Presentation on Services Trade in Nepal, Bangladesh and Malaysia: A case Study of Banking and Insurance Sectors (Bangladesh Study)

Presented By-

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Overview

- Since the mid 1980s at the behest of World Bank and IMF, exhaustive economic reforms have been undertaken under the caption of Structural Adjustment Programme.
- This includes programmes such as trade liberalization, privatization, sectoral reform, export oriented development. Reforms of banking and insurance have been thorough.
- The objective of this study is to review the process of liberalization of the financial sectors (banking and insurance) in Bangladesh with the objective of accelerating the efficiency of the sector, which in turn will accelerate the growth of the economy.
- Since mid 1980s positive changes took place such as financial deepening, decline in gap between deposit and lending rate, growth in business and industry, enhancing of competition due to foreign equity participation and promotion of quality services.
- Implementation of more prudential regulatory and supervision system and other reforms accompanied by strengthening of rules, regulations and regulatory system has led to enhancement of efficiency and growth of the economy.
Rationale

Financial sector liberalization has had wide-ranging positive contribution in the following areas:

► Financial deepening i.e. the expansion of overall activities at a greater extent.

► Reduction in the gap between deposit and lending rates has been adjusted from time to time.

► Enhancing of business and industry like garments business.

► Increased competition and quality services through foreign equity participation and expansion in international trade like after the business operation of Citi N.A, Standard chartered bank.

► Structural changes in the economy through growing contribution in value added and employment.

► Increased employment facilities in banking and insurance sector.

► Standard of living has been raised being higher facilities provided by the bank and insurance.
Scope of the Study

► Critical assessment of the liberalization policies pursued in the banking and insurance sector by Bangladesh.
► Examination of the strengths and weaknesses of the banking and insurance sector liberalization in the light of their contribution in raising efficiency and competitiveness.
► Making of comparative assessment of the role of joint venture, private and government owned banks and insurance companies in Bangladesh with special focus on gender dimension.
► Assessment of the role of banks and insurance companies in promoting the business and enhancement of international trade of both goods and services.
► Exploring of the possibility of enhancement of internal as well as external trade in banking and insurance services and development of the strategies to be appropriate in the preferential trade agreements in Bangladesh taking regional experience into account.
Methodology

Three pronged methodological approach to be followed...

- An analytical approach for examining the features and sequencing of banking and insurance sector liberalization.

- Apart from a thorough review of policies, following indices and their trends will be closely examined for the pre and post liberalization period in a comparative way:
  - financial deepening in terms of credit to GDP and M2 to GDP ratio,
  - spread between lending and deposit rates,
  - rate of return,
  - access to financial services especially among small industry and business as well rural populous,
  - cost of financing trade (both exports and imports),
  - autonomy to the monetary authority and extent of prudential regulatory system,
  - contribution of financial services in country's value added and employment etc.
A case study of banking and insurance sectors (one each from government owned, domestically private sector owned and joint venture banks as well as insurance companies) to look into the impact. For this following aspects will be critically analyzed in comparative way:

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- spread between lending and deposit rates,
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A case study of banking and insurance sectors (one each from government owned, domestically private sector owned and joint venture banks as well as insurance companies) to look into the impact. For this following aspects will be critically analyzed in comparative way...

- role of financial liberalization in enhancing efficiency and competitiveness
- financial deepening
- access to credit

Internal financial services trade and international commodity and services trade etc.

While examining various aspects in the case studies following parameters will be further analyzed:

- net interest margin,
- non-interest income,
- overhead cost,
- non-performing loans,
Data Sources

- Bangladesh Bank
- Annual reports of all bank and insurance
- Securities and Exchange Commission
- Ministry of finance
- Ministry of commerce
- Bangladesh Bureau of Statistics
- Face to face conversation
- Bangladesh Insurance Academy
- Survey questionnaire
- Chief Controller of Insurance
- Dhaka Stock Exchange
- Various journals and articles
Structure of the Report

1. Introduction
2. Policy reforms and changes in banking and insurance
3. Performance and impact of banking and insurance sector liberalization
4. Case studies
5. Conclusion and implication for managing change
Policy reforms and changes in Banking and Insurance

Historical Background:

Over the last three decades, Bangladesh’s economic and policy orientation has evolved considerably, from a highly interventionist regime with widespread control on trade, the exchange rate and investment, to a substantially liberalized economic regime.

At independence in 1971, Bangladesh faced the daunting challenge of rehabilitating its economy, which had suffered serious dislocation and devastation during a bloody war. The situation with regard to the external sector was particularly difficult. Faced with very low foreign exchange reserves, a shallow export base and rising import prices, the Government resorted to severe import controls, ranging from extensive use of non-tariff barriers (NTBs) to high and even prohibitive import duties.
Policy reforms and changes in Banking and Insurance

Initial phases of reforms:
The beginnings of policy reform and liberalization can be traced to deregulation measures starting in 1976 under a new government, which increasingly distanced itself from the earlier socialist approach. However, initial reform efforts had neither a clear direction, nor a broad time frame for implementation. This phase of muddling through lasted for about a decade.

Four notable features of policy during this period of greater market orientation were: reduction of restrictions on investment; gathering momentum of denationalization of public sector enterprises; limited reduction of tariffs and NTBs; and incentive packages for the emerging ready-made garments sector.
During the latter half of the 1980s, a more coherent picture of reforms began to emerge under structural adjustment policies (SAPs). In the area of tariff reforms, SAPs emphasized rationalization of the import regime, simplification and reduction of effective protection, elimination of negative and restricted lists of industrial imports, and facilitation of imports of raw materials and intermediate and capital goods, including the imports needed for direct and indirect exporters.

However, political commitment to policy reforms remained problematic due to the Government’s continued preoccupation with the need to gain political legitimacy, which greatly restricted its ability to implement actions deemed unpopular. There were also genuine concerns over the policy prescriptions of the donors, particularly with regard to the design and implementation of the SAPs and their distributive implications.
Policy reforms and changes in Banking and Insurance

Recent Phases of policy reforms:

At the beginning of 21st centuries business arena, banking and insurance have made revolutionary changes in the financial sector of Bangladesh. According to banking company act 1991, Bangladesh, a lot of policies have been adopted to regulate and monitor the banking sector of Bangladesh. Bangladesh bank is the key institution to adopt policy making in Bangladesh. Bangladesh bank has implemented human resource policy, bank rate policy, CRR policy, SLR policy, monetary policy, fiscal policy, money laundering policy etc. The ministry of commerce implemented premium policy, discount policy, annuity policy etc. to regulate the insurance business in Bangladesh.
Policy reforms and changes in Banking and Insurance

Recent Phases of policy reforms (contd):

- Policy on Loan Classification and Provisioning
- Prudential Guidelines for Consumer Financing and Small Enterprise Financing
- Single Borrower Exposure Limit
- Customer Complaint Cell
- Cash Reserve Requirement (CRR)
- Statutory Liquidity Requirement (SLR)
- Interest Rate Policy
Policy Changes through commitments in GATS and FTA’s

Since the 1990s, the number of bilateral or regional free trade agreements (FTAs) that have been signed, or are under feasibility study or negotiation, has increased dramatically. In the Asia Pacific region, for instance, along with the countries like the United States, Canada, Mexico and Chile that have included FTAs as one of the options in pursuing their trade policy objectives by early 1990s, countries like Japan, Korea, China, Australia, India, Malaysia, Bangladesh, Nepal and New Zealand, which traditionally gave policy priority to multilateral liberalization, have started to promote their own FTAs in recent years.

Under these circumstances, the General Agreement on Tariffs and Trade (GATT) system after the World War II has been working relatively well towards the purpose of achieving “freer” trade in “wider” area of the globe. At the same time, the GATS/WTO allowed, with some conditions, regional and bilateral trade arrangements, including FTAs, to be formed under its Article XXIV and others as an “exception” to its basic principles of multilateralism and non-discrimination.
According to SAARC information center, the main objectives of FTA to SAARC countries:

(1) To identify factors that drives individual countries towards FTAs, even though the move is not necessarily consistent with the WTO principles of multilateralism and non-discrimination.

