

Effectiveness of NPL Recovery Measures of Banks in Bangladesh

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Foreword

As part of the ongoing dissemination of BIBM research outputs, the monograph contains the results and findings of the research project titled “Effectiveness of NPL Recovery Measures of Banks in Bangladesh”. The study was conducted in 2020-21 and the paper was presented in a seminar held in 29 October 2021.

The delinquency of Non-Performing Loan (NPL) in the banking sector of Bangladesh has reached such a level that it demands a strong groundbreaking intervention by the Government, regulator and banks. Amidst the spectrum of high magnitude of NPL, bad category loans have triggered the worrying which is not likely to be paid off from the business operation. Bank’s profit is severely undermined as unpleasantly classified loans do not earn money for banks, while provisioning against NPL eats into banks’ profit. Amount of NPL over a long period would drive the concerned banks towards bankruptcy and could ultimately jeopardize the capability to service deposits. Moreover, NPLs hurt the real economy as it erodes credit supply, creates misallocation of credit, affects the credit cycle, triggering upward trends in lending interest rates. To reduce the level and magnitude of NPL, Government and Bangladesh Bank have taken various preventive and corrective measures including regulatory, legal and non-legal measures.

No doubt, the banking sector is playing a pivotal role in accelerating the economic growth of the country. However, the relentless surge of NPLs poses a major challenge for banks. The study examines the accumulation of NPL and the effectiveness of recovery measures adopted by the banks in recent periods and puts some policy suggestions to deal with this crucial problem of the banking sector.

This paper has been finalized after incorporating the valuable recommendations of the distinguished panelists, participants of different banks and the academicians presented in the seminar.

It gives me immense pleasure to publish and distribute this research outputs to the policymakers, practitioners, academics and common readers. I hope this monograph will be a useful treasure to understand the effectiveness of NPL recovery measures undertaken by banks in Bangladesh.

Md. Akhtaruzzaman, Ph.D.
Director General

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List of Abbreviations

ADB	Asian Development Bank
ADR	Alternative Dispute Resolution
AMC	Asset Management Company
ARA	Artha Rin Adalat Ain
ARC	Asset Reconstruction Companies
BB	Bangladesh Bank
BIAC	Bangladesh International Arbitration Centre
BIC	Bankruptcy and Insolvency Code
BL	Bad & Loss
BRC	Banking Reform Committee
CAGR	Compounded Average Growth Rate
CIBIL	Credit Information Bureau (India) Ltd.
CL	Classified
CR	Criminal
CRG	Credit Risk Grading
CRILC	Central Repository of Information on Large Credits
DF	Doubtful
DRT	Debts Recovery Tribunals
EMI	Equated Monthly Installment
FCB	Foreign Commercial Bank
FSRP	Financial Sector Reform Project
GDP	Gross Domestic Product
GP	Grameen Phone Ltd.
ICRRS	Internal Credit Risk Rating System
MLC	Money Loan Court
NBS	Next Business Solution
NOC	No Objection Certificate
NPA	Non-performing Assets
NPL	Non-Performing Loan
OCS	Outside the Court Settlement
OD	Overdraft
PCB	Private Commercial Bank
PDR	Public Demands Recovery
PRC	People's Republic of China
SAMD	Special Asset Management Division
SARFASEI	Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest
SB	Specialized Bank
SMA	Special Mention Account
SOCB	State Owned Commercial Bank
SS	Sub-standard
STD	Standard
TAMC	Thai Asset Management Corporation
UC	Unclassified

Executive Summary

The problem of Non-Performing Loan (NPL) in the banking sector of Bangladesh has reached such a degree that it demands a strong breakthrough intervention by the Government, regulator and banks. NPL as of June 2021 was 8.61 percent of the total loan and 3.26 percent of GDP (DOS, Bangladesh Bank). More worrying is the fact that bad category loans which are not likely to be paid off from the business constituted about 87 percent of total NPL. NPLs reduce a bank's profit as adversely classified loans do not earn money for banks, and the provisioning required for NPL eats into banks' profit. A growing NPL over a prolonged period would drive the concerned private banks towards bankruptcy and could severely jeopardize the ability to service deposits (Ahmed, 2020). NPLs also hurt the real economy as it erodes credit supply, creates misallocation of credit, and affects the credit cycle. Further, special concession given to the defaulted borrowers creates a moral hazard to the law-abiding 'good' borrowers.

NPL recovery measures may be categorized as regulatory, legal and out of the court measures. For a viable business, soft approaches such as loan rescheduling, restructuring known as regulatory measures are undertaken. The hard approach usually uses the existing legal framework to recover the money. Out of the court approaches consist of negotiation, recovery camp, and selling NPL to a recovery agent/Asset Management Company. In the backdrop of a huge amount of NPL, it is important to examine the effectiveness of different NPL recovery measures in Bangladesh. The objectives of the study are (i) to examine the dimensions and trends of NPL in the banking sector of Bangladesh, (ii) to review the NPL recovery measures adopted by banks in Bangladesh and (iii) to evaluate the effectiveness of the recovery measures adopted by banks in Bangladesh. To that end, as part of methodology both primary and secondary data have been used. Primary data have been collected through a questionnaire from 30 banks. A separate set of questionnaires was also sent to the Bangladesh International Arbitration Centre (*BIAC*). The secondary data were collected from different departments like BRPD and DOS of BB as well as from publications like Bangladesh Bank Quarterly, Annual Report of Bangladesh Bank and Financial Stability Report of BB. The study uses ratio analysis, simple and Compound Annual Growth Rate (CAGR), graphs and tables to present the research findings. A case-based approach to check the effectiveness of NPL recovery measures like regulatory, legal and negotiation over the years was also followed.

Both the gross and net NPLs show mixed trends during the entire study period 2010-2020. The percentage of gross NPL was 9.2% in 2020. The range of NPL in the study period was 6.1%-10.3%. State-owned banks as a group faced a significantly higher percentage of NPL than the other two groups of banks. SOCBs experienced the highest percentage of gross NPL (30.0%) in 2018, and net NPL (12.8%) in 2012. PCBs have kept their net NPL levels below 1%. The SBs have recorded a high percentage of net NPL. The total banking industry witnessed the highest percentage of net NPL (4.4%) in 2012 and the lowest percentage (0.2%) in 2020, thanks to the policy support of BB. As expected, FCBs have maintained negative percentages of NPL in most of the time. Of the three components of classified loans, the bad/ loss category captures a significantly higher proportion of total NPL than those of the other two categories, peaking at 87% in 2017. In examining banks'

concentration in Gross NPLs, the highest number of banks i.e., 16 (sixteen) banks were in the 3% to 5% NPLs bracket, whereas the eleven banks maintained less than 3% NPLs successfully. However, the burden of NPLs on a few banks looks unbearable with 9 banks having more than 20% NPL. In 2020, 35.89% of the total NPL of the banking sector was concentrated among the top 3 banks, whereas 44.3% was concentrated among the top 5 banks, and 63.1% concentrated among the top 10 banks, respectively.

Undertaking measures to reduce NPL and reforming the financial sector in Bangladesh may be traced back to the formation of The Money, Banking and Credit Commission in the mid-1980s. Later on, BB undertook two notable initiatives in the 1990s like the Financial Sector Reform Project (FSRP) in 1990 and the Banking Reform Committee (BRC) in 1996 for bringing discipline in the lending culture of Bangladesh. In the 2010s, a good number of measures like introducing new loan classification and provisioning rules in line with the international standard, placing observers in the board of banks with worsening internal governance, restructuring of large loans, and introducing Internal Credit Risk Rating System (ICRRs) were the significant initiatives undertaken by BB. Most Asian countries experienced NPL problems once in a while or multiple times or year after year, although reasons for piling up NPL are not uniform in all countries. The amount of NPL increased massively in the Republic of South Korea, Malaysia and Thailand after the 1997 financial crisis. In the People's Republic of China (PRC), NPLs soared due to continued losses at state-owned enterprises and the absence of a commercial credit culture at major financial institutions (Dey, 2019). The major reasons behind the growing amount of NPLs in India were ineffective lending practices by banks, lenient monitoring by the regulator, and lack of accountability in the corporate sector. South Korea and Thailand followed very strict measures like cancelling licenses of non-viable banks, forming a small number of large banks and encouraging the merger of small banks. However, Malaysia undertook relatively soft measures like the continuing operation of troubled banks, guaranteeing depositors' funds and permitting them to sell NPLs to non-banking institutions. Both China and India concentrated on legal reforms, a proper accounting system and the creation of central information houses on large credits.

Each bank should have a board-approved comprehensive loan recovery policy that is expected to define strategy in dealing with NPL depending on the severity of the problem. However, the policy has not been reviewed regularly (yearly) by the majority of the banks, although 60 percent of the banks have a recovery policy approved by the board (Source: Survey Data). Any well-functioning bank is likely to be stringent in allowing the rescheduling facility to the borrower. But it is found that about 99% of the application got through the banks during 2016-2020. The percentage of more than one time rescheduling out of total rescheduled cases has been found in between 30% and 40% in most of the periods which demonstrates very liberal use of rescheduling in dealing with NPL. Large loans account for about 70% of the total write-off loan. Written off amount by PCBs was the highest (51%), followed closely by SCBs (46%). It takes relatively a longer period of time to recover the write-off loan as the percentage of the loan remaining unsettled for 5 years or more is as high as 73 percent. Generally, the recovery percentage of write off loans decreases with the

increase in the size of the loan, which points to the importance of dealing with large loans carefully in our banking industry.

The opinions of the responding banks show that negotiation is a more effective tool of recovery than mediation. Further, both negotiation and mediation were more effective after filing suits. Engaging third parties by the banks in the negotiation process with the borrowers is hardly practised in our banking industry. Banks report that defaulters prefer to settle the case in court as they get enough time for settlement in court. Further, they feel that the absence of enough regulatory directions regarding outside the court settlement is also a reason why this measure is not effective in recovering NPLs. Bangladesh International Arbitration Center, the country's first and only government-licensed institution for Alternative Dispute Resolution (ADR)/ OCS has been working as arbitrator/mediator since its establishment in 2014.

All the regulatory measures have become less effective during and after the COVID period, as opined by respondents. The banking sector is likely to face more NPLs in the future. The suggested measures to improve the effectiveness of NPL recovery measures in the post-COVID situation, as opined by the responding banks includes giving more financial assistance to the affected but otherwise competent borrowers, ensuring proper incentives to the small & medium borrower segments, forming a task force by each bank to find out the actual sufferers/victims among the top defaulted borrowers.

The amount claimed, settled, and recovered up to December 2020 under Money Loan Court Act (MLC), Public Demands Recovery Act (PDR), and Bankruptcy (BA) Act indicates that the banking sector of Bangladesh is heavily dominated by the Money Loan Court Act with a share of 97.48%, 93.59%, and 91.96% in total claimed, settled, and recovered amount, respectively.

The percentage of settled cases under MLC remained similar at around 67% during the period. The rate of settlement amount remained at a low level i.e. below 30% with a slight variation across the years under consideration. PCBs and FCBs registered relatively higher growth of settlement than the other two groups of the banks during the study period. The SBs topped the list with regard to the percentage of settled amounts with a steady improvement from 42.93% in 2015 to 57.91% in 2020. As a whole, the enforcement status of the ARA, which the bank relies on for legal recovery, does not yield an expeditious recovery process. About 60% of cases under MLC settled during the study period takes more than 2 years time. Even more than 10 years are reported by respondents for settling 4.7% cases.

Suggested Measures by the respondents to speed up NPL recovery are establishing a data warehouse of collateral, formation of a special tribunal for recovery of loan and asset management company, arranging social Shaming for the willful defaulters, and cancellation of license and suspending the operation of non-viable banks/ financial institutions.

The paper closes by proposing a few policy suggestions to deal with this crucial problem of the banking sector. These are (i) doing proper pre-lending appraisal meticulously and avoiding undue influence in preventing NPL, (ii) allowing rescheduling by examining the viability of the business to avoid moral hazards and disincentives for the borrowers who are repaying loans regularly, (iii) strengthening the recovery efforts of the write-off loans along with continuous persuasion for negotiation with the borrowers after written-off, (iv) taking a collective initiative by the stakeholders to expedite the legal recovery process and initiating a down payment system in case of filing a writ petition to limit the number of the stay order of high courts issued in favour of the defaulters, (v) formation of Asset Management Company, (vi) making alternative dispute resolution (ADR) more effective, (vii) creating social Shaming program for willful defaulters, and (viii) appointing an independent director from a panel of qualified independent directors selected by the central bank.

Effectiveness of NPL Recovery Measures of Banks in Bangladesh

1. Introduction and Background

1.1. Introduction

The increase in Non-Performing Loan (NPL)¹ in Bangladesh has reached such a degree that it demands a strong breakthrough intervention by the Government, regulator and banks. The amount of gross NPL reached BDTK. 981.64 billion as of June 2021 which was 8.61 per cent of the total loan and 3.26 per cent of GDP² (DOS, Bangladesh Bank). The pace of NPL can be understood from the fact that the amount of NPL increased by Tk. 467.94 billion (Tk. 981.64- Tk. 513.7 billion) between December 30, 2015, and June, 2021. More worrying is the fact that bad and loss category loans constituted the largest part of the NPL. In June 2020, the bad and loss category loan was about 87 per cent of the total NPL, indicating that most of the NPLs were in the worst category.

NPLs hamper the profit of banks in two ways. These assets do not earn money for banks, and the provisioning required for NPL eats into banks' profit. In addition, banks need to keep more capital for the low quality of assets. The cumulative provision maintained by banks was Tk 641.51 billion as of June 30, 2021 (DOS, Bangladesh Bank) increasing from TK. 307.4 billion as of December 2016, indicating more than a two-fold increase in provision amount within 5 years. The amount of provision cuts profits of the banks by the same figure, and thereby, reduces the ability of banks to mobilize and service the deposit base. A growing NPL over a prolonged period would drive the concerned private banks towards bankruptcy and could severely jeopardize the ability to service deposits (Ahmed, 2020). He added that regarding SOCBS, large NPLs pose a major fiscal challenge to the Government.

NPLs also hurt the real economy as it erodes credit supply, creates misallocation of credit, affects the credit cycle, demotivates bankers for further lending and drops market confidence. The continuous accumulation of defaulted loans creates a bad economic culture (Farashuddin, 2020). It causes upward trends in lending interest rates. Special concession given to the defaulted borrowers creates a moral hazard to the law-abiding 'good' borrowers.

¹ Non-performing loan (NPL) consists of three categories of loan viz. substandard, doubtful, and bad. A definitional difference is observed between NPL and Default loan. A loan turns out to be default if the length of overdue of a loan is 6 month or more. As per the criteria given by Bangladesh Bank all doubtful and bad loan belong to default category. But, the case of SS is little bit complicated. Any loan having the length of overdue in between 3 to 9 month is treated as substandard. So, not all SS loan will be considered as default loan. For example, a loan having 4 months overdue period will be NPL but not default. On the other, a loan having 7 months overdue period will be NPL as well as default.

² Provisional GDP as on June 30, 2021 was considered in calculating NPL to GDP ratio.

