clearing House in the country.	1. Only one Clearing House instead of 45
2. Human required in CH.	2. No Human is required in CH.
3. Time consuming	3. Time reduced tremendously
4. No charge from client	4. Charges are collecting from client.
5. Same Day Clearing for only few Branch	5. Same Day Clearing for whole country
6. Used by NIKASH or manual ledger	6. Operated by Cheque Processing System
7. Data cannot save for long time	7. Data & Image have to save for 12 years

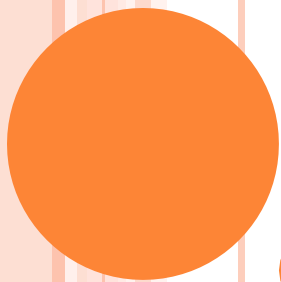


Manual CH	BACPS
8. Paying Bank preserve own cheques	8. Presenting Bank preserve other Banks cheques
9. Non MICR cheque can clear	9. Non MICR cheque is unacceptable
10. Paying Banks responsibility is high	10. Presenting Bank responsibility is high
11. Cheque lost incident was high	11. Cheque lost incident is very low.
12. Physical movement was obvious need	12. Physical movement is truncated
13. No centralized system	13. Processed under a secured centralized system
14. Return reason were 7 to 15	14. Return reason are more than 29
15. Central archive not available.	15. Central archive in Bangladesh Bank.

QUESTIONS RELATED TO ACH

- **Define Clearing House and Discuss the Process Flow of Manual Clearing House ?**
- **What is BACH and What are the BACH Components ?**
- **What are the Basic Requirements and Features of BACPS ?**
- **Describe the Business Procedure of BACPS**
- **What are the responsibilities of Presenting and Paying Bank's ?**
- **Differentiate between Manual CH and BACPS**
- **Short Notes:**
NIKASH, BACPS, BEFTN, MICR





INDEPENDENCE OF CENTRAL BANK

THE MEANING OF CENTRAL BANK

INDEPENDENCE

- Central Bank Independence is the freedom of monetary policymakers from direct political or governmental influence in the conduct of policy
- The historical, legal, and de facto relationship between a country's government and its central bank is very complex, involving many difference aspects. These include, but are not limited to, the role of the government in:
 - appointing (and dismissing) members of the central bank governing board,
 - the voting power (if any) of the government on the board,
 - the degree to which the central bank is subject to budgetary control by the government,
 - the extent to which the central bank must lend to the government, and
 - whether there are clearly defined policy goals established in the central bank's charter.



TWO KEY DIMENSIONS OF INDEPENDENCE

- ❖ The **first** dimension encompasses those institutional characteristics that insulate the central bank from political influence in defining its policy objectives
 - **Goal independence**
 - ✓ The central bank's ability to determine the goals of policy without the direct influence of the fiscal authority
- ❖ The **second** dimension encompasses those aspects that allow the central bank to freely implement policy in pursuit of monetary policy goals
 - **Instrument independence**
 - ✓ The central bank's ability to freely adjust its policy tools in pursuit of the goals of monetary policy



Week- 05

Slides: 47-58

MEASURING INDEPENDENCE

- ❖ **Cukierman, Webb, and Neyapti Index (1991).** Based on four legal characteristics as described in a central bank's charter, i.e., Central bank is more independent if:
 - **First**, if the chief executive is appointed by the central bank board rather than by the prime minister or minister of finance, is not subject to dismissal, and has a long term of office.
 - **Second**, the extent to which policy decisions are made independently of government involvement.
 - **Third**, if its charter states that price stability is the sole or primary goal of monetary policy.
 - **Fourth**, if there are limitations on the government's ability to borrow from the central bank.
- ❖ These four aspects are combined into a single measure of **legal independence**.



CONTROVERSIES

- Legal measures of central bank independence may not reflect the relationship between the central bank and the government that actually exists in practice.
- In many developing countries where the rule of law is less strongly embedded in the political culture, there can be wide gaps between the formal, legal institutional arrangements and their practical impact.
- In developing economies, it is common to supplement or even replace legal measures of central bank independence with measures of actual central bank governor turnover.
 - High actual turnover is interpreted as indicating political interference in the conduct of monetary policy.



INDEPENDENCE AND ACCOUNTABILITY

- While many countries have granted their central banks more independence, the idea that central banks should be completely independent has come under criticism.
- This criticism focuses on the danger that a central bank that is independent will not be accountable.
 - Although maintaining low and stable inflation is an important societal goal, it is not the only macroeconomic goal;
 - Monetary policy may have no long-run effect on real economic variables, but it can affect the real economy in the short run.
 - In a democracy, delegating policy to an independent agency requires some mechanism to ensure accountability.
 - For this reason, reforms have often granted central banks instrument independence while preserving a role for the elected government in establishing the goals of policy and in monitoring the central bank's performance in achieving these goals.



THE KEY ASPECTS OF INDEPENDENCE

- 6 Key aspects of Central Bank Independence and Governance (CBIG) as used in the paper:
 - Legal,
 - political,
 - price stability objective,
 - foreign exchange rate policy,
 - monetary policy and deficit financing,
 - accountability and transparency.



CBIG (LEGAL)

- **CBIG (legal)** aspect measures the independence a central bank is granted in its acts.
 - The laws passed by the parliament to make governor of the central bank independent and separation of legal obligation to regulate commercial banks are important issues of legal CBIG.
 - The CBIG (legal) may also improve when the supervision of financial institutions is placed outside the central bank and governor's turnover rate is low.



CBIG (POLITICAL)

- **CBIG (political)** measures the government's political influence on a central bank.
- Political independence lessens when
 - a government has higher number of representatives in the central bank board; or
 - the governor holds a position in the government; or
 - the governor is replaced whenever a new government is elected.
- Political instability adversely affects central bank's activities



CBIG (PRICE STABILITY OBJECTIVES)

- **CBIG (price stability objectives)** guides a central bank to maintain price stability as its main monetary policy objective.
 - An independent inflation target and timely interest rate revisions would contribute the central bank achieving its price stability target.
 - Strong relationship has been found between CBIG and inflation in developed countries,
 - but no association has been found in some countries as well.
- 

CBIG (MONETARY POLICY AND DEFICIT FINANCING)

- **CBIG (monetary policy and deficit financing)** identifies the central bank's role in formulating monetary policy, choosing its final goal and managing government budget financing.
- The ability to make all these monetary policy decisions increases its CBIG.
- Depending on the financial market development, a government's deficit budget may have negative impact on economy as well as on CBIG.



CBIG (ACCOUNTABILITY AND TRANSPARENCY)

- **CBIG (accountability and transparency)** examines the disclosure requirements of a central bank.
- Regular communication with the public on policy changes, monetary policy statements, accountability of the governor and auditing of bank's activities are essential elements.
- There is disagreement about the type of the autonomy to be delegated; and the essentiality of accountability and transparency.
- But in general, they are considered important for effective governance, recommended to be specified in the central bank's own legislation.