(2) To consider “mechanisms” (or rules, conditions) that would make FTAs play a role in complementing and/ or promoting multilateral liberalization process.

(3) To gauge the practicality of these mechanisms.
Some specific policy measures

- Money Market Development
- Financial Sector Development
- External Sector Development

Besides some other policy measures can be discussed from the following viewpoints:

- **Establishment**
  - Licensing
  - Rules on ownership
  - Rules on location
  - Legal forms

- **Operations**
  - Branching
  - Scope of business
  - Rules on employment
Some specific policy measures

- Rules on provision of services
- Rules on board membership
- Treatment of new services
- Data transfer/ privacy
- Local presence required
- Repatriation
- Controls on interest rates
- Cross border vs. mode 3
Some specific policy measures

- Prudential
- Exchange rate regime
- Classification system
  - Measures applying to all providers
  - Measures applying to foreigners
  - Measures affecting establishment
  - Measures affecting operations
  - Treatment of prudential matters
  - Treatment of capital flows
Performance and impact of Banking and insurance services liberalization

Taking the advantages of liberalization policy of the government regarding participation of private sector in the banking and insurance business, a number of new banks and insurance has been established in Bangladesh. As a result, cost efficiency, profitability, competitive behavior and higher services among the various industry participants have helped to develop other sectors such as service sector, industry sector, agriculture sector, communication sector, housing sector etc.

Therefore, greater market contestability and free market entry helped to improve bank efficiency and stability. Being the number of foreign bank increased, the domestic banks have become more alert in serving their clients and improve the competitiveness of the banking sector.
A comparison of GDP growth rates in constant prices between the 1980s and the 1990s indicates that there was an improvement in growth performance. The average growth rate in the 1990s was 4.8 per cent compared with 3.6 in the 1980s. Also, the growth rate was higher during the period 1996-2000, at 5.2 per cent, than during 1990-1995, at 4.4 per cent. It reached the highest point at 5.9 per cent in 2000, but fell back to an average of 5 per cent in the early years of the present decade.

It has remained significantly below the 7 percent target of the Programme of Action for the LDCs for the current decade, which would be necessary to generate a relatively robust supply capacity and make an accelerated and substantial dent in poverty.
Overall performance of the economy

GDP and its composition

- The rate of growth of GDP in Bangladesh has picked up in recent years. During the period 1980–1990, it grew at an average annual rate of 3.7 per cent, barely exceeding the population growth rate; but subsequently, during the period 1999–2004, it exceeded an average annual rate of 5 per cent, to reach about $54 billion in the fiscal year 2003-2004.

- There were only modest changes in the relative shares of consumption and savings in GDP in recent years. In 1991, consumption accounted for nearly 86 percent of GDP, but fell to 82 per cent in 2004, while the share of savings in GDP rose from 12 percent to 8 per cent over this period. The investment/GDP ratio increased from 17 per cent to 23 percent; within this, the ratio of public investment to GDP remained stagnant, at around 7 per cent, while that of private investment increased from 10 per cent to 17 per cent.
An overview of financial sector

- Financial sector consist 9 percent GDP in Bangladesh. Bank, leasing company, real-estate business, insurance company are the major sector of financial area. This sector constitutes a significant role to develop the overall economy of Bangladesh.

- The financial system of Bangladesh consists of Bangladesh Bank (BB) as the central bank, 4 nationalized commercial banks (NCB), and 5 government owned specialized banks, 30 domestic private banks, 10 foreign banks and 28 non-bank financial institutions. The financial system also embraces insurance companies, stock exchanges and co-operative banks.

- Twenty-eight financial institutions are now operating in Bangladesh. Of these institutions, 1(one) is govt. owned, 15 (fifteen) are local (private) and the other 12(twelve) are established under joint venture with foreign participation. The total amount of loan & lease of these institutions is Tk.29,729 million as on 30 April, 2003.
An overview of financial sector

- The SEC has issued licensees to 27 institutions to act in the capital market. Of these, 19 institutions are Merchant Banker & Portfolio Manager while 7 are Issue Managers and 1(one) acts as Issue Manager and Underwriter.

- In Bangladesh, the non-bank financial sector comprises investment and finance companies, leasing companies etc. The Non-Bank Financial Institutions (NBFIs) numbering, 28 as of June 2005 (starting from the IPDC in 1981) are regulated by the Financial Institutions Act, 1993 and the regulations made there under.

- The Financial Institutions Development Project (FIDP), administered by the Bangladesh Bank, was formally launched in February 2000 as per the Development Credit Agreement (DCA) signed between the Government of the People's Republic of Bangladesh and the International Development Association (IDA).
The major objective of the FIDP is to promote the development of Financial Institutions (FIs) and improvements in investment financing on a sustainable basis through strengthening the quality of intermediation with a view to accelerating industrial growth in Bangladesh. The project consists of two Components:

(a) resource mobilization for FIs and
(b) strengthening of FIs through developing and managing a credit bridge and standby facility.
## Banking sector performance

### Structure

<table>
<thead>
<tr>
<th>Bank types</th>
<th>2005</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of banks</td>
<td>No. of branches</td>
<td>Total assets</td>
<td>% of industry assets</td>
<td>Deposits</td>
</tr>
<tr>
<td>NCBs</td>
<td>4</td>
<td>3388</td>
<td>946.1</td>
<td>40.14</td>
</tr>
<tr>
<td>DFIIs</td>
<td>5</td>
<td>1334</td>
<td>182.2</td>
<td>7.73</td>
</tr>
<tr>
<td>PCBs</td>
<td>30</td>
<td>1557</td>
<td>1005.7</td>
<td>42.67</td>
</tr>
<tr>
<td>FCBs</td>
<td>10</td>
<td>39</td>
<td>222.9</td>
<td>9.46</td>
</tr>
<tr>
<td>Total</td>
<td>49</td>
<td>6318</td>
<td>2356.9</td>
<td>100</td>
</tr>
</tbody>
</table>
Banking sector performance

Structure (contd)

The table shows that 3388 branches of NCBs are operating their business activities where the total number of bank branches 6318 that means more than 50% of total bank branches are NCBs
Banking sector performance

**Assets:**

### Aggregate industry assets (Dec, 2003) (billion Taka)
- Loans & advances, 918.3, 60%
- Govt. bills & bonds, 162.3, 11%
- Deposit with BB, 84.1, 6%
- Cash in bills, 13.4, 1%
- Other assets, 335.9, 22%

### Aggregate industry assets (Dec, 2004) (billion Taka)
- Loans & advances, 1047.1, 61%
- Govt. bills & bonds, 198.4, 11%
- Deposit with BB, 86.3, 6%
- Cash in bills, 15.5, 1%
- Other assets, 395.7, 22%
Banking sector performance

Assets (contd):

- Aggregated industry assets in 2004 registered an overall increase by 14.0 percent over 2003. During this period NCBs’ assets increased by 8.2 percent and those of the PCBs rose by 21.2 percent.

