

Roundtable Discussion Series 2024

Volume

9

A Compilation of the Keynote Papers of the Roundtable Discussions of BIBM-2023

Published by



Bangladesh Institute of Bank Management (BIBM)
Section No. 2, Mirpur, Dhaka-1216

Roundtable Discussion Series 2024

A **Compilation of the Keynote Papers of the Roundtable Discussions of BIBM-2023**



Bangladesh Institute of Bank Management

Section-2, Mirpur, Dhaka-1216

Roundtable Discussion Series 2024

Editor **Md. Shihab Uddin Khan**
Professor and Director (Research, Development & Consultancy),
BIBM

Support Team **Research, Development and Consultancy Wing**
Papon Tabassum, *Assistant Senior Officer, BIBM*
Sk. Md. Azizur Rahman, *Officer, BIBM*

Publications-cum-Public Relations Section
Md. Al-Mamun Khan, *Senior Officer (PPR), BIBM*
Md. Morshadur Rahman, *Officer (PPR), BIBM*

**Design &
Illustration** **Sk. Md. Azizur Rahman**, *Officer, BIBM*

Published in September, 2025

Published by Bangladesh Institute of Bank Management (BIBM)
Plot No. 4, Main Road No. 1 (South), Section-2
Mirpur, Dhaka-1216, Bangladesh.
E-mail: bibmresearch@bibm.org.bd
Website: www.bibm.org.bd

Printed by

Copyright © BIBM 2025, All Rights Reserved

No part of this report may be reproduced or utilized in any form or by any means, electronic or mechanical, including photocopying, recording or by any information storage and retrieval system, without the permission of the publisher.

Foreword

Bangladesh Institute of Bank Management (BIBM) organized four roundtable discussions on various banking related contemporary issues in 2023. Papers presented in these roundtable discussions have been compiled in this publication titled “Roundtable Discussion Series 2024”. The keynote papers are prepared by research teams comprising of the faculty members of BIBM and experienced bankers from different banks. The research papers are finalized after accommodating the suggestions of discussants of the programs.

This Discussion Series would, we hope, attract attention of not only bankers, but also other professionals like credit analysts, economic consultants, economists, development practitioners as well as the academic community. BIBM would also welcome comments, critiques and suggestions on the themes contained in these research-based discussion papers.

S. M. Abdul Hakim

Director General, BIBM

Contents

Paper One

Safeguarding Trade Transactions and Prevention of Trade Based Money Laundering: Role of Correspondent Banks 1

Shah Md. Ahsan Habib, Ph.D.; Tofayel Ahmed; Anila Ali; Kamal Hossain; Md. Rokon-Uz-Zaman; Brigadier General Md. Jahangir Alam; ATM Nesarul Hoque

Paper Two

ICT Incident Response Management in Bangladeshi Banks: Current Status and Challenges 59

Md. Mahbubur Rahman Alam; Kaniz Rabbi; Md. Mushfiqur Rahman

Paper Three

Lending CMSEs through Agent Banking in Bangladesh: Issues and Challenges 127

Ashraf Al Mamun, Ph.D.; Md. Mosharref Hossain, Ph.D.; Mohammad Abul Hashem; Suman Chandra Saha; Shyampal Chandro Mondal; Ishtiaque Ahmed Rahat.

Paper Four

Service Rules Uniformity in Banks of Bangladesh: Issues and Challenges 181

Dr. Mohammad Tazul Islam; Anila Ali Assistant; Sheikh Akhter Uddin Ahmed; G. M. Safed Ali.

Paper One

Safeguarding Trade Transactions and Prevention of Trade Based Money Laundering: Role of Correspondent Banks

Shah Md. Ahsan Habib, Ph.D.

Professor (Selection Grade), BIBM

Tofayel Ahmed

Assistant Professor, BIBM

Anila Ali

Assistant Professor, BIBM

Kamal Hossain

*Additional Director, Bangladesh Financial Intelligence Unit
Bangladesh Bank*

Md. Rokon-Uz-Zaman

*Joint Director, Bangladesh Financial Intelligence Unit
Bangladesh Bank*

Brigadier General Md. Jahangir Alam

National Defense College, Dhaka

ATM Nesarul Hoque

Senior Vice President, Mutual Trust Bank Ltd.

The keynote paper was presented in a Roundtable Discussion on 07 June, 2023 and published at BIBM website in June, 2023.

Online Link: <https://bibm.org.bd/publications-read.php?id=93>

List of Abbreviations

ADs	Authorized Dealers
AML	Anti Money Laundering
AMLD	Anti Money Laundering Department
BAFT	Bankers Association for Finance and Trade
BAMLCO	Branch Anti Money Laundering Compliance Officer
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlement
BMPE	Black Market Peso Exchange
CAMLCO	Chief Anti Money Laundering Compliance Officer
CAMLCO	Chief Anti Money Laundering Compliance Officer
CBDDQ	Correspondent Banking Due Diligence Questionnaire
CBR	Combined Buffer Requirements
CDD	Customer Due Diligence
CFO	Chief Financial Officer
FCBs	Foreign Commercial Banks
CFT	Countering the Financing of Terrorism
CPMI	Committee on Payments and Market Infrastructures
ECC	Economic Consultative Committee
EEB	Emerging Entrepreneurs Business
FATF	Financial Action Task Force
FDBP	Foreign Documentary Bills Purchase
FE	Foreign Exchange
FEPD	Foreign Exchange Policy Department
FGD	Focus Group Discussion
FIs	Financial Institutions
FRSA	Financial Services Regulatory Authority
FSB	Financial Stability Board
GFET	Guidelines for Foreign Exchange Transactions
GFI	Global Financial Integrity

ICC	International Chamber of Commerce
FIUs	Financial Intelligence Units
IFC	International Finance Corporation
IFFs	Illicit Financial Flows
IVTS	Informal Value Transfer System
KYC	Know Your Customer
LC	Letter of Credit
LEI	Legal Entity Identifier
OCCRP	Organized Crime and Corruption Reporting Project
OFAC	Office of Foreign Asset Control
PCBs	Private Commercial Banks
RMA	Relationship Management Application
SBLC	Standby LC
SLR	Statutory Liquidity Ratio
BFIU	Bangladesh Financial Intelligence Units
SOCBs	State-Owned Commercial Banks
SoPs	Standard Operating Procedures
SWIFT	Society for Worldwide Interbank Financial Communication
TBML	Trade-Based Money Laundering
URC	Uniform Rules for Collection

Executive Summary

The regulators, banks, and financial institutions must comprehend the limitations of the present correspondent banking relationship due to the vital functions that these connections play. It is crucial while dealing trade-related compliance and regulatory needs as well as when handling TBML. Given the importance of correspondent banking, authorities throughout the world are interested in ensuring the secure and effective operation of these partnerships by managing any possible dangers.

The study discusses TBML risks connected with correspondent banking connections and lessons for the regulator and trade finance service providers in Bangladesh to protect trade and TBML initiatives. The paper's goals are to discuss correspondent banking risks associated with trade frauds, especially trade-based money laundering; understand risks and challenges associated with correspondent banking relationships in Bangladesh; and identify regulatory and operational stands for safeguarding trade and TBML through compliant correspondent banking relationships in Bangladesh.

The research is supported by both primary and secondary sources of data. The FATF (Financial Action Task Force), BCBS (Basel Committee on Banking Supervision), BIS (Bank for International Settlement), Wolfsburg Group, and IFC public sources were mostly used to create the global scenario. Through a questionnaire survey that included the trade services divisions and offices of CAMLCO of banks, primary data were gathered. 34 Private Commercial Banks (PCBs), 3 State-owned Commercial Banks (SOCBs), and 5 Foreign Commercial Banks (FCBs) together submitted 42 questionnaires. Additionally, two focus groups with representatives from the trade services division and offices of CAMLCO of banks were held. Thirty people in all participated in the FGDs.

There are four parts in the paper. After providing some background information and addressing objective and methodological difficulties in Section-1, Section-2 discusses conceptual and upsetting issues relating to correspondent banking relationships and TBML in a global environment. The consequences and difficulties of dealing with TBML in the context of Bangladesh are discussed in

Section-3 of this article. Section-4 also makes suggestions on how to protect Bangladesh's foreign commercial transactions by bringing up a few difficulties and associated banking relationships.

As of December 2022, banks had 20296 RMAs to facilitate cross border transactions. Half of the country's banks are having more than 350 RMAs, and there are also 22 percent banks have RMA of less than 150. To 60 percent banks, termination of correspondent banking relationships do not have significant impact. It might be true to some extent, however, it may also be interpreted as lack of awareness on the consequences of the termination of correspondent banking relationships with a section of banks. According to the survey observation, only about 20% banks are reviewing all RMA relationships on annual basis. However, about 30% banks are not reviewing RMA on annual and as and when required basis; approximately 50% banks are reviewing the RMA on sample basis not all RMA. Banks have identified some common challenges of reviewing RMA on regular basis. 85 percent banks have organized training sessions/events on the correspondent banking relationships.

Respondent banks globally use correspondent banking partnerships to seek business and grow their networks internationally despite rising risks, costs, and difficulties. Banks' operational independence is facilitated by direct access to important international markets, which enables them to offer consumers essential services. The following actions may help the correspondent banking relationship run well by managing TBML.

One, In general, significant correspondent banks (reputable multinationals) are subject to far greater scrutiny for their interactions with other parties, including international banks. The responding banks in Bangladesh need to be aware of the demands placed on correspondent banks by regulations, oversight, and enforcement. Different regulations, information requirements, format standards, and reporting methods may apply to each correspondent bank.

Two, Banks must have the right kind of perceptions, culture and processes for meeting compliance requirements for ensuring safe trade services and protecting interests of both clients and the country. Compliances should be perceived from both from technical and ethical perspectives. In the changing environment, compliance requirements is ever increasing and unpredictable. Respondent banks

must be updated with the changing compliance expectations of the correspondent banks and regulators. Banks must ensure yearly reviews of RMAs for identifying risks and undertaking due measures to keep themselves away from the shell entities. International standards should mandatorily be followed by the banks of the country for handling correspondent banking relationships.

Three, Capable and skilled human resources are the key to handling difficulty and find future direction for efficient correspondent banking relationships. Banks need to invest heavily in capacity development of their employees to ensure better compliance and installing right processes and systems. Criminals have been consistently changing their strategy and using trade and banking channels for cleaning their proceeds and pursuing illegal fund transfer. Failure on the part of identifying TBML commonly causes termination of correspondent banking relationship and thus has notable implications for the efficient trade facilitation. Traders should also be brought under TBML and compliance related awareness events.

Four, Banks need to be aware of the one danger that the BFIU has highlighted. They claim that the SWIFT platform was used by all Shell banks, which were established in various countries, to transmit financial messages to other banks located anywhere in the globe. It must perform due diligence to determine whether the bank is subject to regulation by the Central Bank where it is registered before integrating with the SWIFT infrastructure. A technique for ensuring the shell bank's physical presence should be part of SWIFT. Evidently, SWIFT lacks such a mechanism. Additionally, the development of technology provides complete AML software that aids financial services in risk reduction and customer and account monitoring for shady activities. Through automated sanctions screening and identification verification, automation may help banks stay compliant.

Five, Important risk management measures include improved collaboration and communication. The nation's banks should have plans in place for cooperation, communication, and cooperative capacity-building and awareness-raising initiatives with their correspondent banks. As business and money laundering patterns change throughout the world, it is essential to maintain constant contact with authorities to understand their shifting expectations and compliance views.

A better outcome on this front is anticipated as a result of the regulators' and trade finance institutions' collaborative capacity building initiatives.

Last but not least, it is generally known that the financing and trade payment methods employed in cross-border trade operations have an impact on TBML. From the perspective of TBML risks, using an open account and cash in advance is relatively dangerous. The country's substantial usage of LC and documentation gathering provides considerably superior protection through the banks' and regulators' considerable supervision over the transactions. Greater responsibilities and engagements in these strategies are played by correspondent banking relationships. It is important to keep in mind that risky correspondent banking connections not only negate the benefits of adopting these techniques but also open the door for TBML and illegal financial transfers through these channels.

Safeguarding Trade Transactions and Prevention of Trade Based Money Laundering: Role of Correspondent Banks

1. Introduction

Efficient and safe trade services are associated with the stability of the banking and financial industry, smooth cross-border trade transactions, and sustainable growth of an economy as well. Trade related malpractices, especially Trade-based Money Laundering (TBML) became a matter of concern for all global economies, and especially the issue became worrisome to the countries having the risks of illicit capital outflows through cross-border trade transactions. Financial sector regulators and trade finance banks/financial institutions have critical roles to play in combating TBML and trade service related crimes. Regulators see the issues from both macro and micro perspectives where protecting country's trade related interests and maintaining financial stability are areas of focus through ensuring compliance. Financial institutions/banks need to have a balance of their trade finance businesses and regulatory compliances that ultimately have implications for the safe and efficient cross-border trade transactions of an economy. In this process, correspondent banks have visible associations and correspondent banking relationships have notable significance and consequences.

Correspondent banks are commonly used by domestic banks to executive transactions, to get access to international markets, and to serve international clients without setting up branches. Payment facilitation, fund transfers, and trade facilitation are the most common goals of maintaining correspondent banking relationships¹. Through correspondent banking

¹ According to the FATF glossary, “correspondent banking is the provision of banking services by one bank (the ‘correspondent bank’) to another bank (the ‘respondent bank’)”. For the purpose of its guidance on correspondent banking (hereafter “the FATF guidance”), the FATF does not include one-off transactions but rather states that correspondent banking is characterized by its ongoing, repetitive nature. Like the FATF guidance, this Annex focuses on higher-risk correspondent banking relationships, especially cross-border correspondent banking.

relationships respondent banks (clients of the correspondent banks) also get ease in handling the challenges of external regulatory requirements. Thus, correspondent banking is a critical component of the global payment system, and for the emerging markets it works as a crucial channel to get access to the global network allowing international trade financing and efficient functioning of interconnected global financial systems.

Over the last few years, several negative perceptions came up regarding the correspondent banking relationship in response to the unearthing of a number of banking scandals where banks were found guilty of facilitating money laundering through their cross-border banking channel. Especially de-risking efforts on the part of some multinational banks in response to the regulatory penalty have drawn widespread attention from policymakers and stakeholders on the issues. It is now more or less recognized that the very nature of correspondent banking is conducive to trade finance fraud and malpractices. Correspondent banks have to rely on respondent banks' ability to monitor risks, and they must also be aware of the respondent banks' other correspondent banking affiliations; and respondent banks may also be affected due to the risks associated with the service facilitation process of the correspondent banks in different jurisdictions. It is practically limited information on correspondent banking activities that are exposed to money laundering and terrorist financing risks. Using 'shell banks'² in this process has made correspondent banking relationships complex and more concerning.

The crucial roles of the correspondent banking relationships necessitate understanding the limitation of the current correspondent banking relationship by the regulators, banks and financial institutions. It is particularly important in the context of handling trade related compliance and regulatory requirements and for handling of TBML. Considering the significance of correspondent banking, regulators throughout the globe

² A Shell Bank is a financial entity having no physical presence in any jurisdiction.

have interest to ensure safe and efficient functioning of correspondent banking relationships by handling any kind of potential threats.

The roundtable keynote is mainly about discussion on TBML risks associated with correspondent banking relationships and identifying lessons for the regulator and trade finance service providers in Bangladesh for safeguarding the country's trade and efforts on handling TBML. The specific objectives of the paper are: **one**, to discuss correspondent banking risks associated with trade frauds especially trade based money laundering; **two**, to understand risks and challenges associated with correspondent banking relationship in the context of Bangladesh; and **three**, to identify regulatory and operational stands for safeguarding trade and TBML through compliant correspondent banking relationship in the context of Bangladesh.

The study is based on both primary and secondary information. Global scenario was mainly drawn from the published sources of FATF (Financial Actioner Task Force), BCBS (Basel Committee on Banking Supervision), BIS (Bank for International Settlement), Wolfsburg Group, and IFC. Primary data were collected through questionnaire survey covering trade services departments and offices of CAMLCO of banks. A total number of 42 questionnaires were received from 34 Private Commercial Banks (PCBs) (Appendix-2), 03 State-owned Commercial Banks (SOCBs) (Appendix-2), and 05 Foreign Commercial Banks (FCBs) (Appendix-2). Moreover, two focus group discussions were conducted with the representatives from the trade services department and offices of CAMLCO of banks. A total number of 30 participants took part in the FGDs.

The paper is organized into four sections. Following a background, objective and methodological issues in Section-1, Section-2 is about conceptual and concerning issues of correspondent banking relationship and TBML in the global context. Section-3 is about the implications and challenges of correspondent banking relationships for handling TBML in the context of Bangladesh. And finally, Section-4 puts forward certain

issues with recommendations regarding corresponding banking relationships for safeguarding Bangladesh's international trade transactions.

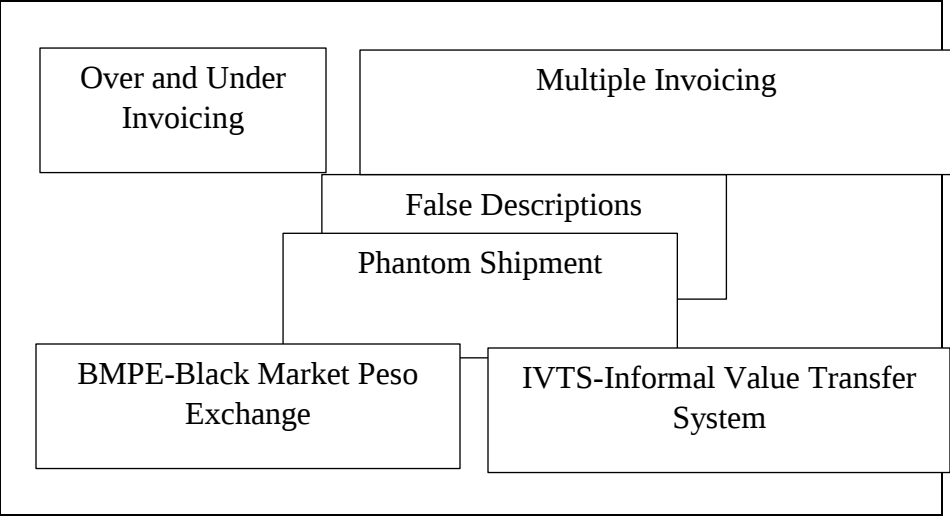
2. Trade Based Money Laundering and Correspondent Banking Relationship-Global Context

2.1 Trade-Based Money Laundering-Methods and Trends

Financial crime and trade related malpractice activities became increasingly complex in the increasingly interconnected global economy. And the most critical trade related challenge that came up as even as bigger challenge to both the regulators and the financial institutions is the TBML. Especially, the connection between global trade transactions and illicit financial flows is highly significant. TBML is said to be clearly associated with severe global criminal activities covering human, arms, and drug trafficking; trading of counterfeit goods, frauds and extortions; and cybercrime. TBML is taking place using both document-based and non-document based techniques. Trade misinvoicing is well recognized document-based method that alter price, quantity, quality or country of origin of a commodity or/and undervalue or over value exportable or importable or present falsified documents to illegally justify excess or less transfer of funds being transferred. Non-document based methods are challenging and tough to detect.

Over- and under-invoicing of goods and services to unlawfully transfer value across borders is the FATF's most prevalent TBML technique (FATF, 2020). Falsely characterizing items entails misrepresenting the quality or kind of goods or services to manipulate the transaction value, for as sending a high-grade good but putting a lower-quality product on the invoice and customs paperwork to cut taxes. A money launderer or terrorist financier might explain several payments for the same cargo or service by multiple invoicing. Phantom shipping or over/under shipment includes mismatching invoiced products with delivered goods (Figure-2.1).

Figure 2.1: Document-based and Non-Document Based Methods of TBML



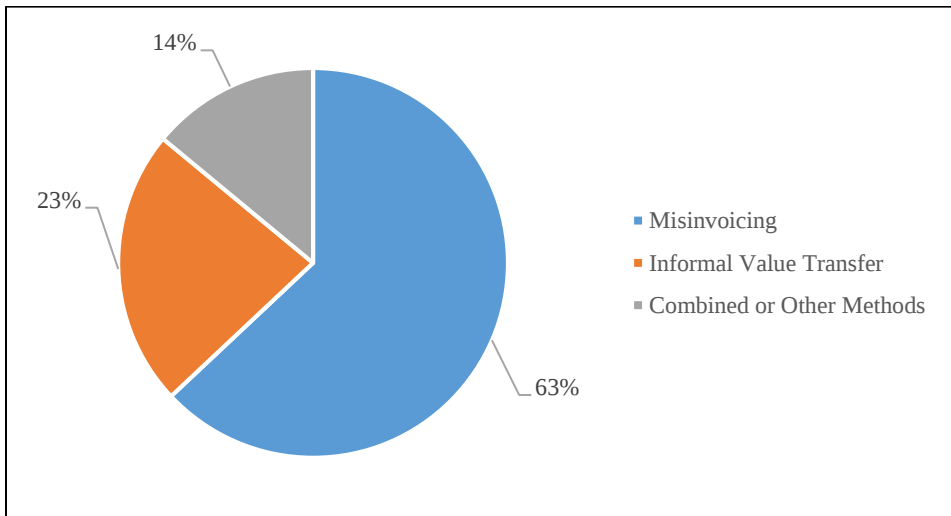
BMPE, or black market peso exchange, is a complex method used in narcotics-related TBML by criminal groups to move drug sales proceeds from the US (dollars) to drug producer countries (Latin America, pesos) without being caught. Drug traffickers use "peso brokers" to repatriate drug profits. Brokers buy cash from traffickers at a discount or for a fee. Then, "clean" money is utilized to buy legal items to export and sell in the drugs' originating nation. Since no money traverse international boundaries, law enforcement cannot discover BMPE (Yansura, et al., 2021).

IVTS, or Informal Value Transfer System, allows value to be transferred across countries without money being transferred. IVTS may be used to send cheap remittances or settle overseas accounts. A local representative arranges with a counterpart in another jurisdiction to pay a selected person the same amount. In "Hawala," IVTS is tied to trading. Due to their informality and lack of monitoring, they might increase TBML risk (FATF, 2020).

One of the most prevalent channels for IFFs is through the international trade system, and as of 2021, GFI estimates that the annual value of trade-

related IFFs in and out of developing countries amounted to, on average, about 20 percent of the value of their total trade with advanced economies (GFI, 2021). And mis-invoicing (document based) is the most commonly used TBML techniques (Figure-2.2).

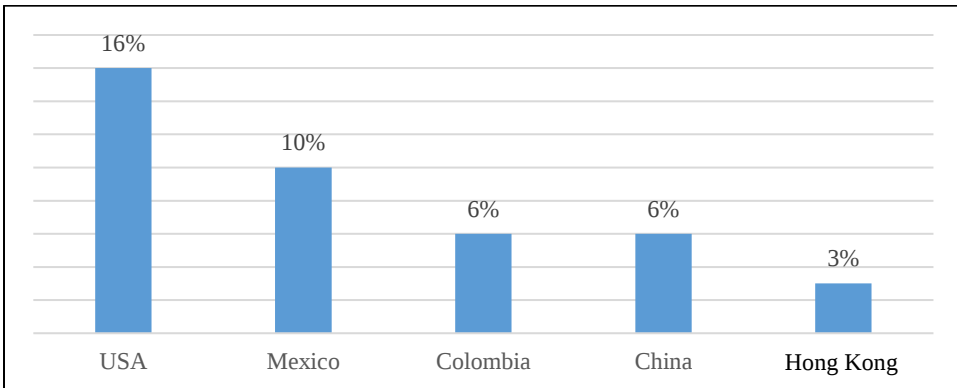
Figure 2.2: Techniques Used for Cleaning Proceeds



Source: Global Financial Integrity, 2023.

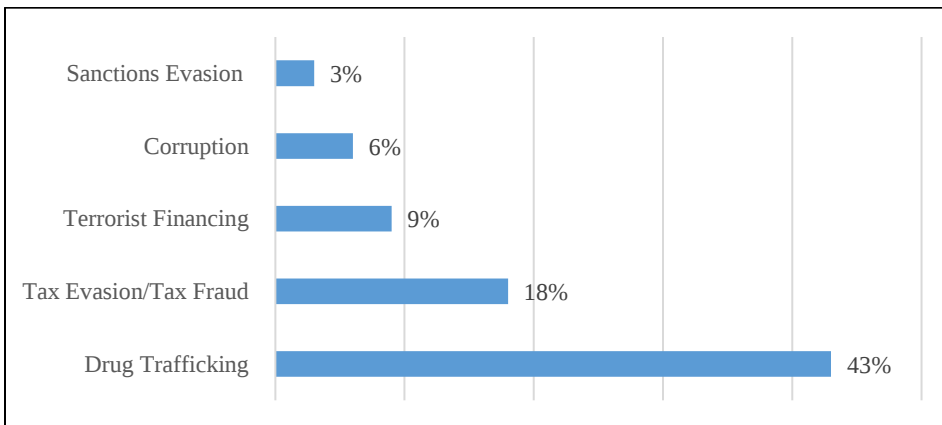
TBML cases are identified in 77 global economies as identified in GFI's most recent publication in January 2023. Most of the TBML cases are identified in USA followed by Mexico (Figures-2.3 and 2.4); and most of the proceeds are associated with drug trafficking (Figure-2.4). Identifying greater TBML cases does not always mean greater incidences of TBML, it also implies a country's capability to identify TMBL and other trade related crimes.

Figure 2.3: Jurisdictions with High TBML Cases [2011-2021]



Source: Global Financial Integrity, 2023

Figure 2.4: Criminal Activities for Cleaning Proceeds through TBML Techniques [2011-2021]

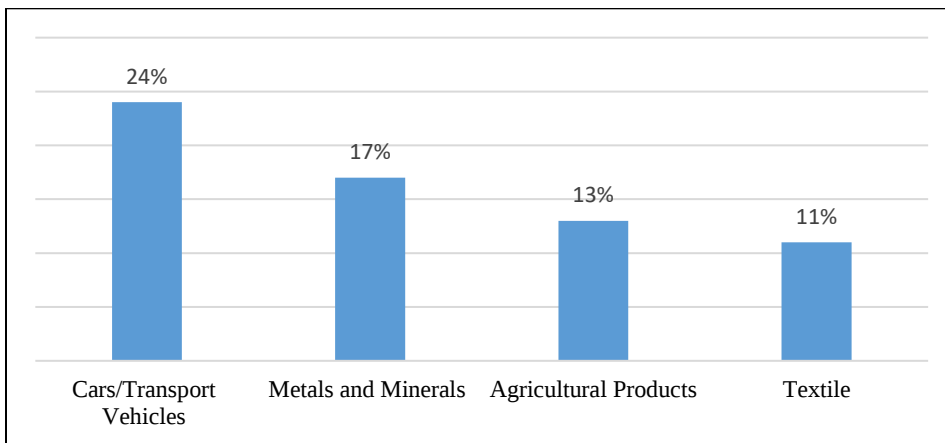


Source: Global Financial Integrity, 2023.