The government, along with the Bangladesh Bank (BB), has taken various measures to reduce NPLs. These measures can be classified as preventive and corrective. The preventive measures include proper pre-lending appraisal by meticulously following norms of lending and directions of BB and taking quick actions depending on ex-ante information regarding weaknesses of a loan account. The corrective steps are classified as regulatory, legal and out of the court measures. The application of these measures is dependent on the viability of the business in which the loan was used. If the business seems viable, a soft approach is generally undertaken which is called regulatory measures. Under such an approach, the borrower is allowed to come up with a plan to reschedule or restructure a loan. The hard approach usually uses the existing legal framework to recover the money. Out of the court approaches consist of negotiation, recovery camp, and selling NPL to a recovery agent/Asset Management Company. This study has undertaken an endeavour to examine the effectiveness of the measures used in Bangladesh in recovering NPLs.

1.2. Objectives

The main objective of the paper is to examine the effectiveness of NPL recovery measures of banks in Bangladesh. The specific objectives are as follows.

- To examine the dimensions and trends of NPL in the banking sector of Bangladesh;
- To review the NPL recovery measures adopted by banks in Bangladesh and selected Asian countries;
- To evaluate the effectiveness of the recovery measures adopted by banks in Bangladesh.

1.3. Methodology

In order to fulfil the objectives of the study, both primary and secondary data have been used. In collecting primary data, a detailed questionnaire (Appendix-2) asking opinions, comments and suggestions on different techniques of recovery like preventing, regulatory, negotiation and legal measures was sent to all banks. Before sending a questionnaire to banks, the research team arranged a virtual meeting with 39 representatives/probable respondents from the recovery division, Special Asset Management Department (SAMD), legal affairs department and unit for write-off loan division of different banks to explain the different areas of questionnaires (Appendix-1). Finally, 30 banks sent back the questionnaires with their responses(Appendix-3). A separate set of questionnaires was also sent to the Bangladesh International Arbitration Centre (BIAC). The secondary data were collected from different departments like BRPD and DOS of BB as well as from publications like Bangladesh Bank Quarterly, Annual Report of Bangladesh Bank and Financial Stability Report of BB. Relevant websites have also been visited to know the

regulatory and legal measures on NPLs in Bangladesh and some selected Asian countries. Publications of the Asian Development Bank were also considered in this respect.

The study uses different accounting and statistical tools like ratio analysis, simple and Compound Annual Growth Rate (CAGR). In calculating CAGR, two time periods, 2010-2015 and 2016-2020 were considered for a better comparison. Also, graphical and tabular analyses have been used. A rotated component factor analysis was conducted on the variables relating to the effectiveness of relevant measures for preventing NPL. The factors having an eigen value of more than 1.00 were considered in the analysis. A case-based approach to check the effectiveness of NPL recovery measures like regulatory, legal and negotiation over the years was also followed.

1.4. Organisation of the Paper

The first section covers the introduction, objectives, methodology and chapter plan. The second section shows the literature review. Section three examines the dimensions and trends of NPL in the banking sector of Bangladesh, followed by the NPL recovery measures adopted by banks in Bangladesh and some selected Asian countries in section four. Section five examines the evaluation of the effectiveness of the recovery measures adopted by banks in Bangladesh. Section six shows effectiveness with case studies. Finally, section seven puts forward some policy suggestions.

2. Literature Review

The adverse impact of NPL on the banking industry and the economy has been studied by a number of researchers. Ahmed (2020) raised two important policy questions regarding the amount of NPL first, who will bear this loss if little or nothing of the outstanding NPL amount is recovered and second, what are the implications for the sustainability of the banking sector? So, it is very logically expected that banks should stop it at the time of credit appraisal rather than try to recover it using different tools after it becomes NPLs.

NPLs or Non-performing Assets (NPAs) ceased to generate income, require the provision, increase borrowing cost, affect the morale of the employee, and erode capital. So, the recovery of NPLs or NPAs plays a vital role to sustain the banking industry. It is also argued by Sing et al. (2013) that for banks it is necessary to keep the level of NPAs low as it impacts upon the profitability of the banks and hence it is necessary to have a strong recovery system that should be operated effectively with control and supervision of higher authorities.

As opined by Dey (2018), the performance of various recovery channels of NPAs in the Indian banking system is not satisfactory where improper due diligence, insufficient law to combat against defaulter and externalities of macro-economic variables may be the main cause of weak recovery mechanism process. He analyzed this recovery mechanism of

NPAs with its three important wings which are- recovery through Lok Adalat, Debts Recovery Tribunals (DRT) and The Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (SARFAESI) and its impact on NPA covering the years from 2003-04 to 2016-17. The Act provides three alternative methods for recovery of non-performing assets, viz; securitization, asset reconstruction and enforcement of security without the intervention of the court.

Mesnard et al. (2016) examined various kinds of measures to address the issue of non-performing loans which are- transferring NPL to dedicated bad banks, developing a secondary market for NPL, strengthening insolvency frameworks, as well as enhancing supervisory work on loss recognition and troubled assets management and amending tax rules. Under transferring NPL to dedicated bad banks³ measure there are three other sub measures of recovery system namely, system-wide bad banks, state guarantees on asset portfolios ("asset protection schemes") and system-wide state aid free mechanisms. In terms of effectiveness, Dey (2018) noted that the overall recovery mechanism in the banking industry is very poor. Among the three wings of recovery, DRTs is better than Lok Adalat and SARFAESI. Banana and Chepuri (2016) too found that the performance of the SARFAESI Act is superior to the other recovery channels. Swain et al. (2017) echoed the same in their findings that among different mechanisms made by the government, SARFAESI Act-2002 is the most effective reform measure in the Indian banking industry for NPA recovery.

Considering the time factor, Luvsannyam et al. (2021) found that the time required to recover a Non-performing Loan (NPL) in Mongolia varies, depending on the solving methods. For example, it takes an average of 6.2 years to resolve a court case, while a non-judicial process takes twice as short, 3.4 years. They also considered banking registration software as one of the key factors in differentiating recovery periods of NPL. As there is a deadly mix between market failures and banks' resolutions and recoveries, State-supported schemes are necessary to favour a rapid and smooth recovery of the banking sector. In case of involving Asset Management Company (AMC) in recovering process, it should have a clear primary mandate to maximise the recovery values of NPLs on a commercial basis. Moreover, it should be permitted to use any relevant legal tool or devise a strategy to achieve its goals, irrespective of political or vested interests (Navaretti et al., 2017). To strengthen the loan portfolio and initiate more dynamic lending activity of the banking sector, a project called Podgorica Approach⁴ aimed at strengthening the financial stability

³A bad bank is an Asset Reconstruction Company (ARC) that takes over the bad loans of commercial banks and financial institutions, manages them and recovers the money over a period of time. The bad bank usually buys over the loans below their book value and attempts to recover as much as possible thereafter.

⁴ Podgorica Approach contributed, in particular, to quantitative assessment of the recovery of non-performing loans which could return to the performing status through the restructuring process. Better qualitative understanding of these loans is necessary to act preventively and thus largely reduce migration from performing to non-performing loans.

of the system, supporting debtors' recovery, and improving economic growth (Stijepović, 2014).

Mesnard et al. (2016) found that capital control has an effective recovery measure, particularly for crisis-hit countries which suffer from a major increase in NPL ratios. For instance, at the end of September 2015, the two countries, namely Greece and Cyprus, which had to implement strict capital controls reported an NPL ratio of more than 40 per cent. As mentioned in the same paper, different kinds of measures can help resolve the NPL problem which is complementary to each other as their simultaneous implementation ensures a stronger impact where most of them were introduced in crisis-hit countries, particularly countries which experienced different financial assistance programmes such as Greece, Cyprus, Ireland, Spain and Portugal. However other countries with acute NPL problems have also implemented such reforms to various extents, such as Slovenia and Italy.

On the other hand, Khan (2000) pointed out that banks and financial institutions could convert part of the NPA debt into equity of the defaulting company as a recovery strategy. Prakash (2011) stated two loan recovery techniques applied in India. For instance, the Bank of India has sought the services of retired staffers to bolster its recovery efforts and the commission payable to outside recovery agents is paid to these ex-staffers. In another instance, a senior executive was looking at reports sent by his zonal managers on the recoveries made by field staff across the country and he used to get these reports every evening.

In Bangladesh, several studies have been conducted to look into the problems of NPL, recovery measures adopted by banks, costs associated with the measures taken, successes thereof, etc. Dey (2019) found that NPL recoveries witnessed significant improvements after 1999, as the NPL ratio steadily decreased to 6.1% in 2011 due to written-off loans and a sharp decline in new bad debt. Aside from stronger regulation, greater legal powers of the banks to recover problem loans through the money loan courts and better screening of new loans by the Credit Information Bureau also contributed. Ahmed (2020) found that the rapid transformation of the banking sector from public-dominated banking to private-led banking has reduced the overall risk of the banking sector by sharply lowering the share of the loan portfolio of the public banks. Though this is a positive development that has helped lower the overall NPL ratio for the banking sector as a whole, the total value of NPLs is a considerable source of concern in absolute taka terms.

In an attempt to identify the appropriate approach of using different measures taken by banks for managing NPL, Islam *et al.* (2014) argued that the strategy of addressing the NPL problem must be concerned with how to arrest fresh NPLs as well as to recover existing NPLs. Siddique *et al.* (2015) found that it is very vital to apply non-legal measures

before disbursing the loan e.g., informing the family members about the issue of availing credit facility from banks, which may ensure the smooth recovery from the very beginning of the loan. They have mentioned some of the out-of-the court-based measures e.g., constant persuasion, Alternative Dispute Resolution (ADR) under Money Loan Court (MLC), yearly action plan for recovery, involving external recovery agent, incentives for recovery, creating social pressure, etc. as effective measures to recover problem loans.

3. Dimensions and Trends of NPL in the Banking Sector of Bangladesh

3.1 Dimension and Trend of NPL: Bank Group-wise Percentage of Unclassified (UC) and Classified (CL) Loans

The proportion of unclassified loans to total loans is substantially high compared to classified loans. The percentage of UC ranges between 70 % and 88.7% for SOCBs, 67.2% and 84.9% for SBs, 94.1% and 97.1% for PCBs, and 90.4% and 97.0% for FCBs respectively during 2010-2020 (Table-3.1.). The level of UC loans for the whole banking industry was around 90% during 2010-2020 with the highest level in 2011 (93.9%), and the lowest level in 2018 (89.7%), resulting in the lowest level of CL (6.1%) in the 2011 and the highest level of CL in 2018 (10.3%), respectively. In terms of CAGR, UC loans of SOCBs during 2010-2015 was negative; however, it was positive in 2016-2020 indicating an increasing trend of the level of UC loans. Interestingly, the CAGRs of UC and CL loans were 0% for the total banking industry during 2016-2020. It indicates that the same trend of UC and CL existed, more or less, during the said period.

Table 3.1: Dimension and Trend of NPL: Bank Group-wise Percentage of Unclassified and Classified Loans

Group of Bank	Proportion	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	CAGR (2010-2015)	CAGR (2016-2020)
		UC*	84.3	88.7	76.1	80.2	77.8	78.5	75.0	73.5	70.0	76.1	77.3	-0.014
CL**	15.7	11.3	23.9	19.8	22.2	21.5	25.0	26.5	30.0	23.9	22.7	0.065	-0.024	
SBs	UC	75.8	75.4	73.2	73.2	67.2	76.8	74.0	76.6	80.5	84.9	84.1	0.003	0.033
	CL	24.2	24.6	26.8	26.8	32.8	23.2	26.0	23.4	19.5	15.1	15.9	-0.008	-0.116
PCBs	UC	96.8	97.1	95.4	95.5	95.1	95.1	95.4	95.1	94.5	94.2	94.1	-0.004	-0.003
	CL	3.2	2.9	4.6	4.5	4.9	4.9	4.6	4.9	5.5	5.8	5.9	0.089	0.064
FCBs	UC	97.0	97.0	96.5	94.5	92.7	92.2	90.4	93.0	93.5	94.3	94.5	-0.010	0.011
	CL	3.0	3.0	3.5	5.5	7.3	7.8	9.6	7.0	6.5	5.7	5.5	0.211	-0.130
Total Industry	UC	92.7	93.9	90.0	91.1	90.3	91.2	90.8	90.7	89.7	90.7	90.8	-0.003	0.000
	CL	7.3	6.1	10.0	8.9	9.7	8.8	9.2	9.3	10.3	9.3	9.2	0.038	0.000

Source: Researchers Compilation from BB Annual Reports

Note: * UC-Unclassified, **CL- Classified Loan

3.2. Dimension and Trend of Unclassified Loans: Bank Group-wise Proportion of Standard and SMA Loans (%)

The proportion of Standard and Special Mention Account loans indicates the quality of unclassified loans. FCBs have more than 99% of their unclassified loans under the standard category, resulting in less than 1% of their unclassified loans in the SMA category for the period 2010-2020. The position of PCBs and SBs in terms of the proportion of standard and SMA loans under the unclassified category is very close to that of FCBs. Also, SOCBs have a substantially high proportion of standard loans in their total UC loans, although CAGR is negative in both periods i.e. 2010-2015 as well as 2016-2020 (Table-3.2) revealing a gradual decrease of STD loan amount. The SBs experienced the highest level of CAGR of SMA for the period 2016-2020, which may be a cause of concern for this group of banks.

Table 3.2: Dimension and Trend of Unclassified Loans: Bank Group-wise Proportion of Standard and SMA Loans (%)

Bank Group	Types of UC	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	CAGR (2010-2015)	CAGR (2016-2020)
		SOC Bs	STD	98.23	97.00	96.77	97.49	96.25	88.40	86.50	87.72	90.11	84.04	85.67
	SMA	1.77	3.00	3.23	2.51	3.75	11.60	13.50	12.28	9.89	15.96	14.33	0.457	0.015
SBs	STD	99.02	97.43	97.46	96.93	96.60	99.00	99.59	99.30	99.79	98.08	97.03	0.000	-0.006
	SMA	0.98	2.57	2.54	3.07	3.40	1.00	0.41	0.70	0.21	1.92	2.97	0.003	0.636
PCBs	STD	98.86	98.95	98.01	97.96	97.76	73.12	96.43	96.26	95.48	96.63	97.49	-0.059	0.003
	SMA	1.14	1.05	1.99	2.04	2.24	26.88	3.57	3.74	4.52	3.37	2.51	0.881	-0.085
FCBs	STD	99.29	99.57	99.20	99.05	99.28	99.27	99.39	99.35	99.49	99.83	99.95	0.000	0.001
	SMA	0.71	0.43	0.80	0.95	0.72	0.73	0.61	0.65	0.51	0.17	0.05	0.004	-0.477
Total Industry	STD	98.77	98.50	97.83	97.89	97.54	95.34	95.12	95.24	95.00	94.86	95.84	-0.007	0.002
	SMA	1.23	1.50	2.17	2.11	2.46	4.66	4.88	4.76	5.00	5.14	4.16	0.305	-0.039

Source: Researchers Compilation from data of BRPD, BB

3.3. Dimension and Trend of NPL: Bank Group-wise Gross NPL and Net NPL Ratio

Both the gross and net NPLs show mixed trends during the entire study period 2010-2020. SOCBs experienced the highest percentage of gross NPL (30.0%) in 2018, and net NPL (12.8%) in 2012.

However, SOCBs are trying to keep the net NPL under their grip by keeping provision at their level best, as is shown in Table-3.3. PCBs have kept their net NPL levels below 1%. The SBs have recorded a high percentage of net NPL. The total banking industry witnessed

the highest percentage of net NPL (4.4%) in 2012 and the lowest percentage (0.2%) in 2020, thanks to the policy support of BB. As expected, FCBs have maintained negative percentages of NPL most of the time.