- Loans and advances played a major role on the uses of fund. Loans and advances amounting to Taka 1047.1 billion out of the aggregate assets of Taka 1725.5 billion constituted a significant portion (60.7 percent). Cash in tills were Taka 15.5 billion (below 1.0 percent), deposits with Bangladesh bank were Taka 86.3 billion or 5.0 percent. Other assets were Taka 385.7 billion or 22.4 percent and investment in government bills and bonds accounted for Taka 190.9 billion or 11.1 percent of the assets.
## Banking sector performance

### Deposit and rate of deposit:

<table>
<thead>
<tr>
<th>Month/Year</th>
<th>Total Deposit</th>
<th>Change of total deposit</th>
<th>Percentage (%) of total deposit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Called up deposit</td>
</tr>
<tr>
<td>2004 March</td>
<td>1136.98</td>
<td>8.77</td>
<td>11.12</td>
</tr>
<tr>
<td>June</td>
<td>1213.47</td>
<td>76.49</td>
<td>12.04</td>
</tr>
<tr>
<td>September</td>
<td>1243.37</td>
<td>29.90</td>
<td>11.08</td>
</tr>
<tr>
<td>December</td>
<td>1317.58</td>
<td>74.21</td>
<td>11.54</td>
</tr>
<tr>
<td>2005 March</td>
<td>1329.99</td>
<td>-2.35</td>
<td>11.19</td>
</tr>
<tr>
<td>June</td>
<td>1426.19</td>
<td>110.96</td>
<td>11.81</td>
</tr>
<tr>
<td>September</td>
<td>1458.13</td>
<td>86.10</td>
<td>11.29</td>
</tr>
<tr>
<td>December</td>
<td>1544.23</td>
<td>6.36</td>
<td>11.29</td>
</tr>
<tr>
<td>2006 February</td>
<td>1550.59</td>
<td>-4.87</td>
<td>11.02</td>
</tr>
</tbody>
</table>
### Banking sector performance

#### Deposit and rate of deposit:

Rate of Bank deposits and Advances (in billion tk.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate of deposit</th>
<th>Rate of Advances</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rural area</td>
<td>Urban area</td>
</tr>
<tr>
<td>1996</td>
<td>22.70</td>
<td>77.30</td>
</tr>
<tr>
<td>1997</td>
<td>22.68</td>
<td>77.32</td>
</tr>
<tr>
<td>1998</td>
<td>22.88</td>
<td>77.12</td>
</tr>
<tr>
<td>1999</td>
<td>22.78</td>
<td>77.22</td>
</tr>
<tr>
<td>2000</td>
<td>22.62</td>
<td>77.38</td>
</tr>
<tr>
<td>2001</td>
<td>19.62</td>
<td>80.38</td>
</tr>
<tr>
<td>2002</td>
<td>19.08</td>
<td>80.92</td>
</tr>
<tr>
<td>2003</td>
<td>17.76</td>
<td>82.24</td>
</tr>
<tr>
<td>2004</td>
<td>15.80</td>
<td>84.20</td>
</tr>
<tr>
<td>2005</td>
<td>15.42</td>
<td>84.58</td>
</tr>
<tr>
<td>2006 (up to june)</td>
<td>14.27</td>
<td>85.73</td>
</tr>
</tbody>
</table>
Banking sector performance

Deposit and rate of deposit (contd):

- Total deposits of the banks in 2005 rose to Taka 1551.5 billion from Taka 1326.1 billion in 2004 showing an overall increase by 17.0 percent.

- The NCBs’ share in deposits decreased from 42.8 percent in 2004 to 39.78 percent in 2005. On the other hand, PCBs’s deposits in 2005 amounted to Taka 732.0 billion or 47.18 percent of the total industry deposits against Taka 588.0 billion or 43.5 percent in 2004. FCBs’ deposits in 2005 fall by Taka 5.2 billion or 1.38 percent over the previous year. The DFIs’ deposits in 2005 were Taka 112.0 billion against Taka 75.1 billion in 2004.
Banking sector performance

- **Liability:**

  ![Pie chart showing aggregate industry liabilities for Dec, 2003 and Dec, 2004 in billion Taka.](image)
Banking sector performance

Liability (contd):

The aggregated liability portfolio of the banking industry in 2004 was Taka 1725.5 billion of which deposits constituted Taka 1326.1 billion or 76.9 percent and continued to be the main sources of fund of banking industry. Capital and reserves of the banks were Taka 92.7 billion or 5.4 percent of aggregated liabilities in 2004, against Taka 76.8 billion or 5.1 percent in 2003.
Banking sector performance

- **Capital adequacy:**

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>NCBs</td>
<td>6.6</td>
<td>5.2</td>
<td>5.3</td>
<td>4.4</td>
<td>4.2</td>
<td>4.1</td>
<td>4.3</td>
<td>4.1</td>
</tr>
<tr>
<td>DFIs</td>
<td>6.0</td>
<td>6.9</td>
<td>5.8</td>
<td>3.2</td>
<td>3.9</td>
<td>6.9</td>
<td>7.7</td>
<td>9.1</td>
</tr>
<tr>
<td>PCBs</td>
<td>8.3</td>
<td>9.2</td>
<td>11.0</td>
<td>10.9</td>
<td>9.9</td>
<td>9.7</td>
<td>10.5</td>
<td>10.3</td>
</tr>
<tr>
<td>FCBs</td>
<td>16.7</td>
<td>17.1</td>
<td>15.8</td>
<td>18.4</td>
<td>16.8</td>
<td>21.4</td>
<td>22.9</td>
<td>24.2</td>
</tr>
<tr>
<td>Total</td>
<td>7.5</td>
<td>7.3</td>
<td>7.4</td>
<td>6.7</td>
<td>6.7</td>
<td>7.5</td>
<td>8.4</td>
<td>8.7</td>
</tr>
</tbody>
</table>

Aggregate capital adequacy position
Banking sector performance

Capital adequacy (contd):

As on 31 December 2004 the DFIs, PCBs and FCBs maintained CAR of 9.1, 10.3 and 24.2 percent respectively. The 4 NCBs could not attain the required level. One of the DFIs and 5 PCBs failed to maintain required CAR. FCBs have the CAR much above the required standard at 24.2 percent but 2 of them maintained inadequate capital individually.
Banking sector performance

- Loan Loss provisioning of the Banks

<table>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of NPLs</td>
<td>173.3</td>
<td>214.3</td>
<td>238.6</td>
<td>228.5</td>
<td>234.0</td>
<td>238.6</td>
<td>233.2</td>
<td>187.3</td>
</tr>
<tr>
<td>Required provision</td>
<td>79.1</td>
<td>93.5</td>
<td>100.2</td>
<td>92.4</td>
<td>101.6</td>
<td>106.8</td>
<td>92.5</td>
<td>87.8</td>
</tr>
<tr>
<td>Provision maintained</td>
<td>46.7</td>
<td>50.1</td>
<td>51.5</td>
<td>58.1</td>
<td>61.4</td>
<td>59.6</td>
<td>37.3</td>
<td>35.9</td>
</tr>
<tr>
<td>Excess(+)/shortfall(-)</td>
<td>-32.4</td>
<td>-43.4</td>
<td>-48.7</td>
<td>-30.3</td>
<td>-40.2</td>
<td>-47.2</td>
<td>55.2</td>
<td>51.9</td>
</tr>
<tr>
<td>Provision maintenance ratio</td>
<td>50.1%</td>
<td>53.5%</td>
<td>51.4%</td>
<td>59.1%</td>
<td>60.5%</td>
<td>55.8%</td>
<td>40.3%</td>
<td>40.9%</td>
</tr>
</tbody>
</table>

Provision adequacy position of all banks

- Amount of NPLs
- Provision maintained
- Provision maintenance ratio
Banking sector performance

Loan Loss provisioning of the Banks (contd):

- The banks have been continuously failing to maintain the required level provisions against their NPLs. During the years from 1997 through 2004, the banks could maintain 55.8 percent of the required provision in 2002, which declined thereafter to 40.9 percent in 2004.
Banking sector performance

Management Soundness

- Since indicators of management quality are primarily specific to individual institution, these cannot be easily aggregated across the sector. In addition, it is difficult to draw any conclusion regarding management soundness on the basis of monetary indicators, as characteristics of a good management are rather qualitative in nature.