Illicit actors employ many items in TBML schemes, and any industry with AML loopholes is open to abuse. However, data suggests that some industries and goods are at danger. Cars/transportation, metals and minerals, agricultural goods, and textiles are the most prevalent TBML items (2011-2021) (Figure 2.5). A FATF research on TBML trends and advancements showed the same industries at high risk, with portable electronics included (FATF and Egmont group, 2020). Homeland Security Investigations (HSI)

revealed that 70% of their TBML cases contain precious metals, autos, garments and textiles, and electronics (US-GAO, 2020).

Figure 2.5: Mechanizm Used in MTBL Schemes [2011-2021]



Source: Global Financial Integrity, 2023.

2.2 Changing Trends and Challenges of Correspondent Banking Relationship

Majority of cross border transactions are executed through correspondent banks, which in turn operate networks of bank relationships, which is the foundation of cross-border transactions to facilitate global trade, finance, and remittance (Rice, 2020). Access to foreign financial markets; extension of products and services; improved global reach; strengthening global trade and business; and compliance-driven regulatory safety are recognized benefits of correspondent banking relationships (Wolfsberg Group, 2022). And banks, as licensed and regulated entities, have emerged as trusted actors in ensuring the security of cross-border transactions through elaborate compliance-driven regulatory frameworks (Harper and Brodsky, 2023). World Bank (2015) study identified the decline in the correspondent banking relationships though the trend has not been uniform in all global economies. BIS data reveal, the number of active correspondent banks worldwide fell by about 3% in 2019 and about 22% between 2011 and 2019. And respondent banks, in particular smaller banks located in

jurisdictions perceived to be very risky, are especially affected by the reduction in the number of relationships (CPMI, 2016). According to the correspondent banks interviewed for the CPMI (2015) report, the most common cause for this reduction of profitability of several banks was the increasing cost of regulatory compliance, especially in relation to AML/CFT regulation. And there are increasing trend in identifying TBML cases, greater compliance requirements, and over-consciousness on the part of banks in maintaining correspondent banking relationships.

The drivers for correspondent's de-risking can be categorized into two categories covering both financial risks and non-financial risks. Both categories have an impact on the costs for correspondents in maintaining relationships. Both of these have implications for maintaining and exiting correspondent banking relationship. Financial risk is associated with the creditworthiness of respondents and counterparts. Regarding Non-financial risks, the high cost of meeting compliance standards is one of the drivers in de-risking that commonly include AML/CFT, international sanctions, financial crime mitigation and client due diligence (CDD)/know your client (KYC). Compliance issues and periodical financial information requirements have increased remarkably in response to the de-risking efforts. However, CPMI (2016) observed, some correspondent banks are increasingly reluctant to provide correspondent banking services in certain foreign currencies in which the perceived risk of economic sanctions, the regulatory burden related to AML/CFT or the uncertainties related to the implementation of these requirements and the potential reputational risk in case of non-compliance seem to be higher.

The changing trends and challenges of correspondent banking relationships in the global context may be summarized as follows (Box-2.1) that have implications for both correspondent and respondent banks. Furthermore, the increasing gap in minimum requirements demanded by correspondents in terms of compliance (like Anti-money laundering, and Transaction Monitoring), when compared to the standards of respondents in emerging

and developing economies, is a disincentive to building bilateral correspondent relations between global and regional banks. This results in regional banks only having access to the correspondent banking network indirectly through intermediaries (Alleyne, 2017).

Box 2.1: Key Trends and Challenges of Correspondent Banking Relationship		
Reductions in the Number of Relationships	Increasing Cost of Maintaining Relationship	Over Conscious Approach & Reduction of Services
Differential Changes in Global Regions	Identification of Greater Number of ML/TBML Cases	Greater AML/TF and Compliance Requirements
Restricted Access to Certain Customers, Business Lines, Jurisdictions or Regions		Visible Implications of TBML Cases for Correspondent Banking Relationship
Disincentive to Building Bilateral Correspondent Relations between Global and Regional Banks		

The changing situation and de-risking created space for new players to challenge correspondent banks’ hold on cross-border transactions and cause correspondent banking to lose its role as the main method for cross-border transactions. According to CPMI (2020), trend showing increasing volume and value of USD transactions during 2011-2021, despite decreasing number of active correspondent banking relationships, suggesting concentration of flows. De-risking of respondents and conversely, the concentration of correspondent banking relationships may result in downstream correspondent banking or ‘nesting’. Downstream correspondent banking is when a respondent bank extends correspondent banking services to other FIs, domiciled either locally in the respondent’s

country or abroad by leveraging its relationship with a correspondent. Downstream correspondent banking can be problematic for correspondent banks because it may obscure the parties of the transaction chain, increasing the potential AML/CFT, financial crime or sanctions risk (BCBS, 2016). In theory, correspondent banks are meant to run checks before taking new banks, known as ‘respondent’ banks, on board. But in reality, experts say, they often make insufficient inquiries into a respondent bank’s history and client base. Respondent banks are sometimes acting as correspondent banks themselves, further obscuring the origin of suspicious funds. Known as “nesting,” this practice can let less scrupulous banks access financial systems they otherwise couldn’t. The correspondent banking system also spreads out accountability across multiple banks, making it harder to assign blame when dirty money enters the banking system. It raises concerns about the extent of monitoring high-risk countries, banks, and clients that must be enforced without disrupting cross-border trade and financial lifelines (OCCRP, 2022)³. Reduction of the provision of trade services due to de-risking may have notable implications. IFC (2017) notes, over 25 percent of 300-plus banks in over 90 emerging markets reported correspondent bank relationship losses. Beyond such losses, 72 percent of banks report that they face multiple exogenous challenges that reduce their provision of services that have implications for necessary imports for certain countries.

2.3 Correspondent Banking and Money Laundering through Cross-Border Trade

Money laundering through correspondent banking refers to the illicit process of disguising the origins of illegally obtained funds by utilizing the services and networks of correspondent banks. Criminals exploit the complexity and global reach of correspondent banking relationships to obscure the true source and ownership of illicit funds. According to Marvellis and Ali (2023) money laundering can occur through correspondent banking in different ways (Box-2.2).

³ <https://www.occrp.org/en/troikalaundromat/faq-what-is-correspondent-banking>

Box 2.2: Correspondent Banking and Money Laundering

Through layering criminals transfer money between accounts held at different correspondent banks or cross-border transactions, making it difficult to trace the original source of the funds.

Correspondent banks may unwittingly facilitate transactions **involving shell entities**, making it challenging to trace the true beneficiaries and ultimate purpose of the funds.

Inadequate due diligence practices by correspondent banks and inadequate risk assessment processes can allow illicit funds to flow through the correspondent banking network undetected.

Criminals may exploit **weaker AML controls in certain countries** to gain access to the international financial system through correspondent banks located there.

Note: Based on Marvellis and Ali, 2023

Following published cases (Mini Cases 2.1, 2.2, 2.3) are simply a glimpse of the enormous incidences of money laundering identified in different global economies that are facilitated through correspondent banking relationships.

Mini Case-2.1: Money Laundering Using Correspondent Banking Relationship

Turkish-Iranian money launderer helped Iran's sanctioned regime shift billions via correspondent banks from 2010 to 2015. Large banks handled USD6.5 billion for Zarrab-linked firms, investigators discovered. Correspondent banking may be used massively, as seen by Zarrab. The Turkish state-owned Halkbank allowed Zarrab to store Iranian oil money in accounts and send billions through Deutsche Bank, HSBC, Bank of America, JP Morgan Chase, Citibank, Standard Chartered, UBS, and Wells Fargo for years. These banks permitted transactions without much inspection since they have correspondent banking connections with Halkbank. Between 2010 and 2012, Latvia, a Baltic nation used to launder illegal assets from the former Soviet Union, sent USD20 billion a day into U.S. correspondent accounts, including billions in extremely suspect funds.

Note: based on <https://www.occrp.org>

Mini Case-2.2: Money Laundering Using Correspondent Banking Relationship

Between 2007 and 2015, Danske Bank Estonia facilitated USD236 billion in illegal activities. JP Morgan dissolved its partnership with Danske Bank in 2013, six years after the initial transactions. Deutsche Bank reduced their services by 60% to Danske Bank till 2015.

Source: <https://elucidate.co/blog>

Mini Case-2.3: Money Laundering Using Correspondent Banking Relationship

Mr X, a citizen of Country A, registered a bank in Country B ('Acme Bank'). Acme Bank was a shell bank, and had no real physical presence. Mr X deposited USD 25M of his money before moving on to Country C. In Country C, Mr X went to various banking institutions and, acting as a representative for Acme Bank, established correspondent banking accounts in the Bank's name. He then used the correspondent banking services of the host banks to transfer funds to Country C from Acme Bank's accounts in Country B. Using this network of correspondent banking accounts Mr X was able to move money across jurisdictions, from where it was used for the purchase of high value and highly tradable goods.

Note: the example derives from a real case; slideplayer.com/slide/12856841/

Correspondent banking was at the center of the above mentioned money laundering cases that are attributed to several factors. Unfamiliarity with correspondent bank's customers KYC is a central tenet of AML regulations, but correspondent banking services are at a clear disadvantage here. Moreover, growing number of non-traditional financial entities (that offer checking, savings and investment accounts) are clearing additional difficulties to get access to the right information. Efforts on the part of legitimate correspondent/respondent banks to fulfill AML regulatory compliances are commonly confronting several challenges: high cost, insufficient system, and challenge of verifying regulations across jurisdictions.⁴

⁴ <https://www.jumio.com/correspondent-banking-aml>

Trade payments and financing techniques used in cross-border trade facilitation also involve different risks and regulatory issues that may be linked to the TBML. As methods of payment, cash in advance and open account are the simplest and cheapest, but they create the greatest possibility for opportunistic misconduct by trading partners. LC is the costliest form of trade payment method having significant involvement of correspondent banks. Documentary collection is cheaper than LC; however, sometimes it is risky for the exporter. In connection with some products, involvements of correspondent banks are significant (like LC) and thus regulator may have significant control to handle TBML and other trade related crimes. Regarding the ongoing approach of addressing trade based money launderers, Global Banking and Finance Review (2017) observed ‘despite a significant proportion of international trade being conducted on ‘open account’ terms, firms’ trade-based money laundering controls typically focus on transactions supported by traditional trade financing, such as Letters of Credit; and this is disproportionate and leaves a gap in the industry’s response to TBML’ (noted in Habib et al., 2018).

2.4 Guiding Framework for Correspondent Banking to Handle ML/TBML Risk

International bodies have proposed rules and strategies to address shifting correspondent banking needs and dangers. To avoid risks, responder banks and correspondent banks should have robust anti-money laundering and counter-terrorist financing compliance processes. Correspondent banking is crucial for international business and transactions. To combat money laundering risks in correspondent banking, regulatory authorities and financial institutions must implement robust AML measures, including enhanced due diligence, transaction monitoring systems, information sharing, and compliance with FATF, BCBS, Wolfsberg Group, FSB, CPMI, IFC, and other international standards/guidelines. USA Patriot Act principles affect nations.

FATF advises risk-based correspondent banking arrangements to avoid money laundering. It urges increased scrutiny of cross-border

correspondent banking arrangements. When establishing new correspondent financial connections, the correspondent organization might get the information from the responder. The FATF recommends discourse, communication, and risk-based approach upgrades for ongoing transaction monitoring and AML information exchange. In October 2016, FATF issued supplemental guidance specific to correspondent banking services, stating that combating financial crime should not raise trade barriers. Instead, the correspondent bank must regularly monitor the respondent bank's risk profile and take risk mitigation measures as needed, which aligns with FATF's risk-based approach to financial crime. According to FATF Recommendation 13, before establishing a new correspondent banking relationship, financial institutions should gather enough information about a respondent institution to fully understand its business, evaluate its AML/CFT controls, and get senior management approval, which is the true protection. Financial institutions cannot have correspondent banking relationships with shell banks.

The Basel Committee on Banking Supervision recommends senior management approval for a correspondent banking connection with a responding bank. The Basel Committee on Banking Supervision (BCBS) announced ML/FT risk management recommendations in June 2017, including an appendix on correspondent banking. The BCBS standards include FATF recommendations and the Committee's ML/FT risk management concepts to support FATF's aims. The Governors of the BIS Economic Consultative Committee (ECC) have mandated the CPMI to produce a report on this issue that identified guidelines on standardization of the minimum set of information; more effective KYC utilities; use of the Legal Entity Identifier (LEI) in correspondent banking.

The Wolfsberg Group, ICC, and BAFT have developed core principles, best practices, and other frameworks to help financial institutions manage financial crime risks globally. The 132-questions of Correspondent Banking Due Diligence Questionnaire (CBDDQ) standardize minimal

KYC information needs for respondent banks' onboarding and monitoring and reduces extra requirements. Wolfsberg Guidance on Society for Worldwide Interbank Financial Telecommunication (SWIFT), Relationship Management Application (RMA), and Due Diligence (2016) is also essential for correspondent banking relationships. The Guidance suggests handling non-customer RMAs. The organization recommends stringent RMA establishment and approval procedures to prevent financial crimes. According to FATF risk-based principles, RMAs should have minimal due diligence, continuous monitoring, and periodic reviews. Principle 5 of the Wolfsberg Anti-Money Laundering Principles for Correspondent prohibits correspondent banking clients from doing business with shell banks. Principle 7 prohibits institutions from selling to Shell Banks.

According to IFC (2018), correspondent banks typically examine the strength of AML/CFT regulations in the country where their respondent bank is based in due diligence, and respondent banks are expected to invest the resources needed to deliver information meeting global best practices of correspondent banks. To handle increased correspondent bank monitoring, high-risk respondent banks should have strong AML/CFT regimes. Correspondent banks use these country-specific assessments for CDD. IFC advised respondent banks to prepare for greater scrutiny from correspondent banks; evaluate the strength of their AML/CFT regime; train staff regularly on TBML detection, investigation, and escalation; exceed the minimum regulatory standards in combating TBML; establish well-defined operating procedures with FIUs on suspicious activity report delivery; and collaborate with other peer banks in the market to manage TBML risk.

In the US, sections 311 to 313 of the USA PATRIOT Act require US correspondent banks to conduct enhanced due diligence on respondent banks or terminate those relationships to address AML risks. Despite the increased dangers of correspondent relationships and the demands for additional due diligence, US authorities have provided guidelines stressing

that due investigation should concentrate on respondent banks, not respondent bank customers.

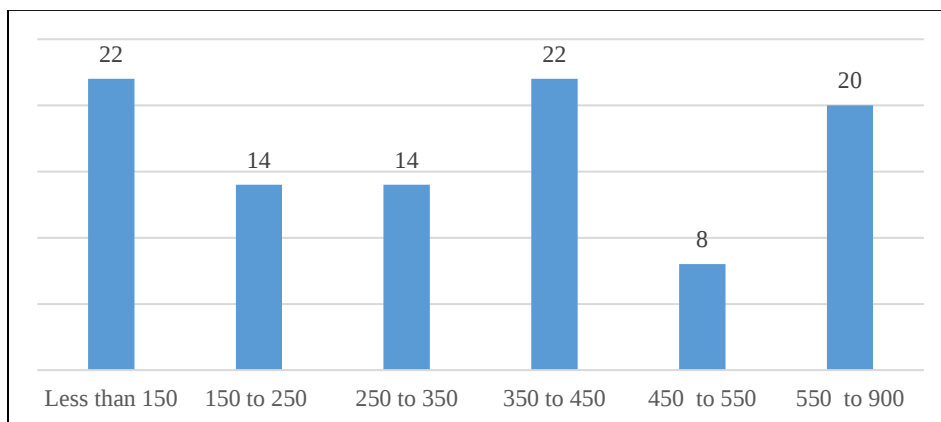
According to the above guidelines/recommendations, correspondent banks manage their relationships with respondent banks with two main goals: meeting specific regulatory obligations related to maintaining correspondent relationships, and meeting general compliance and supervisory obligations to report suspicious activity, prevent money laundering, and comply with economic sanctions. Thus, "know your customer" tests are not required. Correspondent and respondent banks should understand and record their AML or criminal compliance due diligence and information exchange requirements. After building its program, a responder bank must effectively, and often proactively, promote its strategy to the correspondent banks it wants to work with. Correspondent account access gives respondent banks freedom, stability, and strategic success. Respondent banks may insulate themselves from more scrutiny from correspondent banks. Respondent banks desiring long-term correspondent banking partnerships must build and maintain a competent AML or anti-crime compliance program (<https://elucidate.co/blog>).

3. Corresponding Banking Relationship and the TBML Risks: Bangladesh Context

3.1 Nature and Use of Correspondent Banking Relationship in Bangladesh

In the context of Bangladesh, trade services and remittance related activities like opening and maintaining accounts, exchanging authenticated SWIFT message, payment services and collections, granting credit lines, and foreign exchange market transactions. Commercial banks of the country have been offering relevant services using a good number of RMA. As of December 2022, banks had 20296 RMAs to facilitate cross border transactions. Half of the country's banks are having more than 350 RMAs, and there are also 22 percent banks have RMA of less than 150 (Figure-3.1).

**Figure 3.1: Number of RMAs (in %) Maintained by Banks
[as of December 31, 2022]**



Source: BFIU, 2023

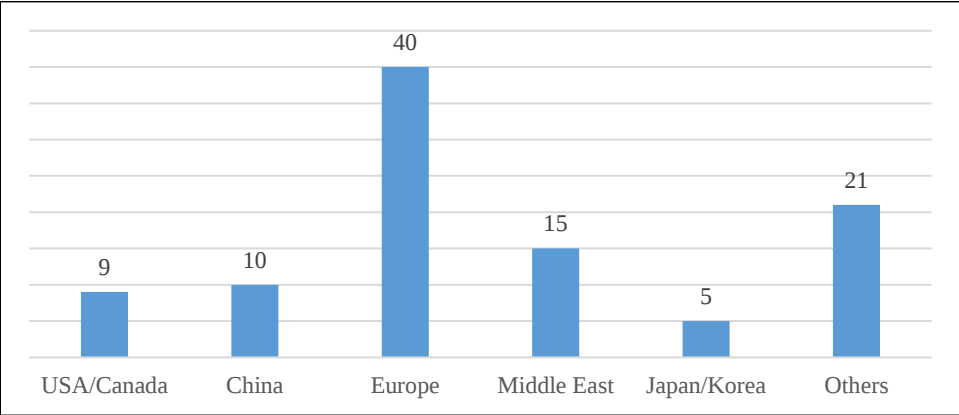
Banks generally follow an approval process for RMA. A very common approval process is briefly explained in figure 3.2. Banks follow circular /guidance notes of BFIU, requirement of correspondent banks, internal guidelines of respective banks in establishing RMA with foreign correspondent banks.

Figure 3.2: Approval Process of Selecting a Correspondent Bank

Approval Process	Collecting information about correspondent bank from various sources
	Seeking information from the correspondent bank
	Taking approval from top management and Compliance Unit
Documents Required	AML Questionnaire, Wolfsburg Group Questionnaire, Management and Shareholding structure, Financial Statements, Credit Rating, SWIFT KYC Register, Audited Financial Reports

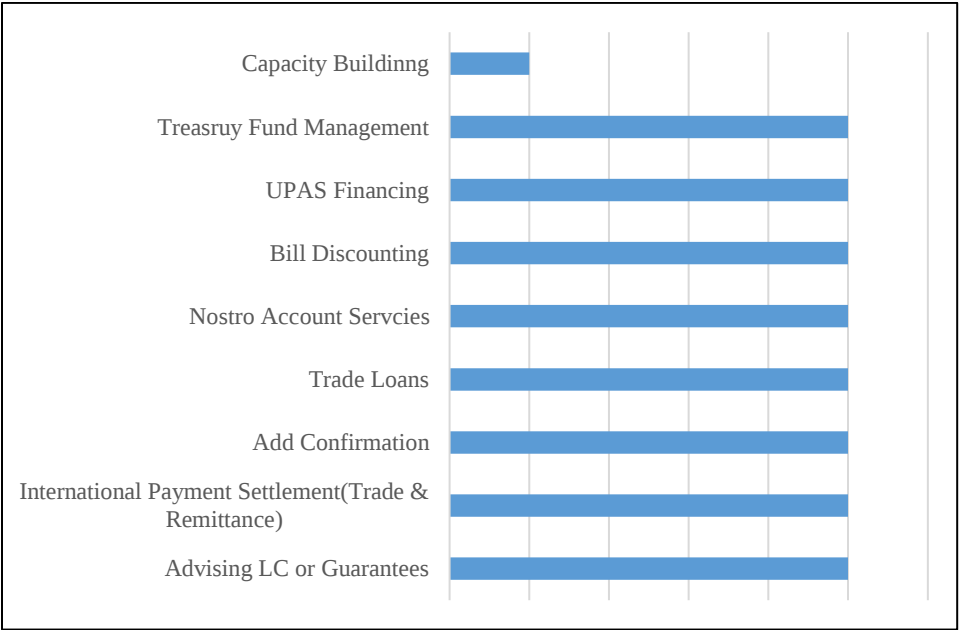
The other documents used in establishing RMA with banks are mainly USA Patriot Act Certification, W-8BEN-E, Sanctions Questionnaire, Passport/NID Copy of BoD and Senior Management, as found in the survey data. Geographical data indicate geographic locations of the correspondent banks, and thus implies distribution of correspondent banking networks (Figure-3.3).

Figure 3.3: Geographic Location of CBs



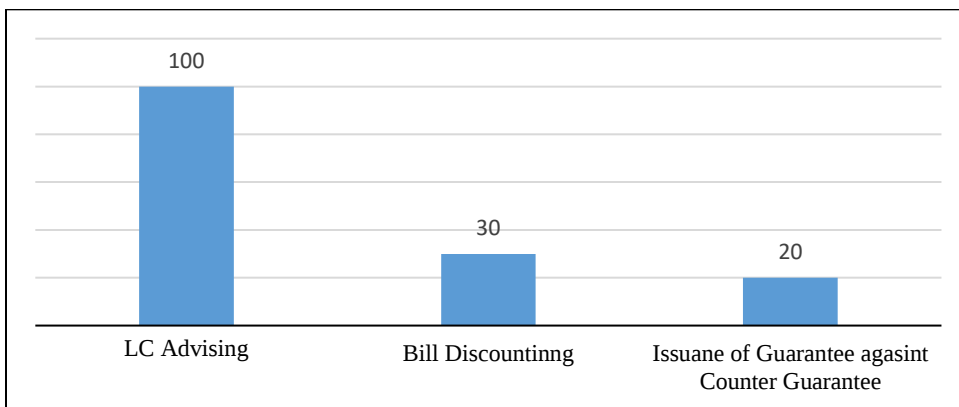
Source: Survey, 2023

Figure 3.4: Types of Services Obtained from Correspondent Banks



Source: Survey, 2023

Figure 3.5: Types of Services Provided to Correspondent Banks



Source: Survey, 2023

3.2 Domestic Regulatory Provisions for Correspondent Banking Relationship

In Bangladesh, to establish and maintain correspondent relationship, banks need to follow two folds of regulations; regulation (Box-3.1) circulated by Bangladesh Bank and BFIU⁵ and regulation imposed by foreign correspondents/international standards⁶.

Box 3.1: Responsibilities for Safe Correspondent Banking Relationships

To prevent money laundering and terrorist funding using Cross Border Correspondent Banking, follow these instructions:

After gathering information about the correspondent or respondent bank, top management must approve correspondent banking service. Banks may only establish or maintain a correspondent banking connection with a foreign bank provided the appropriate regulatory body adequately supervises the correspondent or responding bank. No correspondent or respondent bank may establish or maintain a correspondent banking relationship with a shell bank. While establishing or maintaining a correspondent banking relationship with banks incorporated in a jurisdiction that does not meet or has significant deficiencies in complying with international money laundering and terrorist financing standards, banks must exercise Enhanced Due

⁵ BFIU Circular No. 10, Date December, 2014; BFIU Circular No. 26, dated June 16, 2020; FE Circular No. 14 of March 29, 2021; FE Circular No. 25, Date: July 13, 2021.

⁶ FATF, FATCA, Wolfsberg Principle Checklist, Correspondent Bank's Own Policy for AML, etc.

Diligence. Respondent bank customers using payable via accounts need CDD. Before establishing a correspondent banking relationship, the bank must get CAMLCO approval and guarantee the respondent or correspondent bank is regulated.

Source: Summary from BFIU Circulars

Transactions using shell banks and handling of TBML drew special attention of the BFIU, thus a circular issued in June 2020 (BFIU Circular No-26) required approval of CAMLCO before establishing a correspondent banking arrangement. The bank must ensure that the respondent or correspondent bank is subject to proper regulatory oversight. No bank can establish or maintain a relationship with a shell bank. When maintaining or establishing CBR with banks situated in jurisdictions subject to increased monitoring and high-risk, the jurisdictions subject to a call for action as published by FATF where banks are required to adhere to the EDD process. The circular has also provided a questionnaire relating to establish or maintain a correspondent banking relationship to prevent money laundering and combat the financing of terrorism.

Certain cross-border trade transactions related circulars (FE Circular No. 25, dated July 13, 2021; FE Circular No. 12, dated March 19, 2020; FE Circular No. 14, dated March 29, 2021) referred BFIU circulars and called for special attention in facilitating trade services through correspondent banking relationships and transactions with shell banks with the same goal of handling TBML risks (Box-3.2).

Box 3.2: Regulatory Provisions for Handling TBML Risks Facilitated through Correspondent Banking Relationship

AML/CFT compliance for correspondent relationships, nostro accounts, and transactions. Foreign Exchange Risk Management's instructions to maintain cross-border correspondent banking relationships include observing applicable extended due diligence and restricting correspondent relationships with shell banks.

-ADs must take precautions before doing export trade: ADs must verify the bonafides of applicant banks/issuing banks in cases of LCs received through authenticated channels from third banks to facilitate export transactions under LCs. ADs must

guarantee that application banks/issuing banks get export papers directly from them or via third banks/other authenticated banks with whom they have suitable relationships. ADs must verify the initial beneficiary, transferring bank, and LC applicant/issuing banks for transferred LCs.

- ADs shall satisfy bonafide of importers abroad as per GFET, and shall conduct due diligence on importers' banks designated for transactions under sales contracts to ensure their step-by-step responsibilities regarding release of export documents by designated banks to importers and procedural arrangement of payment as per GFET, its subsequent circulars, and relevant provisions of the Uniform Rules for Collection (URC) in force. ADs must guarantee that importer's banks get export papers directly from them or via third banks/other authenticated institutions with whom they have proper relationships.

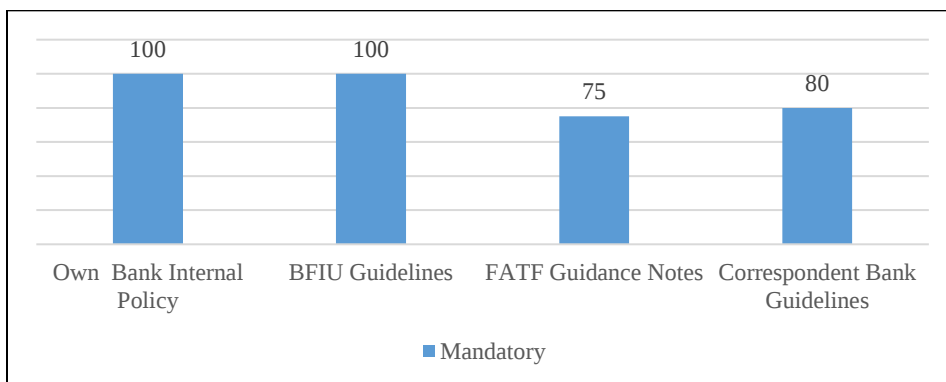
-ADs shall guide exporters to change designated banks of importers acceptable to ADs, bring the transactions under external payment guarantees as per FE Circular No. 25 of June 30, 2020, and make other suitable arrangements if there are any difficulties or doubts about the transactions.