Table 3.3: Dimension and Trend of NPL: Bank Group-wise Gross NPL and Net NPL Ratio (%)

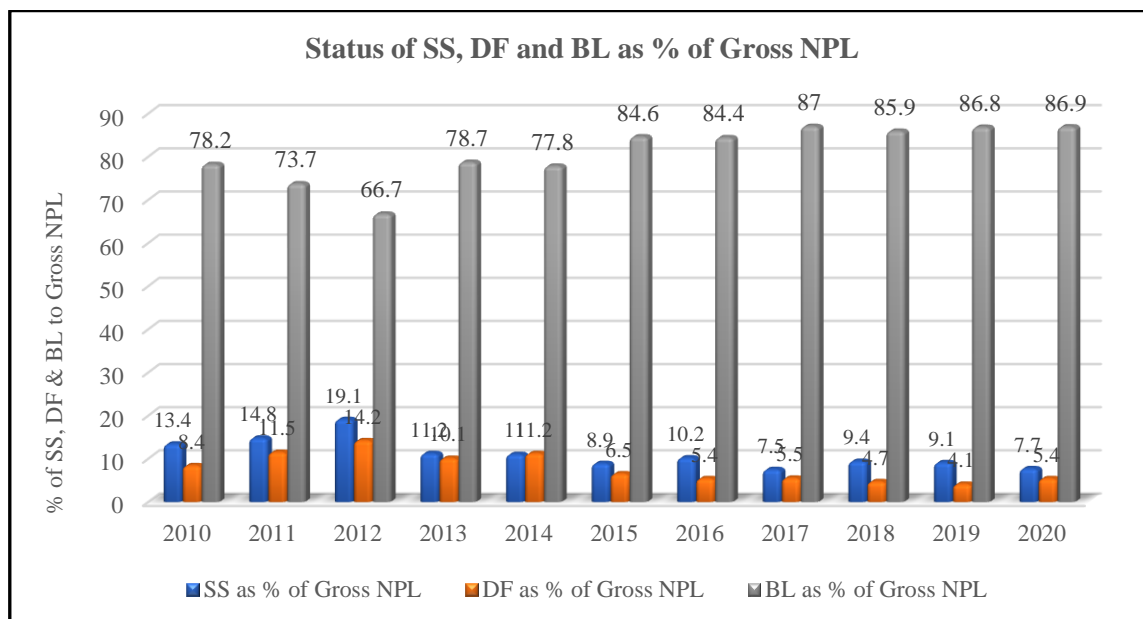
Bank Group	NPL Indicators	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	CAGR (2010 -2015)	CAGR (2016 - 2020)
SOCBs	Gross NPL	15.7	11.3	23.9	19.8	22.23	21.46	25.1	26.5	30.0	23.9	22.7	0.065	-0.024
	Net NPL	1.9	-0.3	12.8	1.7	6.1	9.2	11.1	11.2	11.3	6.1	3.2	0.371	-0.267
SB/DFI	Gross NPL	24.2	24.6	26.8	26.8	32.81	23.24	26	23.4	19.5	15.1	15.9	-0.008	-0.116
	Net NPL	16.0	17.0	20.4	19.7	25.5	6.9	10.5	9.7	5.7	3.0	2.7	-0.155	-0.288
PCBS	Gross NPL	3.2	2.9	4.6	4.5	4.98	4.85	4.58	4.87	5.5	5.8	5.9	0.087	0.065
	Net NPL	0.0	0.2	0.9	0.6	0.8	0.6	0.1	0.2	0.4	-0.1	-0.5	0.316	-
FCBs	Gross NPL	3	3	3.5	5.5	7.3	7.77	9.56	7.04	6.5	5.7	5.5	0.210	-0.129
	Net NPL	-1.7	-1.8	-0.9	-0.4	-0.9	-0.2	1.9	0.7	0.7	0.2	-0.4	-0.348	-
Total	Gross NPL	7.3	6.1	10.0	8.9	9.69	8.79	9.23	9.31	10.3	9.3	9.2	0.038	-0.001
	Net NPL	1.3	0.7	4.4	2.0	2.7	2.3	2.3	2.2	2.2	1.0	0.2	0.121	-0.457

Source: Researchers Compilation from BB Annual Reports

3.4. Dimension and Trend of NPL: Status of Substandard (SS), Doubtful (DF) and Bad & Loss (B/L) as % of Gross NPL

In examining the worsening quality of NPL, knowing the segmentation of classified loans is important. Of the three components of classified loans, the bad and loss category captures a significantly higher proportion of total NPL than those of the other two categories, peaking at 87% in 2017. The proportion of bad and loss loans to total NPL has increased in recent years, recording more than 85% in the last four years (Table-3.1). The lowest recorded proportion of bad and loss to total NPL was 66.7% in 201; subsequently, it increased that needs to be considered with priority.

Figure 3.1: Dimension and Trend of NPL: Status of SS, DF and BL as % of Gross NPL



Source: Researchers Compilation from data of Financial Stability Reports, BB

3.5. Dimension and Trend of NPL: Banks' Concentration in Different Percentages of NPLs as of 31 December 2020.

In examining banks' concentration in Gross NPLs, the highest number of banks i.e., 16 (sixteen) banks were in the 3% to 5% NPLs bracket, whereas the eleven banks maintained less than 2% as well as 2% to 3% NPLs successfully. However, the burden of NPLs on a few banks looks unbearable (Table-3.4).

Table 3.4: Dimension and Trend of NPL: Banks' Concentration in Different Percentage of NPLs as of 31 December 2020

Percentage of NPL	Number of Banks
Less than 2%	11
2% to <3%	11
3% to <5%	16
5% to <10%	6
10% to <15%	5
15% to <20%	1
20% to <25%	2
25% to <50%	3
50% & Above	4
Total	59

Source: Researchers Compilation from data of BRPD, BB

3.6. Dimension and Trend of NPL: Sector-wise Percentage of NPL in Total NPL

The manufacturing sector captured the highest proportion of NPL, hovering around half of the total NPL of all banks during 2013-2020. The proportion of NPL in this sector has been constantly increasing from 2013 to 2020, reaching 48.8% in 2017. The trading sector experienced the second-highest proportion of NPL during the same period, reaching 28.3% in 2018. Like in the manufacturing sector, this sector has also been showing an increasing trend in NPL from 2013 to 2020. Among the three major sectors, the service sector had a relatively lower level of NPL. The highest percentage of NPL in the total NPL witnessed by the service sector was 11% in 2016. Over the period 2013-2020, the NPL of this sector has also increased steadily. It is encouraging to observe that other sectors have shown decreasing trend in NPL as is evident from Table-3.5.

Table 3.5: Dimension and Trend of NPL: Sector-wise Percentage of NPL in Total NPL

Year	Manufacturing	Service	Trading	Others*
2013**	42.5	5.5	12.6	39.4
2014	43.06	6.54	17.14	33.26
2015	44.8	6.7	16.7	31.8
2016	45.9	11	23.4	19.7
2017	48.8	10.1	23.9	17.2
2018	46.1	10.8	28.3	14.8
2019	48.7	9.7	28	13.6
2020	48.21	10.62	27.99	13.18

Source: Researchers Compilation from Data of Financial Stability Reports, BB

Notes: *Others include: Agriculture, Consumer credit, Credit to NBFI and Loans to capital market

** Data during 2010-2012 are not available

3.7. Dimension and Trend of NPL: Concentration of Banks' NPL (% of Total NPL)

NPL is heavily concentrated on a few banks (Table-3.6). In 2010, the top 3 banks recorded 52.33%, the top 5 banks recorded 63.1%, and the top 10 banks recorded 76.39% of the total NPL of the banking industry, respectively. Notably, the amount NPLs has linked with the amount of loans and advances also. However, the proportion of NPL concentrated to 3, 5, and 10 banks are decreasing over the years. In 2020, 35.89% of the total NPL of the banking sector was concentrated among the top 3 banks, whereas 44.3% was concentrated among the top 5 banks, and 63.1% concentrated among the top 10 banks, respectively. It indicates that presently not only largest banks are burdened with the NPL, the negativity of NPLs are gradually spreading to other banks also.

Table 3.6: Dimension and Trend of NPL: Concentration of Banks' NPL (% of Total NPL)

Year	Top 3 Banks	Top 5 Banks	Top 10 Banks
2010	52.33	63.1	76.39
2011	50.66	60.95	72.8
2012	50.51	62.72	73.21
2013	44.28	54.5	67.4
2014	39.69	53.6	67.4
2015	36.43	49.9	63.5
2016	37.53	51.8	65.9
2017	36.59	49.2	65.5
2018	40.38	50.9	66
2019	34.81	45.8	63.3
2020	35.89	44.3	63.1

Source: Researchers Compilation from Data of Financial Stability Reports and BRPD, BB

4. NPL Recovery Measures in Bangladesh and Some Selected Asian countries

4.1 A Major Measures Undertaken to Reduce Non-performing Loans in Bangladesh (1986-2020)

Undertaking measures to reduce NPL and reforming the financial sector in Bangladesh may be traced back to the formation of The Money, Banking and Credit Commission in the mid-1980s. The report of this commission suggested administrative and legal measures for solving NPL problems which later on motivated the Government and BB to undertake two notable initiatives in the 1990s like Financial Sector Reform Project (FSRP) in 1990 and the Banking Reform Committee (BRC) in 1996 for bringing discipline in the lending culture of Bangladesh. Enactment of different laws and regulations, concrete loan recovery policy of SOCBS and proposal for setting up an Asset Management Company were the notable outcomes of the aforesaid measures (Table-4.1). Afterwards, review initiative on the Structural Adjustment Performance in 2000, introducing Credit Risk Grading Scoresheet (CRGS) manual in 2005 and corporatizing SCBs were the major initiatives undertaken in the 2000s for setting up new loan screening and monitoring standards and ensuring accountability in banks. In the 2010s, a good number of measures like introducing new loan classification and provisioning rules in line with the international standard, placing observers in the board of banks with worsening internal governance, restructuring of large loans, and introducing Internal Credit Risk Rating System (ICRRs) were the significant initiatives undertaken by BB.

Table 4.1: Major Measures Undertaken to Reduce Non-performing Loans in Bangladesh: 1986-2020

1986	1990	1996	2000	2003
<p>National Commission on Money Exchange and Credit:</p> <ul style="list-style-type: none"> • The setting of recovery targets for SCBs and DFIs. • Prohibiting defaulters from access to further credit. • Linking loan recovery measures with the central bank. 	<p>Financial Sector Reform Project:</p> <ul style="list-style-type: none"> • Enacting new laws, regulations, and instruments (such as Financial Loan Court Act, 1990 and Bankruptcy Act, 1997). • Fixing collection targets and resolution of legal cases for the 100 largest defaulters. • Publishing list of 100 largest defaulters in different media. 	<p>Banking Reform Committee:</p> <ul style="list-style-type: none"> • Formulating recovery cells and camps in SCBs. • Introduction of incentives to bank officials for recovery. 	<p>Structural Adjustment Performance Review Initiative:</p> <ul style="list-style-type: none"> • Improving central bank's supervision and regulation. • Central bank's instructions to banks to maintain a 9% ratio of capital adequacy to risk-weighted assets, with core capital at least 4.5%. • Making provision to appoint two directors from the depositors in the bank board. 	<ul style="list-style-type: none"> • Enacting the Money Loan Court Act 2003 and the Bank Company (Amendment) Act 2003 for quick settlement of filed cases.
2005	2007	2012	2013	2014
<p>Credit Risk Grading (CRG) Manual:</p> <ul style="list-style-type: none"> • Making CRG system mandatory from 2006 to prevent fresh NPLs. 	<ul style="list-style-type: none"> • Corporatizing SCBs. • Transfer of regulatory authority of SCBs from the Ministry of Finance to the Bangladesh Bank. • Raising the minimum capital adequacy ratio from 9 to 10. 	<p>Revision of loan classification and provisioning:</p> <ul style="list-style-type: none"> • Tightening loan classification to bring it more in line with international practices. • Tightening of definition and delinquency periods for fixed-term loans. 	<ul style="list-style-type: none"> • Amending the Bank Company Act, giving Bangladesh Bank authority to remove the Managing Director of the SCBs. • Special diagnostic examination of SCBs by Bangladesh Bank. • Signing by SCBs revised MoU with Bangladesh Bank with quantitative targets, including reduction of NPLs, limits on the growth of their lending portfolio, and recovery from the largest defaulters. 	<ul style="list-style-type: none"> • Automation of bank branches by end-2016 in financial reporting.
2015	2019	2020		
<ul style="list-style-type: none"> • Placing observers on the board of banks with worsening internal governance. 	<ul style="list-style-type: none"> • Launching Internal Credit Risk Rating System(ICRRS) effective 1 July 2019. • Forming 'Special 	<ul style="list-style-type: none"> • Relaxation of loan classification policy to address business slowdown caused by the coronavirus pandemic. 		

<ul style="list-style-type: none"> • Restructuring of large loans above Tk. 5 billion. • Signing by SCBs annual performance agreement with the Ministry of Finance to reinforce good practices. 	<p>Monetary Cell' headed by Deputy Managing Director(DMD) in all scheduled banks to monitor classified loans amounting to Tk. 100 crore and above.</p> <ul style="list-style-type: none"> • Easing loan classification and provisioning rules effective on 30 June 2019 	<ul style="list-style-type: none"> • Discussion on Asset Management Company for NPL problems. 		
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Source: Managing Non-Performing Loan in Bangladesh, Asian Development Bank (ADB) Briefs, No 116, November 2019 / Bangladesh Bank Circular/ BIBM publications.

4.2. Measures Taken in Selected Neighboring Asian Countries

Most Asian countries experienced NPL problems once in a while or multiple times or year after year, although reasons for piling up NPL might not be uniform in all countries. The amount of NPL increased massively in the Republic of South Korea, Malaysia and Thailand after the 1997 financial crisis. In the People's Republic of China (PRC), NPLs soared due to continued losses at state-owned enterprises and the absence of a commercial credit culture at major financial institutions (Dey, 2019). The major reasons behind the growing amount of NPLs in India were ineffective lending practices by banks, lenient monitoring by the regulator, and lack of accountability in the corporate sector. To address NPL problems, each country went for devising its own measures, considering the severity of the situation. South Korea and Thailand followed very strict measures like cancelling licenses of non-viable banks, forming a small number of large banks and encouraging the merger of small banks. However, Malaysia undertook relatively soft measures like the continuing operation of troubled banks, guaranteeing depositors' funds and permitting them to sell NPLs to non-banking institutions (Table-4.2). Both China and India concentrated on legal reforms, a proper accounting system and the creation of central information houses on large credits. In addition, China introduced some measures like keeping away defaulters from travelling by plane and high-speed train, barring these people to apply for loans and credit cards or getting a promotion. However, one measure for getting rid of the vicious cycle of NPL was the establishment of an Asset Management Company (AMC) in all the selected Asian countries.