INDEPENDENCE INDEX MODEL

$$\text{CBIG}_{\text{Overall}} = w1\text{CBIG}_{\text{Leg}} + w2\text{CBIG}_{\text{Pol}} + w3\text{CBIG}_{\text{PStab}} + w4\text{CBIG}_{\text{Forx}} + w5\text{CBIG}_{\text{MonPol}} + w6\text{CBIG}_{\text{AccTrans}}$$

Where,

CBIG_{Leg} = Legal Index of CBIG

CBIG_{Pol} = Political Index of CBIG

CBIG_{PStab} = Price Stability Objectives Index of CBIG

CBIG_{Forx} = Exchange Rate Policy Index of CBIG

CBIG_{MonPol} = Monetary Policy and Deficit Financing Index of CBIG

CBIG_{AccTrans} = Accountability and Transparency Index of CBIG

Weight= $w1= 5/26$; $w2=3/26$; $w3=3/26$; $w4=3/26$; $w5=6/26$; $w6= 6/26$.

The variables are equally weighted



BANGLADESH BANK AND ITS INDEPENDENCE

- ✓ The Bangladesh Bank (BB) is the central bank of Bangladesh. It was established by the Bangladesh Bank Order (1972) following the country's independence in 1971.
- ✓ It initially functioned like a government department but this changed gradually over time.
- ✓ The first significant move came in 1989 when the Government of Bangladesh (GOB) adopted a comprehensive Financial Sector Reform Program (FSRP).
- ✓ This was a transformation in 1990 from direct quantitative monetary controls to an indirect method of monetary management.



Week-06

Slides: 59-69

- ✓ More recently the Bangladesh Bank (Amendment) Act, 2003 reduced the governor's term of office from five to four years as well as improved CBIG in other areas,
 - For example, it specified that four directors (who are not government officials) be appointed to the central bank's management board, placed an emphasis of its role in domestic price stability, introduced a floating exchange rate, and formed a coordination council to align the central bank's policies with those of the government.



- ✓ Another major impact of the 2003 amendments was to introduce a specific set of objectives for the central bank; something which was absent in the 1972 legislation.
- ✓ These objectives include:
 - to regulate the issue of the currency and the keeping of reserves;
 - to manage the monetary and credit system of Bangladesh with a view to stabilizing domestic monetary value;
 - to preserve the par value of the Bangladesh Taka;
 - to promote and maintain a high level of production, employment and real income in Bangladesh; and
 - to foster growth and development of the country's productive resources for the national interest.
- ✓ These at least suggest that the central bank should seek local price and foreign exchange rate stability.



- ✓ Bangladesh Bank's CBIG level further improved in 2003 after implementing the Central Bank Strengthening Project (CBSP).
- ✓ As an initiative of the CBSP, a Policy Analysis Unit (PAU) was established in July 2005 to upgrade the Bangladesh Bank's capacity for research and policy analysis.
- ✓ Since January 2006, the central bank now provides half yearly monetary policy statements as well as its own research papers to enhance its transparency.
 - These publications highlight price stability as the main objective of the central bank's monetary policy and as well as explain its monetary policy strategy and implementation tools.



CONCLUS ION

- ✓ This paper examined the CBIG positions of two central banks, the Bangladesh Bank and the Reserve Bank of Australia, by applying Ahsan, Skully & Wickramanayake (2008) CBIG index-model.
- ✓ This index tracked their respective positions over 1991 to 2008 to identify any relative improvements as well as their relative performance.
- ✓ The results indicated that CBIG in both countries has improved with BB's index score increased from 0.31 (1991) to 0.55 (2008). In contrast, RBA started with a much higher ranking of 0.72 (1991), then continued its improvements of 0.79 (1993), 0.83 (1998), 0.84 (2007) and finally to 0.85 (2008).



- While BB consistently scored poorer than RBA, its improvements are nevertheless noteworthy.
- A great interest in CBIG in Bangladesh is reflected in better legislation, a more flexible exchange rate policy and in implementing of its central bank strengthening project.
- So, while there are considerable differences between Bangladesh and Australia, the RBA's operation nevertheless offers a number of ideas which would be useful for the government of Bangladesh to consider.



CENTRAL BANK

INDEPENDENCE

- What is your understanding regarding the independence of a central bank ?
- Explained how central bank independence is measured ?
- Explain the key aspects of Central Bank Independence and Governance (CBIG) ?
- Explain Bangladesh Bank's Independency ?
- Short Notes:

CBIG, Central Bank's Independence Index Model, Central Bank Independence



Independence of Central Bank

Lesson-4



The meaning of Central Bank independence

- Central Bank Independence is the freedom of monetary policymakers from direct political or governmental influence in the conduct of policy
- The historical, legal, and de facto relationship between a country's government and its central bank is very complex, involving many difference aspects. These include, but are not limited to, the role of the government in:
 - appointing (and dismissing) members of the central bank governing board,
 - the voting power (if any) of the government on the board,
 - the degree to which the central bank is subject to budgetary control by the government,
 - the extent to which the central bank must lend to the government, and
 - whether there are clearly defined policy goals established in the central bank's charter.

Two key dimensions of independence

- ❖ The **first** dimension encompasses those institutional characteristics that insulate the central bank from political influence in defining its policy objectives
 - **Goal independence**
 - The central bank's ability to determine the goals of policy without the direct influence of the fiscal authority
- ❖ The **second** dimension encompasses those aspects that allow the central bank to freely implement policy in pursuit of monetary policy goals
 - **Instrument independence**
 - The central bank's ability to freely adjust its policy tools in pursuit of the goals of monetary policy

Measuring independence

- ❖ **Cukierman, Webb, and Neyapti Index (1991)**. Based on four legal characteristics as described in a central bank's charter, i.e., Central bank is more independent if:
 - **First**, if the chief executive is appointed by the central bank board rather than by the prime minister or minister of finance, is not subject to dismissal, and has a long term of office
 - **Second**, the extent to which policy decisions are made independently of government involvement.
 - **Third**, if its charter states that price stability is the sole or primary goal of monetary policy.
 - **Fourth**, if there are limitations on the government's ability to borrow from the central bank.
- These four aspects are combined into a single measure of **legal independence**.

Week-07

Slides: 70-80

Controversies

- Legal measures of central bank independence may not reflect the relationship between the central bank and the government that actually exists in practice.
- In many developing countries where the rule of law is less strongly embedded in the political culture, there can be wide gaps between the formal, legal institutional arrangements and their practical impact.
- In developing economies, it is common to supplement or even replace legal measures of central bank independence with measures of actual central bank governor turnover.
 - High actual turnover is interpreted as indicating political interference in the conduct of monetary policy.

Independence and accountability

- While many countries have granted their central banks more independence, the idea that central banks should be completely independent has come under criticism.
- This criticism focuses on the danger that a central bank that is independent will not be accountable.
 - Although maintaining low and stable inflation is an important societal goal, it is not the only macroeconomic goal;
 - Monetary policy may have no long-run effect on real economic variables, but it can affect the real economy in the short run.
 - In a democracy, delegating policy to an independent agency requires some mechanism to ensure accountability.
 - For this reason, reforms have often granted central banks instrument independence while preserving a role for the elected government in establishing the goals of policy and in monitoring the central bank's performance in achieving these goals.

The key aspects of Independence

- 6 Key aspects of Central Bank Independence and Governance (CBIG) as used in the paper:
 - Legal,
 - political,
 - price stability objective,
 - foreign exchange rate policy,
 - monetary policy and deficit financing,
 - accountability and transparency.