BFIU's Infrastructure Level Risk Assessment of Guidelines for Prevention of TBML recommends vessel tracking systems for ADs. ADs must trace all shipments using a competent authority-approved tracking system to protect export transactions.

Source: Summary from FE Circulars

In the process of correspondent banking relationship, all banks commonly have their internal mandatory policy/guidelines, and also banks are required to follow certain guidelines issued by BFIU/FE. However, not all banks mandatorily follow guidelines issued by the international agencies (like FATF, Wolfsberg Group, etc.) or correspondent banks (Figure-3.6).

Figure 3.6: Guidelines Followed by the Banks in the Process of Maintaining Correspondent Banking Relationship

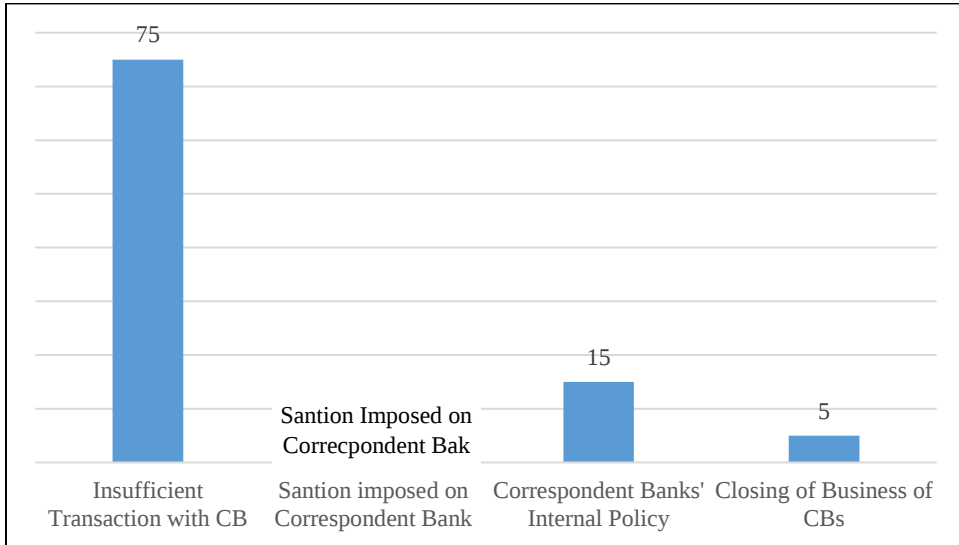


Source: Survey, 2023

3.3 De-risking and Correspondent Banking Relationship in Bangladesh

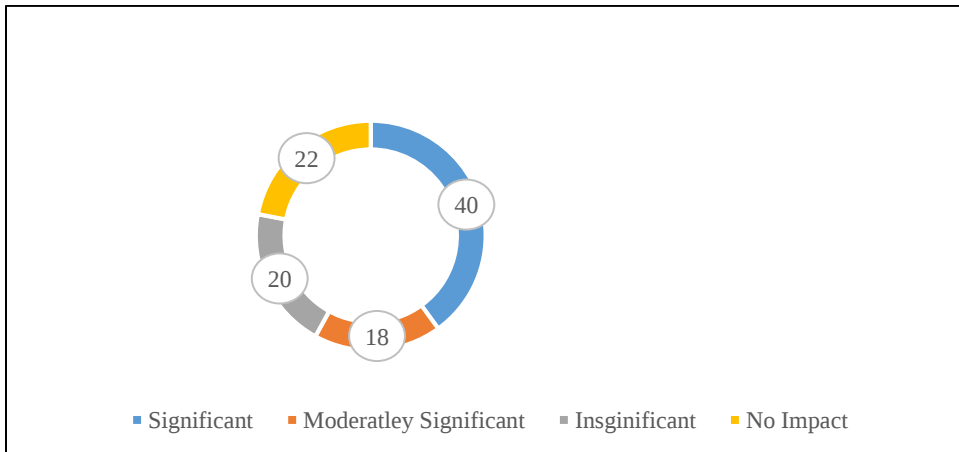
As part of de-risking several local banks were affected since then due diligence became challenging in the process of maintaining correspondent banking relationship. Globally, most of the banks that terminated nostro accounts or correspondent banking relationships are from USA and Europe. According to a survey (Habib et al., 2018), of the banks around 53 percent faced correspondent relationship termination from USA. Today following local laws, international standards and USA laws became almost a recognized standard for effective correspondent banking relationship throughout the globe including Bangladesh. The reality is, most multinational banks are not providing correspondent banking services to any new banks rather keep on reviewing existing relationships with a number of banks in Bangladesh. Despite all these challenges, businesses and volume of transactions remained the key driver for correspondent banking relationship (Figure-3.7). To 60 percent banks, termination of correspondent banking relationships do not have significant impact. It might be true to some extent, however, it may also be interpreted as lack of awareness on the consequences of the termination of correspondent banking relationships with a section of banks (Figure-3.8).

Figure 3.7: Reasons for Termination of Correspondent Banking Relationship



Source: Survey, 2023

Figure: 3.8 Impact on Banker Customer Relationship due to the Termination of CBR



Source: Survey, 2023

3.4 Risks and Concerns Associated with Transactions through Shell Banks and Suspicious Trade Transactions

Transactions through shell banks drew special attention of BFIU. So far Bangladesh FIU has detected 12 Shell Banks. Most of the Shell Banks are registered in the Tax Heaven Jurisdiction especially in the Caribbean Islands. At the time of registration, these shell banks use the term “Bank” as a suffix in their name. These types of Banks do not disclose income statements, Audited Balance Sheet, Annual Reports, Capital Structure, Ownership Structure, Management information on its website. Reputed credit rating agency shows it does not have any capital or adequate capital for Banking Business. Though it is registered in tax heaven jurisdiction, but it does not have any physical presence in the country where they are registered. It is often used USA or UK based address as its representative/business address to make more credible to foreign financial institutions. The techniques/steps that are commonly followed in facilitating transactions through shell banks may be summarized in Box-3.3.

Box 3.3: Common Steps of Transactions through Shell Banks in Bangladesh

- After getting registration, Shell Banks can use SWIFT Platform to exchange secured Banking communication with any other Banks of the World.
- Shell Banks send proposal for RMA to Bangladeshi Banks. RMA is a SWIFT Mandate authorization which enables FIs to exchange FIN messages. For more reliability, some Shell Banks also manage to achieve Banker’s almanac membership where any member Bank able to get KYC related information from other Banks.
- Some of the less aware banks fall into the trap and establish RMA with the Shell Banks. Consequently, Shell Banks sent hundreds of LCs in favor of Bangladeshi Banks; and after receiving the LCs through SWIFT Channel, Banks forwarded these LCs to the Bangladeshi Exporters as mentioned in the LC clauses.
- Suppliers/Bangladeshi Exporters do not have idea about the Shell Banks/foreign FIs. As per terms and conditions of LC Bangladeshi supplier prepare the products, complete all the formalities including Customs formalities as per local rules and make shipment from Bangladeshi Port to the destination port through any international vessel.

-As per Bangladeshi Law, Export Proceeds must be repatriated to Bangladesh within 120 days from the date of shipment. After the export performance, suppliers of Bangladesh may sell the export bills to the LC receiving bank. If documents are in complying presentation (as per terms and condition of the LC), Banks may purchase the documents at a discount rate and pay export value to the supplier's account.

-After 120 days, the importer's bank (Shell Bank) does not pay any single penny to the exporter's Bank i.e., Bangladeshi Banks. Within the time frame of 120 days the foreign Shell Banks were able to send hundreds of LCs in favor of Bangladesh Banks. When the payment obligation comes, usually the Shell Banks do not respond to payment request or disappear from everywhere even from the virtual/websites.

Note: Based on Information from BFIU

BFIU also reveals that importers of some countries are also Shell Companies. Credit report of the importers (Buyers) also shows that these companies are offshore nature that does not have physical presence or use another company's address as its address. Credit rating companies are unable to disclose the ownership structure as well as financial information. Several shell banks follow unique approach to get access to RMA with banks. Authentic information might be helpful to identify shell banks (Mini Case-3.1).

Mini Case 3.1: Shell Banks' Approach and Authentic Information to Identify Shell Banks

Euro Exim Bank Ltd. (EEB), incorporated, authorized, supervised, and regulated by the Financial Services Regulatory Authority (FRSA) in St. Lucia, West Indies sent a request to one of private commercial banks in Bangladesh for establishing correspondent relationship with EEB. Having the request of EEB, international division of the bank sought approval or advice from Anti Money Laundering Department of the local private commercial bank whether they should enter into any relationship with that bank. AMLD searched for information regarding the entity in the market (other banks, online search, etc.) and got feedback that it was not a full-fledged bank; a "shell bank" indeed. However, their address was found on the webpage of FSRA, St. Lucia (www.fsrastlucia.org) and was written against a Post Office Box, in Google Maps, no specific building was shown. Finally, AMLD advised not to go for business

relationships with entities situated in the West Indian countries. In some cases, it was found that Shell Banks recruit local representatives to build up confidence on establishing RMA. Shell Banks also target new banks and other banks that are trying to expand trade finance activities.

Source: Case Study based on the discussion with the Bank Executives

In several instances, banks have purchased/discounted the export/Foreign Documentary Bills, exporters some time feel no urge to repatriate the export proceeds. During 2017 to 2020 (before COVID-19 Pandemic), products valuing around USD 1.6 billion was exported from Bangladesh through the above-mentioned “Shell Banks Trap” through international trade. It was also observed that the unit price mention in the LC was competitive, goods were shipped in proper channel, and all the documents were authentic except the LC issuing banks and importers. This became another avenue of TBML where Bangladesh might suffer.

As actions, BFIU penalized all the banks who had established RMA with Shell Banks as well as the banks that failed to conduct CDD procedure after receiving LC from Shell Banks. BFIU shared this typology with all the commercial banks and instructed all the banks in Bangladesh to review all the RMA and close the relationship immediately with the Shell Banks. Bangladeshi banks have already reviewed and closed relationships with a significant number of Shell Banks. BFIU has also requested SWIFT not to provide connectivity or membership of Shell Banks.

In several instances, banks in Bangladesh and clients were affected due to the use of shell banks or execute TBML/suspicious transactions through using correspondent banking relationships (Mini Cases-3.1, 3.3, 3.3). Sometimes penalties imposed on a correspondent bank caused harm to the local respondent banks (Mini Case-3.2). These cases offer invaluable lessons to the banks and traders on the risks of using less reputed/unknown correspondent banks or correspondent banks in certain risky jurisdictions.

Certain nature/types of cases are also red flags for the respondent banks of the country (Mini Cases-3.4 and 3.5).

Mini Case 3.2: Bangladeshi Banks Affected by the Fine Imposed on Overseas Correspondent Bank

Permanent Subcommittee of Investigation (PSI), a subcommittee of US Senate has investigated X Bank, a UK origin correspondent banking service provider operating in the USA and many other international locations. The investigation was conducted how X Bank was serving as a middleman for Mexican drug cartels and facilitating money laundering through its international networks. After four year's investigation, PSI has released the investigation report and X Bank was fined by the US Federal Regulators for USD 1.90 Billion. Two Bangladeshi banks were mentioned in that report as a respondent Bank of X Bank. Upon publishing the report, a number of correspondent banks have terminated, frozen or limited the correspondent banking relationship with two mentioned Bangladeshi banks.

Note: Bank Source

Mini Case 3.3: Trade Based Money Laundering through Offshore Banking Operation Using a Valid Correspondent Banking Network

PTFCL, a Singaporean fundraising company, asks X Bank in Bangladesh for a \$20 million loan. The PTFCL's Singapore license was revoked, making it a sham. PTFCL applies for a loan from X Bank in Bangladesh with the bank's key officers and Board members. PTFCL applied without registration documentation. On behalf of PTFCL, Canadian director Mr. A signed the loan application. X Bank invested USD 20 million at 8% with PTFCL. PTFCL committed to invest USD 80 million with the Bank within 95 days after receiving loan USD 20 million. PTFCL establishes Dubai-based "Ching General LLC" as an SPV to transfer borrowed monies. SPVs had to be financial institutions or investment companies, but they traded. "Ching General LLC" opens an account with Bank Y, X Bank's correspondent banking partner in the UAE. The loan arrangement required PTFCL and X Bank to jointly handle the Y Bank account. It didn't. The Chairman of X Bank was the nominee of the USD 20 million fund and a joint signatory of the Dubai account with Y Bank. Finally, X Bank sends Y Bank USD 20 million. The money was lost afterwards. Since X Bank had no foreign currency, it bought USD using BDT from the Dhaka Interbank Money Market at a higher price. Ching General LLC cancelled its Y Bank account and withdrew the whole money after remitting it.

Note: Bank Source

Mini Case 3.4: Crescent Leather Case Relating to Correspondent Banks

A large private commercial bank provided Crescent Leather, an export-oriented firm, project finance of BDT 5000 Crore. The firm was mainly involved in manufacturing and exporting leather wallets, belts, Shoes and leather Bags. In their official website prices of each products are clearly mentioned. But the export value of each items were 4 to 5 times higher than the published rates. Crescent leather received 653 export LCs valuing BDT 1309 Crore in the last quarter of 2019 from the different companies of USA, UK and 8 different companies of Hongkong. Moreover, the same bank issued hundreds of LCs in favour of Crescent Leather in past LCs. 60% of the buyers were from Hongkong with same address in Kowloon, Hongkong. With further investigation, it was found that buyer's office was tiny (200 square feet room) and owners of the 8 companies are mostly Bangladeshi. In all the export LCs, the name of issuing bank was a commercial bank incorporated in Gambia. The issuing bank was licensed by the Central Bank of Gambia. All the export proceeds were transferred from different banks in Dubai and Singapore using MT 202 SWIFT. The export payment banks in Singapore did not ask the Ordering Customers/senders why they are sending money to a Bangladeshi Banks mentioning EXP/FDBP as reference. Here the foreign correspondence banks are also used as a vehicle for TBML. Products were exported to EU and USA. But no export proceeds were repatriated from the LC issuing Bank or from the importing countries. Moreover, in 5 calendar years (2015-2019), the leather company received BDT 1171 crore as cash incentives (Export Subsidy). As per FEPD Circular: Leather Products are eligible for 15% cash incentives with some condition for repatriation.

Note: Bank Source

Mini Case 3.2: MT 710: Advice of a Third Bank's or a Non-Bank's Documentary Credit: Facilitates Trade with Hidden Compliance Concern

Documentary credits are predominantly transmitted through MT700 SWIFT messaging, where the sender is the issuing bank of the credit, and the receiver is the proposed advising bank. Both the sender and receiver have active RMA relationships. However, Documentary credits are sometimes transmitted through MT710 SWIFT messaging, whereas the sender is not the issuing bank of the credit but maintains active RMA relationships with the receiver. The issuing bank of the credit is mentioned inside the credit condition, particularly in field 52a. Typically MT710 is utilized where the issuing bank is a bank or non-bank having no RMA relationship with any bank in the beneficiary's country. Under these circumstances, As the receiver of the Documentary

credit advises the credit to the beneficiary adhering to UCP 600 and compliance laws and regulations, the exporter's bank (usually a nominated bank) may fall into the trap that the bank may be "Shell Bank or high-risk bank to facilitate the transaction. Bank should have an internal policy regarding handling documentary credit through MT 710.

Note: Bank Source

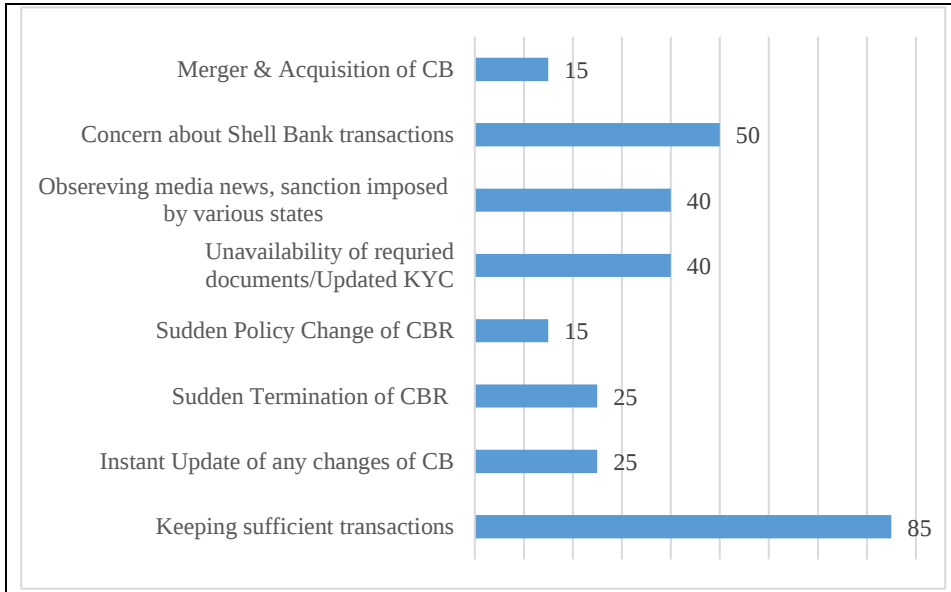
Mini Case 3.3 : Standby LC or Guarantee Coverage Loan: A Possible Money Laundering Technique

The market has observed that existing or prospective customers approach banks to extend credit facilities in local currency fully covered by Standby LC (SBLC) or Demand Guarantee from abroad. This trend is suitable and very much practiced where the sister concern operates in Bangladesh and has no or inadequate security for credit facilities. The parent company arranges a repayment guarantee from a foreign bank in the form of SBLC or a guarantee to extend credit facilities favoring sister company. However, local companies approach banks to extend credit facilities to them against SBLC or Guarantees issued by foreign banks. In most cases, there is no business relationship between the applicant of the SBLC or guarantee and the customer and no reasonable basis for issuance of the SBLC or guarantee to extend the credit facility to the customer. One potential concern may be that extended credit facilities might be settled through a claim under SBLC or demand guarantee when turned into classified loans. The repayment may be derived from money laundering abroad and entering Bangladesh's Economy. Correspondent Banking relationships are the weakest link to facilitate this type of transaction.

Note: Bank Source

Banks identified several challenges/concerns in the process of maintaining correspondent banking relationships. Keeping sufficient transactions and concerns about shell banks are identified as the most common challenges by the representatives of trade services departments and the offices of CAMLCO of banks of the country (Figure-3.9).

Figure 3.9: Challenges Faced by Respondent Banks in Maintaining CBR



3.5 Risk Management Efforts on the Part of Banks

Regular review of RMA is a recognized risk management associated with correspondent banking relationships. It has become best practice across the global banking industry to review all the correspondent banking relationship once every year unless there is no significant change in the board, senior management or change to legal, regulatory or supervisory requirement of the counterparty banks. Common issues that are considered in the RMA review process are as follows:

Box 3.4: Issues are Considered in Reviewing RMA

- Updated licenses and certifications
- Board of Directors and senior management whether there is any PEP involvement, adverse media or sanctions
- Any business link with Shell Bank
- Downstream or nested correspondent services
- Any fine or regulatory countermeasures imposed on counterparty banks
- Business segments i.e. percentage of deposit, loans and advances in different

- sectors and industries
- Adequacy of AML, ABC and sanctions compliance program
- Policy, process and control mechanism of compliance functions of the Bank.

Source: Survey/FGD, 2023

According to the survey observation, only about 20% banks are reviewing all RMA relationships on annual basis. However, about 30% banks are not reviewing RMA on annual and as and when required basis; approximately 50% banks are reviewing the RMA on sample basis not all RMA. Banks have identified some common challenges of reviewing RMA on regular basis (Box-3.5).

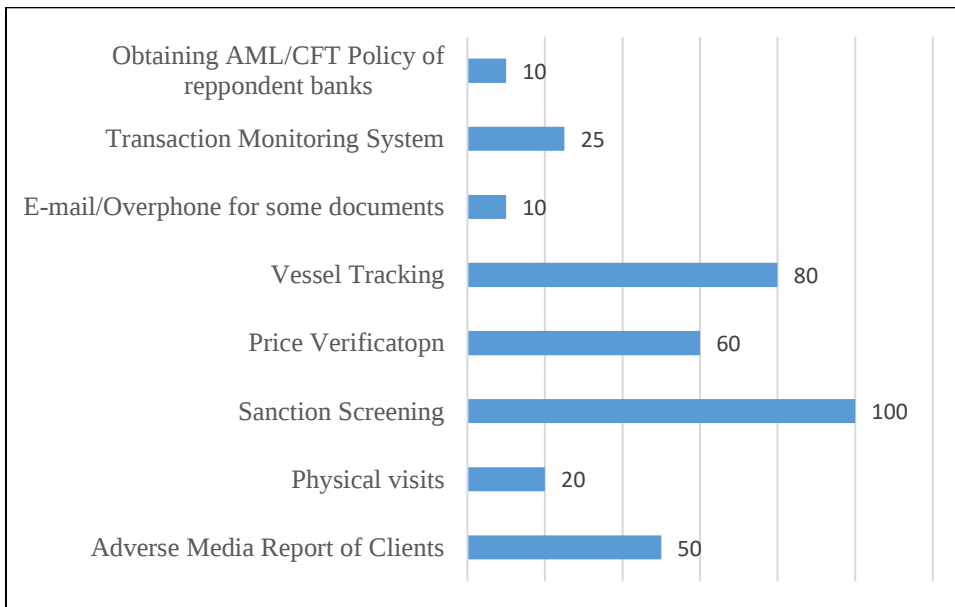
Box 3.5: Challenges in reviewing the RMA

- Banks have no adequate manpower to review all the RMA relationships every year
- Banks have no SoPs (Standard Operating Procedures) to review the RMA
- Banks have no sufficient trained and professional staff to review the RMA
- Counterparty banks are not cooperating by providing all required documents to complete the review process
- Automated and technology-based system generated tools are not available in the banks to conduct the review process
- There is no regulatory enforcement action for non-reviewing RMA.

Source: Survey/FGD, 2023

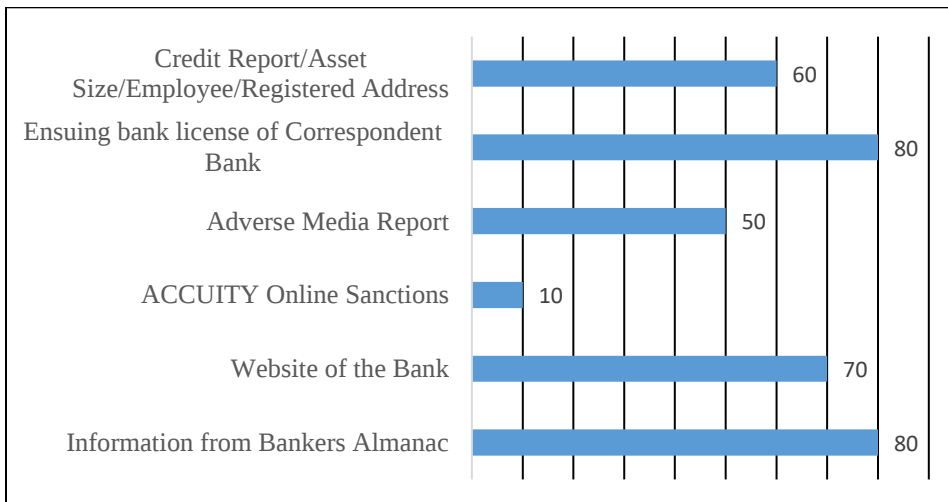
Banks in Bangladesh follow some common approach to minimize risks associated with correspondent banking relationships (figure 3.10), and to avoid or identify shell banks (3.11), as claimed in the survey. Sanction screening claimed to be the most common. It is well recognized that adequate training and awareness events are crucial risk management tools. 85 percent banks have organized training sessions/events on the correspondent banking relationships (Figure-3.12).

Figure 3.10: Measures to Handle Risks associated with Correspondent banking Relationship



Note: Survey, 2023

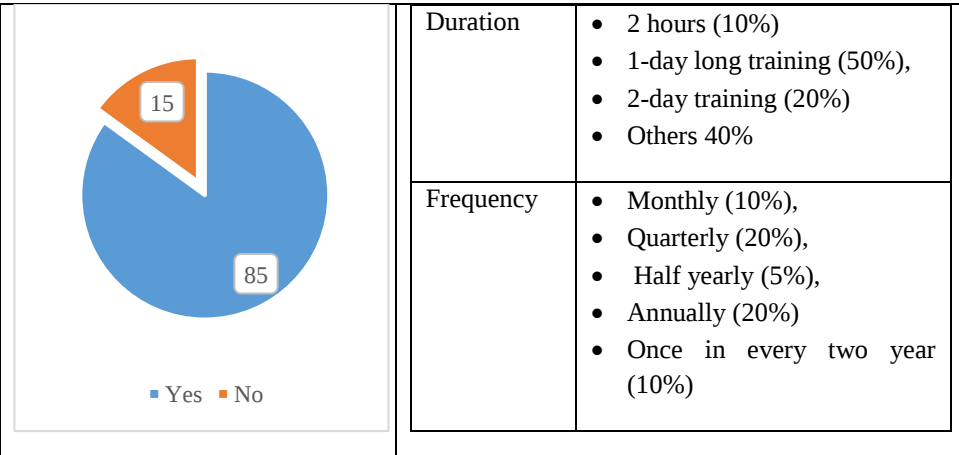
Figure 3.11: Measures to Avoid Shell Banks



It is well recognized that adequate training and awareness events are crucial risk management tools. 85 percent banks have organized training

sessions/events on the correspondent banking relationships. However, there are huge scopes to improve training programs in the duration, frequency and contents (Figure-3.12). The contents covered in the training mainly include understanding process and risks associated with correspondent banking, Wolfsburg Questionnaire, Shell bank and beneficial owner. Sanction screening and impact of noncompliance in trade transactions, money laundering through correspondent banking relationships and risk-based approach for establishing new and reviewing existing correspondent banking relationships are also discussed in the training. In some cases, training related to correspondent banking is integrated with AML and CFT training programs. Some banks also have developed E-Learning platform for all employees of those banks.

Figure 3.12: Training on CBRs, Duration and Frequency



Note: Survey, 2023

4. Suggested Policy and Operational Approach to Correspondent Banking Relationship for Handling TBML and Safe Trade Service Operations in Bangladesh

Despite growing risks, costs, and complexities, respondent banks worldwide value correspondent banking relationships to pursue business and expand global networks. Direct access to major global markets

facilitates banks' operational independence and allows them to provide critical services to customers. Following steps might contribute to the efficient correspondent banking relationship through handling TBML.

One, Generally, major correspondent banks (reputed multinationals) are facing much higher scrutiny for the relationships they have with global bank and others. Bangladesh's respondent banks must understand the regulatory, supervisory, and enforcement pressures on correspondent banks. Each correspondent bank may have differences in policies, information requirements, formats, reporting procedures. It has become necessary to be prepared for greater scrutiny from your correspondent banks over your bank's capacity to deal with TBML risks, and invest in the necessary resources to respond with adequate information. It is important to thoroughly 'know your customer's at all times. As respondent banks, banks of the country should evaluate their capacity in this regard on regular basis.