Table 4.2: Measures Taken in Selected Neighboring Asian Countries

South Korea	Malaysia	Thailand	The People's Republic of China.	India
<ol style="list-style-type: none"> 1. Cancelling licenses and closing non-viable banks. 2. Cleaning balance sheets of good banks. 3. Forming a small number of large banks through mergers. 5. Strengthening legal framework and bankruptcy law. 4. Forming The Korea Asset Management Corporation (KAMCO). 	<ol style="list-style-type: none"> 1. Continuing operation of troubled banks. 2. Guaranteeing depositors' funds. 3. Establishing three new state-run agencies in 1998: <ol style="list-style-type: none"> (i) Danamodal⁵ (ii) the Corporate Debt Restructuring Committee⁶ and (iii) Danaharta⁷. 4. Permission for selling NPLs by banks to nonbanking institutions. 	<ol style="list-style-type: none"> 1. Guaranteeing deposits. 2. Recapitalization of financial institutions. 3. Shutting down bankrupt financial institutions. 4. Motivating mergers and reducing financial institutions. 5. Encouraging foreign banks to invest in local banks. 6. Forming two state-run agencies (the Thai Asset Management Corporation (TAMC), and the Corporate Debt Restructuring Advisory Committee). 	<ol style="list-style-type: none"> 1. Implementing a new accounting system. 2. Strengthening financial supervision and regulation. 3. Recapitalizing the SCBs. 4. Establishing four state-owned AMCs to purchase NPLs. 5. Reforming legal framework. 6. keeping defaulters from travelling by plane and high-speed train, applying for loans and credit cards, or getting promoted. 	<ol style="list-style-type: none"> 1. Forming Debt Recovery Tribunals (DRTs) to help the banks in the swift settlement of cases. 2. Enactment of SARFAESI (Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest) Act 2002. 3. Formation of Asset Reconstruction Companies (ARC) to act as Bad Bank for disposal of bad loans of banks. 4. Enactment of Bankruptcy and Insolvency Code (BIC-2016) to provide a combined legal framework to deal with insolvency and bankruptcy. 5. Creation of Central Repository of Information on Large Credits (CRILC) with exposure of Indian Rs. 5 crores and above (Funded + Non-Funded). 6. Penal action against wilful defaulters and deliberate non-payment⁸.

Sources: Kumar, Ajit (2017); Dey (2019); and Thomas, et al. (2016).

5. NPL Recovery Measures and their Effectiveness

Firstly, banks opt for preventing NPL by meticulously following all norms in case of lending. However, if things are not working as per expectations and the loan becomes NPL, banks follow regulatory⁹ and legal measures to recover the loans. The section discusses the

⁵Danamodal is a subsidiary of the central bank to recapitalize, restructure, and monitor performance of insolvent financial institutions.

⁶ The Corporate Debt Restructuring was established to restructure corporate debts by making a forum for lenders and borrowers.

⁷Danaharta is an AMC to buy up, manage, restructure, or dispose of NPLs and assets attached as collateral, and to maximize the recovery value of the acquired assets.

⁸A list of nonsuit filed accounts and list of suit filed accounts are forwarded to SEBI by RBI and Credit Information Bureau (India) Ltd. (CIBIL) for preventing willful defaulters to access the capital markets.

⁹The measures adopted for recovery of NPL without resorting to the judicial process such as negotiation with the borrower, rescheduling, using the third party, write-off are considered as regulatory measures. Some of those measures are largely guided by the Bangladesh Bank through the circulars with an expectation that the individual banks will develop their best suited internal policy without violating the regulatory spirit.

preventing measures utilized by banks in barring NPLs and analyses the effectiveness of regulatory measures adopted by the banks in managing NPL recovery.

5.1. Prevention of NPL

5.1.1. Prevention of NPL: Effectiveness of Measures

In preventing NPLs, the first factor named ‘sufficient finance to viable economic activity with guarantee’ is the most important parameter, followed by ‘proper appraisal and monitoring’, and security and independent lending decision (Table-5.1). It indicates that financing independently to the proper economic activity with required analysis, sufficient security and persistent monitoring is necessary to prevent NPLs.

Table 5.1: Effectiveness of Measures for Preventing NPL

Component	Statements/ Variables	Factor Loading	% of Variance Explained
Sufficient finance to viable economic activity with a guarantee. (Eigenvalue = 2.78)	Accepting implementable corporate guarantee	0.784	34.73
	Lending to the viable economic activity	0.721	
	Giving sufficient time to board members/approval authority before approving the large loan ¹⁰	0.856	
	Ensuring adequate financing amount as well as timely disbursement	0.570	
	Stopping disbursement ‘Excess Over Limit’	0.570	
Proper appraisal and monitoring (Eigenvalue = 1.43)	Proper pre-lending appraisal	0.675	17.92
	Proper monitoring with ensuring end-use of funds	0.843	
Security and independent lending decision. (Eigenvalue = 1.13)	Taking sufficient and realizable security	0.813	14.10
	Avoiding undue influence by the external /insider party	-0.776	

Source: Survey Data

5.1.2. Prevention of NPL: Extent of Application of Measures

The spiral amount of NPLs can be brought under control if loans are given by properly following norms of lending. Table-5.2 shows that almost all the measures were properly followed by more than 80% of sample banks. However, all banks were not careful enough in stopping disbursement ‘excess over limit’, taking sufficient and realizable security and monitoring borrowers persistently for ensuring end-use of funds as is evident in the response of the bankers.

Table 5.2: Application of Preventive Measures in Preventing NPLs.

Measures	Followed Properly (%)
Proper pre-lending appraisal	92.59
Taking sufficient and realizable security	75.86
Accepting implementable corporate guarantee	82.76
Lending to the viable economic activity	85.71
Giving sufficient time to board members before approving the large loan	93.10

¹⁰ In ideal situation, only bank management should take approval decision, although board members are directly or indirectly involved in this process of some banks.

Measures	Followed Properly (%)
Avoiding undue influence by the external /insider party	84.62
Ensuring adequate financing amount as well as timely disbursement	93.10
Proper monitoring with ensuring end-use of funds	75.86
Stopping disbursement 'Excess Over Limit'	75.86

Source: Survey Data

5.2. Minimizing Accumulated NPL: Regulatory Measures

5.2.1. Recovery Policy

It is desirable that each bank has a board-approved comprehensive loan recovery policy that is expected to define strategy in dealing with NPL depending on the severity of the problem. The policy represents the bank's stance and makes the recovery procedures uniform across the branches. The policy is also required to be reviewed periodically to find out the deficiencies in the policy. However, the policy has not been reviewed regularly (yearly) (Table 5.3), although 60 per cent of the banks have a recovery policy approved by the board (Source: Survey Data).

Table 5.3: Regulatory Measures: Revision of NPL Recovery Policy

Times for Reviewing Policy	Freq.	Percent
1 – 2 times	5	41.67
3 – 4 times	5	41.67
5 and above	2	16.67
Total	12	100.00

Source: Survey Data

5.2.2. Regulatory Measures: Number and Name of Dedicated Departments for Managing NPLs.

As regards the organizational set-up for NPL recovery, Table-5.4 shows that the highest numbers of banks have 3 (three) divisions for loan recovery activities. The variation in both the number and the name of the problem asset recovery department arises due to the regulatory requirements, differences in nature of the portfolio, size of the operation and severity of the problem loan. The name of departments with their frequency is also presented. Mostly, these are called recovery, SAMD and legal affairs departments.

Table 5.4: Regulatory Measures: Number and Name of Dedicated Departments for Managing NPLs (n=29)

Dedicated Department/ Unit		Name of Departments	
Number of Dept./ Units	Bank's No.	Name	Bank's No.
1	5	Recovery Division	14
2	6	Special Asset management Department	13
3	11	Separate Unit for Writ-off Loan	3
4	7	Legal Affairs	17
		Early Alert Division	1
		Collection Unit in Business End	1

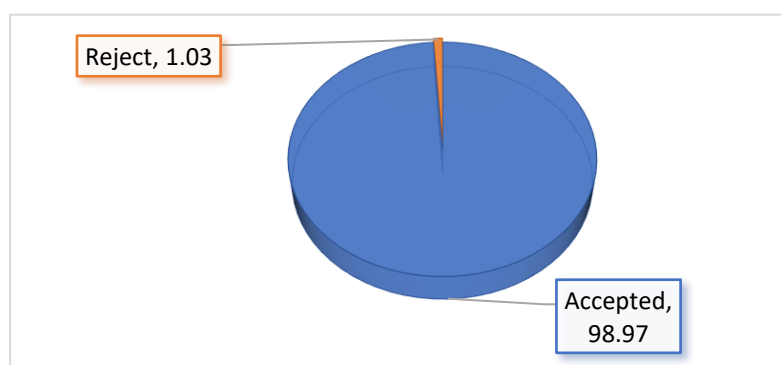
Source: Survey Data

5.2.3. Regulatory Measures: Recovery through Rescheduling¹¹

5.2.3.1. Acceptance/Rejection of Rescheduling Application (%)

Any well-functioning bank is likely to be stringent in allowing the rescheduling facility to the borrower. BB brought the loan rescheduling environment under regulation by issuing various circulars with several revisions at different times in consideration of changing business environment and economic conditions. The acceptance/rejection rate of loan rescheduling applications is shown in Figure-5.1 to get an idea about the difficulty of getting a rescheduling facility. Apparently, it is surprising to see that about 99% of the application got through the banks during 2016-2020. One, however, needs to be careful in interpreting the findings as most of the borrowers, if not all, perhaps go for document-based rescheduling applications only after becoming certain by discussing with the bank authority.

Figure 5.1: Percentage of Acceptance/ Rejection of Rescheduling Application (%)



Source: Survey Data

5.2.3.2. Frequency of Loan Rescheduling (%)

Regulation generally allows a maximum of 3 times rescheduling for a non-performing loan with prescribed down payment conditions. Against the expectation, a significant number of loans are given a second time, and a third time rescheduling facility (Table-5.5). The percentage of more than one (1) time rescheduling ranging between 30% and -40% indicates using rescheduling as an easy solution to deal with the NPL problem. The ratio between the 1st Time and More Than 1st Time Rescheduled Amount indicates the same picture. Allowing more than third time rescheduling in exceptional cases with the approval of the Bangladesh Bank is not uncommon in the banking sector of Bangladesh. More than third time rescheduling was given by 13 out of 30 banks with a total of such 239 cases during the study period (Survey Findings). So, the level of conservatism expected by the regulator is not seemingly properly followed. Further, as large borrowers are also the large employers in the economy, they use their clout to get undue loan rescheduling facilities.

¹¹Loan rescheduling is a widely used tool for recovery of default loan. Ideally, the decision of loan rescheduling should rest on the bank's internal policy and standards considering the banker-customer relationship.

Table 5.5: Frequency of Loan Rescheduling and Amount of Rescheduled in Different Frequencies

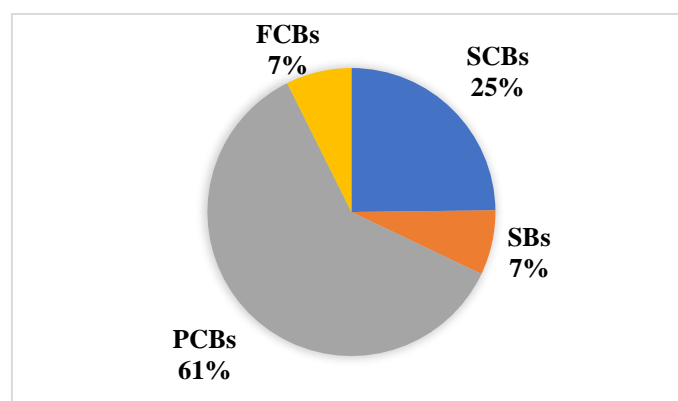
Year	Frequency of Rescheduling		The ratio between the 1 st Time and more than 1 st Time Rescheduled Amount
	% of 1st Time Rescheduling	% of more than 1 Time Rescheduling	
2010	75.92	24.08	64:36
2016	57.69	42.31	56: 44
2017	56.91	43.09	60: 40
2018	66.23	33.77	67: 33
2019	60.58	39.42	57: 43
2020	65.76	34.24	54: 46
Total	61.76	38.24	59: 41

Source: Survey Data

5.2.3.3. Share of Rescheduling by Bank-Group (2015-2020)

Figure-5.2 shows that 61% amount of total rescheduling was given by PCBs, followed by SCBs with a share of 25%. This is plausible as the PCBs' share of the asset in the banking industry is more than twice that of SCBs' assets (BB Annual Report, 2019-20). It is, however, also a concern that the objective of the establishment of PCBs was to provide credit to good borrowers in the backdrop of the high percentage of NPL of the SOCBs. The SBs and FCBs have the same share of rescheduling, although the FCBs hold significantly higher assets than the SBs (BB Annual Report).

Figure 5.2: Share of Rescheduling by Bank-Group (2015-2020)



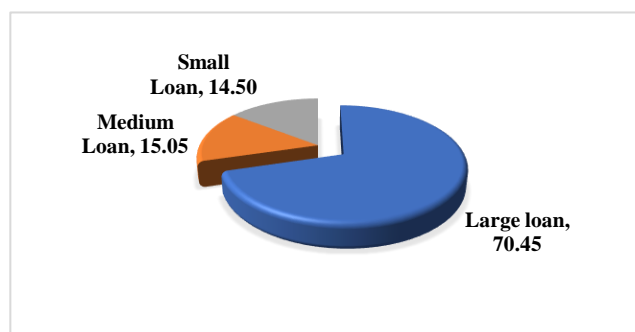
Source: Bangladesh Bank

5.2.4. Regulatory Measures: Recovery through Write off¹²

5.2.4.1. Loan Size-wise Composition of Write-of Loan

The reported percentages of written-off loans in the case of large, medium, and small loans during 2016-2020 show that the distribution is highly uneven as large loans account for about 70% of the total amount of written-off loans (Figure-5.3).

Figure 5.3: Loan Size-wise Composition of Write-of Loan

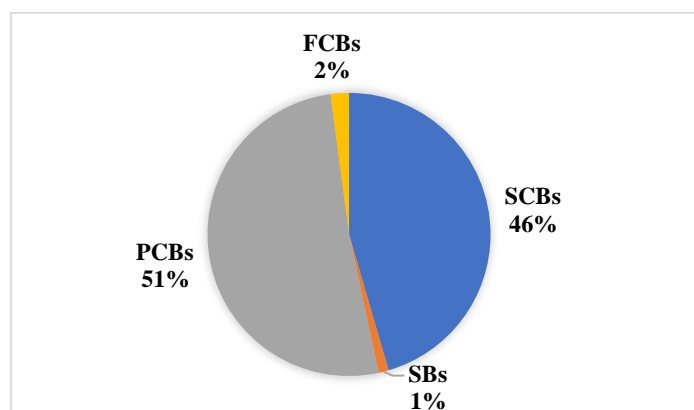


Source: Survey Data

5.2.4.2. Bank-Group Composition of Write-of Loan :(2015-2020)

Written off amount by PCBs was the highest (51%), followed closely by SCBs (46%). The SBs and FCBs together held only 3 per cent of total written-off loans (Figure- 5.4).

Figure 5.4: Share of Write off by Bank-Group (2015-2020)



Source: Bangladesh Bank

5.2.4.3. Overdue Length of the Write-off Loan and Recovery Ratio of Write-off by Loan Size

Time consumption in recovering NPLs is not expected. Table-5.6 shows that the percentage of the loan remaining unsettled for 5 years or more is as high as 73 per cent (46.67+26.63), indicating that a substantial period of time is required in NPL recovery

¹²A loan is written of when there is no prospect of business recovery. Although the worst categories of loans are eliminated from the balance sheet, still write-off is internationally recognized as NPL recovery tool. This is because written-off loans are transferred to dedicated recovery unit having expertise with assumed responsibility and accountability for their recovery efforts.

through write-off. The perceived relationship between recovery probability and loan size is shown in Table-5.6. Generally, the recovery ratio decreases with the increase in the size of the loan, which again points to the importance of dealing with the large loans in our banking industry.