CBIG (legal)

- **CBIG (legal)** aspect measures the independence a central bank is granted in its acts.
 - The laws passed by the parliament to make governor of the central bank independent and separation of legal obligation to regulate commercial banks are important issues of legal CBIG.
 - The CBIG (legal) may also improve when the supervision of financial institutions is placed outside the central bank and governor's turnover rate is low.

CBIG (political)

- **CBIG (political)** measures the government's political influence on a central bank.
- Political independence lessens when
 - a government has higher number of representatives in the central bank board; or
 - the governor holds a position in the government; or
 - the governor is replaced whenever a new government is elected.
- Political instability adversely affects central bank's activities

CBIG (price stability objectives)

- **CBIG (price stability objectives)** guides a central bank to maintain price stability as its main monetary policy objective.
- An independent inflation target and timely interest rate revisions would contribute the central bank achieving its price stability target.
- Strong relationship has been found between CBIG and inflation in developed countries,
- but no association has been found in some countries as well.

CBIG (Exchange rate policy)

- **CBIG (exchange rate policy)** addresses the role of a central bank under a fixed and a floating rate system.
- The currency market intervention and regulation formulation should be done by the central bank.
- An independent central bank can better maintain a stable exchange rate system.
- The evidence suggests that a flexible exchange rate regime, coupled with an independent monetary authority and inflation targeting, may perform better than a harder regime.

CBIG (monetary policy and deficit financing)

- **CBIG (monetary policy and deficit financing)** identifies the central bank's role in formulating monetary policy, choosing its final goal and managing government budget financing.
- The ability to make all these monetary policy decisions increases its CBIG.
- Depending on the financial market development, a government's deficit budget may have negative impact on economy as well as on CBIG.

CBIG (accountability and transparency)

- **CBIG (accountability and transparency)** examines the disclosure requirements of a central bank.
- Regular communication with the public on policy changes, monetary policy statements, accountability of the governor and auditing of bank's activities are essential elements.
- There is disagreement about the type of the autonomy to be delegated; and the essentiality of accountability and transparency.
- But in general, they are considered important for effective governance, recommended to be specified in the central bank's own legislation.

Central Bank's Independence Index Model

$$\text{CBIG}_{\text{Overall}} = w1\text{CBIG}_{\text{Leg}} + w2\text{CBIG}_{\text{Pol}} + w3\text{CBIG}_{\text{PStab}} \\ + w4\text{CBIG}_{\text{Forx}} + w5\text{CBIG}_{\text{MonPol}} + w6\text{CBIG}_{\text{AccTrans}}$$

Where,

CBIG_{Leg} = Legal Index of CBIG

CBIG_{Pol} = Political Index of CBIG

CBIG_{PStab} = Price Stability Objectives Index of CBIG

CBIG_{Forx} = Exchange Rate Policy Index of CBIG

CBIG_{MonPol} = Monetary Policy and Deficit Financing Index of CBIG

CBIG_{AccTrans} = Accountability and Transparency Index of CBIG

Weight= $w1 = 5/26$; $w2 = 3/26$; $w3 = 3/26$; $w4 = 3/26$; $w5 = 6/26$; $w6 = 6/26$.


The variables are equally weighted


Week-08


Slides: 81-91

Bangladesh Bank and its Independence

- ✓ The Bangladesh Bank (BB) is the central bank of Bangladesh. It was established by the Bangladesh Bank Order (1972) following the country's independence in 1971.
- ✓ It initially functioned like a government department but this changed gradually over time.
- ✓ The first significant move came in 1989 when the Government of Bangladesh (GOB) adopted a comprehensive Financial Sector Reform Program (FSRP).
- ✓ This was a transformation in 1990 from direct quantitative monetary controls to an indirect method of monetary management.


- 
- ✓ More recently the Bangladesh Bank (Amendment) Act, 2003 reduced the governor's term of office from five to four years as well as improved CBIG in other areas,
 - For example, it specified that four directors (who are not government officials) be appointed to the central bank's management board, placed an emphasis of its role in domestic price stability, introduced a floating exchange rate, and formed a coordination council to align the central bank's policies with those of the government.

- 
- ✓ Another major impact of the 2003 amendments was to introduce a specific set of objectives for the central bank; something which was absent in the 1972 legislation.
 - ✓ These objectives include:
 - to regulate the issue of the currency and the keeping of reserves;
 - to manage the monetary and credit system of Bangladesh with a view to stabilizing domestic monetary value;
 - to preserve the par value of the Bangladesh Taka;
 - to promote and maintain a high level of production, employment and real income in Bangladesh; and
 - to foster growth and development of the country's productive resources for the national interest.
 - ✓ These at least suggest that the central bank should seek local price and foreign exchange rate stability.

- 
- ✓ Bangladesh Bank's CBIG level further improved in 2003 after implementing the Central Bank Strengthening Project (CBSP).
 - ✓ As an initiative of the CBSP, a Policy Analysis Unit (PAU) was established in July 2005 to upgrade the Bangladesh Bank's capacity for research and policy analysis.
 - ✓ Since January 2006, the central bank now provides half yearly monetary policy statements as well as its own research papers to enhance its transparency.
 - These publications highlight price stability as the main objective of the central bank's monetary policy and as well as explain its monetary policy strategy and implementation tools.

Conclusion

- ✓ This paper examined the CBIG positions of two central banks, the Bangladesh Bank and the Reserve Bank of Australia, by applying Ahsan, Skully & Wickramanayake (2008) CBIG index-model.
- ✓ This index tracked their respective positions over 1991 to 2008 to identify any relative improvements as well as their relative performance.
- ✓ The results indicated that CBIG in both countries has improved with BB's index score increased from 0.31 (1991) to 0.55 (2008). In contrast, RBA started with a much higher ranking of 0.72 (1991), then continued its improvements of 0.79 (1993), 0.83 (1998), 0.84 (2007) and finally to 0.85 (2008).

- 
- While BB consistently scored poorer than RBA, its improvements are nevertheless noteworthy.
 - A great interest in CBIG in Bangladesh is reflected in better legislation, a more flexible exchange rate policy and in implementing of its central bank strengthening project.
 - So, while there are considerable differences between Bangladesh and Australia, the RBA's operation nevertheless offers a number of ideas which would be useful for the government of Bangladesh to consider.

Questions related to Central bank independence

- What is your understanding regarding the independence of a central bank ?
- Explained how central bank independence is measured ?
- Explain the key aspects of Central Bank Independence and Governance (CBIG) ?
- Explain Bangladesh Bank's Independency ?
- Short Notes:
 - CBIG, Central Bank's Independence Index Model, Central Bank Independence

Inflation

- ✓ Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling.
- ✓ Central banks attempt to limit inflation — and avoid deflation — in order to keep the economy running smoothly.
- ✓ Deflation is the general decline in prices for goods and services occurring when the inflation rate falls below 0%

Hyperinflation

- Hyperinflation: Very high rate inflation, say 50% rise in prices



Monetary Policy

- ✓ Policy to control money supply.
- ✓ Central banks have three main monetary policy tools:
 - Open market operations
 - Discount rate and
 - Reserve requirement

Week-09

Slides: 92-102

MONETARY POLICY TOOLS



Open Market Operations

- ✓ are when central banks buy or sell securities. These are bought from or sold to the country's private banks

Buying Securities :

- When the central bank buys securities, it adds cash to the banks' reserves. That gives them more money to lend.
- A central bank buys securities when it wants **expansionary monetary policy** .