Two, Banks must have the right kind of perceptions, culture and processes for meeting compliance requirements for ensuring safe trade services and protecting interests of both clients and the country. Compliances should be perceived from both from technical and ethical perspectives. In the changing environment, compliance requirements is ever increasing and unpredictable. Respondent banks must be updated with the changing compliance expectations of the correspondent banks and regulators. Banks must ensure yearly reviews of RMAs for identifying risks and undertaking due measures to keep themselves away from the shell entities. International standards should mandatorily be followed by the banks of the country for handling correspondent banking relationships.

Three, Capable and skilled human resources are the key to handling difficulty and find future direction for efficient correspondent banking relationships. Banks need to invest heavily in capacity development of their employees to ensure better compliance and installing right processes and systems. Criminals have been consistently changing their strategy and using

trade and banking channels for cleaning their proceeds and pursuing illegal fund transfer. Failure on the part of identifying TBML commonly causes termination of correspondent banking relationship and thus has notable implications for the efficient trade facilitation. Traders should also be brought under TBML and compliance related awareness events.

Four, Banks must be aware of the one risk identified by the BFIU. According to them, Bangladeshi banks have experienced that all the Shell banks which originated from different jurisdictions got the SWIFT platform to send the Financial message to other banks of any part of the world. Before onboarding the SWIFT platform, it has to conduct due diligence whether the bank is regulated by the Central Bank where it is registered. SWIFT should have a mechanism to ensure physical presence of the shell bank. Apparently, SWIFT does not have such a mechanism. Moreover, technology adoption offers comprehensive AML software that helps financial services enhance risk mitigation and monitor customers and accounts for suspicious activity. Automation can help banks stay compliant through automated sanctions screening, identity verification and AML transaction monitoring that ensure compliance while streamlining time investment and reducing costs. Investment in technology and automation is the need of the time for coming up with the level of expectations of clients, regulators, and correspondent banks.

Five, Greater communication and coordination are crucial risk management tools. Banks of the country should have arrangements for communication and coordination, and arranging joint capacity development and awareness efforts with their correspondent banks. Continuous communications with regulators are crucial to understanding their changing expectations and compliance perceptions that are consistently changing with the changing business and money laundering trends throughout the globe. Joint capacity development efforts of the trade finance banks and the regulators are expected to bring better outcome on this front.

Finally, it is well recognized that trade payments and financing techniques used in cross-border trade transactions have implications for TBML. Using open account and cash in advance is relatively risky from the point of TBML risks. Extensive use of LC and documentary collection in the country offer relatively better protection in the form of extensive control over the transactions by the banks and regulators. Correspondent banking relationships have greater roles and engagements in these methods. It is to be remembered that risk prone correspondent banking relationships not only destroy the advantage of using these methods but also facilitate illicit fund flows and TBML through correspondent banking channels.

References

- Alleyne, T. S. C., Bouhga-Hagbe, J., Dowling, T., Kovtun, D., Myrvoda, A., Okwuokei, J. C., and Turunen, J., “Loss of Correspondent Banking Relationships in the Caribbean: Trends, Impact, and Policy Opticons,” IMF Working Papers, Working Paper No. 2017/209, September 2017.
- Basel Committee on Banking Supervision (BCBS), “Consultative Document, Guidelines - Revised Annex on correspondent banking,” November 2016.
- BIS (2017) Basel Committee on Banking Supervision Consultative Document Guidelines Revised annex on correspondent banking Issued for comment by 22 February 2017: <http://www.bis.org/bcbs/publ/d405.htm>
- BIS, 2016, Correspondent banking, Committee on Payments and Committee on Payments and Market Infrastructures, (BIS).
- Chatain, P., Van Der Does De Willebois, E. J. M., Gonzalez Del Mazo, I., Valencia, R. D., Aviles, A. M., Karpinski, K., Goyal, S., Corazza, C., Malik, P., Endo, I., Eckert, S. E., and Abel, D., “The decline in access to correspondent banking services in emerging markets : trends, impacts, and solutions - lessons learned from eight country case studies,” World Bank Group, 2018.

- Committee for Payments and Market Infrastructures (CPMI) 2016, “Correspondent Banking,” Bank for International Settlements (BIS), July 2016.
- Committee on Payments and Market Infrastructures or CPMI (2015): *A glossary of terms used in payments and settlement systems*, <http://www.bis.org/cpmi/publ/d00b.htm?m=3%7C16%7C266>.
- Committee on Payments and Market Infrastructures or CPMI (2016): *Correspondent Banking*, Bank for International Settlement Consultative Report.
- FATF and Egmont Group (2020), Trade-Based Money Laundering: Trends and Developments (Paris: FATF, 2020), available at Trade-Based-Money-Laundering-Trends-and-Developments.pdf (fatf-gafi.org)].
- Global Financial Integrity (2023) Trade-Based Money Laundering: A Global Challenge, A policy memo by Global Financial Integrity, Fedesarrollo, Transparency International Kenya and ACODE, January 2023, Global Financial Integrity, Norway.
- Global Financial Integrity-GFI (2021), Trade-Related Illicit Financial Flows in 134 Developing Countries 2009-2018, Washington, DC: GFI: <https://gfintegrity.org/report/trade-related-illicit-financial-flows-in-134-developing-countries-2009-2018/>
- Habib, Shah Md Ahsan, A, Zareen, T. Ahmed, K. Hossain & ATM N. Hoque (2016), Challenges of Correspondent Banking Relationship for Banks of Bangladesh, Banking Research Series 216, BIBM, Dhaka.
- Habib, Shah Md Ahsan, A, Zareen, T. Ahmed, K. Hossain & ATM N. Hoque (2018), Addressing Trade Based Money Laundering in Bangladesh: An Assessment, BIBM study.
- Harper C., and Brodsky D., “Meeting the needs of end users: The three layers of cross-border payment solutions,” Visa Economic Empowerment Institute, February 2023.
- IFC (2017) De-Risking and Other Challenges in the Emerging Market Financial Sector: <http://documents.worldbank.org/curated/en/895821510730571841/pdf/121275-WP-IFC-2017-Survey-on-Correspondent-Banking-in-EMs-PUBLIC.pdf>

IFC (2018) Navigating Essential Anti-Money Laundering and Combating the Financing of Terrorism

Mavrellis, Channing and Tammy Ali (2023) Cloaked in trade: Unmasking the underworld of trade-based money laundering, May 25, 2023, <https://www.tradefinanceglobal.com/posts/podcast-s1-e118-cloaked-in-trade-unmasking-the-underworld-of-trade-based-money-laundering/>

Rice, T., von Peter, G., and Boar, C., “On the global retreat of correspondent banks,” BIS Quarterly Review, pp. 37-52, March 2020]. Traditionally, initiating CBRs has been reciprocity-driven, resulting in a dense web of bilateral relationships.

SWIFT, “Addressing the unintended consequences of de-risking,” 2016. [Online]. Available: <https://www.swift.com/swift-resource/23961/download>. [Accessed 5 April 2023].

The Wolfsberg Group of large, international financial institutions created a questionnaire correspondent banks can use with their respondent banks that is commonly used today, https://www.wolfsberg-principles.com/sites/default/files/wb/pdfs/Wolfsberg%27s_CBDDQ_220218_v1.2.pdf

The World Bank, “Withdrawal From Correspondent Banking: Where, Why, and What to Do About it,” World Bank Group, 2015.

U.S. Government Accountability Office-US-GOA (2020), Trade-Based Money Laundering: U.S. Government Has Worked with Partners to Combat the Threat, but Could Strengthen Its Efforts, GAO-20-333: Washington, DC: Government Accountability Office, 2020).

US Department of the Treasury and Federal Banking Agencies Joint Fact Sheet on Foreign Correspondent Banking: Approach to BSA/AML and OFAC Sanctions Supervision and Enforcement (August 30, 2016), <https://www.occ.treas.gov/topics/compliance-bsa/pub-forei-gn-correspondent-banking-fact-sheet.pdf>

Yansura, Mavrellis, Kumar and Helms, Financial Crime in Latin America and the Caribbean: Understanding Country Challenges and Designing Effective Technical Responses (2021) , Global Financial Integrity, October 2021, available at <https://gfintegrity.org/report/financial-crime-in-latin-america-and-the-caribbean/>

- Wolfsberg Group (2016) ‘Guidance on SWIFT Relationship Management Application (RMA) Due Diligence,’ 2016: <https://www.wolfsberg-principles.com/sites/default/files/>
- Wolfsberg Group (2018) ‘Wolfsberg Group Correspondent Banking Due Diligence Questionnaire (CBDDQ), Version 1.2,’ 2018: <https://www.wolfsberg-principles.com/sites/>
- Wolfsberg Group, “Wolfsberg Correspondent Banking Principles,” 2022. [Online]. Available: [wolfsberg-principles.com/sites/default/files/wb/Wolfsberg%20Correspondent%20Banking%20Principles%2022.pdf](https://www.wolfsberg-principles.com/sites/default/files/wb/Wolfsberg%20Correspondent%20Banking%20Principles%2022.pdf). [Accessed 27 April 2023].

Appendix 1: Questionnaires for Banks
Bangladesh Institute of Bank Management (BIBM)
Mirpur-2, Dhaka

Questionnaire for the Study on
**“Relevance of Correspondent Banking and Sanctions for Money
Laundering”**
(To be Filled by International Banking Wing/Division/Unit)

Name of the Respondent:	
Designation of the Respondent:	
Bank Address:	
Cell:	Tel :
Email:	

Correspondent Banking

1. How many correspondent banks does your bank have for cross-border transactions up to 2023?
 - ☐ Number of Correspondent Banks:
 - ☐ List/Name of the Banks:
 - ☐ Geographic Location of the Correspondent Banks:
2. How does your bank, as a respondent bank, select (Step by Step Process) a correspondent bank for cross-border transactions?
 - ☐ Approval Process from your own bank:
 - ☐ Documents Required:

3. While maintaining and establishing a correspondent banking relationship, what kinds of guidelines does your bank follow? [**You may select more than one**]

☐ Own Bank Internal Policy:

- Optional
- Mandatory

☐ BFIU Guidelines:

- Optional
- Mandatory

☐ FATF Guidance Notes:

- Optional
- Mandatory

☐ Correspondent Bank Guidelines:

- Optional
- Mandatory

4. What are the compliance requirements (due diligence) to maintain a correspondent banking relationship?

☐

5. What types of services do you obtain from correspondent banks?

☐

6. Does your correspondent bank obtain any service from your bank?

- ☐ Yes, if yes, mention the services you provide to your correspondent bank
- ☐ No

Correspondent Banking and Transaction Monitoring of Banks and Clients

7. How does your correspondent bank monitor (measure) your clients cross-border transactions to identify suspicious transactions?
☐
8. How does your correspondent bank monitor your bank's cross-border transactions to identify suspicious transactions?
☐
9. Does your bank have any connection with a shell bank?
☐ Yes
☐ No
10. What precautionary measures does your bank undertake to avoid shell banks?
☐
11. Is there any instance of termination of the Correspondent Banking relationship by your correspondent banks?
☐ Yes, mention the banks' name and reasons for termination
☐ No
12. Did your bank willingly close any correspondent banking relationship with foreign correspondent banks?
☐ Yes, mention the name of the banks and the reasons
☐ No
13. Mention the severity of the impact on the banker-customer relationship due to the termination of the correspondent banking relation.

	Significant	Moderately significant	Insignificant	No Impact
Banker-Customer relationship				
How does it affect your bank?				

Capacity Development for Compliance Requirements in Correspondent Banking Relationship

14. Please fill up the following box relating to Capacity Development for Compliance Requirements in Correspondent Banking Relationship

	Please Elaborate
a) Does your bank conduct training for the employees of the bank for capacity development to handle the compliance requirements of correspondent banks?	☐ Yes ☐ No, please mention the reason
b) What was the duration of the training course?	
c) What was the frequency of the training?	
d) Mention the key contents of the training course	☐
e) What was the date of the last training program held on compliance relating to correspondent banking?	

15. What risks or challenges does your bank face while maintaining correspondent banking relationships?

☐

16. What kind of measures do you expect for better transaction monitoring with correspondent banks?

Policy Measures from Regulators	
Bank Management Measures from Board and Management of Banks	

Implementation Status of Sanctions
A. Sanction Screening [Name screening]

17. Does your bank have any sanction policy?
- ☐ Yes
- ☐ No
18. Does your bank have a sanction screening mechanism?
- ☐ Yes
- ☐ No
19. Has any transaction in your bank been blocked by OFAC/FINCEN or any other regulatory authority in the last five years? If yes, how much has been blocked in total?
- ☐ USD
- ☐ BDT
20. What measures have been undertaken by your bank to unblock this blocked fund?
- ☐
21. How often does your software/solution provider update the Sanction List?
- ☐
22. At what frequency does your bank perform sanction screening of non-transactional accounts?
- ☐
23. How is your bank implementing the following sanctions?

Nature of sanctions	Implementation Mechanism or Measures
UN	
US/OFAC	
EU	
UK	

24. What challenges is your bank facing while implementing the above sanctions?

25. Fill up the following box about the impact (cost/outcome) while implementing the above sanctions.

The Severity of Impact Due to Sanctions					
Nature of Impact	Significant	Moderately significant	Insignificant	No Impact	Please comment
Cost of operations on banks					
Banker customer relation					
Compliance requirements					
Banks' profitability					
Overall business of banks and clients					

26. What kind of regulatory measures and bank management measures do you expect to overcome the challenges or risks to implement different kinds of sanctions?

Regulatory measures: Measures (Policy Support) from the board and top management of banks:

27. Do you think that the implementing tools for handling different sanctions are effective?

- ☐ Yes
- ☐ No, please mention the reasons

B. Vessel Tracking

28. Does your bank have any vessel tracking policy?

- ☐ Yes
☐ No

29. Does your bank have any vessel tracking solution?

- ☐ Yes [Please mention the name]
☐ No

30. What are the major challenges of Vessel Tracking?

☐

31. What kind of regulatory measures and bank management measures do you expect to overcome the challenges or risks for the effective use of vessel tracking?

Capacity Development for Compliance Requirements in Sanctions [Name screening and Vessel Tracking]

32. Fill up the following box which is relating to the capacity development of employees in handling sanctions.

Capacity development on the tools to implement sanctions	
a) Does your bank conduct training on handling sanctions?	☐ Yes ☐ No, mention the reason
b) What was the duration of the training course?	
c) What was the frequency of the training?	
d) Mention the key contents of the training course?	
e) What was the date of the last training program held on sanctions?	

33. Fill up the following box which is relating to the capacity development of employees in handling Vessel Tracking.

Capacity development on the tools to implement a vessel tracking system	
a) Does your bank conduct training on handling vessel tracking?	☐ Yes ☐ No, mention the reason
b) What was the duration of the training course?	
c) What was the frequency of the training?	
d) Mention the key contents of the training course.	
e) What was the date of the last training program held on vessel tracking?	

Appendix 2: List of Respondent Banks

Serial No.	Name of the Banks
1	AB Bank Limited
2	Agrani Bank Limited
3	Bangladesh Development Bank Limited
4	Bangladesh Krishi Bank
5	Bank Al-Falah Limited
6	Bank Asia Limited
7	Bengal Commercial Bank Limited
8	BRAC Bank Limited
9	Commercial Bank of Ceylon PLC
10	Community Bank Bangladesh Limited
11	Dhaka Bank Limited
12	Dutch-Bangla Bank Limited
13	Eastern Bank Limited
14	EXIM Bank Limited
15	ICB Islamic Bank Limited
16	IFIC Bank PLC
17	Islami Bank Bangladesh Limited
18	Jamuna Bank Limited
19	Meghna Bank Limited
20	Midland Bank Limited
21	Modhumoti Bank Limited
22	Mutual Trust Bank Limited
23	National Bank Limited
24	National Credit & Commerce Bank Limited
25	NRB Bank Limited
26	One Bank Limited
27	Pubali Bank Limited
28	Shahjalal Islami Bank Limited
29	Shimanto Bank Limited
30	Social Islami Bank Limited
31	South-Bangla Agriculture and Commerce Bank Limited
32	Southeast Bank Limited

33	Standard Bank Limited
34	Standard Chartered Bank
35	State Bank of India
36	The City Bank Limited
37	The Hongkong and Shanghai Banking Corporation Limited
38	The Premier Bank Limited
39	Trust Bank Limited
40	Union Bank Limited
41	United Commercial Bank PLC
42	Uttara Bank Limited

Appendix 3: List of Participants in FGD from Banks

Sl no.	Participant's Name	Name of the Bank
1	MD. Nasir Uddin	Southeast Bank Limited
2	Sayed M Abdullahel Quafi	Dutch Bangla Bank Limited
3	Mafizur Rahman Talukder	Basic Bank Limited
4	Khandakar Abul Hasnat	Basic Bank Limited
5	Shamima Nargis	Social Islami Bank Limited
6	Mohammed Sharif Uddin Ahmed	Mutual Trust Bank Limited
7	Ms. Tania Sultana	Eastern Bank Limited
8	M. Abul Kalam Azad	Dutch Bangla Bank Limited
9	Md. Rafiqul Islam	Islami Bank Bangladesh Limited
10	K. M. Alamgir Kabir	Eastern Bank Limited
11	F M A Rahim	Bangladesh Krishi Bank Limited
12	Syeedur Rahman	United Commercial Bank Limited
13	Muhammad Zahirul Islam	Dutch Bangla Bank Limited
14	Rashadul Karim	Padma Bank Limited
15	Taher Ahmed Chowdhury	Islami Bank Bangladesh Limited
16	Md. Rejaul Islam	Islami Bank Bangladesh Limited
17	Mr. Khan M Ahad	NBP, Bangladesh
18	Mr. Ataur Rohoman Joardder	NBP, Bangladesh

Paper Two

ICT Incident Response Management in Bangladeshi Banks: Current Status and Challenges

Md. Mahbubur Rahman Alam
Professor, BIBM

Kaniz Rabbi
Associate Professor, BIBM

Md. Mushfiqur Rahman
Chief Information Technology Officer
First Security Islami Bank PLC.

The keynote paper was presented in a Roundtable Discussion on 12 October, 2023 and published at BIBM website in March, 2025.

Online Link: <https://bibm.org.bd/publications-read.php?id=128>

List of Abbreviations

ADC	Alternative Delivery Channel
ADs	Authorized Dealers
BB	Bangladesh Bank
BC	Business Continuity
BCP	Business Continuity Plan
BIBM	Bangladesh Institute of Bank Management
CBS	Core Banking System
CEO	Chief Executive Officer
CFE	Certified Fraud Examiner
CHFI	Computer Hacking Forensic Investigator
CIA	Confidentiality, Integrity, Availability
CIO	Chief Information Officer
CIRT	Computer Incident Response Team
CISO	Chief Information Security Officer
CITO	Chief Information Technology Officer
CRO	Chief Risk Officer
CTE	Certified Penetration Testing Engineer
DC	Data Center
DR	Disaster Recovery
FIs	Financial Institutions
ICT	Information and Communication Technology
IEC	International Electrotechnical Commission
IS	Information Systems
ISO	International Organization for Standardization
ISRM	Information Security and Risk Management
ITIL	Information Technology Infrastructure Library
MBA	Master of Business Administration
MD	Managing Director
NIST SP	National Institute of Standards and Technology Special Publication
PCIDSS	Payment Card Industry Data Security Standard
SLA	Service Level Agreement
SOC	Security Operations Center
TIP	Threat Intelligence Platform

Executive Summary

The keynote paper titled *“ICT Incident Response Management in Bangladeshi Banks: Current Status and Challenges”* provides an in-depth analysis of incident response practices within Bangladeshi banks. Drawing on data from 32 banks, including public, private, and foreign institutions, as well as discussions with security experts, the study highlights the current state of ICT incident management, identifies critical challenges, and offers recommendations to strengthen the sector's resilience in the face of ever-evolving cybersecurity threats.

While progress has been made in certain areas, such as the establishment of Security Operations Centers (SOCs) in 44% of surveyed banks and the proactive analysis of incident trends by 58% of banks, inconsistencies in preparedness, policy implementation, and resource allocation continue to hinder effective incident response.

Despite regulatory efforts, a lack of cybersecurity awareness persists across all organizational levels, from employees to board members. This gap impairs the ability of banks to respond effectively to incidents and highlights the need to cultivate a robust cybersecurity culture across the organization. At the same time, the rapid evolution of cyber threats demands that banks remain agile and invest in advanced technologies and regular training for their workforce. However, limited resources and insufficient upskilling programs leave many institutions ill-equipped to adapt to the growing complexity of cyberattacks.

The study also found that incident response policies are not updated frequently enough, with 28% of banks revising their policies only every three years and some failing to update them at all. While 58% of banks rated their policies as “Good,” the fact that 16% deemed them “Poor” underscores the need for regular evaluation and refinement to ensure resilience. Compounding this issue is the severe shortage of skilled ICT professionals, which makes it difficult for banks to effectively manage incidents. To address this, banks must invest in training, foster partnerships with educational institutions, offer competitive compensation, and provide clear career paths to attract and retain top talent.

Incident reporting and communication also remain areas requiring improvement. While banks are required to report significant incidents to regulators like Bangladesh Bank, transparency in communicating breaches to customers and the public is lacking, which can erode trust. Collaboration among banks, regulators, and industry stakeholders is similarly underdeveloped, limiting the effectiveness of collective defenses against cyber threats. Although some banks participate in industry forums to share threat intelligence, more robust information-sharing mechanisms are needed to enhance sector-wide preparedness.

Another notable finding is that only 33% of banks conduct regular drills to test their ICT Emergency Response Teams, which are essential for maintaining readiness in the face of real-world crises. Compliance with Bangladesh Bank's ICT Security Guidelines Version 4 (2023) also poses challenges, with only 16% of banks reporting full alignment. Many institutions face hurdles such as time constraints, lack of strategic alignment, and insufficient awareness among senior management. Additionally, while most banks manage their incident response teams internally, reliance on external vendors remains prevalent, requiring a careful balance between internal expertise and external support.

The study highlights other critical gaps, such as the lack of digital forensic capabilities, with only 20% of banks maintaining dedicated forensic teams to investigate and resolve incidents. Moreover, only 27% of banks use software for incident documentation, relying instead on manual methods, which limits efficiency and security. Retention periods for incident records also vary significantly, with some banks adopting long-term retention strategies while others archive records after as little as one year.

To address these challenges, the study recommends fostering a cybersecurity-aware culture across all organizational levels and ensuring continuous investment in advanced technologies and workforce training. Regular updates and rigorous evaluation of incident response policies are critical for maintaining resilience. Banks must also bridge the talent gap by offering attractive career opportunities and collaborating with academic institutions to develop specialized training programs. Improving transparency in incident reporting and enhancing collaboration among stakeholders are equally essential for building trust and strengthening collective defenses. Conducting frequent drills, expanding digital

forensic capabilities, and adopting specialized incident management software can further improve preparedness. Finally, aligning more closely with regulatory guidelines and establishing well-resourced SOCs are necessary steps to bolster cybersecurity infrastructure.

The findings from the paper emphasize the urgent need for Bangladeshi banks to prioritize ICT incident response management as a cornerstone of their cybersecurity strategy. By addressing existing gaps and adopting a proactive, collaborative approach, banks can enhance their ability to respond to incidents effectively and safeguard their operations against the growing complexity of cyber threats. Continuous improvement, combined with strong partnerships and a commitment to innovation, will be pivotal in ensuring the security and resilience of the banking sector.

ICT Incident Response Management in Bangladeshi Banks: Current Status and Challenges

1.1 Background of the Study

In recent years, the banking sector in Bangladesh has witnessed significant growth and modernization, largely driven by advancements in Information and Communication Technology (ICT). The adoption of digital banking services, online transactions, and the integration of ICT systems have not only facilitated financial inclusion but have also exposed the banking industry to various cybersecurity threats and incidents. As a result, the need for robust ICT incident response management has become paramount to safeguard the financial stability and security of the nation.

ICT incident means any occurrence compromising the availability, legitimacy, integrity or confidentiality of stored, communicated or processed data or of the related services offered by, or available through network and information systems. According to ISO 27000, security incident is: “a single or a series of unwanted or unexpected information security events that have a significant probability of compromising business operations and threatening information security.” And ISO 27001 defines a security incident as an unwanted event that could endanger the confidentiality, integrity, or availability of information, whereas an event is any kind of technical occurrence or an activity that could indicate a possible breach of data. Examples of ICT incidents include- computer system interruption, unauthorized or inappropriate revelation of sensitive data, suspected or actual breaches, compromises, or other unlawful access to computer systems, data, applications, or accounts, illegal changes to computers or software, damage or theft of computer equipment or other data storage devices and media (e.g., laptop, USB drive) used to store private/sensitive information, denial of service attack or any other attack that prevents or weakens the authorized use of networks, systems, or

applications, interfering with the planned use or inappropriate or improper usage of information technology resources, etc. Why is incident management important? As information system is crucial for the survival of any organization in today's world, we need a comprehensive incident response policy to recognize real security incidents, get the situation under control, lower the damage caused by an invader, and lessen the time and costs of recovery. Incident management's significance cannot be exaggerated as it is the bedrock of a vigorous set-up. By promptly recognising and resolving incidents, incident management minimizes the effect on critical systems, data and an organization's reputation.

ICT incidents in Bangladeshi banks not only have a direct impact on the affected banks but also pose systemic risks to the broader financial ecosystem of Bangladesh. They can result in financial losses, reputational damage, and erosion of customer trust, potentially leading to a loss of confidence in the country's financial institutions. The existing literature on ICT incident response management predominantly focuses on developed economies, and there is a notable scarcity of research concerning the specific challenges and current status of incident response practices in Bangladeshi banks. This study aims to bridge this gap by conducting a comprehensive assessment of the ICT incident response management framework within Bangladeshi banks, identifying the challenges they face, and proposing strategies to enhance their cybersecurity resilience.

1.2 Objectives of the Study

The paper aims to examine the state of ICT Incident Response Management in Bangladeshi banks. The specific objectives of the study are: one, to assess the current state of ICT incident response in Bangladeshi banks; two, to identify challenges and vulnerabilities of ICT incident response practice; and three, to recommend improvements and best practices of ICT incident response management in Bangladeshi banks.

1.3 Methodology

This study employs a mixed-method approach, gathering primary data primarily from the IT departments of banks via semi-structured questionnaires. Out of 61 questionnaires distributed among the banking sector, responses were received from 32 banks, encompassing 3 government banks, 26 private commercial banks (including 4 Islamic banks), and 3 foreign commercial banks. Additionally, insights from 10 Heads of Security were obtained through discussions to provide a comprehensive understanding of ICT Incident Response Management in Bangladesh. The primary data is supplemented by a review of secondary sources, including publications and circulars from Bangladesh Bank (BB), annual reports of banks, previous reports of BIBM, policy guidelines, and relevant research articles. The report presents its findings primarily through tables and some graphical representations, with finalization pending input and feedback from participants and banking sector experts who participated in the roundtable discussion.