Table 5.6: Overdue Length of the Write-off Loan and Recovery Ratio of Write-off by Loan Size

Overdue Length of the Write-off Loan		Recovery Ratio of Write-off by Loan Size	
Overdue Period (Years)	%	Loan Size	Ratio of Recovered Amount to Write-off
Less than 1	1.73	Less than 1 crore	50.08
1 to 3	5.61	1 crore to 25 crore	17.41
3 to 5	19.39	25 crore to 50 crore	10.14
5 to 10	46.64	50 crore to 100 crore	4.05
More than 10	26.63	100 crore and above	5.77

Source: Survey Data

5.2.4.4. Loan Recovery through Write off

Like rescheduling, the write-off is largely regulated by the central bank. A priori effectiveness of write-off as a recovery measure is not proven in our banking industry as the recovered amount to write-off amount remained below 10%, except for the PCBs in 2010 and 2017 (Table-5.7). The performance of PCBs is noticeably higher than the SOCBs concerning the recovery of write-off loans.

Table 5.7: Recovery Status of write-off loan

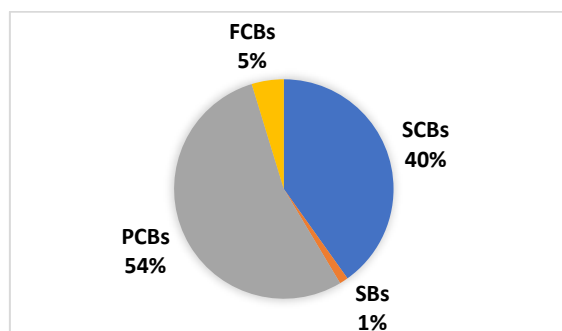
Year	Fully Recovered Amount to Write-off Amount (%)		
	SCBs (Including BKB)	PCBs	All
2010	1.78	12.56	3.02
2016	5.23	6.87	6.22
2017	5.40	12.96	9.89
2018	3.77	4.54	4.29
2019	2.07	5.51	4.30
2020	1.88	5.16	3.81

Source: Survey Data

5.2.4.5. Share of Write off Recovery by Bank-Group (2015-2020)

The percentage of the recovered amount after write off in total by bank group is shown in Figure-5. As expected, considering the market share, PCBs tops the list with 54%, followed by SCBs with a share of 40% (Figure-5.5).

Figure 5.5: Share of Write off Recovery by Bank-Group (2015-2020)



Source: Bangladesh

5.3. Minimizing Accumulated NPL: Outside the Court Settlement (OCS)

5.3.1 Outside the Court Settlement (OCS): Recovery through Negotiation and Mediation

The opinions of the responding banks relating to the effectiveness of different outside the court settlement process show that negotiation is a more effective tool of recovery than mediation. Further, both negotiation and mediation were more effective after filing suits (Table -5.8). Engaging third parties by the banks in the negotiation process with the borrowers is hardly practised in our banking industry.

Table 5.8: Effectiveness of Outside the Court Settlement (OCS) in Both before and after Filing Suit

Measures	N	Effective	Poorly effective	Neutral
Negotiation before filing suit	28	60.71	28.57	10.71
Negotiation after filing suit	27	74.07	22.22	3.70
Mediation before filing suit	25	24.00	44.00	32.00
Mediation after filing suit	24	54.17	37.50	8.33

Source: Survey Results

5.3.2. Outside the Court Settlement (OCS): Limitations of Negotiation and Mediation and Suggestions thereof

The limitations and suggestions for improvement pointed out by the banks with regard to various negotiation and mediation based NPL recovery measures are placed in Table-5.9. Banks report that defaulters prefer to settle the case in court as they get enough time for settlement in court. Further, they feel that the absence of enough regulatory directions regarding OCS is also a reason why this measure is not effective in recovering NPLs.

Table 5.9: Limitations of the Negotiation/ Mediation/ Arbitration before and after Filing Suits

Methods	Limitations	Suggestions
Negotiations	Lack of regulatory standards	Filing suits and starting negotiation simultaneously
	Hostility in client's attitude	Creating social pressure onto the defaulters

Methods	Limitations	Suggestions
	Clients' preferences in settlement through legal procedure for getting enough space.	Strict compliance of section 17 of the Artha Rin Adalat Ain-2003
	The optimism of the borrowers in getting favourable verdicts from the court.	Having special right by banks to settle/reschedule the A/c under litigation without the consent of the Court.
	Losing interest by the borrowers in negotiating with the filing of the suit	
	Deterioration of the banker-customer relationship	
Mediation	Lack of agreement by the bank and the borrower with the mediator	Strengthening legal measures
	Poor success rate	Keeping provision for mediation in the sanction letter
Arbitration	Poor success rate	Strengthening legal measures

Source: Survey Results

5.3.3. Outside the Court Settlement (OCS): Experiences of Bangladesh International Arbitration Center (BIAC)

5.3.3.1. BIAC's Position in Alternative Dispute Resolution (ADR)

Bangladesh International Arbitration Center (BIAC)¹³, the country's first and only government-licensed institution for Alternative Dispute Resolution (ADR)/ OCS, was established in 2004 with assistance from three business Chambers -- International Chamber of Commerce, Bangladesh, Dhaka Chamber of Commerce and Industry and Metropolitan Chamber of Commerce and Industry, Dhaka. However, BIAC started operation in April 2011, 6 (six) years after its establishment. Since then, BIAC has signed a Memorandum of Understanding (MoU) with 10 scheduled banks for referring cases for ADR. Of the 10 banks, only four banks have referred cases for mediation to BIAC (Table-5.10).

Table 5.10: BIAC 's Position in Alternative Dispute Resolution (ADR)

Banks	No. of Referred Cases	Perused/ Mediated Cases	Remarks
Bank -1	9	5	Out of referred 9 cases, some cases were returned to banks as the sum in dispute was very small and from the remaining, only one client was agreed for mediation.
Bank -2	10	4	Six cases were not selected for mediation.
Bank -2	5	4	In an attempt to popularize ADR, these cases were tried on a pilot basis and no fee was charged.
Bank-4	20	0	Bank representatives did not provide BIAC with the requested information and BIAC could not proceed with the cases.

Source: BIAC

¹³ BIAC's objective is to facilitate default dispute resolution through mediation and arbitration. This is not loan collection agency.

5.3.3.2. Barriers to Make ADR/ OCS Process of BIAC as an Effective Measure for Resolution of NPL

The above table shows that BIAC is yet to create any notable progress in ADR. According to the observations of BIAC, the unwillingness of borrower to bear mediation costs, shifting default loan cases with less amount of exposure, the reluctance of borrower to sit in mediation table if his/her loan is not covered by valuable security, dearth of awareness and knowledge among bankers and borrowers about mediation and lack of decision-making power of nominated bank's representatives in mediating process are the barriers to make ADR process run by BIAC as an effective measure (Table-5.11).

Table 5.11: Barriers to Make ADR/ OCS Process Run by BIAC as an Effective Measure for Resolution of NPL

SL. No.	Barriers	Reasons	Way out
1	Minimum Amount of Loan	The disputed case with a sum below Tk. 1 million is not economically reasonable for mediation for the borrowers. As per the BIAC, the minimum cost for mediating a case is Tk. 55,000 ¹⁴ + mediator's fee (Tk. 5000 to 50,000 per hour)	Although mediation is suitable for small and medium enterprise dispute resolution, loan cases with above 1 million may only be transferred to BIAC to make it cost-effective for borrowers.
2	Costs of Mediation to be borne by the Bank	Borrowers usually do not possess the resources to afford lawyers and mediation costs.	If banks bear the cost, borrowers will be motivated to repay the loan. Notably, the total cost of Mediation is smaller than the lengthy litigation cost.
3	Loan without collateral	Borrowers do not feel the compulsion to cooperate with BIAC if the loan is given without security.	A loan case with security is only required to be transferred to BIAC.
4	Nominating person with sufficient authority-	Bank representatives sometimes do not have sufficient authority to make the decision on offers proposed by the other party to the dispute.	Bank officials with decision-making power should be nominated or alternatively, representatives with decision making should be available to be contacted via telephone during the Mediation process.
5	Lack of awareness regarding mediation as well as BIAC	Both bank officials and borrowers have little knowledge about the mediation process. In addition, they do not have knowledge about the function of BIAC. The borrowers view BIAC as a debt collection agency and hence are fearful of any communication made by BIAC.	Offering training on the mediation process can be helpful in this respect. Further, the inclusion of the BIAC mediation clause in the sanction letter, if possible, may remove this confusion.

Source: Compiled by Researchers Depending on BIAC Observations.

5.3.4. Suggestions in Improving the Effectiveness of out of Court Settlement

The respondents offered suggestions for improving the effectiveness of out of court settlements in order of importance. Specialized training for bank staff, legal reforms to

¹⁴ Assessment fee of 5,000 + Registration Fee of 10,000 + Rental of BIAC Meeting Facilities of 40,000 [10,000 x 4 (assumption is that a case can be solved within four half- day sessions).

compel out of court settlements, and engaging specialized institutions have been given priority by the banks (Table 5.12).

Table 5.12: Suggestions for Improving the Effectiveness of Out of Court Settlement

Recommended Measures	N	% of the response
Specialized training for bank staff	29	96.55
Legal reforms to compel out of court settlement	28	82.14
Engaging specialized institution	28	82.14
Introducing time-bound and low-cost process	25	76.00
Formation of a specialized institution for NPL recovery	26	73.08
Mandatory incorporation of default settlement clause in all loan agreements	25	64.00
Adopting insolvency resolution plans through auctions	25	52.00

5.3.5. Recovery in Post COVID Situation: Regulatory Measures

All the regulatory measures have become less effective during and after the COVID period, as opined by respondents (Table-5.13.A.). The banking sector is likely to get more NPLs in future. The suggested measures to improve the effectiveness of NPL recovery measures in the post-COVID situation, as opined by the responding banks, are given in Table 5.13.B.

Table 5.13.A: Adverse Effect of Recovery Measures Due to COVID-19

Regulatory Measures	N	Effective like Before (%)	Less Effective (%)
Rescheduling	26	26.92	73.08
Restructuring	23	47.83	52.17
Write-off	20	45.00	55.00
Negotiations	26	34.62	65.38
Legal Measures	27	37.04	62.96

Table 5.13.B: Suggestions to Improve the Effectiveness of NPL Recovery Measures in Post COVID Situation

Suggestions
<ul style="list-style-type: none"> • Giving the affected but otherwise competent borrowers with good track records more financial assistance • Ensuring proper incentives to the small & medium segments including farmers and marginal business houses by the central bank • Reducing the tiers of Artha Rin Adalat . • Forming a task force by each bank to find out the actual sufferers/victims among the top defaulted borrowers • Relaxing the down payment requirement and extending the loan tenor for competent and trustworthy borrowers • Ensuring customized solutions on case to case basis involving feasible repayment plans through structuring/rescheduling. • Revoking the civil rights of wilful defaulters

Source: Survey Results

5.4. Minimizing Accumulated NPL: Legal Measures¹⁵

The accumulation of default loans, among other things, depends on the enforcement status of existing debt recovery related Acts. Fast and smooth legal recovery allows a bank to give more attention to preventing new loans from becoming non-performing. Recovery of default loans through legal measures is expensive, time-consuming and unpleasant; and that's why those measures should be used as the last resort (Siddique et. al, 2015).

5.4.1. Legal Measures: Amount Claimed, Settled, and Recovered under MLC, PDR, and BA

The amount claimed, settled, and recovered up to December 2020 under MLC, PDR, and BA indicates that the banking sector of Bangladesh is heavily dominated by the Money Loan Court Act with a share of 97.48%, 93.59%, 91.96% in total claimed, settled, and recovered amount respectively (Table-5.14).

Table 5.14: Amount Claimed, Settled, and Recovered under MLC, PDR, and BA* (Tk. in crore)

Act Name	Amount Claimed	Amount Settled	Amount Recovered
MLC	190673.34 (97.48)	56908.63 (93.59)	18896.51 (91.96)
PDR	2205.54 (1.13)	1687.99 (2.78)	1239.28 (6.03)
BA	2732.99 (1.40)	2209.05 (3.63)	413.81 (2.01)
Total	195611.87 (100.00)	60805.67 (100.00)	20549.60 (100.00)

Source: Bangladesh Bank

Note: *Figure in parenthesis represents share in total

5.4.2. Legal Measures: Settlement under the Artha Rin Adalat Ain (ARA), 2003 and Recovery thereof

The percentage of settled cases settled amount and recovery amount in the banking industry under ARA during the period 2015 – 2020 is given in Table-5.15. The percentage of settled cases remained similar at around 67% during the period. The rate of settlement amount remained at a low level i.e. below 30% with a slight variation across the years under consideration. What ultimately matters to assess the strength of the legal measures is the percentage of the recovered amount which is shown in the last column of the table. After witnessing around 50% recovery out of the claimed amount in the first 3 reported years, the recovery rate noticeably declined in 2020 with a rate of 33.21%. So, as a whole, the enforcement status of the ARA, which the bank relies on for legal recovery does not still yield an expeditious recovery process.

¹⁵ Judicial process relating to bank loan recovery in Bangladesh reached remarkable heights in the 1990s through the enactment of Financial Loan Court Act. Afterwards, Money Loan Court Act 2003 was enacted. The Act has been amended subsequently in several times to increase the coverage and effectiveness of the law. The Public Demands Recovery Act enacted in 2013 generally takes care of the small amount of loans and dues of state-owned banks treated as public demand. Facing the difficulty of recovering bad loan from the large willful defaulters in the 90s the Government established the Bankruptcy Act, 1997 to expedite the recovery from defaulted borrowers through declaring them bankrupts.

Table 5.15: Rate of Settlement under the Artha Rin Adalat Ain (ARA), 2003 and Recovery thereof

Year	% of Settled Cases (Of Case Filed)	% of Settled Amount (Of Claimed Amount)	% of Recovered Amount (Of Settled Amount)
2015	67.69	29.89	50.25
2016	66.20	28.03	49.19
2017	66.11	25.86	49.52
2018	65.86	25.32	45.22
2019	66.26	27.10	38.87
2020	67.32	29.85	33.21

Source: Bangladesh Bank

5.4.3. Legal Measures: Bank Group-wise Rate of Settled Cases, Settled Amount & Recovered Amount under ARA

Specialized banks achieved the highest percentage in settlement of lawsuits (about 80%), followed by the state-owned commercial banks (around 77%) with no such changes during the study period (Table-5.16). However, the PCBs and FCBs registered relatively higher growth of settlement than the other two groups during the study period. The SBs topped the list with regard to the percentage of settled amounts with a steady improvement from 42.93% in 2015 to 57.91% in 2020. The FCBs with a low percentage of settled amount experienced an even lower rate in 2020 compared to the corresponding rate in 2015. In the case of the percentage of recovery amount, SBs remained at the top with a recovery rate of 87.32 in 2020. The recovery rate of both SOCBs and PCBs came down significantly from their respective level of 2015 to the current level in 2020. A high recovery performance of FCBs does not match with their dismal settlement performance. It may be because of their success in settling large loans through legal measures and/or recovering the amount through negotiation with the borrowers after initiating legal measures.