Selling Securities:

- When the central bank sells the securities, it places them on the banks' balance sheets and reduces its cash holdings. The bank now has less to lend.
- It sells them when it executes **contractionary monetary policy**.

Reserve Requirement

- ✓ The reserve requirement refers to the money banks must keep on hand overnight. They can either keep the reserve in their vaults or at the central bank.
-

Lowering the Reserve Ratio :

- A low reserve requirement allows banks to lend more of their deposits. It's expansionary because it creates credit.

Raising the Reserve Ratio :

- A high reserve requirement is contractionary. It gives banks less money to loan.

Discount Rate

- ✓ The discount rate is the third tool. It's the rate that central banks charge its members to borrow.

Lowering the Discount Rate:

- A low **Discount Rate** allows banks to lend more of their deposits. It's expansionary because it creates credit.

Raising the Discount Rate :

- A high **Discount Rate** is contractionary. It gives banks less money to loan.

Question Banks

- What is Inflation and Hyper Inflation ?
- How Central Bank use tools to control monetary policy/ Money Supply ?



CAMELS Ratings

Lesson-5

What is CAMELS Ratings

- CAMELS Ratings is a ratings that is used to determine a bank's overall condition and to identify its strengths and weakness:
 - ✓ Financial
 - ✓ Operational
 - ✓ Managerial

Elements of CAMELS Ratings

- There are Six Elements :
 - ❑ C= Capital Adequacy
 - ❑ A= Asset Quality
 - ❑ M= Management Quality
 - ❑ E = Earnings Capacity
 - ❑ L = Liquidity
 - ❑ S = Sensitivity to Market Risk

Rating System


- Each bank is assigned a uniform composite rating based on six elements. The system provides a general framework for evaluating the banks.
- It is a standardized method which allows the assessment of the quality of banks according to standard criteria providing a meaningful rating.
- Each component is assigned a numerical rating.
- CBI does not take into consideration the sensitivity of Market risks.

1. CAPITAL ADEQUACY



Week- 10

Slides: 103-113

- 
- Capital is rated based on the following consideration :
 - ✓ Nature and Volume of problem assets in relation to the total capital and adequacy.
 - ✓ Balance sheet structure
 - ✓ Nature of business activities and risks to the bank
 - ✓ Asset and capital growth experience and prospects
 - ✓ Earnings performance and distribution of dividends
 - ✓ Capital requirements and compliance with regulatory requirements
 - ✓ Sources of capital
 - ✓ Ability to management to deal with the above factors.

Capital Rating “1”

- Rating “1” is characterized by:
 - ☐ Capital level exceed all regulatory requirements
 - ☐ Strong Earnings performance
 - ☐ Well managed and controlled growth
 - ☐ Reasonable dividends and ability to raise new capital
 - ☐ Low volume of problem assets

Capital Rating “2”

- Rating “2” is characterized by similar criteria as “1”, but experiences weaknesses in one or more of the factors.

For Example:

- ❑ Problem assets relatively high
- ❑ Management inability to maintain sufficient capital to support risks.

Capital Rating “3”

- Bank complies with capital adequacy and solvency regulatory requirements, but has major weakness in one or more factors:
 - ❑ High level of problem assets in excess of 25% of total capital
 - ❑ Poor earnings
 - ❑ Inability to raise new capital to meet regulatory requirements and correct deficiencies

Capital Rating “4”


- Rating “4” means that the bank is experiencing severe problems resulting in inadequate capital to support risks associated with the business and operations.
 - ✓ No compliance with regulatory requirements

Capital Rating “5”

- Rating “ 5” indicates that the bank is insolvent:
 - ❑ Strong regulatory oversight is needed

2. ASSET QUALITY



- 
- Asset represents all the assets of the bank, current and fixed, loan portfolio, investments and real estate owned as well as off balance sheet transactions .
 - Asset quality is based on the following considerations:
 - ☐ Volume of problem of all assets
 - ☐ Volume of rescheduled loans
 - ☐ Ability of the management to administer all the assets of the bank and to collect problem loans
 - ☐ Loan loss reserve in relation to problem loans

Asset quality rating “1”

- Asset quality rating “ 1” is characterized by:
 - ❑ Ratio of troubled assets to capital is less than 2% or 3%
 - ❑ Efficient loan portfolio management
 - ❑ Close monitoring of problem loans
 - ❑ Adequate loan loss reserve in accordance with CBI’s regulations
 - ❑ No loss threat

Asset quality rating “2”

- Rating “2” is characterized by similar criteria as “1”, but experiences non significant weaknesses, and the management is able to address these issues without close regulatory oversight.
- Problem assets do not exceed 10 % of total capital

Week-11

Slides: 114-124

Asset quality rating “3”

- Asset quality rating “3” indicates that a bank displays weaknesses in one or more of the “2” factors. Regulatory oversight is required to ensure that management is able to address the problems.

- ❑ Inadequate LLR

- ❑ Policies and procedures are not properly implemented

Asset quality rating “4”

- Asset quality rating “4” indicates a bank with severe problems resulting in adequate capital to support risks associated with the bank business and operations.
 - ❑ High volume of loss making loans
 - ❑ Lack of proper policies and procedures


Asset quality rating “5”

- Asset quality rating “5” displays a high level of problem assets credit and non-credit, that impairs the capital or results in a negative capital.

☐ Strong regulatory oversight is needed

3. MANAGEMENT



- 
- Management includes all key managers and the board of directors.
 - Rating is based on the following factors:
 - ❑ Quality of the monitoring and support of the activities by the board and management and their ability to understand and respond to the risks associated with these activities in the present environment and to plan for the future.
 - ❑ Financial performance of the bank
 - ❑ Response to CBI concern and recommendations

Management Rating “1”

- Management Rating “1” indicates a strong and committed management showing:
 - ☐ A thorough understanding of the risks associated with the bank activities
 - ☐ A strong financial performance in all area
 - ☐ Planning , control, implementation of internal policies
 - ☐ Appropriate audit function
 - ☐ Competent and trained staff at all levels

Management Rating “2”

- Management rating “2” has the general characteristics of “1” but possesses some deficiencies in rating factors, that can be easily corrected without regulatory supervision.

Management Rating “3”

- Management rating “3” displays major weaknesses in one or more of the rating factors. It needs regulatory supervision to ensure that management and Board takes corrective actions.
- ✓ Poor assessment of risks and planning
- ✓ Lack of proper written policies and procedures

Management Rating “4”

- Management rating “4” indicates major weakness in several areas:
 - ❑ Strong regulatory action is needed
 - ❑ Poor financial performances may lead to insolvency

Management Rating “5”

- Management rating “5” requires immediate and strong supervisory actions:
 - ❑ Bank displays strong weakness in all areas
 - ❑ Poor financial performances
 - ❑ Insolvency very likely
 - ❑ Consider replacing management

Week-12

Slides: 125-136




CAMELS Ratings (Contd....)