- The total expenditure to total expenses, earnings and operating expenses per employee and interest rate spread are generally used to gauge management soundness. In particular, a high and increasing expenditure to income ratio indicates the operating inefficiency that could be due to flaws in management.
## Banking sector performance

### Earnings and profitability

<table>
<thead>
<tr>
<th>Bank type</th>
<th>Return on assets (ROA)</th>
<th>Return on equity (ROE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NCBs</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>DFIs</td>
<td>-2.1</td>
<td>-2.8</td>
</tr>
<tr>
<td>PCBs</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td>FCBs</td>
<td>4.8</td>
<td>4.7</td>
</tr>
<tr>
<td>Total</td>
<td>0.3</td>
<td>0.3</td>
</tr>
</tbody>
</table>
Earnings and profitability (contd):

- The ROA of the ICBs has been very low and turned to negative in 2004, and that of the DFIs even worse. PCBs had an inconsistent trend and FCBs' return on assets ratio consistently declined from 4.8 percent in 1997 to 3.2 percent in 2004.

- NCBs return on equity ratio rose from -1.1 percent in 1999 to 3.0 percent in 2003 but again declined to -5.3 percent in 2004. In case of DFIs, the ROE sharply rose from -68.01 percent in 2000 to 12.3 percent in 2001 and again declined to -0.6 percent in 2003 and -2.1 percent in 2004. The sharp rise in 2001 was due to booking of net profit amounting to Taka 1.0 billion in 2001 against net loss of Taka 5.16 billion in 2000 by the DFIs. The huge loss of the DFIs in 2000 was mainly due to making of provisions by debiting 'loss' in their books of accounts.
## Banking sector performance

### Net Interest Income:

<table>
<thead>
<tr>
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<th></th>
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<td>1.4</td>
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</tr>
<tr>
<td>PCBs</td>
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<td>6.1</td>
<td>9.2</td>
<td>10.2</td>
<td>12.0</td>
<td>13.7</td>
</tr>
<tr>
<td>FCBs</td>
<td>2.0</td>
<td>2.2</td>
<td>1.8</td>
<td>2.5</td>
<td>3.3</td>
<td>3.4</td>
<td>3.6</td>
<td>4.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6.3</strong></td>
<td><strong>7.1</strong></td>
<td><strong>7.8</strong></td>
<td><strong>8.4</strong></td>
<td><strong>13.4</strong></td>
<td><strong>13.5</strong></td>
<td><strong>16.6</strong></td>
<td><strong>18.3</strong></td>
</tr>
</tbody>
</table>
Banking sector performance

Net Interest Income (contd):

- Aggregate net interest income (NII) of the industry has been positive and consistently increased from Taka 6.3 billion in 1997 to Taka 18.3 billion in 2004. However, the NII of the NCBs sharply declined from Taka 3.1 billion in 1999 to a negative amount of Taka 1.2 billion in 2000.

- The trend continued and the NCBs' interest income in 2001 was less by Taka 1.8 billion than interest expenses, and in 2002 by Taka 1.5 billion, in 2003 by Taka 0.3 billion and in 2004 by Taka 1.1 billion. The DFIs had a negative NII in 1997 and 1999, which was reversed in 2000 to Taka 1.0 billion and thereafter was positive in 2001 (Taka 2.7 billion), 2002 (Taka 1.4 billion), 2003 (Taka 1.3 billion) and 2004 (Taka 1.8 billion).
Banking sector performance

**Infrastructure and Operating Results:**

<table>
<thead>
<tr>
<th>Bank types</th>
<th>Number of branches</th>
<th>Number of employees</th>
<th>Operating expenses (billion Taka)</th>
<th>Net profit (billion Taka)</th>
<th>Number of employees per branch</th>
<th>Expenses per employee (Taka)</th>
<th>Profit per employee (Taka)</th>
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</thead>
<tbody>
<tr>
<td>NCBs</td>
<td>3,397</td>
<td>3,398</td>
<td>59,630</td>
<td>57,588</td>
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<tr>
<td>DFIs</td>
<td>1,314</td>
<td>1,328</td>
<td>16,420</td>
<td>15,877</td>
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<tr>
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<td>1,510</td>
<td>1,550</td>
<td>31,905</td>
<td>34,343</td>
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<tr>
<td>FCBs</td>
<td>32</td>
<td>37</td>
<td>1,502</td>
<td>1,582</td>
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<td>Total</td>
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<td>6,303</td>
<td>108,457</td>
<td>109,390</td>
<td>29.1</td>
<td>32.2</td>
<td>7.5</td>
</tr>
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</table>

* Provisional.
Banking sector performance

Infrastructure and Operating Results (contd):

- Operating expenses of NCBs in 2004 increased by Taka 0.5 billion from the previous year. In case of PCBs, the operating expenses increased by Taka 2.2 billion during the same period with the increase in number of branches by 40. Expenses of the DFIs also increased from Taka 2.9 billion in 2003 to 3.2 billion in 2004. Expenses of FCBs were increased in 2004 by 0.1 billion than 2003.
## Banking sector performance

### Liquidity:

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<tr>
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<td>25.9</td>
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<tr>
<td>Total</td>
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<td>25.2</td>
<td>27.0</td>
<td>26.1</td>
<td>25.3</td>
<td>27.2</td>
<td>24.7</td>
<td>23.4</td>
</tr>
</tbody>
</table>

*Graph showing aggregate position of excess liquidity.*
The FCBs are having the highest liquidity ratios followed by the PCBs. This situation of constant surplus of liquidity warrants creation of effective demand for credit at lower costs.
## Banking sector performance

### Loans:

<table>
<thead>
<tr>
<th>Month/Year</th>
<th>Bank Loan</th>
<th>Change of total bank loan (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment</td>
<td>Private sector</td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>66.18</td>
<td>892.01</td>
</tr>
<tr>
<td>June</td>
<td>74.03</td>
<td>946.35</td>
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<tr>
<td>September</td>
<td>74.22</td>
<td>977.10</td>
</tr>
<tr>
<td>December</td>
<td>71.00</td>
<td>1037.20</td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>85.34</td>
<td>1065.02</td>
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<td>June</td>
<td>101.34</td>
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<td>September</td>
<td>118.76</td>
<td>1144.74</td>
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<tr>
<td>December</td>
<td>141.52</td>
<td>1191.47</td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>132.55</td>
<td>1223.66</td>
</tr>
</tbody>
</table>
Banking sector performance

Loans (contd):

- Bank loan, as investment in December 2005 was 141.52 billion Taka against 71 billion Taka in December 2004. Besides the bank loan was disbursed to the private sector 1191.47 billion Taka in December 2005 whereas 1037.20 billion Taka in December 2004. In addition it has been observed that the change of bank loan in December 2005 was 69.49 percent whereas 56.88 in December 2004.
Banking sector performance

Interest rate:

- Different types of banks offer different types interest in case of deposit and loan. The gap between deposit interest rate and loan interest rate has been decreased in Bangladesh.

- Interest rate of deposit in private commercial bank is higher than those of other banks. It does mean weighted average interest rate of deposit in private commercial bank is 6% to 9% whereas 3.5% to 5.5% for government commercial bank, 4% to 6% for Specialized Bank and 4% to 8%.

- Weighted average interest rate of loan in private commercial banks 9% to 15% whereas 8% to 10.5% in case of government commercial banks, 8.5 to 11.5% in case of specialized banks and 10.5% to 14% in case of foreign commercial bank.
Banking sector performance

- **Market share:**
  Among the four types of banks, some private commercial banks have invested their capital in the stock exchange market. Only Rupali bank has private ownership 49% among the government commercial bank. The most of the private commercial started selling their shares in the market. The average market value of the shares is 3 to 5 times more than the face value. For example, the face value of Eastern Bank Limited was 100 Taka per share and market value is 370.93 Taka per share up to 2005.