1.4 Limitations

Several limitations constrained the depth of our study. One significant obstacle was the need to maintain the confidentiality of sensitive information. Each bank holds its own proprietary data, which cannot be disclosed to external parties. Additionally, some banks were reluctant to share their security-related information due to concerns about potential cyberattacks, resulting in hesitancy in responding to our questionnaire. It's crucial to note that the data collected in this study is specific to the banking sector in Bangladesh and does not encompass other sectors of the economy. Furthermore, the dataset was derived from responses received from only 32 banks. Therefore, these limitations should be considered when making decisions or formulating policies related to ICT Incident Response Management.

2. Literature Review

Information and Communication Technology (ICT) has revolutionized the banking sector worldwide, enabling more efficient and convenient financial services. However, this digital transformation has also exposed banks to a new set of risks, including cyber threats. To safeguard their operations and customers' sensitive data, banks have implemented Incident Response Management (IRM) strategies. This literature review explores the current status and challenges of ICT Incident Response Management in banks, with a focus on recent research and developments.

Standard incident response methodologies exist for organisations to use in their response to security incidents across a wide range of impact severities (Northcutt, 1998; West-Brown et al., 2003; Grance et al., 2004; Murray, 2007). Various guidelines and standards define best practice and propose activities for operative and well-organized incident management. Some prominent guidelines in relation to information security incident management are: The ISO/IEC 27035 Standard, The ITIL Framework, NIST Special Publication 800-61, ENISA and SANS, etc.

According to NIST SP 800-82 Rev. 2, computer security incident is an occurrence that actually or potentially jeopardizes the confidentiality, integrity, or availability of an information system or the information the system processes, stores, or transmits or that constitutes a violation or imminent threat of violation of security policies, security procedures, or acceptable use policies. Effective response to information security incidents is a critical function of modern organisations. For the purposes of Incident Response (IR), a cyber incident can be defined as any event that compromises information confidentiality, integrity, and/or availability—core principles of information security that are often referred to as the “CIA triad” (<https://fieldeffect.com/blog/digital-forensics-incident-response>).

Incident response refers to the formal, structured methods by which organisations engage teams to detect and eradicate information security

incidents (West-Brown, 2003; Wiik et al., 2005). The ultimate goal is to minimise the effects of a successful attack and to ensure an expedient recovery (Van Wyk et al., 2001; Wiik et al., 2005). Successful security incidents can cost organisations severely across a variety of impact criteria, including reputation, productivity and direct financial costs attributed to lost business as well as legal and regulatory penalties.

Two of the most important parts of incident management are the existence of guidelines for communication and prioritization of incidents as well as the use of an evaluation process to gain experience from previous incidents (Paul et.al, 2011). As part of an incident management aptitude, organizations should have an incident management policy, a plan and procedures, all of which should be custom-made to the specific organization's requirements. According to ISO/IEC 27035:2011(E), it is important to have a planned approach to reporting of vulnerabilities that have not yet been exploited. Incident management is not purely an IT related issue as information security incidents threaten an organization as a whole. Having a well-planned and tailored incident management capability is therefore important for organizations in order to protect information.

A formative report by Knight and Pretty (1996) established a direct causal relationship between organisations that successfully recovered from catastrophes and their effective response to the incident. Further, although not all incidents necessarily turn into catastrophes, the ability of an organisation to effectively mitigate an incident plays a key role in preventing incidents from escalating into a catastrophe.

According to ITIL, “Classifying and categorizing IT incidents helps identify and route incidents to the right technician, saving time and effort. For example, incidents can be classified as major or minor incidents based on their impact on the business and their urgency. Typically, major incidents are the ones that affect business-critical services, thus affecting the entire organization, and need immediate resolutions. Minor incidents usually

impact a single user or a department, and might have a documented resolution in place already.”

There are many factors that determine effectiveness of incident response. Among these are resourcing of the incident response capability, availability and application of technical expertise, and support from senior management. As Smith and Jamieson (2006) explained, the dynamic support of top management was ranked the most important issue. While top management is ultimately responsible and charged with the task of introducing and supporting vital projects with adequate capital and resources, they can also support information security as an important enterprise-wide function in many ways, including funding, allocation of human and monetary resources, promotion of buy-in, and stressing the significance of security to other groups among the organization (Kayworth and Whitten, 2010). A study by Kurowski and Fring (2011) stated that the professional skill of staffs is most relevant for carrying out analysis of incident. Security incident response refers to the process by which organizations engage dedicated or adhoc teams to identify and treat information security incidents (West-Brown, 2003; Wiik et al., 2005). Depending on the scope of the team, they can be either technical or multidisciplinary, featuring members across a variety of business lines, balancing a range of skills that may include the technical, diplomatic and organizational (Murray, 2007). Again, according to ISO/IEC 27035 standard, employees’ responsiveness and involvement in incident management procedures are important. Big organizations may have dedicated teams available 24/7 to handle major incidents. In the incident management process resources are allocated to lessen and mitigate the effect of incidents and service unavailability in line with business priorities. The main objectives are to re-establish services as swiftly as possible in addition to limit adverse effect on business operations (<https://www.manageengine.com/products/service-desk/itil-incident-management/what-is-itilincident-management.html>).

An important activity in the incident response process is the capacity of the process to learn from the errors or mistakes made during the incident, learn which policies and activities are effective or useless, identify concerns in staffing and skills and to feed this knowledge back into the process (Northcutt, 1998; Killcrece et al., 2003; Grance et al., 2004). While major incident response methods such as the SANS and NIST models include 'post-mortem' or 'follow-up' activities post-incident, there is slight evidence to advise that organisations enthusiastically involve in adequate organisational learning and perfection of these incident response processes (Cooke, 2003). Current incident response literature instead emphasizes on technical responses to incidents, the initial phases of the process and forensic activities (Mitropolous et al., 2006; Turner, 2007; Zhang et al., 2009). However, if banks/FIs were to correctly learn from and accomplish their incident response capability, they would be able to leverage opportunities to learn from incidents to their best advantage and understand the benefits of a strong process and fortified security policy.

Incident response teams are the 'firefighters' within organisations, devoted to the preparation, identification, analysis and recovery from security incidents (Jaikumar, 2002). On the timeline of business continuity, incident response is the instantaneous action taken against a security breach, whereas disaster recovery and business continuity are longer-term concerns (Whitman & Mattord, 2005). Incident response is therefore the thoughts and actions commenced upon the detection of security incidents and the immediate actions taken in the short-term to diminish the organisation's exposure. However, an IR team is accountable for more than just straight actions against incidents. Instead, such teams will vigorously advise on security, develop security strategy and conduct security training and awareness programs (West-Brown et al., 2003). Therefore, the value of fielding effective and capable incident response teams is that they will primarily be effective in response to security breaches. However, in broader organisational role, IR teams can deliver knowledge and data to the

organisation as a whole. An IR team must have a variety of talents, including technical, organisational and diplomatic skill in dealing both with the incident, management of the team and effective at negotiating during intense and stressful situations.

The root causes of numerous incidents within Bangladeshi banks often stem from breaches in cybersecurity practices. Researchers, both domestically and internationally, have conducted extensive studies addressing this critical issue. In the study titled 'Cybersecurity in Banking Sector of Bangladesh: Challenges and Policy Measures,' Khan (2018) underscores the importance of cybersecurity in Bangladesh's banking sector and emphasizes the necessity of robust incident response strategies to combat evolving cyber threats.

In a case study titled 'Information Security Practices in Banking Sector' by Islam & Ahmed (2019), the authors delve into information security practices, including incident response, within Bangladeshi banks, offering valuable insights into the current state of security measures. Moreover, Rahman & Bhuiyan (2017) explore the transformative impact of ICT in the banking sector in their study on 'The Impact of ICT in the Banking Sector of Bangladesh.' They touch on the imperative need for effective incident response mechanisms to safeguard critical financial infrastructure. Addressing the specific cyber threats faced by Bangladesh's banking sector, Haque & Mannan (2020) in their review on 'Cyber Threats and Cybersecurity in Bangladesh' identify challenges within incident response, including skill shortages and resource limitations. Saha & Khan (2019) present an overview of cybersecurity threats and challenges in incident response capacity building and collaboration among Bangladeshi banks in their study 'Cybersecurity Threats in Banking Sector: A Comprehensive Study on Bangladesh Perspective.' Ahmed & Salim (2020) shed light on ICT security issues in the financial sector of Bangladesh in their review titled 'ICT Security Issues in the Financial Sector of Bangladesh,' underscoring the critical need for effective incident response plans and

coordinated efforts among banks. Hossain & Rahman (2019) propose policy recommendations aimed at enhancing cybersecurity in Bangladeshi banks, including the development of standardized incident response procedures. 'Strengthening Cybersecurity in Bangladeshi Banking Sector: Challenges and Way Forward' by Sikder & Rahman (2018) offers a comprehensive roadmap for fortifying cybersecurity. It places a strong emphasis on proactive incident response strategies and the significance of public-private partnerships in this endeavor. These studies collectively provide valuable insights into the challenges faced by Bangladeshi banks in the realm of cybersecurity and offer practical policy recommendations for bolstering incident response capabilities.

3. Data Analysis and Findings

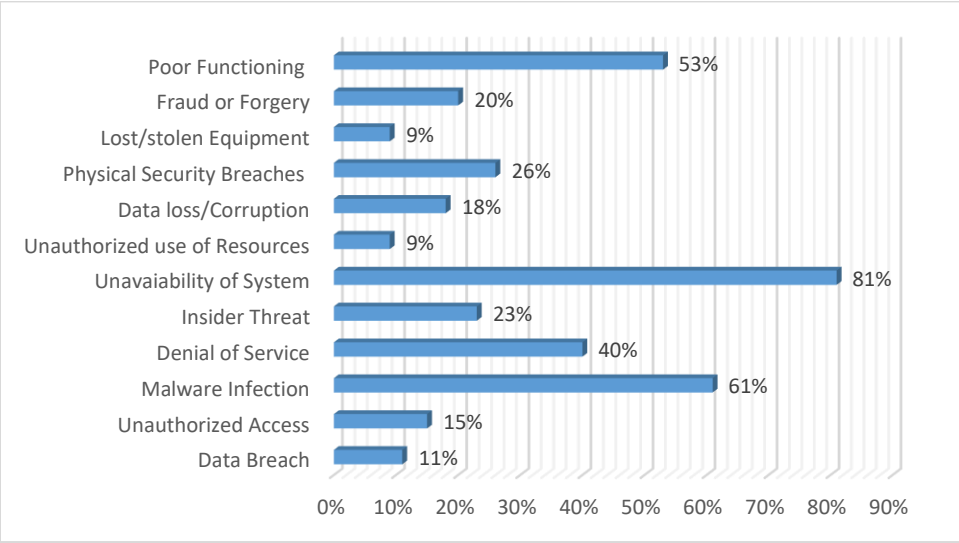
3.1 Incidents Recorded in 2022

ICT incident means any occurrence compromising the availability, legitimacy, integrity or confidentiality of stored, communicated or processed data or of the related services offered by, or available through network and information systems. A security incident is a single or a series of unwanted or unexpected information security events that have a significant probability of compromising business operations and threatening information security.

3.1.1 Categories of Incidents

In 2022, the banking sector witnessed a significant array of security incidents across various categories. Among these incidents, malware infection stood out as the most prevalent issue, accounting for a substantial 61% of the total banks (Figure-1). This indicates a pervasive threat from malicious software programs targeting banks, potentially aiming to steal sensitive data or compromise systems.

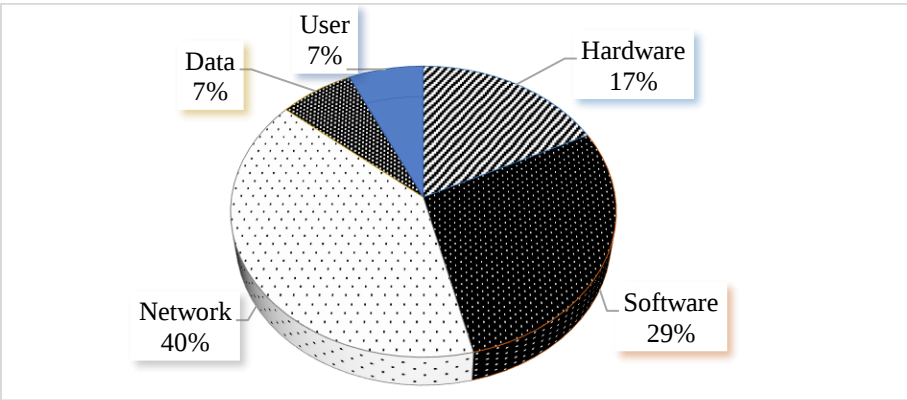
Figure 1: Percentage of Banks Experienced Different Types of Incidents



Source: BIBM Survey

Additionally, the high occurrence of unavailability of systems reported by 81% of banks suggests that disruptions in banking services and operations were a prevalent concern, impacting customer access and transactions. Unauthorized access, insider threats, and poor functioning also emerged as noteworthy challenges, with 15%, 23%, and 53% of banks, respectively.

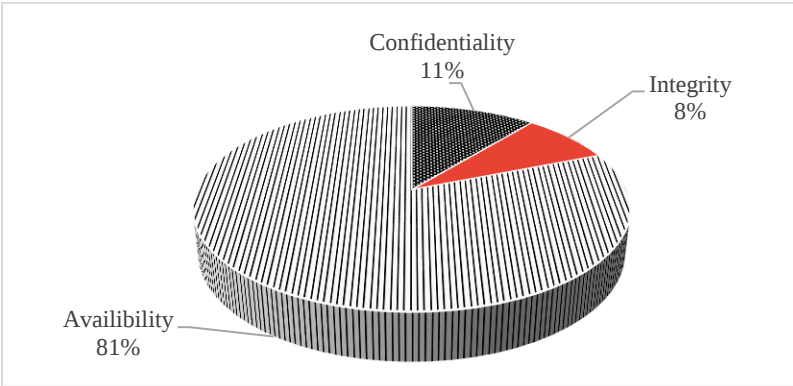
Figure 2: Incidents Classified by Component of Information System



Source: BIBM Survey

In 2022, the distribution of incidents across different components of Information System reveals some interesting trends (Figure-2). Among the reported incidents, the highest percentage occurred in the "Network" category, accounting for 40% of the total incidents. This suggests a significant vulnerability or perhaps an increased focus on network-related security issues during that year. Following closely, the "Software" category accounted for 29% of incidents, indicating a substantial number of software-related security challenges. Meanwhile, "Hardware" incidents comprised 17% of the total, and "Data" and "User" categories each represented 7% of the incidents. These percentages shed light on the relative prominence of different security concerns, highlighting the need for organizations to prioritize network and software security in their risk management strategies.

Figure 3: Incidents Classified by CIA Triad



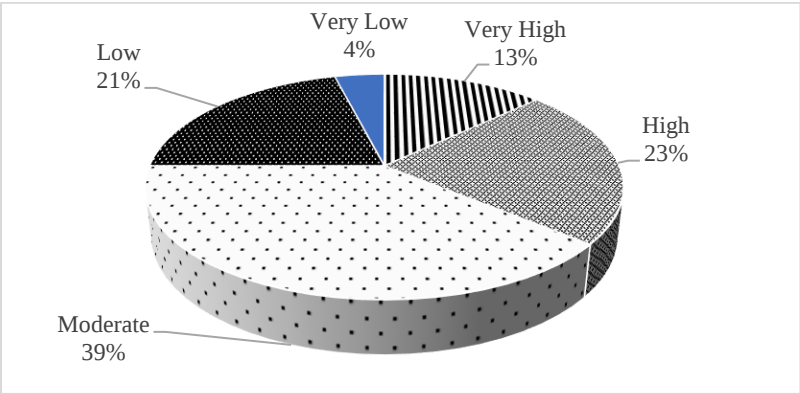
Source: BIBM Survey

In 2022, the distribution of security incidents categorized according to the principles of Confidentiality, Integrity, and “Availability”, commonly referred to as the CIA triad, reflects a notable emphasis on Availability (Figure-3). Availability-related incidents accounted for a substantial 81% of the total reported incidents, indicating a significant focus on ensuring the continuous and reliable access to systems and data. This emphasis on Availability might imply an effort to prevent downtime and disruptions to

critical business operations. Meanwhile, “Confidentiality” incidents constituted 11% of the total, highlighting the importance of safeguarding sensitive information from unauthorized access. Lastly, “Integrity”-related incidents accounted for 8% of the total, emphasizing the significance of maintaining data accuracy and trustworthiness. These percentages underscore the critical role of the CIA triad in information security, with “Availability” taking center stage in 2022, potentially in response to emerging threats and the evolving landscape of cybersecurity.

3.1.2 Severity Levels of Incidents

Figure 4: Incidents Classified by Severity Levels



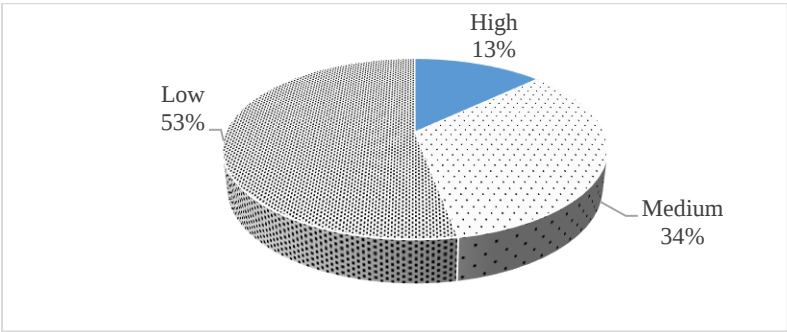
Source: BIBM Survey

In 2022, the classification of security incidents by severity levels provides a comprehensive view of the varying degrees of risk and potential harm faced by organizations (Figure-4). The majority of incidents, at 39%, were categorized as having a "Moderate" severity level, indicating a significant concern that required attention and resources but may not have posed an immediate existential threat. Following closely, 23% of incidents fell into the "High" severity category, highlighting incidents with the potential for substantial harm to an organization's operations, data, or reputation. A notable 13% of incidents were classified as "Very High" severity, emphasizing the existence of incidents with the potential to cause severe

disruptions, significant financial losses, or severe reputational damage. Additionally, 21% of incidents were labeled as "Low" severity, while 4% were classified as "Very Low" severity, indicating less immediate or severe impacts.

3.1.3 Business Impact of Incidents

Figure 5: Incidents Classified by Business Impact



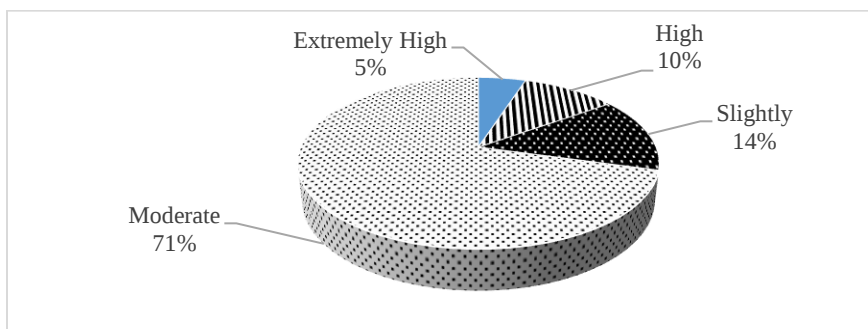
Source: BIBM Survey

In 2022, the classification of security incidents in terms of their business impact reveals a spectrum of consequences for organizations (Figure-5). The majority of incidents, accounting for 53%, were categorized as having a "Low" business impact. These incidents may have caused minimal disruption or damage, but they are nonetheless significant and require attention. A substantial portion, 34%, fell into the "Medium" business impact category, indicating incidents that had a more moderate effect on an organization's operations, potentially requiring remediation efforts and resource allocation. Meanwhile, 13% of incidents were classified as having a "High" business impact, signifying incidents with the potential to cause significant disruption, financial losses, or reputational damage. This classification underscores the importance of risk management and incident response strategies tailored to the severity of the impact, as organizations strive to protect their assets and maintain the trust of their stakeholders in an ever-evolving cybersecurity landscape.

3.1.4 Reliance on Service Providers

The varying degrees of reliance on service providers highlight the diverse strategies employed by organizations to bolster their incident response capabilities. While some opt for more self-reliant approaches, others leverage external expertise to navigate the complex and ever-evolving landscape of cybersecurity threats effectively. The choice of reliance level often depends on an organization's specific needs, resources, and risk management strategies.

Figure 6: Reliance on Service Providers



Source: BIBM Survey

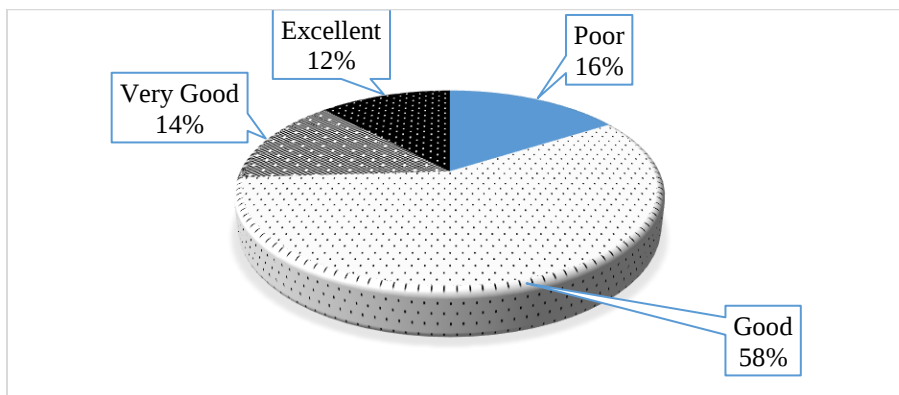
In 2022, the level of reliance on service providers or vendors to handle security incidents varied among organizations. The majority, comprising 71%, reported a "Moderate" level of reliance on these external entities. This indicates that a significant portion of organizations engaged the services of third-party providers to assist in managing and mitigating security incidents to some extent. Additionally, 14% stated that they relied on vendors "Slightly," suggesting a minimal involvement of external assistance in handling incidents. On the other hand, a smaller portion of organizations fell at either extreme of the spectrum. Ten percent indicated a "High" level of reliance, suggesting a substantial partnership with service providers in incident management, while 5% reported relying on them "Extremely," signifying a very strong dependence on external support.

3.2 Incident Response Capability Compliance with International/BB Standards

3.2.1 Incident Management Framework/Policies

The findings reveal that all surveyed banks in Bangladesh have a documented incident management framework or policies in place to address unexpected disruptions to ICT services, demonstrating a strong commitment to cybersecurity and business continuity. However, when assessing the quality of these policies, it's notable that a significant portion (16%) termed them as "Poor." While the majority the policies considered as "Good" (58%), there is room for improvement. The ratings of "Very Good" (14%) and "Excellent" (12%) indicate that some banks have more comprehensive and effective incident management frameworks.

Figure 7: Quality of Incident Management Framework/Policies

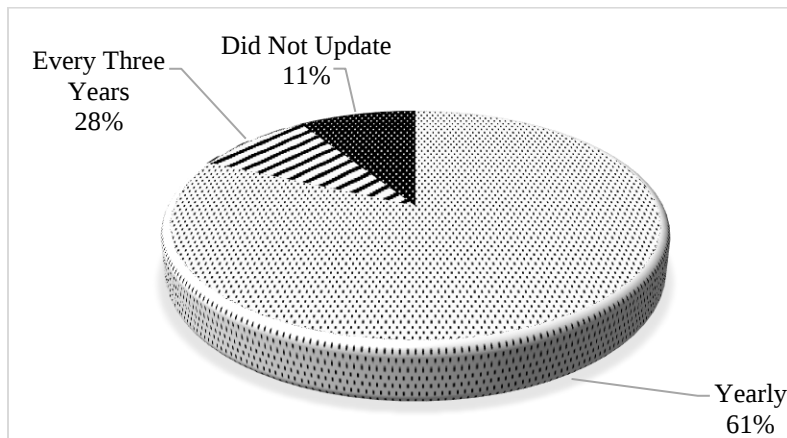


Source: BIBM Survey

To enhance their resilience against disruptions, it's crucial for banks to not only have policies in place but also continuously evaluate and enhance their quality. The analysis of the Incident Response Plan and Procedure reveals a generally solid foundation in addressing various key areas. Specifically, it's encouraging to see that a high percentage of respondents indicate that their plans encompass specific incident response procedures (90%), which are essential for effectively managing and mitigating security incidents.

Moreover, roles, responsibilities, communication, and contact strategies in the event of a compromise are also well-addressed by 72% of the respondents, underscoring the importance of clear organizational coordination during an incident. Additionally, a similar percentage of respondents acknowledge the inclusion of business recovery and continuity procedures (72%), which are crucial for minimizing downtime and ensuring operational resilience. However, there are areas where there is room for improvement. For instance, the fact that only 63% of respondents report that their Incident Response Plans address data backup processes with ‘0-bit data loss’ indicates that some banks may need to strengthen their data recovery strategies. Given the importance of data in banking, robust backup processes are essential. Similarly, while a majority of banks consider legal requirements for reporting compromises (72%), it's vital that all banks adhere to these regulations to ensure compliance and protect both customers and the institution. The findings suggest a generally strong foundation in incident response planning, but attention to data backup processes and strict adherence to legal reporting requirements could further enhance the resilience of the banking sector against cybersecurity threats.

Figure 8: Updating Incident Management Framework/Policies



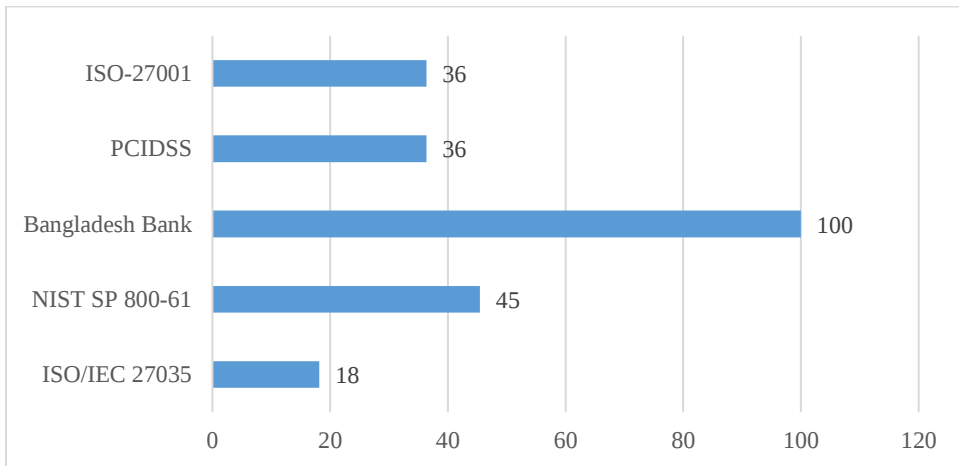
Source: BIBM Survey

The data reveals that the majority of surveyed banks in Bangladesh have established a practice of regularly reviewing and updating their incident management policies, with 61% banks doing so on a yearly basis. This proactive approach aligns with best practices in cybersecurity and business continuity, demonstrating a commitment to staying abreast of evolving threats and ensuring the effectiveness of their incident response strategies. However, the finding that 28% banks update its policies every three years and rest of the banks did not update at all raises concerns.