Lesson-6

4. EARNING CAPACITY



- 
- Earnings is the all income from operations and non-traditional sources.
 - Earnings are rated according to the following factors:
 - ☐ Sufficient earnings to cover potential losses and pay reasonable dividends
 - ☐ Level of expenses in relation to operations
 - ☐ Adequacy of budgeting, forecasting, control of income and expenses
 - ☐ Adequacy of provision
 - ☐ Earnings exposure to market risks such as interest rate variations, foreign exchange fluctuations and price risk

Earnings Rating “1”

- Rating “1” indicates:
 - ✓ Sufficient income to meet reserve requirements and pay reasonable dividends to shareholders
 - ✓ Strong budgeting , planning, and control of income and expenses
 - ✓ Positive trends in major income and expenses categories

Earnings Rating “2”

- Rating “2” indicates that the bank generates sufficient income to meet reserve requirements and pay dividends but there may be some negative trends such as:
 - ✓ Relying somehow on non traditional income
 - ✓ Need to improve budget, planning and control process

Earnings Rating “3”

- Rating “3” shows that the bank has major weaknesses in several of the rating factors.
- ✓ Regulatory supervision is needed to ensure management takes appropriate measures to improve earnings performance
- ✓ Insufficient earnings retention may impair capital position

Earnings Rating “4”


- Rating “4” indicates bank is experiencing severe earnings problems. Net profit may be positive but insufficient to maintain adequate reserves and capital growth.
- ✓ Strong regulatory supervision is needed to prevent loss of capital
- ✓ Management must take immediate action to improve income and reduce expenses
- ✓ Corrective action is needed to prevent losses developing into insolvency

Earnings Rating “5”

- Rating “5” shows bank is experiencing major losses that may lead into insolvency
- ✓ Immediate action is needed and strong regulatory supervision is required from CBI

5. LIQUIDITY



- 
- Liquidity is the ability to generate cash or turn quickly short term assets into cash.
 - Liquidity is rated based on the following factors:
 - ✓ Sources and volume of liquid funds available to meet short term obligations
 - ☐ Volatility of deposits and loan demand
 - ✓ Interest rates and maturities of assets and liabilities
 - ✓ Diversification of funding sources
 - ✓ Contingency Plan

Liquidity Rating “1”

- Rating “1” indicates a management having a thorough understanding of the bank’s balance sheet.
- ✓ Sufficient liquid assets to meet loan demand and unexpected deposit reduction
- ✓ Strong planning, control and monitoring
- ✓ Existence of contingency plan

Week-13

Slides: 137-148

Liquidity Rating “2”

- Rating “2” has the same basic characteristics as a “1” but is experiencing some weaknesses in one or more of the rating factors. These weaknesses can be corrected promptly.
- ✓ Bank meets its liquidity requirements , but management lacks proper expertise for planning, control and monitoring.
- ✓ Management is unaware of negative trends
- ✓ Management did not address liquidity problems

Liquidity Rating “3”

- Liquidity rating “3” indicates a bank has major weaknesses in several factors:
 - ✓ Regulatory supervision is usually required to assure management is taking care of the problems
 - ✓ Poor liquidity management
 - ✓ Management needs to address negative trends immediately

Liquidity Rating “4”


- Rating “ 4” shows a bank is experiencing severe liquidity problems.
- ✓ Requires immediate attention and regulatory control
- ✓ Actions must be taken to strengthen liquidity position to meet current obligations
- ✓ Management must engage in extensive planning to deal with the situation

Liquidity Rating “5”

- Liquidity Rating “5” shows a bank requires outside financial assistance to meet current liquidity requirements to prevent failure of the bank due to inability to meet creditors and depositors needs.


6. SENSITIVITY TO MARKET RISKS



- 
- Sensitivity of market risk is not taken consideration by CBI at the present time
 - Market risk is based primarily on the following evaluation factors:
 - ✓ Sensitivity to adverse changes in interest rates, foreign exchange rates, commodity prices, fixed assets
 - ✓ Nature of the operations of the bank
 - ✓ Trends in the foreign currencies exposure
 - ✓ Changes in the value of the fixed assets of the bank
 - ✓ Ability of the management to identify, measure and control the market risks

COMPOSITE RATING



- 
- The composite rating assigned is not an arithmetic average of the component ratings, but is based on a qualitative analysis of the factors comprising each component, the interrelationship between components, and the overall level of supervisory concern about the bank



- **Composite Rating “1” :**

- ✓ Sound in all aspects
- ✓ Weaknesses can be handled routinely
- ✓ Risk management practices are strong
- ✓ Minimal supervisory action is required
- ✓ No cause for concern

- **Composite Rating “2” :**

- ✓ Fundamentally sound
- ✓ Moderate weaknesses are present

- **Composite Rating “3” :**

- ✓ Generally have weaknesses in one or more component
- ✓ Management may lack the ability
- ✓ Risk management practices may be less than satisfactory



- **Composite Rating “4” :**

- ✓ Unsound practices
- ✓ Weaknesses and problems are not being satisfactorily resolved by the board of directors and management

- **Composite Rating “5” :**

- ✓ Extremely unsafe and unsound condition
- ✓ Risk management practices are inadequate
- ✓ Failure is highly probable
- ✓ Immediate outside financial assistance is needed

Question Bank

- How does a central bank utilize CAMELS ratings ?

Week-14

Slides: 149-160



**Credit Risk Grading (CRG) Manual by
Bangladesh Bank
Lesson-07**

CRG: Definition

- CRG is a collective definition based on the pre-specified scale and reflects underlying credit-risk for a given exposure.
- A Credit risk grading deploys a number/alphabet/symbol as a primary summary indicator of risks associated with a credit exposure.

CRG: Functions

- CRG promotes bank safety and soundness by facilitating informed decision making.
- Measures credit risk and differentiate individual credits and groups of credits by the risk they pose.
- Allows bank management and examiners to monitor changes and trends in risk levels.
- Allows bank management to manage risk to optimize returns.

Credit Risk Grading (CRG): Importance

Credit risk grading is an important tool for credit risk management as it helps the Banks & financial institutions to understand various dimensions of risk involved in different credit transactions.

The aggregation of such grading across the borrowers, activities and the lines of business can provide better assessment of the quality of credit portfolio of a bank or a branch.

The credit risk grading system is vital to take decisions both at the pre-sanction stage as well as post-sanction stage.

Having considered the significance of credit risk grading, it becomes imperative for the banking system to carefully develop a credit risk grading model which meets the objective outlined above.

CRG in Loan Sanctioning Process

At the pre-sanction stage, credit grading helps the sanctioning authority to decide whether to lend or not to lend, what should be the loan price, what should be the extent of exposure, what should be the appropriate credit facility, what are the various facilities, what are the various risk mitigation tools to put a cap on the risk level.

At the post-sanction stage, the bank can decide about the depth of the review or renewal, frequency of review, periodicity of the grading, and other precautions to be taken.