Table 5.16: Bank Group-wise Rate of Settled Cases, Settled Amount & Recovered Amount under ARA

Year	% of Settled Cases				% of Settled Amount				% of Recovered Amount			
	SOCBs	SBs	PCBs	FCBs	SOCBs	SBs	PCBs	FCBs	SOCBs	SBs	PCBs	FCBs
2015	76.34	79.15	45.70	7.82	34.58	42.93	24.59	17.75	50.38	80.62	45.83	76.14
2016	76.09	80.74	46.29	6.38	31.37	46.22	23.88	12.80	50.55	86.01	41.96	79.41
2017	75.58	81.79	51.41	6.47	26.99	51.24	23.65	7.87	54.19	89.74	37.84	81.10
2018	75.71	80.82	52.12	8.77	26.21	52.74	23.47	7.01	50.11	84.56	33.78	81.68
2019	76.26	81.43	53.11	10.80	30.65	52.85	22.85	7.32	37.02	85.37	34.91	80.77
2020	78.36	82.52	53.84	12.03	34.51	57.91	24.50	7.41	29.80	87.32	31.12	79.09

Source: Bangladesh Bank

5.4.4. Legal Measures: Rate of Settlement under the PDR Act and Recovery thereof

All the settlement/recovery indicators under the PDR Act show better performance than those under the ARA Act (Table-5.17). Also, all three indicators have shown improvement from their respective level in 2015 to 2020.

Table 5.17: Rate of Settlement under the PDR Act and Recovery thereof

Year	% of Settled Cases	% of Settled Amount	% of Recovered Amount
2015	77.83	67.10	66.63
2016	59.01	69.25	68.34
2017	81.09	72.34	70.29
2018	82.27	74.00	71.12
2019	83.27	75.42	72.30
2020	84.30	76.53	73.42

Source: Bangladesh Bank

5.4.5. Legal Measures: Rate of Settlement under the Bankruptcy Court and Recovery thereof

The percentage of settled cases increased slightly from 63.10% in 2015 to 67.37% in 2020 (Table 5.18). The percentage of settled amount during the study period increased from 67% in 2015 to more than 80% in 2020. However, the recovery performance under the Bankruptcy Act deteriorated in 2020 as compared to 2015.

Table 5.18: Rate of Settlement under the Bankruptcy Court and Recovery thereof

Year	% of Settled Cases	% of Settled Amount	% of Recovered Amount
2015	63.10	67.00	21.88
2016	68.01	77.43	18.95
2017	67.80	77.61	19.24
2018	68.04	81.59	18.37
2019	67.90	80.84	18.43
2020	67.37	80.83	18.73

Source: Bangladesh Bank

5.4.6. Effectiveness of Debt Recovery Related Acts in NPL Recovery: Survey

Banks ultimately go for legal actions to recover default loans in the event of failure of all possible regulatory measures or outside the court settlement process. The most widely used debt recovery related law is the Artha Rin Adalat Ain, 2003 with few amendments made in 2010. The application of the PDR Act, 1913 and Bankruptcy Act, 1997 are seldom used in our financial sector. The Government and the Bangladesh Bank have progressed far in revising the loan recovery-related acts, especially the PDR Act, and the Bankruptcy Act. The respondent banks' opinion about the level of effectiveness of different Acts is seen in Table-5.19. It is interesting to see the strength of the Negotiable Instruments Act as a recovery channel even without being considered as a debt recovery related Act.

Table 5.19: Effectiveness of Debt Recovery Related Acts in NPL Recovery

Acts	N	Very Effective	Effective	Poorly Effective	Neutral
Artha Rin Adalat Ain, 2003	28	50.00	42.86	7.14	
Public Demands Recovery Act, 1913	21	4.76	9.52	23.81	61.90
Bankruptcy Act, 1997	24		4.17	45.83	50.00
Negotiable Instruments Act, 1881	29	34.48	65.52		

Source: Survey Data

5.4.7. Time Required for Recovery through the MLC Act, 2003

One widely shared view about the legal recovery process is its time-consuming nature which is well documented in Table-5.20. About 60% of cases have been settled during the study period requiring more than 2 years. Even more than 10 years are reported by respondents in case of settling 4.7% of cases.

Table 5.20: Time Required for Recovery through the MLC Act, 2003

Years	Percentages of Total Cases
less than 1	17.81
1 to 2	23.16
2 to 5	40.14
5 to 10	14.17
More than 10	4.72

Source: Survey Data

5.4.8. Limitations of the Recovery Related Acts and Suggestions Thereof (Rank-wise)

Table-5.21 presents the limitations of Artha Rin Adalat Ain, 2003 and Negotiable Instruments Act, 1881 with corresponding recommendations. The lengthy execution process and the inadequate number of courts are the major limitations of our recovery through legal approaches. Establishing Artha Rin Adalat Court in every district, issuing warrants against guarantors by the Court and filing cases directly to Trial Court (Sessions Court) instead of Magistrate Court are the major suggestions put forward by the respondents.

Table 5.21: Limitations of the Recovery Related Acts and Suggestions Thereof (Rank-wise)

Name of the Acts	Limitation	
Artha Rin Adalat Ain, 2003	Lengthy execution process	Increasing the number of Courts/Judges.
	Inadequate number of Courts	Establishing Artha Rin Adalat Court in every district for quick disposal of cases.
	Reduced effectiveness of the law in changing business environment/ circumstances	Issuing warrant against guarantor by the Court
	Provision of Mediation	
Negotiable Instruments Act, 1881	Limitation	
	Bailable nature of the offence	
	Inadequate number of Courts	Considering the offence as non-bailable
	Less effectiveness/suitability for a large loan	Filing cases directly to Trial Court (Sessions Court) instead of Magistrate Court
	Delay in the procedure due to transferring cases from CMM Court to Sessions Court	Increasing punishment up to 5 years

Source: Survey Data

5.4.9. Suggested Measures to Speed up NPL Recovery

Data warehouse of collateral, formation of a special tribunal for recovery of loan, and time-bound resolution of cases have been reported as of utmost necessity in strengthening NPL recovery initiatives (Table-5.22). Formation of Asset Management Company was also suggested by 74. % of respondents.

Table 5.22: Suggested Measures to Speed up NPL Recovery (%)

Measures suggested	N	% of the Respondents
Data warehouse of collateral	28	85.71
Formation of a special tribunal for recovery of loan	27	85.19
Time-bound resolution of cases	26	80.77
Formation of the asset management company	27	74.07
Bringing lawyers, credit rating agencies, surveyors and accountants under accountability	27	74.07
Circulation of the total debt-equity ratio of borrowers having loan amount of Tk. 10 crore and above to all banks	27	74.07
Fair pricing of collateral by the competent accounting firms	27	66.67
Arranging social Shaming for the wilful defaulters	27	66.67
Cancellation of license and suspending operation of non-viable banks/ financial institutions	27	40.74

Source: Survey Data

6. Effectiveness of Recovery Measures: Case Study Approach

6.1. Case 1(one) on Regulatory and Legal Measures: M Distribution” & “M Holistic (M Group)

6.1.1. Background

“M Distribution” & “M Holistic” was incorporated as “M Group”, which is a proprietorship concern of Mr. Nader involved in distributorship business. “M Distribution” was involved in the distributorship of Grameen Phone Ltd. (GP). The firm was initially operated in the name of “O Marketing Corporation” in 2004 as a distributor of GP at Munshigonj&Dohar area. In 2011, the business was converted into “M Distribution” to get distributorship of prime areas of Dhaka Metro. Mr. Nader has another proprietorship concern, namely, M Communication which was the distributor of bKash for the Dhanmondi Area. Another business concern of the proprietor, “M Holistic”, was involved in distributorship of Unilever products, i.e. Cosmetic channel only for Dhaka Metropolitan Area. Later on, the client incorporated another concern namely; “M Fusion”, for running distributorship of all products of Unilever (not only cosmetic) for Dhanmondi, Mohammadpur and Mirpur Area.

6.1.2. Credit History with FBL

The credit relationship of “M Distribution” started with Fastern Bank Ltd. (FBL) back in 2013, when FBL approved a credit limit of BDT 12 crore on 08.05.2013 (takeover from CBL Bank Ltd.). Later, the credit was enhanced to BDT 18.00 crore on 06.07.2014 but the customer failed to repay the loan as per approval due to strategic business failure as different distributorship deals were being cancelled and hence the account was classified. Initially, FBL allowed a fresh credit limit of BDT 8.00 crore on 15.12.2013 for another concern, “M Holistic”. Two (2) mortgage properties at Badda, Dhaka with a market value of BDT 5.84 crore was kept as a security against the loan along with several personal guarantees. The security was collateralized jointly against the facilities of both concerns “M Distribution” & “M Holistic”. Later, FBL reduced the credit limit with a renewal of BDT 7.97 crore on 23.07.14 but due to the failure of the customer for repayment, the account was classified.

6.1.3. Reason for Default

The business of “M Distribution” was interrupted and later was closed due to political turmoil and cancellation of distributorship by bKash and GP. The distributorship of Unilever is running in full swing in the name of “M Fusion”, but it was not enough for payment of EMI with the interest of both Concerns i.e. “M Distribution” and “M Holistic” under the existing arrangement, and hence, the facility became classified. Another reason for the default was that his facilities continued at 20% p.a. (including a 3% penal rate), although the market interest rate reduced significantly during that time. This ultimately led to a huge burden on the customer.

6.1.4. Recovery effort and Rescheduling Arrangement of the Facility

The facility of 22.94 crore was Rescheduled for the 1st time on 02.11.2016 converting OD into Term Loan upon NOC of BB and the Term Loan was rescheduled for 3 years including 6 months moratorium period. But the customer again failed to provide the EMI as per arrangement due to cancellation of Distributorship with bKash in Mid-2015 and GP in Jan’2016, and hence, the account was classified again in Dec’2017 and became written-off on 27.06.2018. Another concern “M Holistic” performed regularly up to 2014. But in 2015, along with its sister concern, irregularities were observed in the repayment of bank liabilities. Afterwards, they started their business with a new name NBS (Next Business Solution) with Unilever. Assessing the business condition and upon customer’s request with required down payment, the account was rescheduled (1st Time) on 03.10.2016 converting OD into term loan-I BDT 7.58 crore & existing Term Loan as Term Loan-II BDT 0.93 crore. Upon NOC of BB dated 21.03.17, OD was rescheduled for 3 years and TL for 4 years, including a 6 month moratorium period. But the customer again failed to make repayments according to the approved terms and conditions due to inadequate profit

generation from the distributorship business and severe cash crisis. The distributorship of Unilever is running in full swing in the name of M Fusion (Now NBS) but not enough for payment of EMI with an interest of both concerns i.e. “M Distribution” and “M Holistic” under the existing arrangement and hence the account was classified again in Dec’2017 & written-off on 27.06.2018.

6.1.5. Recovery Effort by Legal Action & Negotiation

Bank officials met the customer several times and attended several meetings, reminder letters were issued, and legal action was initiated both under Civil and Criminal law. Consequently, a settlement proposal was submitted by the customer on 15.02.18 but failed to execute due to the business failure. As a part of legal action, the bank filed 7 criminal cases (CR Case) for the dishonour of 7 cheques amounting to BDT 30.71 crore. However, out of 7 cases, only 1 CR case got a verdict & conviction warrant was issued for this Case with the punishment of 1-year imprisonment and a fine of cheque amount of BDT 9.36 crore. The bank also filed an Artha Rin suit on 30.04.18 for BDT 36.25 crore against both concern “M Distribution” and “M Holistic” of “M Group”. Bank has also got judgment & decree against the customer recently. In that pressure situation, the customer started payment again and paid a total of BDT 40.30 lac between May 2018 to April 2019. Later on, under continuous legal action, the borrower submitted a compromise settlement proposal in Dec’2019 with a down payment of BDT 2 crore.

6.1.6. Compromise Settlement and Continuous Legal Action & Negotiation

Under constant legal pressure, the customer approached the bank for an amicable and out-of-court settlement of his liabilities with the bank and in this regard, he submitted a proposal vide his letter dated 23.12.2019 and later on deposited a down payment of BDT 2.00 crore for a compromise settlement. The compromise proposal was approved by Hon’ble Board & Novation Sanction Letter issued on 04.02.2020 for BDT 35.50 crore, Tk. 2 crore paid & rest Tk. 33.50 crore to be paid with 3 years quarterly @ 2.79 crore per quarter, with effect from 03.05.2020. To date, an equivalent 5.7 EQIs are overdue but the customer failed to pay as per the compromise agreement showing causes of business failure in Covid’19 situation. Bank arranged to issue the Warrant of Arrest Order from the Court and kept ready the arrest order so that the warrant could be executed upon necessity. In 2020, the customer paid BDT 50.00 lac only (BDT 25 lac on 20.09.20, BDT 25 lac on 30.09.20) and in 2021, the customer paid BDT 35.0 lac only (BDT 10 lac on 10.08.21 and BDT 25 lac on 30.09.21). Several meetings were held between customer & bank officials, where the borrower again made his commitment to pay his overdue as early as possible. In August 2021, the borrower applied with a payment for an extension of the repayment period for further 24 months which is under consideration. Negotiation & strong legal actions both are going on simultaneously to recover that defaulted loan.

6.2. Case Study 2(two) Regulatory and Legal Measures: Azad Trading

6.2.1. Background

Azad Trading, a proprietorship concern, was incorporated in January 1999. It is one of the leading business houses in Khatungonj, Chattogram. It engaged in import and wholesale trading of commodities like wheat, sugar, lentils, chickpeas, zaize, dun peas, etc. The company imports these items from China, Australia, Thailand, Canada and other countries and also procures from bulk importers like TK Group, Abul Khair Group, etc. for trading purposes. The proprietor of this firm is Mr. Robin.

6.2.2. Credit History with Khulna Bank Ltd (KBL)

The concern started a relationship with KBL in 2010. The initial fresh composite credit facility (in the form of LC, Demand Loan and OD) was BDT 8.50/ Crore sanctioned on 10-08-2010. Afterwards, the business was being operated smoothly & the facilities were enhanced to BDT 15.00 Crore vide sanction dated 15-09-2011. Lastly, the account was renewed from 31-07-2013 up to 30-06-2014. In addition, an EOL (Excess Over Limit) for BDT 0.15 Crore was approved on 23-09-2013 for 120 (One hundred Twenty) days in the form of a Demand Loan.

6.2.3. Reasons for Default

In the year 2013 due to prolonged political crisis in our country clients fall into a cash flow crisis. Some mishaps of big shots of commodity market of Khatungonj, Chattogram makes the situation worst for the Azad Trading as client indirectly affected by stuck up of receivables. Over the period, the client suffered almost 24% losses. Since the client is unable to serve the quarterly charged interest in the OD account. However, the client managed to avoid the classification by adjusting 15 nos. demand loan contracts amounting to 7.82 crore and 3 nos. import loan contracts amounting to BDT 1.03 Crore in December 2013. But the concern failed to serve the quarterly charged interest of OD account for the Sep'13 and Dec'13 quarter and causes a past due situation. This led the company towards irregular loan payments which gradually caused classification. Despite several commitments and action plans from the client to serve the OD interest and adjust the D.L contracts but failed to honour their commitment and hence the account was classified on 30.09.2014 (BL).

6.2.4. Recovery Effort by Legal Action & Negotiation

After that on 21-12-2014, the legal team filed a CR case under NI Act for the dishonour of the cheque of Tk. 1.50 Crore in the court of CMM, Chattogram against the borrower. Bank filed an Artha Rin suit against the client & guarantor for BDT 19.73 crore on 27-04-2015 for recovery of the outstanding amount. At the same time, persuasion was going on continuously from the Corporate Collection Unit for ensuring repayment. But the borrower failed to do so. In the meantime, the account was reported as Written-off on 30-06-2015.