- **FDI flows:**
  The policy of Bangladesh government is to pursue foreign investment actively. It has placed in advertisement in international print media promoting Bangladesh for foreign investment and regularly arranges official and private trade delegations to Asian, European, and North American cities. In 2005, the Bangladesh board of investment has published FDI policy in which they encourages FDI flows in Bangladesh. Bangladesh has got a proposal of FDI about Taka 20,000 crore in 2005.
The banking system of Bangladesh is composed of a variety of banks working as Nationalized Commercial Banks (NCBs), Private Banks, Foreign Banks, Specialized Banks and Development Banks. However, 30 out of 50 banks in Bangladesh are private, of which only 6 have been operating as Islamic banks. Besides these full-fledged Islamic banks, two conventional banks in the private sector namely the Prime Bank Limited and Dhaka Bank Limited, have opened two full-fledged Islamic banking branches and Islamic Banking Counter respectively to deal with the Islamic banking business parallel to their conventional operations. The operations and accounts of these branches and counter are maintained separately from the mainstream business of the respective banks.
Banking sector performance

Loan to staff ratio:

Most of the banks are used to provide loan to their staff. The central bank of Bangladesh provides the highest amount of loan to its staff. It provides around 2% to 3% to staff out of total loans. Other 49 banks also provide loan amounting 50-80 times more of basic salary to only those staffs that works there at least five years in any particular bank. The loan amount and time varies from bank to bank, employee to employee.
## Banking sector performance

### Percentage of NPL:

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>NCBs</td>
<td>31.4</td>
<td>35.6</td>
<td>41.3</td>
<td>34.1</td>
<td>32.8</td>
<td>30.1</td>
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<tr>
<td>DFIs</td>
<td>56.9</td>
<td>59.1</td>
<td>58.5</td>
<td>54.6</td>
<td>54.5</td>
<td>48.0</td>
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<td>PCBs</td>
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<td>21.2</td>
<td>15.5</td>
<td>10.5</td>
<td>10.5</td>
<td>8.3</td>
<td>3.4</td>
</tr>
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<td>0.1</td>
<td>0.9</td>
<td>-0.1</td>
<td>-0.3</td>
<td>-0.4</td>
<td>0.1</td>
<td>-1.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
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<td><strong>34.4</strong></td>
<td><strong>35.6</strong></td>
<td><strong>28.8</strong></td>
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<td><strong>22.6</strong></td>
<td><strong>18.8</strong></td>
<td><strong>9.8</strong></td>
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</table>
Banking sector performance

Percentage of NPL (contd):

The most important indicator intended to identify problems with asset quality in the loan portfolio is the percentage of gross and net non-performing loans (NPLs) to total assets and total advances. FCBs have the lowest and DFI s have the highest ratio of NPLs. NCBs have gross NPLs to total assets of 14.6 percent whereas in case of PCBs, FCBs and DFI s, the ratios are 5.6 percent, 0.9 percent and 26.6 percent respectively. Similarly, NPLs net of assets is 9.1 percent, 2.1 percent and 10.5 percent for NCBs, PCBs and DFI s. FCBs are having excess provision for loan losses.
At the beginning of 21st centuries business world, banking sector in Bangladesh follows Equal Employment Opportunity (EEO) for women. The total number of employment in our country is 4.43 crore in 2005, among them 0.98 crore are women. 34.75 percent of total employees are engaged in service sector. About 43 percent women are involved in service sector. Grameen Bank in Bangladesh has achieved a great success by participating women in banking activities as well as giving loan to them.
## Banking sector performance

### Cost to income ratio:

<table>
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<td>87.1</td>
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<td>75.7</td>
<td>78.3</td>
<td>80.3</td>
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<td><strong>Total</strong></td>
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<td><strong>93.9</strong></td>
<td><strong>90.9</strong></td>
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</table>
Banking sector performance

Cost to income ratio:

- Expenditure-income (EI) ratio of the DFIs was very high with 180.4 percent in 1998 and 175.3 percent in the year 2000. This was mainly because the DFIs made loan loss provisions by debiting 'loss' in their books. The position however improved after 2000 and the ratio came down to 89.1 percent and 95.9 percent in 2001 and 2002 respectively but again rose to 101.1 percent in 2003 and 104.0 in 2004 due to huge loss incurred by BKB (Bangladesh Krishi Bank). The EI ratio of the NCBs exceeded 100 percent in 1999 before falling to below 99 percent by end 2003 but again rose to 102.3 percent in 2004 due to loss incurred by Agrani Bank.

- Very high EI ratio of NCBs was mainly attributable to high administrative and overhead expenses, suspension of income against NPI-s and making provision out of the profits made.
Banking sector performance

- **Loan approval time:**

  The loan approval time varies from bank to bank. It has been observed that private commercial bank and foreign commercial bank require 2 to 5 days for short-term loan, 15-60 days for long-term loan. Government commercial and specialized banks require 10 to 30 days for short-term loan and 30 to 90 days for long-term loan.

- **Innovation:**

  The bank in Bangladesh is innovating new ideas to expand their banking business. They have innovated new services such as online banking, ATM, SME loan, Salary loan, any purpose loan etc which were not present before in the banking history of Bangladesh.
Banking sector performance

Internet transaction Vs. OTC:

Most of the private commercial bank and foreign commercial banks offer online banking services to their customer through WAN connectivity between all their branches using VSAT technology. These banks have revamped their IT infrastructure and team to ensure maximum system uptime, smooth IT operation, faster response time, better capacity and higher system and operational security.
Insurance sector performance

With a combined life and non-life insurance market premium of approximately Taka 20 billion, Bangladesh ranks 78th in the world and has world market share of 0.01%. Per capita spending on insurance is only US dollar 2.3 only. Insurance premium as a percentage of GDP remains low at 0.57% (0.37% for life insurance and 0.2% for non-life). However the market has been steadily growing at a double-digit rate.
Insurance sector performance

Insurance sector performance has been discussed in the context of following indicator-

**Premium**

In 1986 the total premium income of the private sector insurance companies was Taka 28 crore. As opposed to this the premium of 2004 that is within 18 years of operation of the private sector insurance companies, rose to 2031 crore of which life insurance premium was Taka 1409 crore and general insurance premium was Taka 622 crore, which represents 88% of the total country’s premium income of Taka 2306 crore generated in the market.
Insurance sector performance

- **Growth:**
  Performance of general insurance industry sector during the year witnessed continuous growth. During 2004 it marked a growth of 21.84% over the previous year. Gross premium incomes of both private and public companies goes to 6220 million in last year compared to Taka 5105 million in 2003.

- **Profitability:**
  The large general insurance companies making profit at the expense of minnows recorded a modest 11.83% maintained status such a lackluster growth has been attributed to small market with too many players and indicates likelihood of quick consideration in near future.
Insurance sector performance

**Reserve and Assets:**

In order to ensure long term growth and sustainable income, the insurance companies of Bangladesh is building up reserve and assets and those are the most essential elements for any companies operating philosophy. As on December 31st 2005, the total reserves and assets of the insurance companies have increased by 6.59% and 23.46% respectively compare to the previous year. This figure indicates that every year insurance companies are becoming stronger and stronger.
Insurance sector performance

**Investment:**
The dimension of a good investment climate include macro economic stability, open and competitive markets, strong property rights, rule of law and good governance an adequate supply of infrastructure and financial services. Although Bangladesh has opened up its economy considerably in recent years, still there are many barriers to encourage both foreign and domestic investment and therefore we are experiencing a tremendous challenge.

**Gender indicator:**
At the beginning of 21st centuries business world, insurance sector in Bangladesh does not follow Equal Employment Opportunity (EEO) for women. The total number of employment in our country is 4.43 crore in 2005, among them 0.98 crore are women. 34.75 percent of total employees are engaged in service sector. About 43 percent women are involved in service sector. In insurance sector about 10% to 20% women are involved in servicing.
Overall Impact

- Banking and insurance sector in Bangladesh has overall impact on GDP. Changes in the sectoral distribution of GDP indicate that Bangladesh’s economy has undergone important structural transformations over the past three decades. At independence in 1971, agriculture was the dominant sector, accounting for over half of total GDP. The industrial sector was small, contributing less than 10 per cent of GDP, while services, including transportation and power, accounted for the rest.