A. Number and Short Name of Grades Used In the CRG

The CRG scale consists of 8 categories with Short names and Numbers are provided as follows:

GRADING	SHORT NAME	NUMBER	LETTER GRADE
Superior	SUP	1	AAA
Good	GD	2	AA
Acceptable	ACCPT	3	A
Marginal / Watchlist	MG/WL	4	B+
Special Mention	SM	5	B
Sub standard	SS	6	C
Doubtful	DF	7	D
Bad & Loss	BL	8	E

B. Stratification of Credit Risk Grating's Definitions

- Sup-1: Fully Cash covered, Govt./ Int. Bank Guarantee
- GD-2: Strong Repayment Capacity
- Accpt-3: Consistent Earnings, Cash Flow and Good Track Record
- MG/WL-4: Greater attention required – Above Average Risk.
- SM-5: Potential Weaknesses – Close attention required.
- SS-6: Weak Fin. Condition
- DF-7: Repayment Unlikely
- BL-8: No progress in repayment/ on the verge of wind-up

Ref: Reg. Def. on Grading of CL. Accounts

A. Objective Criteria

B. Qualitative Judgement

B. Stratification of Credit Risk Grating's Definitions

A clear definition of the different categories of Credit Risk Grading is given as follows:

Superior - (SUP) - 1

- Credit facilities, which are fully secured i.e. fully cash covered.
- Credit facilities fully covered by government guarantee.
- Credit facilities fully covered by the guarantee of a top tier international Bank.

Good - (GD) - 2

- Strong repayment capacity of the borrower
- The borrower has excellent liquidity and low leverage.
- The company demonstrates consistently strong earnings and cash flow.
- Borrower has well established, strong market share.
- Very good management skill & expertise.
- All security documentation should be in place.
- Credit facilities fully covered by the guarantee of a top tier local Bank.
- Aggregate Score of 85 or greater based on the Risk Grade Score Sheet

B. Stratification of Credit Risk Grating's Definitions

Acceptable - (ACCPT) - 3

- These borrowers are not as strong as GOOD Grade borrowers, but still demonstrate consistent earnings, cash flow and have a good track record.
- Borrowers have adequate liquidity, cash flow and earnings.
- Credit in this grade would normally be secured by acceptable collateral (1st charge over inventory / receivables / equipment / property).
- Acceptable management
- Acceptable parent/sister company guarantee
- Aggregate Score of 75-84 based on the Risk Grade Score Sheet

Marginal/Watch list - (MG/WL) - 4

- This grade warrants greater attention due to conditions affecting the borrower, the industry or the economic environment.
- These borrowers have an above average risk due to strained liquidity, higher than normal leverage, thin cash flow and/or inconsistent earnings.
- Weaker business credit & early warning signals of emerging business credit detected.
- The borrower incurs a loss
- Loan repayments routinely fall past due
- Account conduct is poor, or other untoward factors are present.
- Credit requires attention
- Aggregate Score of 65-74 based on the Risk Grade Score Sheet

B. Stratification of Credit Risk Grating's Definitions

Special Mention - (SM) - 5

This grade has potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower.

- Severe management problems exist.
- Facilities should be downgraded to this grade if sustained deterioration in financial condition is noted (consecutive losses, negative net worth, excessive leverage),
- An Aggregate Score of 55-64 based on the Risk Grade Score Sheet.

Substandard - (SS) – 6

Financial condition is weak and capacity or inclination to repay is in doubt.

- These weaknesses jeopardize the full settlement of loans.
- Bangladesh Bank criteria for sub-standard credit shall apply.
- An Aggregate Score of 45-54 based on the Risk Grade Score Sheet.

B. Stratification of Credit Risk Grating's Definitions

Doubtful - (DF) – 7

- Full repayment of principal and interest is unlikely and the possibility of loss is extremely high.
- However, due to specifically identifiable pending factors, such as litigation, liquidation procedures or capital injection, the asset is not yet classified as Bad & Loss.
- Bangladesh Bank criteria for doubtful credit shall apply.
- An Aggregate Score of 35-44 based on the Risk Grade Score Sheet.

Bad & Loss - (BL) – 8

- Credit of this grade has long outstanding with no progress in obtaining repayment or on the verge of wind up/liquidation.
- Prospect of recovery is poor and legal options have been pursued.
- Proceeds expected from the liquidation or realization of security may be awaited. The continuance of the loan as a bankable asset is not warranted, and the anticipated loss should have been provided for.
- This classification reflects that it is not practical or desirable to defer writing off this basically valueless asset even though partial recovery may be affected in the future. Bangladesh Bank guidelines for timely write off of bad loans must be adhered to. Legal procedures/suit initiated.
- Bangladesh Bank criteria for bad & loss credit shall apply.
- An Aggregate Score of less than 35 based on the Risk Grade Score Sheet.

D) How to compute Credit Risk Grading?

The following step-wise activities outline the detail process for arriving at Credit Risk Grading.....

Step-1 : IDENTIFY ALL THE PRINCIPAL RISK COMPONENTS

Credit Risk for counter party arises from an aggregate of the following:

- ❖ **Financial Risk**
- ❖ **Business/ Industry Risk**
- ❖ **Management Risk**
- ❖ **Security Risk**
- ❖ **Relationship Risk**

Each of the above mentioned key risk areas require to be evaluated and aggregated to arrive at an overall Risk Grading measure.

Week- 15

Slides: 161-171

D) How to compute Credit Risk Grading?

Step-I : IDENTIFY ALL THE PRINCIPAL RISK COMPONENTS

a. Evaluation of Financial Risk:

Risk that counter parties will fail to meet obligation due to financial distress. This typically entails analysis of financials i.e. analysis of leverage, liquidity, profitability & interest coverage ratios. To conclude, this capitalizes on the risk of high leverage, poor liquidity, low profitability & insufficient cash flow.

D) How to compute Credit Risk Grading?

Step-I : IDENTIFY ALL THE PRINCIPAL RISK COMPONENTS

b. Evaluation of Business/ Industry Risk:

Risk that adverse industry situation or unfavourable business condition will impact borrowers' capacity to meet obligation. The evaluation of this category or risk looks at parameters such as business outlook, size of business, industry growth, market competition & barriers to entry/ exit. To conclude, this capitalizes on the risk of failure due to low market & poor industry growth.

D) How to compute Credit Risk Grading?

Step-I : IDENTIFY ALL THE PRINCIPAL RISK COMPONENTS

c. Evaluation of Management Risk:

Risk that counter parties may default as a result of poor managerial ability including experience of the Management, its succession plan and team work.

d. Evaluation of Security Risk:

Risk that the Bank might be exposed due to poor quality or strength of the security in case of default. This may entail strength of security & collateral, location of collateral & support.

e. Evaluation of Relationship Risk:

These risk areas cover evaluation of limits utilization, A/C performance, conditions/ covenants compliance by the borrower and deposit relationship.

D) How to compute Credit Risk Grading?

Step-II : Allocate Weightages to Principal Risk Components

According to the importance of risk profile, the following weightages are proposed for corresponding principal risks.