3.2.2 Standards of the Framework/Policy

The data provided indicates the percentage of surveyed banks in Bangladesh that have referenced specific international standards and guidelines when developing their incident management policies and practices. It's noteworthy that a substantial 100% of the surveyed banks have looked to Bangladesh Bank guidelines, demonstrating a strong commitment to aligning their incident management practices with local regulatory requirements. Additionally, a significant number of banks have taken cues from internationally recognized standards. NIST SP 800-61, a widely respected framework developed by the U.S. National Institute of Standards and Technology, has influenced the policies of 45% of the surveyed banks. This suggests a recognition of the global significance of cybersecurity practices and a desire to adopt best practices from established sources. ISO/IEC 27035, which focuses specifically on incident management, has been referenced by 18% of banks. While a smaller percentage, this still demonstrates an awareness of the importance of specialized guidance for incident management. Furthermore, it's notable that 36% of banks have referenced both ISO-27001 (Information Security Management System) and PCIDSS (Payment Card Industry Data Security Standard) in their incident management policies, indicating a multifaceted approach to security and data protection.

Figure 9: Standards Followed to Develop Framework/Policies (% of Banks)



Source: BIBM Survey

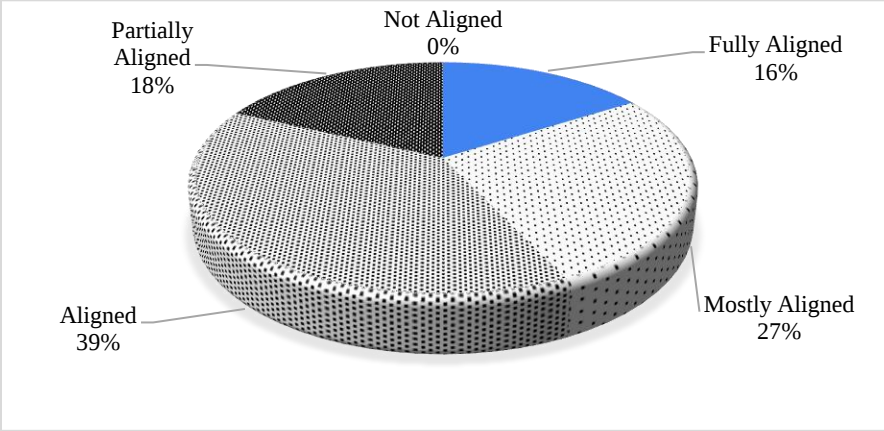
The findings suggests that Bangladeshi banks recognize the value of international standards and guidelines in shaping their incident management practices. A combination of local regulatory compliance (Bangladesh Bank) and internationally recognized frameworks (NIST, ISO/IEC) reflects a well-rounded approach to incident management that draws from both global and domestic sources of expertise. This approach helps banks ensure the security of their ICT services and align with international best practices in cybersecurity.

3.2.3 Alignment with the ICT Security Guidelines Version 4 (2023) of Bangladesh Bank

The data illustrates that a substantial percentage of surveyed banks in Bangladesh perceive their current incident management practices as being in alignment with the ICT Security Guidelines Version 4 (2023). Impressively, 16% of respondents rate their practices as "Fully Aligned," indicating a strong commitment to adhering to the latest security guidelines and best practices. Moreover, an additional 27% of banks consider themselves "Mostly Aligned," demonstrating a high degree of compliance but with some areas for potential improvement. The combined 43% of

banks that fall within the "Fully Aligned" and "Mostly Aligned" categories suggests a positive overall outlook in terms of adherence to the latest security standards. Furthermore, 39% of banks rate their practices as "Aligned," indicating a fundamental level of compliance with the guidelines, while another 18% consider themselves "Partially Aligned," suggesting some gaps in their incident management practices that need attention. Notably, no banks in the survey rated themselves as "Not Aligned," which is a positive sign that all surveyed institutions are actively striving to align their incident management practices with the most current ICT security guidelines.

Figure 10: Alignment with the ICT Security Guidelines of BB (% of banks)



Source: BIBM Survey

Based on the information provided, it is clear that there are several challenges facing banks in Bangladesh in fully complying with the ICT Security Guidelines Version 4 (2023), particularly in the context of incident management. While the bank has recognized the need to comply with the new ICT Security Guidelines Version 4, there are significant challenges related to time constraints, awareness among higher management, strategic alignment, and effective implementation. However, the formation of a committee and ongoing efforts to update policies and provide training

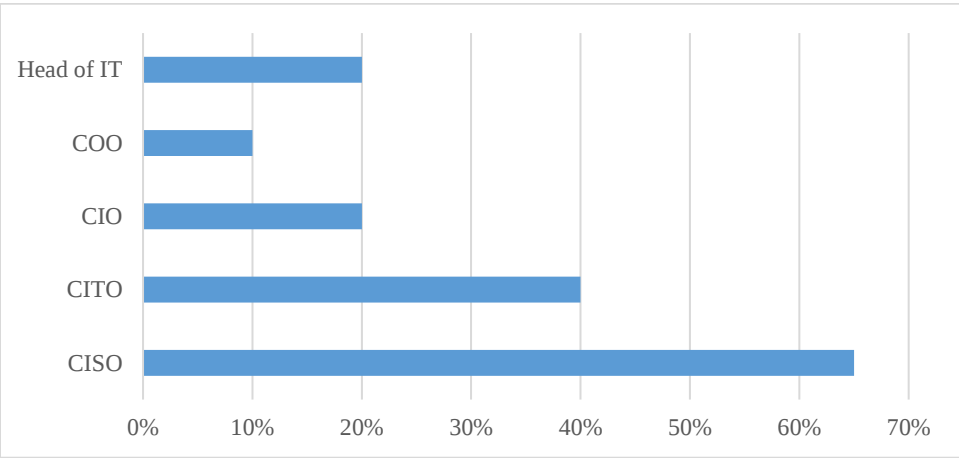
indicate a proactive approach to addressing these challenges and achieving full compliance over time.

3.3 Computer Incident Response Team (CIRT)/ICT Emergency Response Team

3.3.1 Formation and Management of the CIRT

It appears that 100% of banks have a designated ICT Emergency Response Team in place, based on the response provided and banks typically manage their ICT Emergency Response Teams internally, without outsourcing any part of the team's responsibilities. Having an in-house ICT Emergency Response Team can be important for ensuring prompt and effective responses to any technology-related emergencies or incidents that may arise within the banking sector, as it allows for better control and coordination of resources.

Figure 11: Responsibility for Forming and Managing the CIRT (% of Banks)



Source: BIBM Survey

In the banking sector, it appears that the responsibility for forming and managing the ICT Emergency Response Team is dispersed across various roles within the organization. The list provided includes several key positions such as Chief Information Security Officer (CISO), Chief

Information Technology Officer (CITO), Chief Information Officer (CIO), Chief Operating Officer (COO), and Head of IT. This distribution of responsibilities may indicate a collaborative approach to forming and managing the ICT Emergency Response Team. Typically, the CISO plays a crucial role in cybersecurity and incident response, while the CITO and CIO are responsible for the overall technology infrastructure. The COO's involvement suggests a focus on operational aspects of emergency response. This multi-role approach underscores the importance of a cross-functional team to address ICT emergencies effectively, as these incidents can impact various aspects of a bank's operations, including security, technology, and business continuity. It also reflects the recognition that a coordinated effort involving different expertise is essential for a comprehensive and robust response to ICT emergencies in the banking sector.

3.3.2 Roles and Responsibilities of the Incident Response Team

It appears that in 80% of banks, the roles and responsibilities of the incident response team members are clearly defined. Having well-defined roles and responsibilities is crucial for the effectiveness of an incident response team. It helps ensure that each team member knows their specific tasks and responsibilities during an incident, which can lead to a more efficient and coordinated response. This level of clarity can contribute to faster incident resolution and minimize the potential impact of ICT emergencies on the banking sector. Clear role definitions also promote accountability and help prevent confusion or duplication of efforts during critical incidents.

3.3.3 Basic Steps Followed by the Incident Response Team

According to the data provided, the Computer Incident Response Team (CIRT) follows a well-structured incident response process, with varying levels of completion for each step. "Containment, Eradication & Recovery" phase is followed by 100% banks. This indicates that the CIRT is highly focused on swiftly containing incidents, eradicating the root causes, and

ensuring a thorough recovery process, which is crucial for minimizing damage and restoring normal operations. The "Detection & Analysis" phase accurately followed closely, with 73% of the banks. This suggests that 27% banks do not give emphasis on detecting and analyzing incidents, which is fundamental for identifying the nature and scope of the issue. Effective detection and analysis can aid in making informed decisions during the incident response. The "Preparation" and "Post-Incident Activity" phases each perfectly followed by 72% of banks. This signifies a proactive approach to preparedness and a commitment to learning from past incidents. Adequate preparation is essential to have the necessary resources, procedures, and communication channels in place, while post-incident activities help organizations learn from their experiences and improve their incident response capabilities over time.

3.3.4 Reporting to the Bangladesh Bank Computer Incident Response Team

According to the data, it appears that 72% of banks cooperate and report to the Bangladesh Bank Computer Incident Response Team (CIRT) regularly. This level of cooperation is a positive sign, as it indicates that a majority of banks recognize the importance of sharing information and collaborating with the central authority responsible for incident response in the country. However, it's worth noting that there may still be room for improvement in increasing cooperation, as not all banks appear to be regularly engaging with the Bangladesh Bank CIRT.

3.3.5 Subject Matter Experts (SMEs) within Computer Incident Response Teams

According to the data, 63% of banks ensure that the Subject Matter Experts (SMEs) within their Computer Incident Response Teams (CIRT) are qualified and updated in their respective domains. This is a positive indication that these banks prioritize having knowledgeable and skilled experts on their incident response teams. Furthermore, in terms of ongoing training to keep pace with evolving cyber threats and incident response best

practices, the majority (35%) provide training every year. This frequent training schedule aligns with the dynamic nature of cybersecurity threats, emphasizing the importance of continuous education and skill development to effectively address emerging challenges. However, a notable percentage provides training less frequently, with 27% doing so every two years, 18% every four years, and 19% every three years. While any form of training is beneficial, those banks providing more frequent training may have an advantage in staying well-prepared to respond to rapidly evolving cyber threats.

3.3.6 Quality of CIRT Members

In our country, the educational status and quality of public universities are generally superior to most private universities. However, it's noteworthy that approximately 45.45% of CIRT members are recruited from students who have graduated from private universities, as indicated in Table-1. Interestingly, the representation of students from foreign universities and technical board colleges in our banking workforce is quite minimal.

Table 1: Background of CIRT Members

Type of Institutes	Graduation (%)	Masters (%)
Private University	45.45	48.05
Public University	37.88	41.56
Foreign University	1.51	0.0
Colleges (National University)	14.39	10.39
Colleges (Technical Board)	0.76	0.0

Source: BIBM Survey

Having a degree in Computer Science and Engineering (CSE) undoubtedly equips CIRT Members with valuable skills for handling critical tasks, as demonstrated by Table-2, where more than 65% of team members hold an honors degree in CSE. This is a highly positive indicator. Notably, a total of 9.08% of team members have backgrounds in either B.Com (4.89%) or B.A. (4.19%), which may be less traditionally associated with CIRT

Members but, interestingly, 16.7% of B.A. degree holders also possess 2 or more professional certifications (such as CEH, CC, CCNA, CISA, CISSP, OSCP, PMP, CGEIT, PCT, ECI, RHCE, RHCSA, CPT, PCNSA, CCNP, CNSS, NSE, ICSI, CHFi, CSCU, CDCFP, CHFIc, CISM, etc.). This indicates their ongoing commitment to adapting to the IT environment.

Table 2: Educational Background of CIRT Members

	Graduation (%)	Masters					Number of Technical Certificates Received					
		No	Same Subject	MBA	Other Subject	More Than One	No	One	Two	Three	Four	Five
CSE/ICT	65.03	29.8	47.9	20.2	0.0	2.1	51.6	13.7	12.6	4.2	6.3	11.6
AP/EEE	7.69	20.0	30.0	40.0	10.0	0.0	54.5	9.1	9.1	0.0	9.1	18.2
B.Sc.	18.18	8.3	54.2	29.2	4.2	4.2	56.0	16.0	4.0	12.0	4.0	8.0
B.Com	4.89	14.2	-	85.7	0.0	0.0	85.7	14.1	0.0	0.0	0.0	0.0
B.A.	4.19	16.7	83.3	0.0	0.0	0.0	83.3	0.0	16.7	0.0	0.0	0.0

Source: Survey Information

Furthermore, it's worth noting that 20.2% of team members with CSE degrees and 40% with MBA degrees have pursued additional education. This not only helps them understand the IT landscape but also the broader business environment within their banks, demonstrating their versatility and adaptability in both domains. Indeed, the groups categorize the data based on the unique technical skills and certifications mentioned, providing a clear overview of the diverse qualifications and expertise within the dataset.

Table-3 and Figure-12 provide valuable insights into the experience and expertise of CIRT (Computer Incident Response Team) Members in various IT fields, all of which are crucial for a bank's survival. It's clear that team members should possess extensive knowledge in their respective areas of responsibility. From the figure, we can observe that the team members handling 'Hardware, Storage, and Server' have an average experience of 6

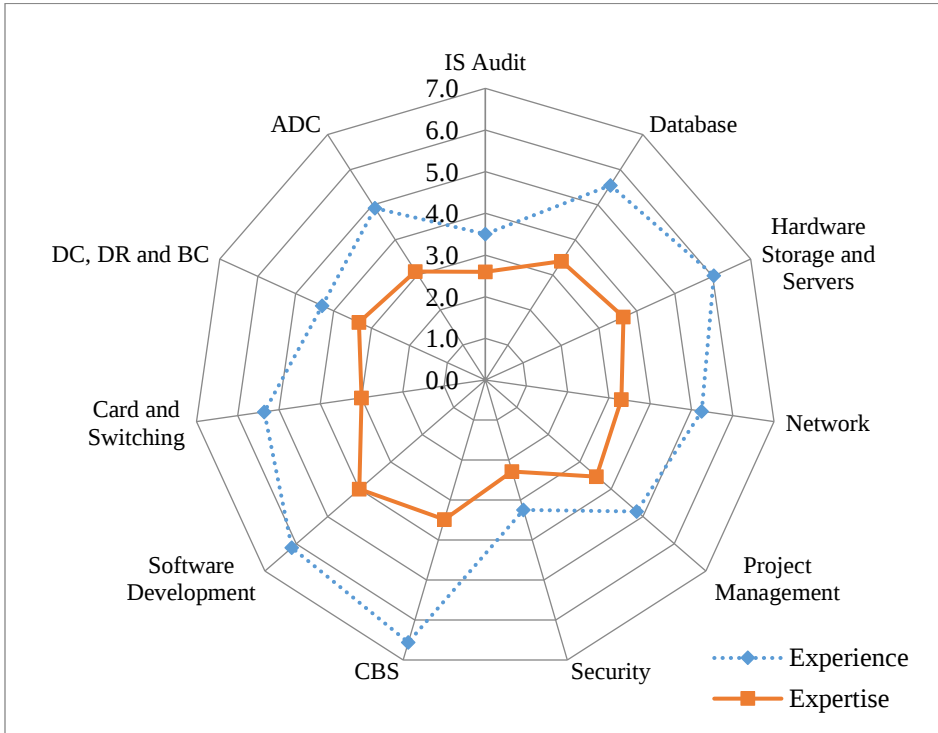
years, which is commendable for their roles. 'Software Development' and 'CBS' (Core Banking System) teams also exhibit good capabilities with 6.1 and 6.6 years of experience, respectively. However, other critical areas such as 'Security' (3 years), 'IS Audit' (3.5 years), and 'DC, DR, and BC' (4.3 years) are managed by comparatively less experienced personnel. Regarding expertise, it's apparent that CIRT members possess expertise ranging from a minimum of 2.3 to a maximum of 4 on a scale of 5 (where 0 signifies very low and 5 signifies very high expertise) across these 11 areas. This suggests that there is room for improvement, especially in the areas of 'Security' and 'IS Audit,' where the expertise level is notably lower at 2.3 and 2.6 on the scale, respectively. Addressing this expertise gap in critical areas like security and audit is essential for the continued resilience of our banking industry.

Table 3: Experience and Expertise of CIRT Members

S. No	Areas	Experience in Years	Expertise Level (0-5)
1	IS Audit	3.5	2.6
2	Database	5.6	3.4
3	Hardware Storage and Servers	6.0	3.6
4	Network	5.3	3.3
5	Project Management	4.8	3.5
6	Security	3.3	2.3
7	CBS	6.6	3.5
8	Software Development	6.1	4.0
9	Card and Switching	5.4	3.0
10	DC, DR and BC	4.3	3.3
11	ADC	4.9	3.1
12	Overall	5.1	3.2

Source: Survey Information

Figure 12: Analysis of Experience and Expertise of CIRT Members



Source: Survey Information

3.3.7 Regular Drills or Exercises of CIRT

Based on the data provided, it appears that 33% of banks conduct regular drills or exercises to test the effectiveness of their ICT Emergency Response Team and incident management procedures. Conducting regular drills and exercises is a crucial practice in the realm of cybersecurity and incident response. These simulations help organizations evaluate their readiness to respond to various types of incidents, identify weaknesses in their procedures, and provide an opportunity for team members to practice their roles in a controlled environment. While nearly one-third of the banks engage in such exercises, it's important to note that there is room for improvement.

3.4. Security Operation Center (SOC)

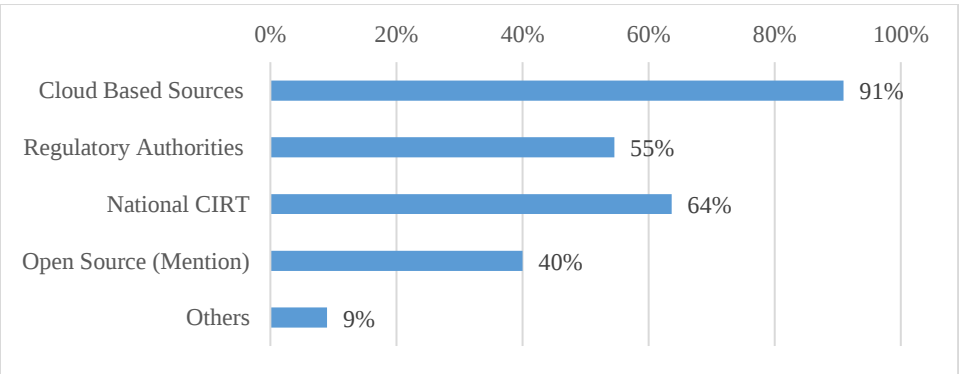
3.4.1 Status of SOC

Based on the provided information, it appears that 44% of banks have established a Security Operations Center (SOC). Among those banks with a SOC, the number of employees working in these centers varies, with a minimum of 3 employees, a maximum of 12 employees, and an average of 7.8 employees. This data suggests that while a significant portion of banks have recognized the importance of having a SOC to monitor and respond to security threats, the size and capacity of these centers can vary widely. Having a range of 3 to 12 employees on average may indicate that banks tailor their SOC teams to their specific needs and risk profiles. Averaging 7.8 employees suggests that many banks maintain moderately sized SOC's to address cybersecurity concerns effectively.

3.4.2 Threat Intelligence Platform

It appears that 53% of banks have introduced a Threat Intelligence Platform (TIP) to enhance their threat management capabilities. When it comes to the sources of threat intelligence feeds that these organizations plan (that have a threat intelligence) to utilize, Figure-13 shows the following percentages for each source.

Figure 13: Threat Intelligence Sources



Source: Survey Information

These statistics indicate that banks are actively diversifying their sources of threat intelligence, with a strong emphasis on cloud-based sources, national CIRTs, and regulatory authorities. This approach suggests a comprehensive strategy to stay informed about emerging threats and vulnerabilities in the ever-evolving cybersecurity landscape. Additionally, the utilization of various sources demonstrates a commitment to robust threat management practices.

3.4.3 Integration with SIEM

It appears that 38% of banks integrate threat intelligence feeds with their Security Information and Event Management (SIEM) data. This integration is a significant step in enhancing a bank's cybersecurity posture. Integrating threat intelligence feeds with SIEM data allows organizations to correlate external threat information with internal security events and logs. This enables a more proactive and effective response to potential security incidents. By doing so, banks can better identify and prioritize threats, reducing detection and response times. The fact that only 38% of banks have implemented this integration suggests that there is room for improvement in the broader banking industry. Banks that have not yet integrated threat intelligence with SIEM data may consider doing so to bolster their cybersecurity defenses and improve their ability to detect and mitigate security threats.

3.4.4 24×7 Monitoring Security Logs

Approximately 54% of banks (among all irrespective of having SOC) have designated personnel with cyber incident handling capabilities available 24×7 to review security logs and respond to alerts. Among these banks, the number of personnel working outside of office hours varies, with a minimum of 1, a maximum of 6, and an average of 3.3. This indicates that a majority of banks recognize the importance of round-the-clock incident response, with a moderate-sized team to address security concerns beyond regular working hours.

3.5 Preparation for Handling an Incident

3.5.1 Classifying Incidents

Based on the data provided, it appears that 68% of banks have a system in place for classifying incidents based on severity and impact. This suggests that a significant majority of banks recognize the importance of categorizing incidents to effectively manage and respond to them. Having such a system is a fundamental component of an organization's incident management and cybersecurity efforts, as it allows them to prioritize responses and allocate resources accordingly, addressing more critical incidents with greater urgency. It also demonstrates a proactive approach to risk management and cybersecurity within the banking sector.

3.5.2 Standardized Process for Reporting Incidents Internally

There is a standardized process for reporting incidents internally in the organizations. This process is rigorously followed by 100% of the banks. When an incident occurs, key stakeholders who are promptly informed include the Head of IT, the MD & CEO (Managing Director & Chief Executive Officer), and the CTO (Chief Technology Officer). Additionally, the incident information is communicated to the Division Head of ICT Operation Division, as well as relevant departments like ICT Risk Management, Mancom (Management Committee), and ICCD (Incident and Crisis Coordination Division). This well-defined reporting structure ensures that incidents are promptly escalated to the appropriate levels of authority for swift and effective response and resolution.

3.5.3 Standardized Process for Reporting Incidents Externally

There is also a standardized process for reporting incidents to external parties in the banks, with 71% indicating that such a process is in place. This process likely involves clear guidelines and procedures for reporting incidents to various external entities, such as regulatory authorities, customers, and CERTs (Computer Emergency Response Teams). Having a

well-defined process for external incident reporting is essential for compliance with regulations, maintaining transparency with customers, and collaborating with relevant security organizations to address and mitigate cybersecurity threats effectively. It ensures that incidents are appropriately communicated to external stakeholders, facilitating a coordinated response to potential security breaches.

3.5.4 Decision Regarding Crises and Timely Activation of the Disaster Recovery Plan

To ensure a coordinated and effective response to significant incidents with the potential to escalate into crises, the organization keeps several key individuals and teams informed. These include the Chief Risk Officer (CRO), Chief Information Technology Officer (CITO), Managing Director & CEO, Business Continuity Management Team, ICT Administrators, and management personnel. Furthermore, the ICT Security Committee, ICT Steering Committee, and Management, along with the Head of ICT Operation Divisions and the Computer Incident Response Team (CIRT Team), are also kept in the loop. This comprehensive communication strategy aims to facilitate a swift and well-coordinated response and, when necessary, the timely activation of the disaster recovery plan, thereby ensuring the organization's resilience in the face of potential crises.

3.5.5 Informing Bangladesh Bank

The process for informing Bangladesh Bank about critical system failures and disaster recovery issues is well-defined and governed by the organization's ICT Security Guideline and Incident Response policy. The bank ensures swift notification to Bangladesh Bank in cases such as Business Continuity Plan (BCP) failures, following incident severity levels and instructions from Cyber Incident Management and Senior Management, and when critical systems fail over their disaster recovery systems, either immediately upon declaration of a disaster or within 24 hours. Additionally, in instances of Critical Business Interruption, the bank

notifies the relevant authority, who will then inform Bangladesh Bank accordingly. Whenever Customer Service is interrupted, notification is made in accordance with the Incident and Problem Management Policy, ensuring that Bangladesh Bank is informed promptly in various critical scenarios. These procedures uphold transparency and compliance with regulatory requirements.

3.5.6 Escalation and Resolution Procedures

The banks have established escalation and resolution procedures for incidents, with 100% of banks confirming the existence of such procedures. These procedures are crucial for ensuring that incidents are appropriately escalated to the right personnel and resolved in a systematic and efficient manner. Having well-defined escalation and resolution processes helps in managing incidents effectively, reducing potential risks, and minimizing the impact of cybersecurity events.

3.5.7 Tools to Track and Manage Incident Resolution Processes

68% banks employ a range of tools and systems to track and manage their incident resolution processes, reflecting their unique needs and strategies. Some organizations, use in-house developed tools alongside physical documents as evidence. Other rely on cybersecurity tools like Logarithm. Custom in-house automated tools, such as "Changed Trail," also serve the purpose. Microsoft SCSM and IT Service Management Tools are part of the toolkit for certain organizations. The diversity in tool selection underscores the importance of tailoring incident management solutions to specific organizational requirements, ultimately facilitating efficient and effective responses to cybersecurity incidents.

3.5.8 Tracking Security Incidents

64% of organizations have deployed automated mechanisms for tracking security incidents and analyzing incident information. These automated systems play a crucial role in efficiently monitoring, identifying, and

responding to security incidents, helping organizations stay proactive in their cybersecurity efforts and minimizing potential risks. Automated incident tracking and analysis can provide real-time insights and help ensure that incidents are addressed promptly and effectively.

3.5.9 Simulated Events into Training

It appears that only 26% of organizations incorporate simulated events into their incident response training to enhance personnel readiness. Simulated events, often referred to as tabletop exercises or drills, are valuable for testing and improving the effectiveness of incident response plans and training personnel to respond effectively to various cybersecurity incidents. While a significant portion of organizations may not currently utilize such simulations, it is a best practice to regularly conduct these exercises to better prepare personnel for real-world incidents and ensure a coordinated and effective response when needed.