For more pressurizing another 4 (Four) CR cases were filed under the NI act for the dishonour of cheque of Tk. 1.50 crore, Tk. 1.50 crore, Tk. 1.00 crore & Tk. 1.60 crore in the court of CMM, Chattogram against the borrower. During the pendency of the cases, the borrower took steps in the high court division and stayed in all cases several times. But legal team vacated all stay orders and restarted those CR cases in the lower court. In the year 2021, the Artha Rin suit was also fixed for the judgment stage.

6.2.5. Compromise to Settle the Liability

After taking the highest possible legal actions in both Criminal and Artha Rin suits against the client along with continuous persuasion, finally, the client came forward for an amicable settlement and submitted a comprehensive proposal on 17.02.2021 to settle their liability through compromise settlement. As per settlement conditions, the client confirmed the deposit of BDT 50.00 lac as a down payment. Upon negotiation, a compromise settlement was approved on 09.03.2021. As per the approval, the customer would pay the rest compromised amount of Tk. 16.00 crore within December'2025 through quarterly instalment by selling the mortgage properties. As per the approved board memo, a Solehnamawas submitted in court. Subsequently, the Artha Rin suit was decreed based on Solehnama on 16-06-2021. The previously filed NI Act cases will also be withdrawn due to compromise settlement. The customer is committed to paying regularly.

6.3. Case 3 (three) on Negotiation through BIAC: Hazi Mohammad Trade

The sanction letter was issued by the Bank dated 04.12.2014 (reschedule date 30.09.2015) for Tk. 5 crore loan in favour of the client. The client provided a total of 204 decimal land as collateral security through a registered mortgage covering the entire loan limit with the bank. The client has failed to repay the loan. According to the report provided by the Special Asset Management Division of the Bank, the present liability of the client with up-to-date interest as of 31.08.2016 is Tk. 4.5937 crore only. The dispute has the potential to be settled through Mediation. Although the call report does not provide enough information to conclusively suggest that the client is cooperative, the client did not avoid answering the call from the bank's representative. Instead, the client decided to speak with the representative and give his version of events as to why he has failed to adjust his liabilities so far. This suggests that the client is likely to cooperate if approached for mediation. Further, it is in the client's interest to co-operate solely because the entire liability is covered by sufficient collateral security and therefore in case he fails to co-operate with the bank, he stands at risk of losing his valuable properties when a money loan case is initiated against him by the bank. An independent mediation expert has assessed that if this dispute is referred for mediation, it has 65% chance of success. The bank was suggested by BIAC to write to the client stating that the dispute has been referred to BIAC and any further communication regarding the dispute will be made by BIAC. Upon receipt of a copy of such letter to the client, BIAC may contact the client seeking

consent for mediation subject to the bank’s request. No such letter or request was received by BIAC from the bank.

6.4. Summary Findings from Case Studies

Case Study 1 (one): Regulatory, Legal and Compromise Settlement Measures: M Distribution” & “M Holistic (M Group)

Recovery Measures	Bank’s Initiatives	Borrower’s Steps	Bank’s Response	Outcome
Regulatory measures	1. Converting OD into a term loan 2. Reschedule & 3. Written off	-	-	Failed to repay as per approved terms and conditions.
Legal Measures	1. Filing 7 Criminal cases(CR). 2. Artha Rin Suit against the borrower and guarantor.	-	-	1. Conviction order in 1 CR case with I year imprisonment and a fine of Tk9.36 crore. 2. Getting judgment in Artha Rin Suit.
Compromise Settlement	Negotiation efforts along with strong legal action.	Coming forwards for an amicable solution	Compromise proposal accepted by the board of banks.	1. After paying down payment and a few instalments on time, halting repayment again. 2. Arranging to issue the warrant of arrest order from the court and keeping ready the arrest order to execute when it is necessary.

Case Study 2 (two): Regulatory and Legal Measures: Azad Trading

Recovery Measures	Bank’s Initiatives	Borrower’s Steps	Bank’s Response	Outcome
Regulatory measures	1. Reschedule & 2. Written off	-	-	Notable outcome not found.
Legal Measures	1. Filing CR Case under NA Act. 2. Artha Rin Suit against the borrower and guarantor.	Stayed all cases several times.	Vacated all stay orders by the legal team of the bank and restarted all cases in Artha Rin Adalat.	Settlement not happened in Court.
Compromise Settlement	Continue persuasion for compromising apart from undertaking the highest possible legal actions against borrowers.	Agreed by the client for amicable settlement.	Withdrawal all cases by banks.	Performing amicable settlement successfully.

Case Study 3 (three): Negotiation through BIAC: Hazi Mohammad Trade

Recovery Measures	Bank's Initiatives	BIAC's Steps	Outcome
Negotiation through BIAC	Shifting default loan case to BIAC for assessment and negotiation	<ol style="list-style-type: none"> 1. Persistent communication with the borrower. 2. Positive assessment is done as loan covered with sufficient security. 3. Appointing an independent mediator. 4. Requesting bank to write a letter to a client about the shifting cases to BIAC 	No visible outcome as the bank did not write a letter to the client about the shifting case to BIAC.

7. Policy Suggestions

Banks are playing a seminal role in accelerating economic growth in Bangladesh. However, the unabated growth of NPLs poses a major challenge for banks. The study examines the accumulation of NPL and the effectiveness of recovery measures adopted by the banks in recent periods. The paper closes by proposing the following policy suggestions to deal with this crucial problem of the banking sector.

7.1. Preventing NPLs

In preventing NPL, doing proper pre-lending appraisal meticulously, avoiding undue influence, stopping disbursement 'excess over limit', having sufficient time and knowledge of Board members/approval authority, taking sufficient and realizable security and conducting proper monitoring for ensuring end-use of funds are sine-qua-non. The role of accountants, surveyors, credit rating agencies and lawyers are also important in preventing NPLs. Further, the dissemination of financial and non-financial benefits given to good borrowers through media can encourage borrowers not to be default in future.

7.2. Allowing the Rescheduling Facility

Loan rescheduling is a widely used tool for the recovery of default loans. Although BB brought the loan rescheduling under regulation, ideally the decision of loan rescheduling should rest on the bank's internal policy and standards considering the banker-customer relationship. Timely support through rescheduling in genuine cases is expected. But more liberal use of the tool is not desirable. The study finds that more than one-time rescheduling was permitted for 30% -40% of loan cases. Even more, than third time rescheduling was also given. Although bank management can reduce the amount of NPL within a short period by rescheduling the loan, banks may not go for rescheduling indiscriminately without examining the viability of the units. It will create moral hazards and disincentives for the borrowers who are repaying loans regularly.

7.3. Write off in Getting Desired Results

The write-off is internationally recognized as an NPL recovery tool because written-off loans are transferred to a dedicated recovery unit having expertise with assumed responsibility and accountability for recovery efforts. However, the recovery of the written-off loans in the study period does not support the above expectation. The problem lies with the recovery efforts and mechanisms of the write-off loans. The mindset of the executives of the recovery unit, their negotiation skills and knowledge about the legal process are preconditions for success in the recovery of write off loans. Further, continuous persuasion for negotiation along with undertaking the highest possible legal actions against borrowers can also give the expected benefits to banks after written-off.

7.4. Legal Measures in Recovery NPLs

Lengthy execution processes and the inadequate number of courts and judges are the main barriers to getting quick results from the Artha Rin Adalat Act. Further, delay in the procedures due to transferring cases from CMM court to session court for cheque dishonouring under Negotiable instrument Act, 1881 has added additional agony in recovering NPLs. A large chunk of defaulted loans cannot be recovered because of the stay order of high courts which may be reduced by initiating a down payment system in case of filing a writ petition. A cohesive relationship between lawyers of banks and borrowers is also a barrier to getting court verdicts in favour of banks which is also necessary to be vetted. A collective initiative is required to resolve the cases stuck up in the legal system by solving aforesaid limitations.

7.5. Formation of Asset Management Company

An Asset Management Company (AMC) can be established as an autonomous organization for the resolution of bad loans in the line of suggestions provided by the Banking Reform Committee (BRC) formed in 1996. The government's involvement in providing sufficient capital and funds, designing an appropriate operating model and passing relevant laws and regulations is important for the creation of AMC. In this respect, Bangladesh may take lessons from South Korea, Thailand and Malaysia. However, true autonomous status, capable executives, good governance, a well-designed operation system with multiple financial services for attachment, liquidation and securitization and sound macro-economic and financial policies are the preconditions for the effectiveness of an AMC in solving the NPL problem.

7.6. Making Alternative Dispute Resolution (ADR) more Effective

The Artha Rin Adalat Ain 2003 emphasized the use of Alternative Dispute Resolution (ADR) to settle disputes on non-performing loans. BIAC, a government licensed institution for ADR, is yet to play a significant role in solving the NPL problem. To make the role of

BIAC more effective, issues like unwillingness of borrower to bear mediation costs, shifting default loan cases by banks with less amount of exposure, the reluctance of borrower to sit in mediation table if his/her loan is not covered by valuable security, dearth of awareness and knowledge among bankers and borrowers about mediation and lack of decision-making power of nominated bank's representatives in mediating process are required to be addressed. Further, legal reforms to compel out of court settlement, introducing low costs and time-bound processes and incorporation of default settlement clauses in loan agreements are necessary. Also, a bank can go for negotiation by itself apart from doing through intermediary or agent. In this case, framing comprehensive policy guidelines delineating responsibilities and duties of negotiator/ mediator, banks and borrowers, and adequate professional competence of the bank staff responsible for negotiation is called for.

7.7. Creating Social Shaming Program for Willful Defaulters

The presence of a significant amount of willful default loans in the banking sector of Bangladesh can be observed without delving into the deep analysis. But the 'willful default' problem so far has remained only a discussion issue without creating action-oriented measures to recover loans from them. To face willful defaulters, apart from regulatory, negotiation and legal measures, creating social shaming programs like restricting on buying a new home, investing in a new venture, having directorship in any enterprise, purchasing air-ticket, applying for loans and credit cards and travelling abroad may be helpful. BB may share the information of willful defaulters with the respective authorities to implement the above measures if these are introduced. In this case, determining the definition of willful defaulter by the competent authority is necessary.

7.8. Managing Asset Quality in Post COVID Situation

Managing asset quality will become a prominent objective of banks, especially in post COVID situation. Based on the opinions of respondents, regulatory measures like rescheduling, restructuring, writing – off and negotiation will be less effective in post COVID situation. In this crucial situation, banks may emphasize customized solutions on a case-to-case basis. For this, each bank can form a task force for separating the competent but actual suffered borrowers and classifying the borrowers in groups like positively affected, not affected and negatively affected by the COVID. Relaxing down payment requirements with an extension of loan tenor for trustworthy borrowers may be good a solution.

7.9. Management Information System and Sharing Information among Banks

Currently, banks face a serious asymmetric information problem because of the lack of required trust between the bank and the borrower. In this respect, a central data warehouse

with segmented information of borrowers, business and collateral along with sharing information among banks is important for the accurate lending decision. For example, sharing information of total debt-equity ratio of borrowers having loan amount of Tk. 10 crore and above among all banks may help to reduce over-financing to a single borrower by multiple banks.

7.10. Appointing Independent Director in Banks

Independent directors are expected to be the watchdog of the bank. Their roles broadly include improving banks' credibility and governance standards and playing a vital role in risk management which are not always properly followed by banks. A panel of qualified independent directors can be approved by the regulator from which banks may only be allowed to appoint an independent director.

7.11. Assuming Responsibility of the Central Bank and Banks

BB has to assume the responsibility by issuing different operational area related circulars to fill up the gap created by the inertia of some bank managements. However, if BB policy does not bring any changes when put into practice, then the responsibility is shifting psychologically/ theoretically on to the regulator rather than on the bank management. Further, frequent policy changes invite moral hazard problems. Ideally, the best strategy to recover NPL should come from the bank management as they know the client better than anyone else. So, banks should have their rescheduling, negotiation and write off policy to be developed by the internal bank people with their expertise, experience, and prudence in the light of regulations given by BB for all banks.

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Appendices

Appendix 1: List of Participants of the Virtual Meeting held between Research Team and Bankers before Sending the Questionnaire

S/N	Name of Participants	Name of Bank
1.	Mohammed Moinul Islam	Eastern Bank Ltd.
2.	Md. Rajibul Hasan Bhuiyan	Eastern Bank Ltd.
3.	Md. MasudulAlam (Staff ID#2249)	BASIC Bank Ltd.
4.	Kayser Imtiaz	First Security Islami Bank Ltd.
5.	Muhammad Anuarul Kabir	Habib Bank
6.	Md. Alamgir Hossen	Habib Bank
7.	Muhammed Mizanul Kabir	Social Islami Bank Ltd.
8.	Shafayet Hossain	IDLC Finance Ltd.
9.	M.A. MunimRatul	Woori Bank Ltd.
10.	Md. Saniyat Rasel	Woori Bank Ltd.
11.	Saiydur Rahman	Woori Bank Ltd.
12.	Athoi Rahman	Woori Bank Ltd.
13.	Mohammad Emran Chowdhury	Woori Bank Ltd.
14.	S.M. Abdul Mayeen	Woori Bank Ltd.
15.	Shabab Ahmad	Woori Bank Ltd.
16.	Rajib Hossain	Woori Bank Ltd.
17.	Md. Farid Uddin	Islami Bank Bangladesh Ltd.
18.	Masudur Rahman	AB Bank Training Academy
19.	Md. Asaduzzaman	Dutch-Bangla Bank Ltd.
20.	Bijon Kumar Biswas	Janata Bank Ltd.
21.	Md. AbdurRab	Rupali Bank Ltd.
22.	Md. Tariqul Islam	Standard Bank Ltd.
23.	Mohammad Kamruzzaman	National Credit and Commerce Bank Ltd.
24.	Syed Rezaul Karim Chowdhury	ONE Bank Ltd.
25.	Mohammad Wajahat Anwar	ONE Bank Ltd.
26.	Tariqul Islam	Shahjalal Islami Bank Ltd.
27.	Tanvir Ahmed Mahboob	Prime Bank Ltd.
28.	Md. Asaduzzaman Bhuiyan	Al-Islami Bank Ltd.
29.	Mohammad Golam Kibria	Mercantile Bank Ltd.
30.	Lt. Clo. Mahdi Nasrullah Shahir (Retd.)	BRAC Bank Ltd.
31.	Md. Hafizur Rahman	BRAC Bank Ltd.
32.	Md. Abdul Matin	BRAC Bank Ltd.
33.	Md. Mamunur Reza Al Faruki	BRAC Bank Ltd.
34.	Md. Humayun Kabir	BRAC Bank Ltd.
35.	Muhammad WaliulAwal Khan	BRAC Bank Ltd.
36.	Toslim Ahmed	BRAC Bank Ltd.
37.	Md. AbdullahisShafi Khan	BRAC Bank Ltd.
38.	Md. Ziauddin	BRAC Bank Ltd.
39.	Mohammed Kabir Hossain	BRAC Bank Ltd.

Appendix-2: Questionnaire for Primary Data Collection

on “Effectiveness of NPL Recovery Measures of Banks in Bangladesh”

Objectives of the Study:

1. To examine the dimensions and trends of NPL in the banking sector of Bangladesh.
2. To review the NPL recovery measures adopted by banks in Bangladesh.
3. To see the position of NPL recovery measures of the banking sector of Bangladesh among neighbouring countries.
4. To evaluate the effectiveness of the recovery measures adopted by banks in Bangladesh.