<u>Principal Risk Components</u>	<u>Weight</u>
❖ Financial Risk	50%
❖ Business/ Industry Risk	18%
❖ Management Risk	12%
❖ Security Risk	10%
❖ Relationship Risk	10%

Step-III: Credit Risk Components and Key Parameters

CREDIT RISK

Financial Risk

Leverage

Liquidity

Profitability

Coverage

Business/
Industry Risk

Size of
Business

Age of
Business

Business
Outlook

Industry
Growth

Market
Competition

Barriers to
Business

Management
Risk

Experience

Succession

Team Work

Security Risk

Security
Coverage

Collateral
Coverage

Support

Relationship Risk

Account
Conduct

Utilization of
Limit

Compliance of
Covenants/
Condition

Personal
Deposits

D) How to compute Credit Risk Grading?

Step-III : ESTABLISH THE KEY PARAMETERS

Principal Risk Components

❖ **Financial Risk**

❖ **Business/ Industry Risk**

❖ **Management Risk**

❖ **Security Risk**

❖ **Relationship Risk**

Key Parameters

Leverage, Liquidity, Profitability & Coverage Ratio.

Size of Business, Age of Business, Business Outlook, Industry Growth, Competition & Barriers to Business.

Experience, Succession & Team Work.

Security Coverage, Collateral Coverage & Support.

A/C Conduct, Utilization of Limit, Compliance of covenants/ conditions & Personal Deposit.

D) How to compute Credit Risk Grading?

Step-IV : Assign Weightages to each of the key parameters

<u>Principal Risk Components</u>	<u>Key Parameters</u>	<u>Weight</u>
❖ Financial Risk		50%
	■ Leverage	15%
	■ Liquidity	15%
	■ Profitability	15%
	■ Coverage	5%

D) How to compute Credit Risk Grading?

Step-IV : Assign Weightages to each of the key parameters

<u>Principal Risk Components</u>	<u>Key Parameters</u>	<u>Weight</u>
❖ Business/ Industry Risk		18%
	■ Size of Business	5%
	■ Age of Business	3%
	■ Business Outlook	3%
	■ Industry Growth	3%
	■ Market Competition	2%
	■ Entry/ Exit Barriers	2%

D) How to compute Credit Risk Grading?

Step-IV : Assign Weightages to each of the key parameters

<u>Principal Risk Components</u>	<u>Key Parameters</u>	<u>Weight</u>
❖ Management Risk		12%
	■ Experience	5%
	■ Succession	4%
	■ Team Work	3%

<u>Principal Risk Components</u>	<u>Key Parameters</u>	<u>Weight</u>
❖ Security Risk		10%
	■ Security Coverage	4%
	■ Collateral	4%
	■ Support	2%

D) How to compute Credit Risk Grading?

Step-IV : Assign Weightages to each of the key parameters

<u>Principal Risk Components</u>	<u>Key Parameters</u>	<u>Weight</u>
❖ Relationship Risk		10%
	■ Account Conduct	5%
	■ Utilization of Limit	2%
	■ Compliance of Covenants/ Condition	2%
	■ Personal Deposit	1%

Week- 16

Slides: 172-183

D) How to compute Credit Risk Grading?

Step-V : Arrive at the Credit Risk Grading based on total score obtained

The following is the proposed Credit Risk Grading Matrix based on the total score obtained by an obligor.

<u>Risk Grading</u>	<u>Short name</u>	<u>Score</u>
Superior	SUP	<input type="checkbox"/> 100% cash covered <input type="checkbox"/> Government Guarantee <input type="checkbox"/> International Bank Guarantees
Good	GD	85+
Acceptable	ACCPT	75-84
Marginal/ Watchlist	MG/ WL	65-74
Special Mention	SM	55-64
Sub-Standard	SS	45-64
Doubtful	DF	34-44
Bad & Loss	BL	< 35

B CRG Process

- ✓ Applicable for all exposures (other than consumer and SE and short term Agri and Micro-Credit)
- ✓ Not Applicable for SUP. Grade
- ✓ Applicable for New or Renewal Cases

* RM to collect Inf. as per Data Collection Checklist (App-A)

- Documents/Items required for CRG

• Required – Obtained

- Pending Item Checklist

✓ RM to fill up Limit Utilisation form (App-B)

→ For assessing realistic earning status

- ✓ Risk Factors to be evaluated and weighted on the basis of
 - Up to date & reliable data
 - Complete objectivity

[CRG Score Sheet → App-C]

- * Criteria
- * Weight
- * Parameter
- * Score
- * Actual Parameter
- * Score Obtained
- * RISK GRADE

- ✓ CRG to be originated by RM & then an ongoing process
 - CRG Form (App-D) to follow for Risk Grading in case of existing concerns.

- ✓ All Credit proposals (New/Renewal) to accompany
 - Data Collection Checklist (DCC)
 - Limit Utilisation Form (LUF)
 - CRG Score Sheet
 - CRG Form

- ✓ Credit officer to pass on the approved CRG Form to Credit Admn. Dept. and Corp. Banking Unit for MIS record.

- ✓ Subsequent Revision of CRG by appropriate approving authority.

B Early Warning Signals (EWS)

- ✓ EWS indicate-
 - risks or potential weakness of an exposure
 - demanding close attention by management

- ✓ In the absence of EWS,
 - likely of repayment prospects
 - probability of downgrading to classified assets

- ✓ Hence, Early Identification, Prompt Reporting of credit signs and Proactive Management of Early Alert Accounts (EAA)

✓ Credit Risk Grading Form (App. D) as Additional Caution

✓ Irrespective of Credit Score, Identified EAAs to have the following symptoms:

* **MG/WL – 4:**

- Loan overdue – 60 days & above
- Frequent ↯security value or shortfall in DP

* **SM – 5:**

- Loan overdue – 90 days & above
- Major doc. deficiency exit
- Claim lodged against borrower

B Exceptions to Credit Risk Grading

- ✓ Downgrading/ Classifying an account by Head, CRM during inspection/ portfolio review
- ✓ Upgrading to be justified by Recommending Officer
 - Upon complete removal of the reasons for Downgrade.
- ✓ Marginal/ Special Mention/ Unacceptable, Cr. Risk may be accepted if addl. collateral exists.
 - Exceptionally approved
- ✓ Indep. Assessment of CRG of an Account may be done by Head/ CRM or Internal Auditor
- ✓ Bank may exercise option to continue with own CRG if equivalent or stricter.

B Credit Risk Grading Review

- ✓ CRG to be periodically updated after lending
- ✓ Review Frequencies

<u>RG</u>	<u>RF (at least)</u>
SUP	Annually
GD	-Do-
ACCPT	-Do-
MG/WL	HY
SM	Q
SS	Q
DF	Q
BL	Q

Thanks for YOUR patient hearing!