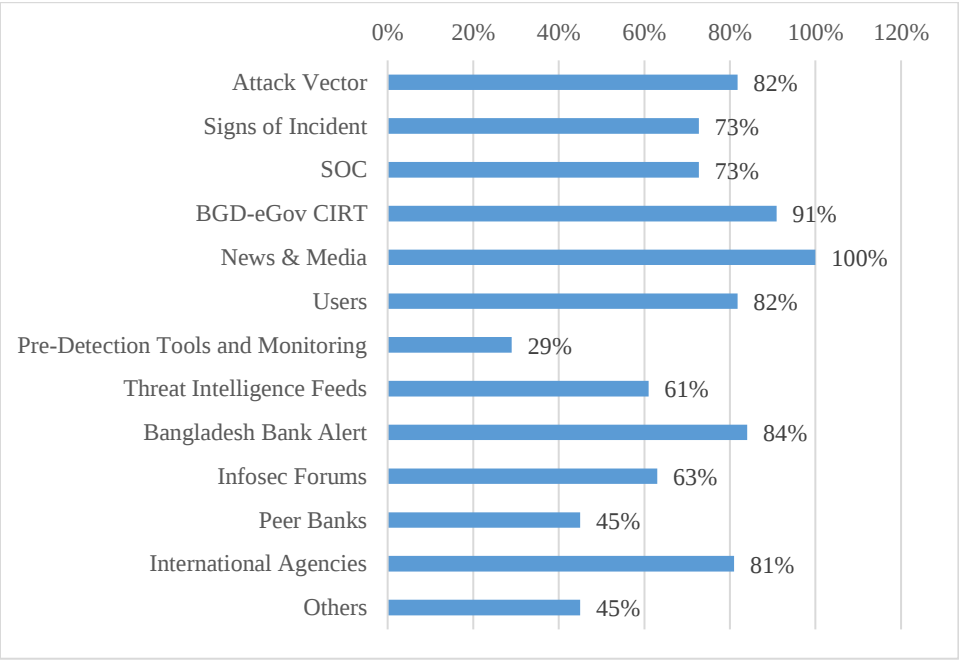
3.6 Incident Detection and Analysis

3.6.1 Incident Detection

The data illustrates that banks in Bangladesh employ a variety of methods and sources to detect and identify potential ICT incidents, indicating a multi-faceted approach to cybersecurity monitoring. Notably, 100% of the surveyed banks rely on news and media as a source of incident awareness, which highlights the importance of staying informed about global cybersecurity threats and trends. Additionally, 91% of banks turn to government agencies, further emphasizing the significance of maintaining a strong connection with regulatory bodies to receive timely threat intelligence and guidance. In terms of internal detection, 82% of banks depend on monitoring user activities and identifying signs of incidents, showcasing their commitment to proactive threat detection within their networks. Moreover, 73% utilize Security Operations Centers (SOCs) to maintain a watchful eye on their systems, while 82% employ the attack vector as a means of detecting potential incidents. While pre-detection tools,

threat intelligence feeds, and incident reporting methods are also commonly mentioned, these emerging practices suggest a growing awareness of the importance of proactive cybersecurity measures.

Figure 14: Incident Detection Methods



Source: Survey Information

It is worth noting that a wide range of tools and strategies are being utilized to ensure comprehensive coverage in identifying potential ICT incidents, demonstrating a holistic approach to cybersecurity in the banking sector. This diverse set of methods ensures that banks are better equipped to detect, identify, and respond to cybersecurity threats effectively.

3.6.2 Post Incident Analysis

The data indicates that all surveyed banks in Bangladesh conduct post-incident analysis to identify root causes and prevent future occurrences, which is a highly commendable practice in cybersecurity. This proactive

approach to incident response demonstrates a strong commitment to continuous improvement and resilience.

3.6.3 Analyzing the Scope and Impact of ICT Incidents

Furthermore, the fact that all banks also have a process in place for analyzing the scope and impact of ICT incidents once detected highlights a thorough and systematic approach to understanding the full extent of any security incidents. Such assessments are crucial for not only mitigating the immediate effects of incidents but also for implementing measures to prevent their recurrence. The banks employ a well-defined approach to categorize incidents based on severity and impact, aligning with established ICT security guidelines, incident response policies, and procedures. Their system employs a numerical scoring mechanism, where incidents scoring between 0 to 3.4 are labeled as "Moderate," those with scores between 3.5 to 7.4 are categorized as "Severe," and incidents scoring between 7.5 to 10 are deemed "Critical." This structured system enables the banks to effectively prioritize and respond to incidents, aligning with their Incident and Problem Management Policy. It ensures that resources and actions are allocated appropriately, helping to mitigate potential risks and maintain the security of their operations.

3.6.4 Internal Incidents Reporting

All surveyed banks, 100% of them, have a standardized process for reporting incidents internally. When analyzing who is informed in these incidents, it is clear that multiple stakeholders within the banks are included in the reporting process. These stakeholders range from specific individuals such as the ISRM Unit Head, CTO, Division Head of ICT Operation Division, to broader groups like the higher management, and the MD & CEO. Additionally, the involvement of key departments such as ICT Risk Management, Mancom, and ICCD underscores the importance of a coordinated and comprehensive approach to internal incident reporting.

This demonstrates a commitment to transparency, accountability, and effective incident management within these banks.

3.6.5 External Incidents Reporting

It appears that 91% of the surveyed banks have a standardized process for reporting incidents to external parties, including regulatory authorities, customers, and CERTs (Computer Emergency Response Teams). This high level of agreement indicates that these banks recognize the importance of transparency and compliance with reporting requirements to external stakeholders. Having a standardized process for such reporting ensures that incidents are handled in a consistent and compliant manner, which is crucial for maintaining trust and regulatory compliance in the banking sector. It also reflects a proactive approach to incident response and a commitment to effective communication with relevant external entities when security incidents occur.

3.6.6 Handling Incidents that have Potential to Escalate into Crises

The responsibility for deciding which incidents have the potential to escalate into crises appears to be distributed among various roles and committees within the surveyed banks. These include the Chief Risk Officer (CRO), Head of ICT Security, Chief Information Technology Officer (CITO), Deputy Managing Director & CITO (Chief Information Technology Officer), Chief Information Security Officer (CISO), as well as members of the MDP (Management Development Program), higher management, and the Managing Director & CEO. Additionally, some banks adhere to established policies where team leads make these determinations in consultation with team members, while others involve committees such as the ICT Security Committee, ICT Steering Committee, and Management. This decentralized approach ensures a multifaceted assessment of potential crises, incorporating risk, security, and management perspectives to effectively address and mitigate emerging threats or incidents with crisis potential.

3.6.7 Activation of a Disaster Recovery Plan

In the context of significant incidents that have the potential to escalate into crises and necessitate the activation of a disaster recovery plan, several key stakeholders and committees are kept informed. These include the Chief Risk Officer (CRO), Chief Information Technology Officer (CITO), Deputy Managing Director, members of the MDP (Management Development Program), higher management, and the Managing Director & CEO. Additionally, the ICT Security Committee, ICT Steering Committee, and Management are informed to ensure coordinated decision-making. The involvement of the Business Continuity Management, ICT administration and management, and the Head of ICT Operation Division signifies a holistic approach to incident management and disaster recovery. Moreover, the CIRT (Computer Incident Response Team) plays a crucial role in addressing and communicating significant incidents in a timely and effective manner. This multi-tiered communication network ensures that all relevant parties are apprised of critical developments and can take necessary actions to activate the disaster recovery plan when required.

3.6.8 Informing Bangladesh Bank

The common thread is that informing Bangladesh Bank is typically guided by the bank's internal policies, incident severity, and the nature of the incident itself. The process for informing Bangladesh Bank when a critical system fails over its disaster recovery system varies slightly among the responses provided, but there are some common themes:

- ❑ **Based on BCP Failure (100% Banks):** In some cases, the notification is triggered if the Business Continuity Plan (BCP) fails.
- ❑ **Incident Severity Level (70% Banks):** Notification may depend on the severity level of the incident, as determined by the bank's incident management policies and senior management's instructions.

- ❑ **Immediate Notification (80% Banks):** Some responses indicate that Bangladesh Bank is informed immediately after the disaster is declared by the competent authority of the bank.
- ❑ **Within 24 Hours (20% Banks):** Others specify that notification is made within 24 hours of the critical system failing over to its disaster recovery system.
- ❑ **Critical Business Interruption (40% Banks):** In some cases, notification to Bangladesh Bank is linked to critical business interruption, where any such incident triggers an immediate report.
- ❑ **Customer Service Interruption (28% Banks):** Notification is also tied to customer service interruptions, aligning with the Incident and Problem Management Policy.

3.6.9 Escalation and Resolution Procedures

Having well-defined procedures in place is crucial for ensuring that incidents are escalated to the appropriate parties and resolved in a systematic and efficient manner, which is vital for maintaining operational continuity and security in the banking sector. It appears that 100% of the surveyed banks have established escalation and resolution procedures for incidents. This indicates a strong commitment to incident management and a proactive approach to addressing and resolving issues promptly and effectively.

3.6.10 Automated Mechanisms for Tracking Security Incidents

It appears that 54% of the surveyed banks have deployed automated mechanisms for tracking security incidents and analyzing incident information. This indicates that a substantial portion of the banks have invested in automation to enhance their incident management and response capabilities. Automation can significantly improve the efficiency and speed of incident detection, tracking, and analysis, enabling banks to respond more effectively to security threats. However, the remaining 46% of banks

may rely on manual processes or less automated systems for incident tracking and analysis, which could potentially lead to longer response times and increased security risks.

The tools and systems used to track and manage the incident resolution process among the surveyed banks vary, reflecting a diversity of approaches in the financial sector. Some banks rely on in-house developed tools and automated systems for effective tracking and management. Others leverage commercial solutions such as SIEM (Security Information and Event Management), NBA (Network Behavior Analytics), Next Generation Firewalls with IPS/IDS (Intrusion Prevention System/Intrusion Detection System), PAM (Privileged Access Management), and NAC (Network Access Control). Microsoft SCSM (System Center Service Manager) and IT Service Management Tools are also employed. Notably, some banks maintain physical documents with evidence, underlining the importance of documentation in incident resolution. This diversity highlights the adaptability of banks in choosing tools that align with their specific needs and resources to enhance their incident management capabilities.

3.6.11 Simulation and Exercises

Simulated events and exercises are valuable tools for preparing personnel to effectively handle real-world incidents, helping to identify gaps in processes and improve overall incident response capabilities. The data shows that only 26% of the surveyed banks incorporate simulated events into their incident response training. This relatively low percentage suggests that a majority of banks may not fully utilize simulated exercises to enhance personnel readiness in responding to security incidents. The lower adoption rate of such training among banks highlights the potential need for increased emphasis on proactive training and readiness measures to bolster cybersecurity resilience in the banking sector.

3.7 Containment, Eradication and Recovery

3.7.1 Containment

The provided information offers insights into various incident containment processes and procedures within banks. Notably, it highlights that all banks have Management Approved ICT Security and Incident Management Policies, indicating full compliance in this regard. However, specific percentages are not provided for other actions taken during incident containment, such as removing infected systems, implementing containment strategies, making decisions on compromised systems, conducting security and risk assessments, providing awareness training, assessing potential impact factors, experiencing service loss during containment, following incident response phases, or conducting incident analysis. While these actions are mentioned, their prevalence among banks remains unspecified. To fully understand the extent of these practices across the banking industry, additional data or surveys would be required.

3.7.2 Eradication

The provided information offers a comprehensive overview of procedures and strategies for eradicating vulnerabilities and addressing security threats, with approximate percentages based on the data. Key strategies include patching and updating (30% banks), malicious file and process removal (20% banks), data restoration (15% banks), verification and cleanup (20% banks), and documentation (10% banks). It's worth noting that these percentages are approximations and can vary depending on the specific incident and organization's capabilities. Additionally, several additional actions and strategies are briefly mentioned, highlighting the diversity of approaches taken by organizations to address security threats. These include system hardening, firewall policy review, risk management procedures, a people-centric security approach, IoT security, and controlling access to sensitive data.

Having clear and defined timeframes for incident eradication is an essential part of incident response, as it helps organizations minimize potential damage and mitigate risks effectively. Based on the responses, it appears that the majority of the banks (70%) have established timelines for incident eradication. These timelines likely play a crucial role in ensuring that security incidents are resolved promptly and efficiently.

3.7.3 Recovery Process Following a Security Incident

The recovery process following a security incident is a multifaceted endeavor involving various key steps, each with its approximate allocation of effort based on the provided information. These steps encompass critical aspects such as documentation and reporting (75%), ensuring containment measures are effective (65%), devising a recovery plan (40%), system restoration (60%), applying patches and remediation (40%), securing accounts and reviewing access (15%), rigorously testing and validating systems (40%), continuous monitoring and improvement (50%), communication and legal compliance (35%), managing public relations and reputation (15%), and comprehensive incident reporting (25%). While these percentages offer a general perspective, it's crucial to recognize that the exact emphasis on each step can vary depending on the incident's nature, the organization's priorities, and industry-specific regulations. The recovery process is dynamic and requires ongoing attention to achieve a successful recovery and bolster defenses against future incidents.

3.8 Post-Incident Activities and Digital Forensic

3.8.1 Post-Incident Activities

The data reveals that a substantial 80% of the surveyed banks in Bangladesh conduct post-incident reviews and assessments as part of their security practices. This proactive approach is commendable and underscores a commitment to enhancing security measures continuously. Post-incident reviews play a pivotal role in identifying vulnerabilities, analyzing the root causes of incidents, and formulating strategies to prevent similar events in

the future. By conducting these assessments, banks not only strengthen their security posture but also demonstrate a culture of learning and resilience in the face of evolving threats.

The finding that 58% of the surveyed banks in Bangladesh analyze incident trends and patterns to enhance preventive measures is a clear indicator of a proactive and data-driven approach to cybersecurity. This practice is crucial in today's digital landscape, where cyber threats continually evolve and become more sophisticated. By closely examining incident trends and patterns, banks gain valuable insights into the tactics, techniques, and vulnerabilities that threat actors exploit. This, in turn, enables them to proactively bolster their preventive measures and fortify their defenses against future threats.

3.8.2 Digital Forensic

The data reveals that only 20% of the surveyed banks in Bangladesh have a dedicated Forensic Team in place to assist professional forensic investigators. Having a specialized Forensic Team can be instrumental in conducting thorough investigations, particularly in cases of security breaches, cyberattacks, or other incidents that require a deep understanding of digital forensics. Such teams can help preserve evidence, analyze digital artifacts, and support law enforcement agencies and forensic experts in their investigations. While a minority of banks currently have dedicated forensic teams, it's worth emphasizing the importance of investing in this capability, especially in an era where cybersecurity threats are on the rise. A dedicated Forensic Team can contribute significantly to the swift and effective resolution of incidents and the protection of both the bank and its customers.

The Forensic Team take measures to ensure the isolation of affected systems during digital forensics processes reflects a prudent approach to managing cybersecurity incidents. Isolation is a crucial step in the digital forensics process as it helps prevent further damage or contamination of affected systems while preserving crucial evidence for investigation. By isolating

affected systems, banks not only demonstrate a commitment to preserving the integrity of the digital crime scene but also improve the chances of uncovering the root causes and perpetrators of incidents.

3.8.2.1 Awareness of the Laws and Regulation

The data also indicating that 70% of the surveyed banks in Bangladesh that have a dedicated Forensic Team is aware of the laws and regulations of the country during their digital forensics activities is a positive sign of compliance and legal diligence. This awareness is vital in ensuring that digital forensics investigations are conducted in accordance with local laws and regulations, protecting both the institution and the integrity of the investigative process. It demonstrates that banks recognize the importance of not only conducting investigations effectively but also doing so within the bounds of the law. This adherence to legal requirements contributes to the credibility and validity of the investigations, ultimately bolstering trust in the financial institution's commitment to ethical and lawful practices in handling cybersecurity incidents.

3.8.2.2 Skills of the Forensic Team

Banks are committed to ensuring that their Forensic Teams are well-prepared for effective digital forensics operations, employing a range of strategies. Firstly, all banks, that have forensic team, prioritize continuous training, providing their teams with updates on digital forensics tools, techniques, and legal procedures. Additionally, a significant majority (90%) encourage their team members to obtain relevant certifications, including CFE, CHFI, CISM, CDFE, CPTE, SSCP, and CISSP, underlining the importance of expertise in this field. Hands-on experience and exposure to diverse cases are valued by 80% of banks, reinforcing the significance of practical knowledge. Collaboration with external experts and law enforcement agencies is emphasized by 60% of banks, while 70% stress the importance of staying current with evolving technology and threats. Detailed documentation of investigations and methodologies is considered

a best practice by 78%, and 58% highlight the value of peer review and knowledge sharing within the team. Lastly, appointing experienced leaders to guide and mentor forensic analysts is recognized as important by 30% of banks. These comprehensive efforts collectively reflect the commitment of banks to equipping their Forensic Teams with the necessary knowledge and expertise for successful digital forensics operations.

3.9 Coordination and Communication

3.9.1 Coordination and Communication during Incident Response

Based on the responses provided by banks regarding their methods for ensuring coordination and communication during incident response, the following key points emerge. Firstly, 100% of banks prioritize the use of Incident Response Policy and Procedures as a fundamental approach. Secondly, all banks (100%) utilize a range of communication channels, such as formal email, voice calls, text messages, phone calls, bridge calls, and emails, for effective coordination. Thirdly, a smaller percentage of banks (10%) emphasize the importance of having diverse incident response teams with well-defined roles. Additionally, another 10% of banks highlight the establishment of clear communication protocols, including the use of dedicated status pages. Furthermore, some banks (15%) employ metrics to measure and monitor their incident response performance, while a similar percentage (15%) stress the importance of fostering a culture of awareness and collaboration among different teams. Lastly, 25% banks engage in collaboration with external partners, such as vendors and regulators, and refer to their Business Continuity Plan as part of their coordination and communication efforts during incident response.

3.9.2 Designated Spokespersons Responsible for Communicating

It appears that 71% of the surveyed banks have designated spokespersons responsible for communicating with external stakeholders during incidents. This high percentage suggests a strong commitment to communication and professionalism in dealing with external parties during incidents among the

surveyed banks. This practice is crucial for effective incident management and communication, ensuring that external parties receive accurate and timely information about the incident's status, impact, and resolution. Having a designated spokesperson helps maintain transparency, manage public relations, and establish trust with customers, regulatory authorities, and other stakeholders during challenging situations.

3.9.3 Communicating Findings and Recommendations to Stakeholders

It appears that 82% of the surveyed banks have predefined communication channels and templates for notifying stakeholders during incidents. This practice demonstrates a proactive and organized approach to incident response and communication. Having predefined channels and templates streamlines the communication process, ensuring that stakeholders receive consistent and accurate information in a timely manner. It also helps maintain professionalism and clarity in communication during high-stress situations, such as security incidents. This high percentage indicates that the majority of banks recognize the importance of structured and effective communication when dealing with incidents that may impact external stakeholders.

Organizations employ various methods and practices to effectively communicate findings and recommendations from post-incident reviews to relevant stakeholders, as outlined by the responses from banks. A substantial portion of banks (55%) adopt a structured approach by generating comprehensive Post-Incident Review Reports, summarizing key information and action items objectively. Around 15% of organizations utilize templates and visual aids like graphs and charts to enhance the clarity and completeness of their reports. Ensuring accessibility to stakeholders from diverse backgrounds, 10% of banks prioritize using clear and simple language. Additionally, a few banks (10%) highlight positive aspects of incident responses and include feedback from stakeholders. Furthermore, 30% of organizations publish these reports on centralized platforms for easy

access and transparency, while a similar percentage (30%) prefer email communication for sharing findings and recommendations. A good number of banks (40%) provide incident reports and conduct detailed meetings to convey post-incident review information, and a smaller percentage (15%) maintain Knowledge Databases for documenting and sharing incident-related insights.

3.9.4 Communication Channels and Methods to Keep Customers Informed

Organizations employ various communication channels and methods to keep customers informed during incidents, with different percentages of banks mentioning each approach. Email emerges as a widely adopted method, with 75% of banks using it to provide detailed and formal updates to customers. SMS is another prevalent channel, mentioned by 60% of banks, enabling quick and direct communication. Some organizations (25%) utilize social media platforms for real-time updates and engagement. A smaller percentage of banks (15%) occasionally resort to newspaper publications, while a few (5%) opt for traditional media channels like TV or print media to reach a broader audience and convey incident-related information. These diverse communication methods reflect the effort to ensure that customers stay informed during incidents through channels that suit their preferences and needs. These percentages represent the relative frequency with which each communication channel or method was mentioned by the surveyed banks. The mentioned methods collectively showcase various ways organizations keep customers informed during incidents, with SMS and email being the most commonly used channels.

3.9.5 Addressing Legal and Regulatory Requirements

In addressing legal and regulatory requirements within incident response procedures, organizations typically employ a comprehensive approach. This involves ensuring compliance with applicable laws, regulations, and industry standards (85%), meticulously documenting all actions taken during incident response (75%), promptly reporting incidents to relevant

authorities and affected parties (85%), following legal guidelines for preserving digital evidence (60%), seeking guidance from legal experts or departments (30%), safeguarding sensitive data in accordance with privacy laws (50%), maintaining a clear chain of custody for collected evidence (80%), adhering to regulatory reporting timelines (70%), retaining incident-related records (65%), and assessing compliance with legal obligations in post-incident reviews (65%). These measures collectively address legal and regulatory considerations, playing a pivotal role in minimizing legal risks and upholding compliance with pertinent laws and regulations.

3.10 Incident Documentation

3.10.1 Standardized Format for Documenting Incident

The findings indicate that a significant majority, approximately 90%, of banks in Bangladesh have adopted some sort of format for documenting incident details and response actions for future reference. This high level of adoption suggests a proactive approach to incident management within the banking sector in Bangladesh. The use of standardized documentation formats is a best practice in incident management, as it helps ensure consistency and clarity in recording incident information and response actions. It also facilitates post-incident analysis and review, which can be crucial for learning from past incidents and continuously improving incident response procedures. The fact that such a large proportion of banks in the country have embraced this approach emphasizes the importance placed on robust incident management practices in the financial sector and highlights a commitment to enhancing cybersecurity and risk management efforts.

3.10.2 Software for Documenting Incident

On the other hand, the statistic that only 27% of banks use software for documenting incident details and response actions for future reference indicates a relatively low adoption rate of specialized incident management software within the banking sector. This suggests that a majority of banks

may still rely on manual or less automated methods for recording and tracking incidents. It's worth noting that using dedicated incident management software can offer several advantages, such as streamlining the documentation process, enhancing data security, providing real-time incident tracking, and facilitating more efficient incident analysis. Banks that have not yet adopted such software may want to consider its implementation to improve their incident management capabilities, enhance compliance with regulatory requirements, and ultimately bolster their overall cybersecurity posture.

In the context of incident documentation practices, a comprehensive range of information is typically included by a varying percentage of banks. Incident details and descriptions are universally documented by all banks, representing 100% of the institutions surveyed. Meanwhile, 75% of banks detail actions taken during response. However, affected assets and vulnerabilities, as well as the timeline of events and threat actor details if known, are documented by only 25% of the banks. The majority, 86%, focus on capturing lessons learned and recommendations. Legal and regulatory compliance efforts, along with final incident status and review details, are also reported by a quarter of the banks. Incident time, date, and methods used in detection and response are noted by 25% of the institutions. Additionally, certain aspects such as impact and business impact, root cause analysis, scope and impact, immediate action, detailed investigation and findings, business unit affected by the event, controls that failed or did not exist, recommendation for future recurrence, and incident resolution time, are reported to varying degrees, ranging from 14% to 29%. This diversity in documentation practices underscores the importance of tailoring incident reports to meet the specific needs and priorities of each institution.

3.10.3 Retention Periods for Incident Records

The retention periods for incident records among the surveyed banks vary considerably, with different institutions adopting distinct approaches.

A notable portion of banks, constituting 10%, opt for perpetual or permanent retention of incident records, emphasizing their long-term significance. Another 10% retain these records specifically for learning and audit purposes, subject to a maximum retention period of up to 20 years. Meanwhile, 10% have not specified a defined retention period, while the same percentage ensures that incident records are never erased. Additionally, 10% of banks follow their data retention policies to determine retention periods, and 10% retain incident records for one year before archiving them. Notably, no banks fall into the category of having a variable retention period, and none have specified no retention period, as they are either in the process of formulating data retention policies or awaiting external regulatory guidance.

3.11 Continuous Improvement of Incident Management Process

The survey findings demonstrate a strong commitment to continuous improvement and learning within the surveyed banks in Bangladesh regarding incident management practices. Some 61% of the banks indicated that they regularly review and update their incident management processes in response to evolving threats and technology. This proactive approach is crucial in the ever-changing landscape of cybersecurity, ensuring that banks stay well-prepared to mitigate new and emerging threats effectively. Additionally, an equally impressive 61% of banks stated that they leverage lessons learned from past incidents to enhance their incident response processes. This indicates a mature incident management culture where the banks not only react to incidents but also take a proactive stance in learning from them to strengthen their defenses. A majority of the surveyed banks, constituting 70%, employ a multi-faceted approach to ensure the continuous improvement of their incident management practices. This includes measures such as regularly reviewing and updating incident response procedures, conducting post-incident reviews to identify areas for improvement, providing ongoing training to staff on emerging threats and response techniques, implementing lessons learned from previous incidents,

and engaging in tabletop exercises and simulations to refine response plans. Additionally, these banks stay informed about industry-based practices and regulatory changes, collaborate with industry peers and security experts for insights and benchmarks, and actively participate in national cyber activities. These collective efforts underscore their commitment to enhancing their incident management capabilities and bolstering cybersecurity resilience in a rapidly evolving threat landscape.

3.12 Problems and Challenges Identified by Banks for Incident Management

The survey highlights several key problems, challenges, and obstacles faced by the banks, along with possible remedies. These remedies address the identified problems, aiming to enhance incident management, cybersecurity, resource allocation, and overall operational efficiency within the banks.

Table 4: Problems and Challenges Identified by Banks

Sl. No.	Problems and Challenges	% of Banks	Remedies
1.	Building Digital Competency within Organizations and Lack of Skilled Personnel	89%	Create a positive work environment and invest in training programs for employees to enhance their skills, facilitate digital adoption with a comprehensive training program, and allocate resources appropriately for ICT staff's training and knowledge sharing. An Institute like IDRBT, India, can be built in this regard.
2.	Vendor Relationship Management and Training Challenges	82%	Optimizing vendor relationships through effective communication, SLAs, training, and resource allocation. Vendors should make sure their resources receive training and stay updated on evolving ICT technologies.
3.	Digital Transformation and Change Management	78%	Ignorance, Improper Implementation, and Lack of Communication is a challenge. Stay informed about the latest technology trends through industry conferences and

Sl. No.	Problems and Challenges	% of Banks	Remedies
			seminars. Establish a communication matrix, and adhere to regulatory instructions and industry standards.
4.	Lack of Communication with Other Departments or Stakeholders for Incident Management	72%	Establish and document incident management processes, automating where possible. Hold regular meetings to facilitate communication and alignment; prioritize communication efforts; promote a positive learning culture; and involve staff in improvement across departments.
5.	Cyber Security Threats	74%	Invest in cybersecurity training and conduct regular security audits to identify vulnerabilities.
6.	Resource and Budget Constraints	52%	Carefully prioritize spending and focus on investments that provide the greatest Return on Investment (ROI).
7.	Existence of Legacy Systems	46%	Develop a plan to phase out legacy systems gradually and prioritize investments in compatible technology solutions.

Source: BIBM Survey

3.13 Expected Roles of BIBM for Incident Management

BIBM's close collaboration with banking professionals, its role in research and education, and its ability to facilitate knowledge sharing make it a key player in improving incident management practices in the banking sector. The percentage allocations represent the relative importance of each role in enhancing ICT emergency response and incident management practices. Here's a summary of the key roles and actions that BIBM can undertake (Table-5).