Notes for Providing Information:

1. Information will be presented in the paper in a summarized form. No information will be presented mentioning the name of the banks. Information will be used only for academic purposes.
2. If any question is irrelevant, please mark it as “N/A” (Not Applicable).
3. Please return the filled-up questionnaire by **September 12, 2021**. You may send a soft copy through the following emails. We are ready to send a soft copy of the questionnaire (if required).

Section A: Measures for Preventing NPL

Q1. Mention the extent of effectiveness of the following measures in preventing NPL with the tick mark (✓) in the appropriate column

Sl.	Measures	Very Effective	Effective	Poorly Effective
1.	Proper pre-lending appraisal			
2.	Taking sufficient and realizable security			
3.	Accepting implementable corporate guarantee			
4.	Lending to the viable economic activity			
5.	Giving sufficient time to board members before approving the large loan			
6.	Avoiding undue influence by the external /insider party			
7.	Ensuring adequate financing amount as well as timely disbursement			
8.	Proper monitoring with ensuring end-use of funds			

Q2. Mention whether the following measures in preventing NPL are applied properly or not?

Sl.	Measures	Followed Properly	Not Followed Properly	Suggestions for Improvements, if not followed Properly
1.	Proper pre-lending appraisal			
2.	Taking sufficient and realizable security			

3.	Accepting implementable corporate guarantee			
4.	Lending to the viable economic activity			
5.	Giving sufficient time to board members before approving the large loan			
6.	Avoiding undue influence by the external /insider party			
7.	Ensuring adequate financing amount as well as timely disbursement			
8.	Proper monitoring with ensuring end-use of funds			

Section B: Minimizing Accumulated NPL – Regulatory Measures

B.1 Recovery Policy and Organizational Set up

Q3. Do you have an internal comprehensive policy for overall NPL Management/NPL Recovery? Put Tick (√) Mark.

Yes No

Q4. If yes, please mention the approval authority and the Year of policy formulation.....

.....
.....

Q5. How many times the policy has been so far reviewed? Is there any written provision for such revision? Please mention.

.....
.....

Q6. How many units/departments are there for managing NPL in your bank? (Such as separate unit for NPL Management/Dedicated unit for Write-off loan/Legal unit for Recovery under Money Loan Court Act,2003). Please mention.....

Name of the Unit/Division for NPL Recovery	Functions / Areas of Responsibilities	Remarks

B.2 Rescheduling

Q7. Do you have an internal policy for loan rescheduling other than the one issued by Bangladesh Bank (BB)? Put Tick (√) Mark.

Yes No

If yes, please mention how your rescheduling policy is different from BB?

Q 08. Status of Acceptance & Rejection of application for Loan Rescheduling (in crore Tk.)

Year	No. of A/C sought for Rescheduling	Applied Amount	No. of Accepted A/C	Rescheduled Amount
2010				
2016				
2017				
2018				
2019				
2020				
2021 (as of June 30)				

Q9. Status of Loan Rescheduling (in crore Tk)

Year	1 st time rescheduling		More than one time	
	No. of A/C	Rescheduled Amount	No. of A/C	Rescheduled Amount
2010				
2016				
2017				
2018				
2019				
2020				
2021 (as of June 30)				

Q10. Please mention the number of loan accounts given more than third time rescheduling (if any) as of June 30, 2021.....

Q11. Repayment Status of Rescheduled Amount (in Crore Tk.)

Year	Full Recovery after 1 st time Rescheduling		Full Recovery after rescheduling 2 nd time or more	
	No. of A/C	Amount	No. of A/C	Amount
2010				
2016				
2017				
2018				
2019				
2020				
2021 (as of June 30)				

Q12. Amount of Loan Rescheduled and Recovered by loan Categories (Tk. in Crore)

Types of Loans	2010		2016		2017		2018		2019		2020		2021 (as on June 30)	
	1 st time	More than one time	1 st time	More than one time	1 st time	More than one time	1 st time	More than one time	1 st time	More than one time	1 st time	More than one time	1 st time	More than one time

Continuous Loan	Rescheduled															
	Recovered															
Demand Loan	Rescheduled															
	Recovered															
Fixed Term Loan	Rescheduled															
	Recovered															
Short Term Agri. Credit & MC	Rescheduled															
	Recovered															

Q13. Amount of Loan Rescheduled and Recovered** by enterprise type (Tk. in Crore)

Types of Loans*		2010		2016		2017		2018		2019		2020		2021 (as on June 30)	
		1 st time	More than one time	1 st time	More than one time	1 st time	More than one time	1 st time	More than one time	1 st time	More than one time	1 st time	More than one time	1 st time	More than one time
Large Enterprise loan	Rescheduled														
	Recovered														
SME loan	Rescheduled														
	Recovered														
Others	Rescheduled														
	Recovered														

* As per the definition of Bangladesh Bank.

Recovery means full recovery, i.e., **1st time - the amount of loans that have been fully recovered after first time rescheduling.

More than one time - the amount of loans that have been fully recovered after giving more than one-time rescheduling.

B. 3 Write-off

Q14. Do you have an internal policy for write-off other than the one issued by BB? Put Tick (✓) Mark.

Yes No

If yes, how your write-off policy is different from BB?

.....

Q15. Do you have a separate debt collection unit or recovery unit in your bank for collecting written-off loans? Put Tick (✓) Mark.

Yes No

Q16. Status of Write-off loan (in crore TK)

year	Write-off		Fully Recovered		Balance in write-off Account as of December 31
	No. of Loan A/C	Amount	No. of A/C	Amount	
2010					
2016					
2017					
2018					
2019					
2020					
2021 (as of June 30)					

Q17. Status of Write-off loan by business segment

Year	Write-off Amount (in Crore taka)		
	Large/Corporate loan	Medium loan	Small loan
2010			
2016			
2017			
2018			
2019			
2020			
2021 (as of June 30)			

Q18. Recovery of write-off Loan by Size during 2016-2021 (From Jan 01, 2016, to June 30, 2021).

Range of Single Loan Amount	No. of Account	Write-off Amount	Recovered amount (in crore)
Less than 25 lac			
25 lac to 1 crore			
1 crore to 25 crore			
25 crore to 50 crore			
50 crore to 100 crore			
100 crore and above			

Q19. Overdue Length of the write-off loans (Tk. in Crore) as of June 30, 2021.

Overdue Period (in years)	No. of the Account	Total Amount (in crore)
Less than 1		
1 to 3		
3 to 5		
5 to 10		
More than 10		

Q20. Status of Rescheduling and Write-off relating to Insiders (Tk in crore)

Year	Rescheduled Amount relating to Directors and their family members/ Firms with ownership by the Directors	Write-off amount relating to Directors and their family members / Firms with ownership by the Directors
2010		
2016		
2017		
2018		
2019		
2020		
2021 (as of June 30)		

Q21. Recovery through Various Outside Court Settlement Process (in crore Tk.)

Year	Negotiation with the Borrowers		Recovery Campaign		Through Recovery Agent		ADR under MLC Act 2003		Others (please specify)	
	No. of A/C	Amount	No. of A/C	Amount	No. of A/C	Amount	No. of A/C	Amount	No. of A/C	Amount
2010										
2016										
2017										
2018										
2019										
2020										
2021 (as of June 30)										

Section C: Effectiveness of Legal Measures in Recovery of NPL

Q22. Please mention the effectiveness of the following Acts in the recovery of NPL with the Tick Mark (✓).

Sl.	Name of the Acts	Very Effective	Effective	Poorly Effective	Neutral
1.	Money Loan Court Act,2003				
2.	Public Demands Recovery Act,1913				
3.	Bankruptcy Act,1997				
4.	Negotiable Instrument Act, 1881				
5.	Others (If any Act, please specify)				

Q23. Please mention the limitations of the following Acts in the recovery of NPL, if any, and provide suggestions to overcome the limitations.

Sl.	Name of Acts	Limitations	Suggestions for Effectiveness
1.	Money Loan Court Act		
2.	Public Demands Recovery Act		
3.	Bankruptcy Act		
4.	Negotiable Instrument Act		
5.	Others (If any Act, please specify)		

Q24. Mention the amount claimed and settled under the following Acts. (TK in crore)

Years	Money Loan Court Act		Public Demands Recovery Act		Bankruptcy Act		Others, if Any	
	Amount Claimed	Amount Settled	Amount Claimed	Amount Settled	Amount Claimed	Amount Settled	Amount Claimed	Amount Settled
2010								
2016								
2017								
2018								
2019								
2020								
2021 (as of June 30)								

Q25. Rate of Settlement under the debt recovery related Acts and recovery thereof

Year	Money Loan Court Act			Public Demands Recovery Act			Bankruptcy Act		
	% of Settled Cases	% of Settled Amount	% of Recovered Amount	% of Settled Cases	% of Settled Amount	% of Recovered Amount	% of Settled Cases	% of Settled Amount	% of Recovered Amount
2010									
2016									
2017									
2018									
2019									
2020									
2021 (as of June 30)									

Q26. Total Loan, NPL, and Suit Value in Money Loan Court Act, 2003 (TK in Crore)

Year	Total Loan	Total NPL	Total Suit Value
2010			
2016			
2017			
2018			
2019			
2020			
2021(as of June 30)			

Q27. Do you suggest the following to speed up the recovery of NPL? If you suggest, please state your opinion in detail.

Sl.	Measures	Suggest or not	Your Opinion (Reasons and Modality of the Proposed Measures)
1.	Timebound Resolution of Cases		
2	Formation of Special Tribunal for Recovery of Loan		
3	Datawarehouse of Collateral		

4.	Fair pricing of collateral by the Competent Accounting Firms		
5.	Cancellation of License and Suspending Operation of Non-viable Banks/ Financial Institutions		
6.	Formation of Asset Management Company		
7.	Bringing Lawyer, Credit Rating Agencies, Surveyor and Accountants under Accountability		
8.	Circulation of total Debt-Equity ratio of borrowers having loan amount of Tk. 10 crore and above to all banks		

Q28. Time required for recovery (from the date of filing suit to the recovery) through the Money Loan Court Act, 2003 during 2011-2020.

Years	No. of Cases
less than 1	
1 to 2	
2 to 5	
5 to 10	
More than 10	

Section D: Effectiveness of Negotiation Methods in Recovery of NPL

Q29. Mention the effectiveness of the following methods in recovery of NPL with the Tick Mark (✓).

Sl.		Effective	Poorly Effective	Neutral	Reason
1.	Negotiation before filing suit				
2.	Negotiation after filing suit				
3.	Mediation before filing suit				
4.	Mediation after filing suit				

Q30. Please mention the limitations of the following methods in recovery of NPL, if any, and provide suggestions to overcome the limitations.

Sl.	Methods	Limitations	Suggestions for Effectiveness
1.	Negotiation before filing suit		
2.	Negotiation after filing suit		
3.	Mediation before filing suit		
4.	Mediation after filing suit		
5.	Arbitration		

Q31. Was a third-party institution engaged in any of the following processes?

Sl.	Process	Yes/No with the name of institution (if any)	Reason
1.	Negotiation before filing suit		
2.	Negotiation after filing suit		
3.	Mediation before filing suit		
4.	Mediation after filing suit		
5.	Arbitration		

Q32. What Level of representation from the bank was authorized to participate in the following processes?

Sl.	Stages of Dispute Settlement	Level of representation		
		Large/Corporate loan	Medium loan	Small loan
1.	Negotiation before filing suit			
2.	Negotiation after filing suit			
3.	Mediation before filing suit			
4.	Mediation after filing suit			
5.	Conciliation			
6.	Arbitration			

Q33. Do you suggest the following to improve the effectiveness of out-of-court measures of recovery of NPL? Please state your opinion in detail.

Sl.	Measures	Suggest or not	Your Opinion with reason
1.	Time-bound and Low-Cost Process		
2.	Engaging specialized institution		
3.	Specialized Training for bank staff		
4.	Legal reforms to compel out-of-court settlement		
5.	Mandatory incorporation of default settlement clause in all loan agreements		
6.	Formation of a specialized institution for NPL recovery		
7.	Adopting Insolvency Resolution plans through auctions		

Q 34. As you know, Bangladesh Bank issued a circular titled ‘Large Loan Restructuring’ (BRPD Circular # 04, Dated January 29, 2015) through which banks were allowed to restructure loans amounting to Tk. 500 crore or more under some conditions. In regard to that, did you allow any restructuring facility? If yes, please fill-up the following Table.

Year	Number of restructured loans	Total Amount (Crore Tk)	Recovered Amount (Crore Tk)
2015			
2016			
2017			
2018			
2019			
2020			

Q 35. What are the recovery measures that you adopt in case of Syndicated loans after becoming classified? Please mention the difficulties you face in getting recovery of this type of loan. Put your opinion to overcome the difficulties.....

Q36. As we know there are a number of willful default cases in our banking industry. What are the difficulties do you face in dealing with willful defaulters? Please mention the recovery

attempts/ strategies that are being practised in this regard.....

.....

Q37. Did you make any agreement with Bangladesh International Arbitration Center (BIAC) to settle/recover bad loans?

(i) If yes, how many loans, so far, have been assigned to BIAC for recovery? Please mention.....

.....

(ii) Please mention the recovery status of the loan accounts.....

.....

(iii) Please mention the advantages and disadvantages on your part to engage BIAC in settling loan dispute.....

.....

Section E: Effectiveness of Recovery Measures of NPL during and after COVID situation

Q.38. Do you feel that loan recovery measures have been adversely affected by COVID -19? Put Tick (√) Mark.

Yes No

39. If yes, please provide the following answer.

Particulars		Effectiveness (put √)		Reasons for Less Effectiveness	Suggestions for more effectiveness during and after COVID Situation
		Effective Like Before	Less Effective		
A. Regulatory Measures					
	Rescheduling				
	Restructuring				
	Write-off				
	Negotiations				
B. Legal Measures					

40. Please provide very specific suggestions to improve the Effectiveness of NPL Recovery Measures in Post COVID situation.....

Thank you for your kind and sincere cooperation

Appendix 3: List of Banks Respond for “Effectiveness of NPL Recovery Measures of Banks in Bangladesh”

Sl. No.	Category of Banks	Name of the Banks
1.	State-Owned Commercial Banks (SOCBs)	1. Sonali Bank Ltd. 2. Agrani Bank Ltd. 3. Janata Bank Ltd.
2.	Specialized Banks (SBs)	1. Bangladesh Krishi Bank
3.	Private Commercial Banks (PCBs)	1. Bangladesh Development Bank Ltd. 2. Uttara Bank Ltd. 3. The City Bank Ltd. 4. Al-Araha Islami Bank Ltd. 5. Dhaka Bank Ltd. 6. The Padma Bank Ltd. 7. Global Islami Bank Ltd. 8. Prime Bank Ltd. 9. Standard Bank Ltd. 10. United Commercial Bank Ltd. 11. Shahjalal Islami Bank Ltd. 12. Trust Bank Ltd. 13. Pubali Bank Ltd. 14. Mercantile Bank Ltd. 15. NRB Bank Ltd. 16. EXIM Bank Ltd. 17. BRAC Bank Ltd. 18. NRB Commercial Bank Ltd. 19. Eastern Bank Ltd. 20. Jamuna Bank Ltd. 21. Islami Bank Bangladesh Ltd. 22. Dutch-Bangla Bank Ltd. 23. One Bank Ltd. 24. Social Islami Bank Ltd. 25. Mutual Trust Bank Ltd.
4.	Foreign Commercial Banks (FCBs)	1. Citi Bank N.A.
Total		30

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