LESSON

-08



ELIGIBILITY CRITERIA OF A
**CONVENTIONAL COMMERCIAL BANK
IN BANGLADESH TO OBTAIN
LICENSE FOR OPENING ISLAMIC
BANKING BRANCHES**

Week- 17

Slides: 184-197

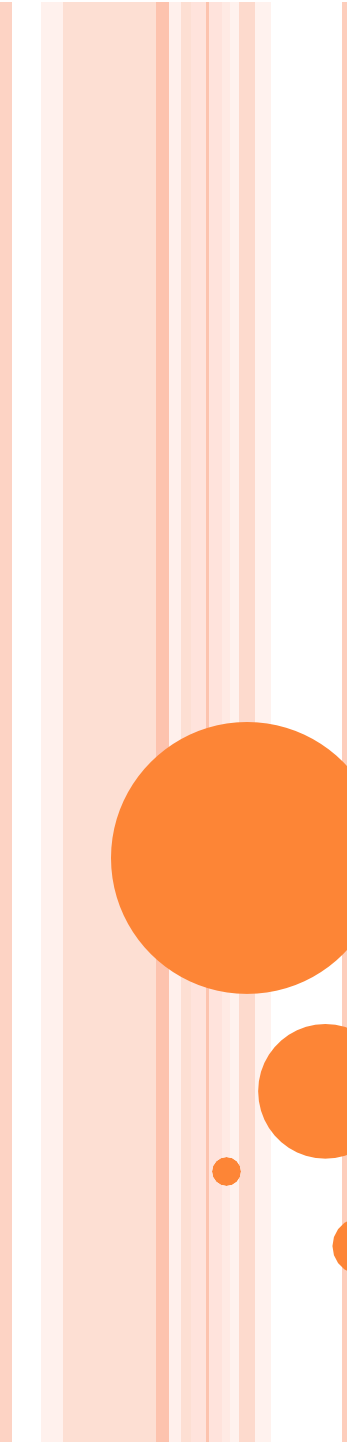
- The eligibility of a bank to open Islamic banking branches shall be considered by the Bangladesh Bank keeping in view, among others:
 - ✓ The financial strength of the bank as evident from its capital base (net capital free of actual and potential losses)
 - ✓ Adequacy of its capital structure
 - ✓ Record earning capabilities
 - ✓ Liquidity position
 - ✓ Track record of bank's adherence to prudential regulations
 - ✓ Credit Discipline
 - ✓ Quality of customer services
 - ✓ The needs of the population of the area to be served by the proposed branch



IN ADDITION.....

1. Banks must have CAMEL rating of 1/2 in the last On-site supervision of Bangladesh Bank.
2. There should not be major adverse inspection findings against the bank





**REQUIRED WORKING PAPERS
THAT HAVE TO SUBMIT TO THE
BANGLADESH BANK**

- ✓ The applying bank is required to submit a proposal for opening Islamic branch(es) to the concerned department of Bangladesh Bank with the following details:
- ❖ Specify the number of branches to operate in line with Islamic Shariah and the names of the proposed towns/districts.
- ❖ A statement of services and products to be offered (regarding deposits, investments, financing etc.) by the Islamic banking branch(es).
- ❖ Commitment to keep funds and accounts of Islamic banking branches completely separate from those of the conventional ones.
- ❖ Methods of segregating the funds of the Islamic branches from the funds of commercial branches of the bank.



- ❖ A Statement showing infrastructural and logistic facilities including manpower and training.
- ❖ Accounting aspects such as accounting policies to be followed, the principles and mechanism of profit/ loss sharing/ distribution.
- ❖ Undertaking for preparing separate financial statement for the Islamic branches.



CENTRAL BANK SUPERVISION

○ The Central Bank's supervisory objectives are to protect consumers and financial stability by seeking to ensure that regulated firms:

- ❖ act in the best interests of consumers
- ❖ are financially sound and safely managed with sufficient financial resources
- ❖ are governed and controlled appropriately, with clear and embedded risk appetites, which drive an appropriate culture within them



On-site supervision

- **On-site supervision** means **supervision** in which a supervisor is immediately available on a face-to-face basis when client procedures are performed or as otherwise necessary.

Off-site Supervision

- **Off-site Supervision** Department is under the General Directorate of **Supervision**, whose role is to regularly **supervise**, monitor, and analyze the operations and review periodic financial reports of banks and financial institutions to ensure compliance with regulatory requirements, and safe and sound banking practices.



SOME SHORT
NOTES

Deposit Insurance:

- ✓ Protection provided usually by a government agency to depositors against risk of loss arising from failure of a bank or other depository institution.

Lender of Last resort:

- ✓ A **lender of last resort** is an institution, usually a country's central bank, that offers loans to banks or other eligible institutions that are experiencing financial difficulty or are considered highly risky or near collapse.

CRR:

- ✓ Cash Reserve Ratio (**CRR**) is a certain minimum amount of deposit that the commercial banks have to hold as reserves with the central bank.

Money Laundering:

- ✓ **Money laundering** is the act of concealing the transformation of profits from illegal activities and corruption into ostensibly "legitimate" assets.

Hyperinflation:

- Very high rate inflation, say 50% rise in prices



THE REASONS BEHIND LOAN DEFAULT RATE IS HIGH IN BD

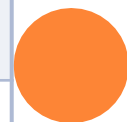
- In recent times loan default has emerged as a topic of frequent discussions both in academic circles and the media. The banking system of Bangladesh is currently under tremendous stress because of unbridled increase of loan default. The reasons behind loan default rate is high in BD are given below:
 - ✓ Asymmetry of information
 - ✓ Moral hazard also is a typical characteristic of the banking systems
 - ✓ Incompetence of bank personnel
 - ✓ lack of good governance in the banking sector.
 - ✓ Political influence



- ✓ weakness of the regulator for the rising number of default loans.
- Former central bank governor **Salehuddin Ahmed** said he believed that a lack of good governance was responsible for the situation. He blamed the weakness of the regulator for the rising number of default loans.



Bank name	Default loan (until December 2017)
Sonali Bank	Tk13,771 crores
BASIC Bank	Tk7,599 crores
Janata Bank	Tk5,819 crores
Agrani Bank	Tk5,116 crores
Rupali Bank	Tk4,251 crores
Bangladesh Krishi Bank	Tk4,263 crores
Islami Bank	Tk2,529 crores
Pubali Bank	Tk1,898 crores
United Commercial Bank	Tk1,807 crores
National Bank	Tk1,611 crores



SUGGEST REMEDIAL ACTIONS FOR THE FUTURE

- ✓ First, the analytical competence of the bank staff has to be improved.
- ✓ Second, sound corporate governance of banks has to be ensured.
- ✓ Third, the disposal of cases stuck up in courts has to be expedited. The Central Bank, the Finance Ministry and Attorney General's office should jointly seek help from the Honorable Chief Justice to achieve this objective.
- ✓ Fourth, there has to be a strong commitment by the political authorities to deal with the problem
- ✓ Fifth, the Central Bank should make honest self-assessment of the effectiveness of its role as the designated guardian of the banking system.

(Dr. Mirza Azizul Islam is a former Adviser (Cabinet Minister) to the Caretaker Government, Ministries of Finance and Planning)



QUESTIONS BANK

- What are the eligibility criteria of a conventional commercial bank in Bangladesh to obtain license for opening Islamic Banking Branches?
- What particular working papers the bank is required to submit to the Bangladesh Bank?
- **Short Notes:**
Deposit Insurance, Lender of Last resort, CRR, Islamic Bank, Financial Risk, Relationship Risk, Doubtful, Hyperinflation, Money Laundering, Central Bank
- What are Off-site Supervision and On-site Supervision?
- Why is the loan default rate high in Bangladesh?
- What suggestions can you put forward for the Bangladesh Bank to lessen the problem of loan default culture in Bangladesh?