- However, following remarkable growth in the ready-made garments sector, its share began to change. By 1990, the contribution of industry to GDP had almost doubled to over 20 per cent. The share of agriculture fell to 29 per cent that year, while that of services rose to nearly 50 per cent. To the extent that the growth of the ready-made garments sector was driven by international market conditions in textiles and clothing, the structural changes in the economy were influenced by external factors.
In 2004, the industrial sector accounted for 27 per cent of GDP, while the share of agriculture dropped to 23 per cent, and that of the services sector remained steady around 50 per cent. Total manufacturing value added increased from $3.8 billion in 1990 to nearly $7 billion in 2002. Within the manufacturing sector, textiles and clothing alone accounted for one third of the total manufacturing value added in 2002, followed by food, beverages and tobacco at 22 per cent, machinery and transport equipment at 16 per cent and chemicals at 10 percent.
# Overall Impact

<table>
<thead>
<tr>
<th>Sector</th>
<th>FY91-FY00 (Average)</th>
<th>FY01-FY05 (Average)</th>
<th>FY03-FY04</th>
<th>FY04-FY05</th>
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<td><strong>Industry</strong></td>
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<td>8.4</td>
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<td>6.9</td>
<td>7.1</td>
<td>8.4</td>
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<tr>
<td>Construction</td>
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<td>9.1</td>
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<tr>
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<td>Wholesale and retail trade</td>
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<td>8.1</td>
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<td>3.6</td>
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<td></td>
<td>4.0</td>
<td>5.8</td>
<td>6.2</td>
<td>6.9</td>
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<tr>
<td><strong>GDP (Constant prices)</strong></td>
<td><strong>4.8</strong></td>
<td><strong>5.3</strong></td>
<td><strong>6.3</strong></td>
<td><strong>5.4</strong></td>
</tr>
</tbody>
</table>
The services sector contributes about 50 percent of total GDP in Bangladesh. Within this, about 14 percent is attributable to wholesale and retail trade followed by 10 percent in transport, storage and communication and 8 percent in real estate, renting and other business activities. Overall activities in the services sector, registered 6.6 percent growth in FY05 compared to 5.7 percent in FY04 based mainly on strong growth in industry sector and foreign trade.

Despite some fluctuations, the growth appears to be broad based across sub-sectors. Somewhat higher than wholesale and retail trade experienced average growth, transport, storage & communication, financial intermediation, public administration, education and health. Wholesale and retail trade, which accounts for about 28.4 percent of the sector, grew by 6.9 percent in FY05, up from 6.6 percent in FY04.
Transport, storage and communication sub-sector, the second highest contributor to the services sector, recorded a robust growth of 8.1 percent in FY05, reflecting huge investment in mobile phone in both private and public sector. High public spending on education, health and public administration benefited these activities directly. While growth in insurance services slowed down in FY05, banking services registered healthy growth of 9.3 percent compared to 6.7 percent in FY04, which is reflected mainly in the profits of banks in the private sector.
Sequencing of reforms and its impact on its performance

The policy reform process gained substantial momentum following the restoration of democracy in 1991. The main political parties embraced a liberal economic agenda, which augured well for genuine and sustained political commitment to reform and liberalization. Since then, wide-ranging reforms and liberalization measures have been initiated and implemented, which have virtually transformed the policy landscape. These measures include tariff reductions, the elimination of a large number of quantitative restrictions (QRs), a flexible exchange rate regime, and the provision of a range of fiscal and financial incentives for export promotion.
The import policy for 2003–2006 aims at the following objectives: (a) further simplification of the import regime to respond to globalization and to facilitate increased liberalization in the light of the WTO agreements; (b) strengthened provisions for technology imports to enable the widespread dissemination of modern technology; (c) provision of simplified import procedures for export-oriented industries to enable the development of a robust export supply capacity; and (d) gradual removal of import protection to make available industrial raw materials and enhance competitiveness, competency and efficiency (Government of Bangladesh, 2003).
Case studies

General Focus/ objectives of studies:

The general focus of the study is on the following:

- to review relevant policies and the backdrop that led to adoption of such policy changes, to investigate whether the adopted reform measures and objectives were justified, effective and enough in tackling the arising conditions of the financial sector.
- to examine the outcome (reasons responsible for success or failure) of the reform measures.
- to analyze the consequences of outcome on the banking and insurance system.
- to analyze the present situation and draw a future policy framework based on the issue of liberalization.
Case studies

Principal Hypothesis:

The research component of the bank and insurance, Bangladesh is geared towards targeted learning on the issues identified through face-to-face conversion, data analysis, focus group discussions, and opening research team. The team decided that one of the research questions that would be pursued in the study phase would be the following:

“Liberalization of banking and insurance sector in Bangladesh”
Case studies

Areas of Investigation:

With a view to address the stated research question, the study has attempted to comprehend the following areas:

- Revisit the design of the ART Net in order to find out the appropriateness of the reform measures including institutional reforms;
- Assess the liberalization policies on bank and insurance.
- Find out the percentage foreign ownership.
- Assess the changing policies over time by bank and insurance.
- Review the interest rate structure with a view to examining the improvement in the allocation of resources;
- Assess whether liberalization of interest rate has led to reduction of the cost of borrowing through market mediated process; and
- Investigate whether access to credit has improved to the productive sectors in terms of availability;
Case studies

Areas of Investigation:

- Analyze accounting policies including loan classification, provisioning, recapitalization in order to assess the degree of transparency and disclosure as well as improvement of recovery in the banking and insurance sector.

- Analyze regulatory, supervisory and management policy in order to assess whether the banking and insurance system put on a sound financial basis.

- Review the restructuring of NCBs, PCBs, FCBs and DFIs as well as its branches and its implications on the rural economy and the small producers;

- Examine the debt recovery environment including the legal framework;
- Examine the role of bank and insurance in achieving competitive market based system.
Case studies

Description of Case Studies:

Liberalization of bank and insurance business in Bangladesh is one of the key issues in Bangladesh. This research team surveyed 8 private commercial banks out of 30, all (4) government commercial banks, 3 government specialized banks out of 5 and 5 foreign banks out of 10.
Findings of case studies:

From our case studies, it is found that Bangladesh has made a revolutionary change in service sector within around 13 years. In the year of 1990, service contribution of total GDP was 48% but in the year of 2003, it is 52%, which indicates 4% higher contribution in total GDP. GDP rate is also increased by 0.9% at the same time. Services contribution to GDP is higher than any other sectors like agriculture, industry, and manufacturing. Not only that, it has been observed that services sector contribution to GDP is higher than some other countries like India (51%), Nepal (38%), China (33%) and other low income countries (49%).
## Findings of case studies:

### Contribution of service and other sectors in GDP

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>30 (2.1)</td>
<td>22 (3.1)</td>
<td>21 (6.0)</td>
<td>26 (7.1)</td>
<td>13 (5.2)</td>
<td>16 (6.8)</td>
<td>48 (3.8)</td>
<td>52 (4.7)</td>
</tr>
<tr>
<td>India</td>
<td>31 (3.1)</td>
<td>22 (2.7)</td>
<td>28 (6.9)</td>
<td>27 (6.0)</td>
<td>17 (7.4)</td>
<td>16 (6.5)</td>
<td>41 (6.9)</td>
<td>51 (7.9)</td>
</tr>
<tr>
<td>Nepal</td>
<td>52 (4.0)</td>
<td>41 (2.8)</td>
<td>16 (8.8)</td>
<td>22 (6.0)</td>
<td>6 (9.3)</td>
<td>8 (6.7)</td>
<td>32 (3.9)</td>
<td>38 (5.5)</td>
</tr>
<tr>
<td>Pakistan</td>
<td>26 (4.0)</td>
<td>23 (3.7)</td>
<td>25 (7.7)</td>
<td>23 (3.9)</td>
<td>17 (8.1)</td>
<td>16 (4.2)</td>
<td>49 (6.8)</td>
<td>53 (4.3)</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>26 (2.2)</td>
<td>19 (1.5)</td>
<td>26 (4.6)</td>
<td>26 (5.8)</td>
<td>15 (6.3)</td>
<td>16 (6.6)</td>
<td>48 (4.7)</td>
<td>55 (5.3)</td>
</tr>
<tr>
<td>China</td>
<td>27 (5.9)</td>
<td>15 (3.5)</td>
<td>42 (11.1)</td>
<td>52 (12.3)</td>
<td>33 (10.8)</td>
<td>39 (11.7)</td>
<td>31 (13.5)</td>
<td>33 (8.8)</td>
</tr>
<tr>
<td>Low-income countries</td>
<td>32 (2.8)</td>
<td>24 (3.0)</td>
<td>26 (4.6)</td>
<td>27 (5.0)</td>
<td>15 (6.1)</td>
<td>14 (5.6)</td>
<td>41 (5.1)</td>
<td>49 (5.9)</td>
</tr>
<tr>
<td>Middle-income countries</td>
<td>15 (3.6)</td>
<td>10 (2.2)</td>
<td>39 (2.6)</td>
<td>36 (4.2)</td>
<td>24 (4.0)</td>
<td>22 (6.1)</td>
<td>46 (3.1)</td>
<td>54 (3.5)</td>
</tr>
<tr>
<td>High-income countries</td>
<td>3 (1.8)</td>
<td>2 (1.2)</td>
<td>33 (3.0)</td>
<td>27 (1.9)</td>
<td>22 (-- )</td>
<td>18 (2.5)</td>
<td>65 (3.4)</td>
<td>71 (3.1)</td>
</tr>
<tr>
<td>World</td>
<td>5 (2.7)</td>
<td>4 (1.9)</td>
<td>34 (3.0)</td>
<td>28 (2.3)</td>
<td>22 (-- )</td>
<td>18 (3.2)</td>
<td>61 (3.4)</td>
<td>68 (3.2)</td>
</tr>
</tbody>
</table>
## Case studies

### Findings of case studies:

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Commercial Service Exports ($ Million)</th>
<th>Population (Million)</th>
<th>Commercial service export (Per capita)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>398</td>
<td>138.1</td>
<td>2.88</td>
</tr>
<tr>
<td>India</td>
<td>25043</td>
<td>1064.4</td>
<td>23.53</td>
</tr>
<tr>
<td>Nepal</td>
<td>302</td>
<td>24.7</td>
<td>12.23</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1475</td>
<td>148.4</td>
<td>9.94</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>1386</td>
<td>19.2</td>
<td>72.19</td>
</tr>
<tr>
<td>China</td>
<td>46375</td>
<td>1288.4</td>
<td>36</td>
</tr>
<tr>
<td>Low Income countries</td>
<td>32671</td>
<td>2311.9</td>
<td>14.13</td>
</tr>
<tr>
<td>Middle Income countries</td>
<td>268567</td>
<td>2988.6</td>
<td>89.86</td>
</tr>
<tr>
<td>High Income countries</td>
<td>1427894</td>
<td>972.1</td>
<td>1468.88</td>
</tr>
<tr>
<td>World</td>
<td>1729132</td>
<td>6272.5</td>
<td>275.67</td>
</tr>
</tbody>
</table>
In the table it is seen that Bangladesh’s per capita commercial export is ($2.88). It’s too low compared to some other countries like India ($23.53), Nepal ($12.23), Sri Lanka ($72.19) and also world average ($275) but total commercial service exports is $ 398 million which is higher than some countries like Nepal ($ 302 million) and less than other countries.
## Case studies

### Findings of case studies:

**Contribution of Insurance and financial Service and other sector in GDP**

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Transport</th>
<th>Travel</th>
<th>Insurance &amp; Financial services</th>
<th>Computer, Information, communications, and other commercial services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>12.9</td>
<td>18.1</td>
<td>6.4</td>
<td>14.3</td>
</tr>
<tr>
<td>India</td>
<td>20.8</td>
<td>10.9</td>
<td>33.8</td>
<td>12.5</td>
</tr>
<tr>
<td>Nepal</td>
<td>3.6</td>
<td>11.9</td>
<td>65.6</td>
<td>65.9</td>
</tr>
<tr>
<td>Pakistan</td>
<td>59.3</td>
<td>56.7</td>
<td>12</td>
<td>8.1</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>39.7</td>
<td>40.5</td>
<td>30.2</td>
<td>30.6</td>
</tr>
<tr>
<td>China</td>
<td>47.1</td>
<td>17.0</td>
<td>30.2</td>
<td>37.5</td>
</tr>
<tr>
<td>Low income countries</td>
<td>29.2</td>
<td>16.3</td>
<td>28.4</td>
<td>19.7</td>
</tr>
<tr>
<td>Middle income countries</td>
<td>27.0</td>
<td>24.1</td>
<td>45.4</td>
<td>46.9</td>
</tr>
<tr>
<td>High income countries</td>
<td>26.5</td>
<td>22.1</td>
<td>33.8</td>
<td>26.7</td>
</tr>
<tr>
<td>World</td>
<td>26.6</td>
<td>22.5</td>
<td>35.2</td>
<td>30.2</td>
</tr>
</tbody>
</table>
Case studies

Findings of case studies:

It has been also observed that insurance and financial services sector contribution (8.1) is lower than any other service sector in Bangladesh. But in compared to other Asian countries like India (1.5), Nepal (0.2) etc.
Case studies

Findings of case studies:

From the case studies of we found the following issues which liberalize the banking and insurance business from the context of our internal performance-

- **Loan**: Most of the financial institutions in Bangladesh are almost 80% to 100% liberalized in providing loans to the customers. Private commercial banks are more aggressive in giving loans to the clients and even they reach to the door of various individuals as well as organizations.
## Case studies

### Findings of case studies:

We observed that banks disburse loan in the following forms:

<table>
<thead>
<tr>
<th>Loan Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash credit loan</td>
</tr>
<tr>
<td>Overdraft</td>
</tr>
<tr>
<td>Small loan</td>
</tr>
<tr>
<td>Consumer loan</td>
</tr>
<tr>
<td>House building loan</td>
</tr>
<tr>
<td>Industrial loan</td>
</tr>
<tr>
<td>Car loan</td>
</tr>
<tr>
<td>Marriage loan</td>
</tr>
<tr>
<td>Education loan</td>
</tr>
<tr>
<td>Any purpose loan</td>
</tr>
<tr>
<td>Teacher loan</td>
</tr>
<tr>
<td>Equipment loan</td>
</tr>
<tr>
<td>Special investment scheme</td>
</tr>
<tr>
<td>AAM loan (Advance against Merchandise)</td>
</tr>
<tr>
<td>UMMESH SPL Program for women etc.</td>
</tr>
</tbody>
</table>
Deposit: Private commercial banks and foreign commercial banks adopt many steps to collect deposit from the customers. As a result of competition among the various banking and insurance business, they declare many attractive scheme to the customer. Bank deposit increased by Taka 1212.7 billion or 17.53% to Taka 1425.8 billion during financial year 2005 against 13.8% increase in all types of deposit: demand deposit, time deposit and government deposit.
Case studies

Findings of case studies:

Bank and insurance collect deposit in the following ways:

- Fixed deposit
- Savings deposit
- FDR
- Pension savings scheme
- Marriage saving scheme
- Education saving scheme etc.
Case studies

Findings of case studies:

- **Cash reserve requirement**: The cash reserve requirement for scheduled banks with the Bangladesh bank has been revised upward to 4.5% of their total demand and time deposit.

- **Credit deposit ratio**: From our survey, we have found that the credit deposit ratio of the scheduled banks excluding the specialized banks increased to 0.88% in financial year 2005 from 0.86% as on end June of 2004 reflecting higher credit demand and higher economic activities.

- **Liquidity ratio**: The liquidity ratio for the scheduled banks excepting banks operating under the Islami Shariah and the specialized banks remained unchanged in FY 2005 at 16.0% of their demand and time liabilities excluding inter bank items.
Case studies

Findings of case studies:

- **Pursuing Liberalization**: From our survey, we found that 10 private commercial banks have been pursued fully liberalization policies out of 15 i.e. 66.67%, 3 private commercial banks have been pursued partial liberalization i.e. 20% and the remaining 2 private commercial banks have not been pursued liberalization policies. Almost all of the foreign commercial banks follow fully liberalization policies except the expansion their branches in rural areas. Government commercial banks and specialized banks have been pursued partial liberalization policies in some cases and no liberalization policies in other cases.
**Case studies**

**Findings of case studies:**

- **Adverse employment effect:**

  It is found that there is no adverse employment effect in private commercial banks and foreign commercial banks for increasing foreign equity participation. Even though in case of Rupali Bank limited (recently decision has been made to take over by KSA investors), increased foreign equity participation does not affect adverse employment. Insurance sector has adverse employment effect for increasing equity participation, for example in ALICO; around 80% employees are men.
Case studies

Findings of case studies:

- **Foreign equity participation:** In most of the cases, the small businesses are not being deprived of credit facilities by increasing foreign equity participation. Instead of that most of the private commercial and foreign commercial banks and insurance have become more aggressive to provide credit to the small business, for example Standard Chartered bank, BRAC bank etc are encouraging new entrepreneur as well as other small businessmen to take credit facilities from them.

- **Gender mainstream:** From our survey, it is found that liberalization policies does not affect gender mainstream. Moreover, it has removed the differences between men and women. We can mention here about the activities of Grameen Bank as they giving more opportunity to women to engage with total work of Grameen bank i.e. almost 90% of total manpower are women in Grameen bank.
Case studies

Findings of case studies:

- **Reaction of local bank/insurance for foreign investor**: It has been observed from the survey that most of the private commercial bank in our country welcomes foreign investors. In some cases, they are cautious partially or fully while allowing foreign investors in the field of banking and insurance business.

- **Internal policy reform**: Most of the private commercial banks and foreign commercial banks reform internal policies when they require from time to time. They reform these policies for the ensuring efficiency, effectiveness, profitability, good working environment etc. Insurance companies also follow the same thing.

- **International trade negotiations**: Timely and efficient discharge policy decision and international trade negotiations are applied by most of the bank and insurance of Bangladesh. International trade negotiations affect the whole service sector in our country.
Case studies

Findings of case studies:

- **Risk Management Committee:** From our survey, we observe that almost all of banks and insurance have their risk management committee. The risk management committee of the bank measure bad loan, doubtful loan and good loan. They also evaluate all the possible results while allowing any loans to clients and in case of doing any project; they study the feasibility of the project.

- **Consumer credit scoring model:** Most of the private commercial bank and foreign commercial bank and insurance use consumer credit scoring model by which consumer credit are ranked according to their repayment system. Some of the private banks and government banks are thinking to use it.

- **SME credit scoring model:** SME credit scoring model is used by most of the commercial and foreign bank as well as insurance in Bangladesh in which they categorize the small and medium entrepreneur capacity to transact with the bank and insurance.
Case studies

Findings of case studies:

- **Loan grading IRR system**: Most of banks in Bangladesh uses loan grading internal rate of return policy in which they find out feasibility the return of any loan provided to the clients.

- **Credit portfolio management model**: All of the banks in Bangladesh use credit portfolio management model because it is necessary for all the banks to maintain their credit portfolio.

- **Risk based provisioning model**: Most of the banks and insurance use risk based provisioning model in which they classify the provision of the loans in various categories.

- **Changing policies**: All of the banks and insurance in Bangladesh change policies for providing better service to their customer from time to time. For example- private and foreign commercial banks update human resource policy, promotion policy, credit policy, incentive policy, L/C opening policy, deposit policy, loan policy, social responsibility etc.
Conclusion:

- Services sector in Bangladesh contributes significant role for the economic development as well as overall condition of the country. Various policies adopted by Bangladesh bank, chief controller of insurance as well as ministry of finance help to develop the service sector, which play a dominant role to improve the financial condition of the country for the last three decades.

- Foreign and local service organization has both benefited from liberalization policies. Liberalization policies have effectively created new market for multi-national service companies like banking and insurance sector from developed countries and developing countries. These service organizations have provided better opportunities to liberalize their ownership or firm specific advantages. Banking and insurance sector advantages have included access to capital, access to market, superior technology and efficient management.
To develop the financial sector, Bangladesh has introduced several policies like money market development, financial sector development as well as external sector development. With a view to develop the money market, Bangladesh has gone under several policies, such as:

- 5-year Pensioner Savings Certificate
- 5-year Bangladesh Savings Certificate, 3-year Savings Certificate, 3-year Post Office Savings Bank Account and Post Office Savings Bank Account (general account) have been re-fixed at 10.50 percent, 10.00 percent 9.50 percent and 7.50 percent respectively.

The Government of the People's Republic of Bangladesh has introduced a new Bond namely the Bangladesh Government Islamic Investment Bond (Islamic Bond) in accordance with the rules of Islamic Shariah etc.
Conclusion:

In the recent years, Bangladesh took some initiative to develop the financial sectors like-

- Cash Reserve Requirement (CRR) on an average of 2.50 percent (daily) on two-week basis, but it should not be less than 2.00 percent in any day.

- Bad loan can be written-off on case-to-case basis before filing of case in the court subject to prior approval of the Bangladesh Bank.

- Financial institutions have been instructed to raise their capital and reserve to Tk. 25.00 crore

- Some important decisions have been taken regarding issuance of Initial Public Offerings (IPOs) of which the most important one is that all financial institutions have to issue IPOs compulsorily and they have to collect 50% of their capital through IPOs.
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- Some important decisions have been taken regarding issuance of Initial Public Offerings (IPOs) of which the most important one is that all financial institutions have to issue IPOs compulsorily and they have to collect 50% of their capital through IPOs.
Conclusion:

For external sector development, several attempts have been taken by Bangladesh:

- Cash incentives for export of fresh vegetable, agro-processing products and Fruits are 30 percent instead of 25 percent.

- Instead of covering all forward sales by an equivalent amount of purchase, authorized dealer banks are now be allowed to cover a minimum of 50 percent of sales by forward purchase and the rest by inter-bank forward purchase and spot purchase of export bills.

- Authorized dealer banks are advised not to allow opening any fresh letter of credit for the importers whose bill of entries/customs certified invoices against previous imports were not submitted within the specified time limit etc.
Conclusion:

- By pursuing liberalization policies regarding participation of private sector in the banking and insurance business, a number of new banks and insurance has been established in Bangladesh. As a result, cost efficiency, profitability, competitive behavior and higher services among the various industry participants have helped to develop other sectors such as service sector, industry sector, agriculture sector, communication sector, housing sector etc.

- Therefore, greater market contestability and free market entry helped to improve bank efficiency and stability. Being the number of foreign bank increased, the domestic banks have become more alert in serving their clients and improve the competitiveness of the banking sector.
Conclusion:

It has been seen that the services sector contributes about 50 percent of total GDP in Bangladesh. Within this, about 14 percent is attributable to wholesale and retail trade followed by 10 percent in transport, storage and communication and 8 percent in real estate, renting and other business activities.

As we surveyed different types of banks such as NCBs, PCBs, DFI s and FCBs, we have got some findings from that. Most of the banks have become more liberalized in disbursing loan (80% to 100%), collecting deposits (increased 13% to 18% each year than that of previous year), credit deposit ratio has been increased etc.

In summary, we can draw attention that Bangladesh has made significant progress in liberalizing one of the most restrictive trade and services regimes in Asia. Regional trade liberalization through the formation of SAARC and subsequently of SAPTA led to substantial liberalization of goods trade. Beginning 1st January 2006 plans are being worked out to include Trade in services in SAFTA. Formation of BIMSTEC is leading to further trade liberalization with further plan for liberalization of trade in services.
Thank you for being with us.