Table 5: Expected Roles of BIBM

Sl. No.	Roles of BIBM	% of Banks
1.	Education: BIBM can develop educational programs and curricula that cover both theoretical and practical aspects of ICT and security risk management. This includes offering courses and training that empower bank professionals with the knowledge and skills necessary for effective incident management. Organizing seminars and round-table meetings addressing non-technical decision-makers and inviting higher management personnel from banks can facilitate greater understanding of technology risk management and incident management practices. Offering specialized training programs on ICT emergency response and incident management can help standardize approaches and ensure that bank professionals are well-prepared to handle incidents.	92%
2.	Research, Analysis and Publications: Conducting more research and analysis on incident response and management can contribute to a deeper understanding of emerging threats and best practices. Publishing reports, books, and resources related to ICT emergency response and incident management can serve as valuable references for banks.	84%
3.	Certification Programs: Introducing need based certification programs ensuring international standard that validate the expertise of bank professionals in ICT emergency response and incident management can encourage continuous learning and adherence to best practices.	87%
4.	Consultation and Advisory Services: BIBM can provide consulting services to banks, including conducting assessments, audits, reviews, and offering recommendations to improve their ICT and security risk management policies, procedures, systems, and capabilities.	74%

Source: BIBM Survey

3.14 Expectation from Bangladesh Bank

The central bank's active involvement and leadership in these areas can contribute significantly to a more resilient and secure banking sector. The percentage allocations represent the relative importance of each role in strengthening ICT emergency response and incident management practices in banks. Here's a summary of the key roles and actions the central bank can take (Table-6).

Table 6: Expectation from Bangladesh Bank

Sl. No.	Roles of Bangladesh Bank	% of Banks
1.	Setting Standards and Regulatory Oversight: The central bank can establish Incident Management Guidelines and enforce standards for ICT and security risk management in banks. This includes maintaining regulatory oversight, conducting regular audits and assessments, and ensuring compliance with cybersecurity standards and regulations to uphold banks' policies, procedures, systems, and capabilities.	89%
2	Information Sharing Hub and Collaboration: Facilitating information sharing and collaboration among banks, regulators, law enforcement agencies, industry associations, and cybersecurity experts is crucial. This collaborative approach enhances awareness, prevention, detection, and response to ICT and security incidents. Establishing a dedicated hub for incident information sharing and forming a specialized incident management team to assist banks during incidents can greatly enhance response and recovery efforts.	86%
3	Capacity Building and Contingency Planning: The central bank can bolster its capacity for better regulatory oversight and develop contingency plans to address potential disruptions to its own/banking services or functions, with the aim of safeguarding the stability of the banking system.	81%

Source: BIBM Survey

3.15 Roles of the Government

The government's proactive involvement in these areas can significantly contribute to a more resilient and secure banking sector. The percentage allocations represent the relative importance of each role in enhancing ICT emergency response and incident management practices. Here's a summary of the key roles and actions that the government can undertake (Table-7).

Table 7: Expectation from Bangladesh Government

Sl. No.	Roles of the Government	% of Banks
1.	Legal Framework: The government can enhance and enforce legal frameworks governing ICT and security risk management in banks. This involves formulating and implementing standards, guidelines, best practices, and tools to assist banks in effectively preventing, detecting, and responding to ICT and security incidents.	69%
2.	Coordination and Cooperation: It is crucial to enhance coordination and cooperation among banks and various stakeholders, including the central bank, regulators, law enforcement agencies, industry associations, and cybersecurity experts. Information sharing, knowledge exchange, and collaborative efforts can collectively strengthen overall incident management capabilities.	86%
3.	Training and Capacity Building: Encouraging and facilitating capacity building initiatives, such as training and awareness programs for banks and their customers on cybersecurity can significantly improve preparedness and response capabilities.	81%
4.	Research and Development Funding: Allocating resources for cybersecurity research and development can foster the creation of innovative solutions and technologies, ultimately enhancing incident management.	64%
5.	International Cooperation: Collaboration with international organizations and governments can facilitate information sharing and the adoption of global best practices in incident management.	52%
6.	Cyber Insurance Regulation: The government may develop and regulate the cyber insurance industry to ensure that it aligns with the needs of banks and incentivizes proactive risk management.	42%
7.	Awareness Building: Issuing circulars and awareness messages to banks and the customers can help disseminate important information about emerging cyber threats and incident management practices.	71%

Source: BIBM Survey

3.16 Recommendations

ICT Incident Response Management in Bangladeshi banks is a critical concern given the increasing frequency and sophistication of cyber threats. Though the ICT Incident Response Management landscape in Bangladeshi banks has seen notable progress in recent years, with technological advancements and regulatory initiatives driving improvements, there is a pressing need for banks in Bangladesh to develop robust and coordinated

incident response mechanisms to safeguard their operations and customer data. The challenges identified in the study underline the importance of continued proactive measures to enhance ICT incident response capabilities in the banking sector of Bangladesh.

The study raises various issues in the roundtable for discussion. Based on the observations and findings of the survey, secondary data analysis and accommodating the comments of roundtable participants, the study recommends the following:

- 1. Addressing the Cybersecurity Awareness Gap:** Despite regulatory efforts, a significant lack of awareness regarding the importance of cybersecurity persists at all levels within banks, including both employees and board members. To bridge this gap and enhance the effectiveness of incident response, banks must foster a strong cybersecurity culture across the organization.
- 2. Navigating the Rapidly Evolving Threat Landscape:** As cyber threats grow increasingly complex and elusive, Bangladeshi banks must remain agile to stay ahead of cybercriminals. This necessitates a steadfast commitment to continuous investment in advanced technology and comprehensive training programs.
- 3. Enhancing Policy Quality and Ensuring Continuous Evolution:** While 58% of banks rate their incident management policies as "Good," the fact that 16% consider them "Poor" highlights the critical need for ongoing improvement. Alarming, 28% of banks update their policies only every three years, with some neglecting updates altogether. To strengthen their resilience against disruptions, banks must not only develop robust policies but also commit to their regular evaluation and refinement.

- 4. Talent Shortage:** One of the significant challenges faced by Bangladeshi banks is the shortage of skilled professionals. The demand for such talent is high, and many banks struggle to attract and retain experts in the field. This shortage hampers the effective handling of incidents. Banks should invest in comprehensive training programs to upskill their existing workforce, focusing on cutting-edge technologies and incident response protocols. Collaborations with universities and professional institutes can help create specialized courses and certifications tailored to banking ICT needs. Offering competitive salaries and benefits packages is crucial to attract top talent and reduce turnover rates. Banks should also establish clear career progression paths to motivate employees and retain skilled professionals. Additionally, partnerships with global and local ICT firms can enable knowledge transfer and temporary deployment of experts for critical projects.
- 5. Incident Reporting and Communication:** Bangladeshi banks have made progress in developing incident reporting mechanisms. Many banks have established dedicated teams to monitor and respond to security incidents. Moreover, they are required to report significant incidents to the Bangladesh Bank. However, the communication of incidents, especially breaches, to the public and customers, remains an area that requires improvement. Transparency in this regard is crucial to maintaining customer trust.
- 6. Collaboration and Information Sharing:** Collaboration among banks, industry stakeholders, and government agencies is vital for an effective incident response ecosystem. Some banks have taken steps to foster collaboration by participating in industry-wide forums and sharing threat intelligence. However, there is room for improvement in information sharing to collectively defend against cyber threats.

7. **Regular Drills or Exercises of CIRT:** It appears that 33% of banks conduct regular drills or exercises to test the effectiveness of their ICT Emergency Response Team and incident management procedures. Conducting regular drills and exercises is a crucial practice in the realm of cybersecurity and incident response. Banks may enhance their incident response preparedness through regular drills and exercises.
8. **Alignment with the ICT Security Guidelines of Bangladesh Bank:** It is clear that there are several challenges facing banks in Bangladesh in fully complying with the ICT Security Guidelines Version 4 (2023), particularly in the context of incident management. About 16% of respondents rate their practices as "Fully Aligned," and 27% of banks consider themselves "Mostly Aligned." Furthermore, 39% of banks rate their practices as "Aligned," indicating a fundamental level of compliance with the guidelines, while another 18% consider themselves "Partially Aligned," suggesting some gaps in their incident management practices that need attention. While the bank has recognized the need to comply with the new ICT Security Guidelines Version 4, there are significant challenges related to time constraints, awareness among higher management, strategic alignment, and effective implementation. Banks may adopt appropriate strategies to align more closely with the new ICT Security Guidelines.
9. **Vendor Dependency:** It appears that all banks have a designated ICT Emergency Response Team in place, based on the response provided and banks typically manage their ICT Emergency Response Teams internally, without outsourcing any part of the team's responsibilities. But the level of reliance on service providers or vendors to handle security incidents varied among organizations. The majority, comprising 71%, reported a "Moderate" level of reliance on these external entities, 14% stated that they relied on

vendors "Slightly." Ten percent indicated a "High" level of reliance, while 5% reported relying on them "Extremely," signifying a very strong dependence on external support. Banks may maintain the right balance between internal and external resources for incident response.

10. Proper Preparation to Follow Incident Response Process:

According to the data provided, the CIRT follows a well-structured incident response process, with varying levels of completion for each step. "Containment, Eradication & Recovery" phase is followed by 100% banks properly. The "Detection & Analysis" phase accurately followed closely, with 73% of the banks. This suggests that 27% banks do not give emphasis on detecting and analyzing incidents, which is fundamental for identifying the nature and scope of the issue. The "Preparation" and "Post-Incident Activity" phases each perfectly followed by 72% of banks. Adequate preparation is essential to have the necessary resources, procedures, and communication channels in place, while post-incident activities help organizations learn from their experiences and improve their incident response capabilities over time.

11. Establishing SOC: Based on the provided information, it appears that 44% of banks have established a Security Operations Center (SOC). Among those banks with a SOC, the number of employees working in these centers varies, with a minimum of 3 employees, a maximum of 12 employees, and an average of 7.8 employees. Averaging 7.8 employees suggests that many banks maintain moderately sized SOCs to address cybersecurity concerns effectively. Necessary actions may be taken for the establishment and operation of Security Operations Centers (SOCs) to address cybersecurity concerns effectively.

12. Analyzing Incident Trends and Patterns: The finding that 58% of the surveyed banks in Bangladesh analyze incident trends and patterns to enhance preventive measures is a clear indicator of a proactive and data-driven approach to cybersecurity. This practice is crucial for all banks in today's digital landscape, where cyber threats continually evolve and become more sophisticated.

13. Digital Forensic: The data reveals that only 20% of the surveyed banks in Bangladesh have a dedicated Forensic Team in place to assist professional forensic investigators. While a minority of banks currently have dedicated forensic teams, it's worth emphasizing the importance of investing in this capability, especially in an era where cybersecurity threats are on the rise. A dedicated Forensic Team can contribute significantly to the swift and effective resolution of incidents and the protection of both the bank and its customers. Banks may expand their digital forensic capabilities to improve their incident response.

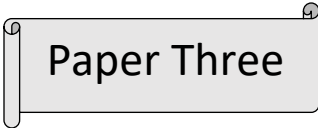
14. Incident Documentation Process and Retention Periods for Incident Records: Only 27% of banks use software for documenting incident details and response actions for future reference indicates a relatively low adoption rate of specialized incident management software within the banking sector. This suggests that a majority of banks may still rely on manual or less automated methods for recording and tracking incidents. It's worth noting that using dedicated incident management software can offer several advantages, such as streamlining the documentation process, enhancing data security, providing real-time incident tracking, and facilitating more efficient incident analysis. Moreover, the retention periods for incident records among the surveyed banks vary considerably, with different institutions adopting distinct approaches. A notable portion of banks opt for perpetual or permanent retention of incident records, emphasizing their long-

term significance. Some banks retain these records specifically for learning and audit purposes, subject to a maximum retention period of up to 20 years. Few banks follow their data retention policies to determine retention periods, and some retain incident records for one year before archiving them. Banks may determine appropriate retention periods for incident records, considering the diverse approaches mentioned, streamline their incident documentation processes and enhance IT security.

References

- Ahmed, S., & Salim, A. (2020). ICT Security Issues in the Financial Sector of Bangladesh: A Review.
- Cooke, 2003. Learning from incidents. ResearchGate
- Grance, T., Kent, K. & Kim, B. 2004. Computer Security Incident Handling Guide – Recommendations of the National Institute of Standards and Technology. Technology Administration, US Department of Commerce
- Haque, A., & Mannan, M. (2020). Cyber Threats and Cybersecurity in Bangladesh: A Review on Banking Sector.
- Hossain, M., & Rahman, S. (2019). Enhancing Cybersecurity in the Banking Sector of Bangladesh: A Policy Perspective.
- Hossain, S., et al. (2022). Ransomware Attack on a Major Bangladeshi Bank: Lessons Learned and Future Implications. International Journal of Cybersecurity and Digital Forensics, 11(3), 32-44.
- Islam, M. S., & Ahmed, F. (2019). Information Security Practices in Banking Sector: A Case Study on Bangladesh.
- Jaikumar, V, 2002, “Organisations should build an incident response team”, ComputerWorld Canada, vol.9, no.16.
- Kayworth and Whitten, 2010. Effective Information Security Requires a Balance of Social and Technology Factors. ResearchGate, MIS Quarterly.
- Khan, S. M. (2018). Cybersecurity in Banking Sector of Bangladesh: Challenges and Policy Measures
- Knight & Pretty (1996). The Impact of Catastrophes on Shareholder Value. The Oxford Executive Research Briefings
- Kurowski and Fring (2011). https://www.researchgate.net/publication/336133279_Information_Security_Incident_Response_Management_in_an_Ethiopian_Bank_A_Gap_Analysis_Completed_Research_Paper
- Mitropolous, S., Patsos, D. & Douligeris, C. (2006). 'On Incident Handling and Response: A state-of-the-art approach', Computers & Security, vol.25, pp.351-370.

- Murray, J. (2007). Analysis of the Incident Handling Six-Step Process. SANS Reading Room.
- Northcutt, S. (1998). Computer Security Incident Handling, Step-by-Step. The SANS Institute
- Rahman, M. H., & Bhuiyan, M. Z. A. (2017). A Study on the Impact of ICT in the Banking Sector of Bangladesh.
- Saha, D. K., & Khan, M. J. H. (2019). Cybersecurity Threats in Banking Sector: A Comprehensive Study on Bangladesh Perspective.
- Sikder, S. S., & Rahman, M. S. (2018). Strengthening Cybersecurity in Bangladeshi Banking Sector: Challenges and Way Forward.
- Smith, S., & Jamieson, R. (2006). Determining Key Factors in E-Government Information System Security. *Information Systems Management*, 23, 23-32. <https://doi.org/10.1201/1078.10580530/45925.23.2.20060301/92671.4>
- Turner, P. (2007). 'Applying a forensic approach to incident response, network investigation and system administration using Digital Evidence Bags'. *Digital Investigation*, vol.4, no.1, pp.30-35
- Van Wyk, K. & Forno, R. (2001) Incident response. New York. O'Reilly.
- West-Brown, M.J., Stikvoort, D. et al. (2003). Handbook of Computer Security Incident Response Teams (CSIRTs), Second Edition. Pittsburgh, PA, Carnegie-Mellon Software Engineering Institute.
- Wiik, J., Gonzales, J.J., & Kossakowski, K-P. (2005). 'Limits to Effectiveness in Computer Security Incident Response Teams'. Twenty-Third International Conference of the System Dynamics Society. The System Dynamics Society, Boston, MA.
- Whitman & Mattord, 2005. Principles of Information Security, https://www.researchgate.net/publication/200446660_Principles_of_Information_Security
- Zhang et al, 2009. Are Incident Durations and Secondary Incidents Interdependent? Sage Journals, <https://doi.org/10.3141/2099-05>
- www.bb.org.bd



Paper Three

Lending CMSEs through Agent Banking in Bangladesh: Issues and Challenges

Ashraf Al Mamun, Ph.D.

Professor, BIBM

Md. Mosharref Hossain, Ph.D.

Associate Professor, BIBM

Mohammad Abul Hashem

Director, Bangladesh Bank

Suman Chandra Saha

Deputy General Manager, SME Foundation

Shyampal Chandro Mondal

Assistant General Manager, Sonali Bank PLC

Ishtiaque Ahmed Rahat

Assistant Vice President, Bank Asia PLC

The keynote paper was presented in a Roundtable Discussion on 30 January, 2024 and published at BIBM website in November, 2024.

Online Link: <https://bibm.org.bd/publications-read.php?id=123>

List of Abbreviations

ADC	Alternative Delivery Channels
AML	Anit-Money Laundering
ATMs	Automated Teller Machines
BB	Bangladesh Bank
BEFTN	Bangladesh Electronic Funds Transfer Network
BIBM	Bangladesh Institute of Bank Management
BSCIC	Bangladesh Small and Cottage Industries Corporation
CBS	Core Banking Solutions
CFT	Combating the Financing of Terrorism
CMSME	Cottage, Micro, Small and Medium Enterprise
CMSE	Cottage, Micro, and Small
DESA	Dhaka Electric Supply Authority
DESCO	Dhaka Electric Supply Company Limited
DPDC	Dhaka Power Distribution Company
EFT	Electronic Fund Transfers
FCB	Foreign Commercial Bank
GDP	Gross Domestic Production
IB	Islamic Bank
IFC	International Finance Corporation
IT	Information Technology
IVR	Interactive Voice Response
KII	Key Informant Interview
KYC	Know Your Customer
MFI	Microfinance Institute
MFS	Mobile Financial Services
RMG	Ready-Made Garment

MSME	Micro, Small and Medium Enterprise
NBFI	Non-bank Financial Institution
NBR	National Board of Revenue
NGO	Non-government organization
PCB	Private Commercial Bank
PIN	Personal Identification Number
POS	Point of Sales
POSTs	Point of Sales Terminals
REB	Rural Electric Board
RTGS	Real Time Gross Settlement
SB	Specialized Bank
SDG	Sustainable Development Goal
SE	Small Enterprise
SME	Small and Medium Enterprise
SMESPD	SME & Special Programs Department
SND	Special Notice Deposit
SOCBs	State-owned Commercial Banks
SOD	Secured Overdraft
TIN	Tax Identification Number
UDC	Union Digital Center
UISC	Union Information and Service Centre
WASA	Dhaka Water Supply and Sewerage Authority

Executive Summary

There is no denying fact that Cottage, Micro and Small enterprises (CMSEs) are the key pillars for the economic growth of any country specially in the rural economy. To meet the financing need of the CMSEs, different ministries and central bank of Bangladesh have taken various policies and initiatives including accessible financial systems, enabling market environment, credit guarantee and refinancing schemes, and so forth. Although government, commercial banks and many other market players consider the sector as one of the utmost opportunities for investing and have come forward with different policies and initiatives, these are not enough to meet the greater financial and non-financial need of the sector.

In Bangladesh, due to the inadequacy of bank branch network in the rural areas, it become urgent to develop some other approaches or lending mechanism so that CMSEs can easily fulfill their financing need. To address the issue, central bank of Bangladesh has introduced agent banking in the country through issuing a guideline in 2013 and subsequently issued ‘Prudential Guidelines for Agent Banking Operation in Bangladesh’. The ultimate objective is to deliver the banking services to the under-privileged, under-served people specially living in the geographically remote location through an alternative delivery channel of existing banking networks.

The main objective of the study is to find out the feasibility and challenges of lending CMSEs through agent banking operations of different banks in Bangladesh. Both primary and secondary sources are considered in order to achieve the study objectives. The study uses two units of analysis. One, the agent who are providing banking services specially located in the areas. The other unit of analysis is the higher officials working in the agent banking department of commercial banks in Bangladesh.

The contents of this report are organized into seven sections. Section -1 covers the introduction, background, objectives; Section-2 explains the data and methodology of the study; Section-3 discusses the financing scenario of CMSEs in urban and rural areas of Bangladesh; Section-4 reviews the overall activities and status of

agent banking in Bangladesh; Section-5 highlights the policy and guidelines on agent banking; Section-6 represents the findings and analysis of the study; and finally, Section-7 concludes with the recommendations.

From the Quarterly Report on Agent Banking, July-Sep 2023, Bangladesh Bank it is evident that as of September 2023, the lending through agent banking rises to BDT 141,926.50 million. The volume of total loans has increased by 8.82% over the previous quarter, where rural customers have received BDT 89,786.93 million (63.26%) of the total loan disbursed through agent banking channel.

Male borrowers have received BDT 112,922.9 million (79.57%) of the total loan compared to female borrowers who have received only BDT 18,923.73 million (13.33%). The variation in male and female borrowers may be due to banks' lack of confidence in the female customers for various reasons while making lending decisions or female customers' limited participation in rural enterprises.

The survey findings on Agents revealed that out of the total sample (232), majority (187) of the agents started their business between 2015 to 2020 and 89.66% of total sampled agents has other sources of income. According to the survey findings, a lion portion of the agents (90.95%) opined that CMSE loan can be disbursed through the agent banking. However, the findings evident that at present only 24 % of the gents provide the loan through their agent outlets. It is important to note that sampled agent distributed 21% of loan against the deposit they have collected. Although many of the agents think that they are confident to provide loan by their outlet, but they cannot offer this service as banks are reluctant to distribute the loan through agents. The agents mentioned a number of problems associated with providing loan through agents.

A few of the banks are disbursing loan through their agent outlets. CMSE customers around the agent outlet must aware about the availability of loan in the agents. In this regard, majority of the agents (86.21%) stated that dedicated officials of banks marketing their CMSE loan near the agent outlet. Around 37% of the agents also claimed that they are marketing the CMSE loan in their areas. Although agents are not disbursing the loan directly, they play several roles for recovering the loan amount. From the questionnaire survey it is evident that only 6.03% of the respondents opined that they get some commission from the banks

for providing and recovering the loan. According to their opinion 5.56 % of the loan are classified out of total loan providing from their agent outlets.

From the survey, it is evident that many actors are engaged in providing loan to different borrowers nearby agent locations. NGOs are the highest (76%) provider of loans to the borrowers followed by the cooperative society (57%), MFIs (32%, multipurpose samities (26%), bank branch/sub-branch (23%), NBFIs (18%), money lenders (11%), and the agent banking (9%). Most of the banks are not disbursing CMSE loan through agent outlets. However, a few of the banks provide small loan through the agents' references and also utilize the agent outlets to recover the loan. As per the opinion of the majority of agents (82.33%), they are satisfied about the banks services while lending. Banks are offering lending services through agent banking in a limited scale. Therefore, most of the CMSEs are still trying to fulfill their financing need from many other sources. According to the opinion of the agents, CMSE customers are getting much more advantages from the other sources than banks while borrowing.

From the survey findings it is evident that bank's loan processing and approval time is higher through agent banking network. According to the opinion of the agents, most of the small loan take (41%) from 1 month to 2 months for getting approval from banks.

The responses received from the higher officials of banks working closely with the agent banking activities to identify the lending scenarios through agent banking. To reach the dispersed CMSEs located in the rural areas of Bangladesh, different banks have taken a number of initiatives. 90.91% banks have Alternative Delivery Channels (ADC) but only 18.18% use the ADC as mode of financing. Banks often face different challenges from its other competitors than bank and identified several reasons of underserved rural CMSEs by the banking sector in Bangladesh. Around 58% banks revealed that they face problems while financing in the rural areas (Figure 6.4) and 51.5% have problem in setting agent point/unit office in the rural areas. Over four-fifths (82.4%) of banks identified the requirements of rigorous supervision and monitoring of the agents, the lack of which may distort the overall credit discipline in the CMSE sector. The banks have to select an agent, based on the location of borrowers, agent's capacity and skill, and commercial viability.

Banks are facing several challenges while dealing with the agents such as Selection of agent through proper appraisal, prescribed low commission discourage people to get the agency, Network/Server problems and not to enter into server in closed day, difficulty to provide lending services through agent, Long time to issue cheque book, Time to time close monitoring is very difficult from branch, Longer time to get approval from branch for account opening/KYC and others, Low commission for remittance discourages the agent to serve, Customers cannot see the account balance without their finger print, Difficulties to arrange sufficient training for agent owner, Proving marketing, decoration and other support services is difficult, Some fraudulent activities of few agents degrade the banking sector image, Cash collection from agents located in the remote areas is costly and difficult, and Customers do not open FDR or deposit for large amount for getting fear with agents.

Finally, based on the observations and findings, to overcome the challenges of agent banking operations in Bangladesh for lending to the CMSEs in Bangladesh, this paper proposed some recommendations.

Lending CMSEs through Agent Banking in Bangladesh: Issues and Challenges

1. Introduction and Background

There is no denying fact that Cottage, Micro and Small enterprises (CMSEs) are the key pillars for the economic growth of any country specially in the rural economy. This sector significantly foster GDP growth in one side and also contributes to building social network, ensuring life standard of poor people, reducing social unrest and inequalities, satisfying the raw materials needed for large firms and so on (Hossain & Ibrahim, 2020). According to World Bank (2018) statistics, SME represent about 90 percent of businesses and more than 50 percent of employment all over the world. Besides, over a long time this sector can offer economic constancy for owners, employees and also for their families by ensuring a steady source of income (Bianca, 2016). Despite huge potential, CMSEs face multidimensional barriers including access to finance into formal sector. According to the estimate of IFC, in developing countries 40 percent of formal MSMEs or about 65 million of firms have financing gap of \$5.2 trillion every year, which is equal to 1.4 times of the worldwide MSME lending (World Bank, 2018).

To meet the financing need of the CMSEs, different ministries and central bank have taken various policies and initiatives including accessible financial systems, enabling market environment, credit guarantee and refinancing schemes, and so forth. Unfortunately, due to the lack of capital market deepness, Bangladesh financial system become the bank-based financial system. Even the restricted access of CMSEs into the capital market crack them to largely depend on banking system. However, due to the lack of banking network into the rural areas and appropriate model or approaches, a lion portion of CMSEs are still untapped through the banking channel. Although government, commercial banks and many other market players consider the sector as one of the utmost opportunities for investing

and have come forward with different policies and initiatives, these are not enough to meet the greater financial and non-financial need of the sector.

In general, CMSEs are heterogenous in nature and scattered throughout the country. In order to meet their financing need at lower cost, it is highly necessary to have banking network all over the country specially in the rural areas. The study of Hossain, Yoshino & Taghizadeh-Hesary (2018) showed that expansion of bank branch network can minimize the default risk through reducing asymmetry of information between the SME borrowers and banks and aids SMEs' access to credit at relatively lower costs. They also found that banks density has a significant positive impact on SMEs output, gross value addition and labor productivity. The results of their study confirmed that local level financial development matters for SMEs' access to credit and their growth. Through analyzing firm level data of 70 developing and emerging countries, Leon (2015) shows that bank level competition highly relieves credit constraints for SMEs. Besides, competition among financial institutions help to develop more diversified lending products that might help firms to grow. Moreover, local level financial development either formal banking channel or semi-formal agent or the presence of mobile banking, might influence the volume of loan as well as the price of credit (Chauvet and Jacolin, 2017).

However, due to the high administrative cost, in most of the cases it is not feasible for a bank to open branch or sub-branch in the rural areas. The existing banking network is not adequate enough to serve the financing requirements of CMSEs in the rural areas. Therefore, the excessive reliance of CMSEs on the informal sector increase their cost of doing business with lower margin and reduce their market competitiveness. Even, the presence of some other market players like Non-Bank Financial Institutions (NBFIs), Non-Government Organizations (NGOs), Micro Finance Institutes (MFIs), multipurpose cooperatives, informal money lenders, samities, etc. are not sufficient enough to meet their financing needs (Mamun et. al., 2022). Hence, due to the inadequacy of bank branch network in the rural areas, it

become urgent to develop some other approaches or lending mechanism so that CMSEs can easily fulfill their financing need.

To address the issue, central bank of Bangladesh has introduced agent banking in the country through issuing a guideline in 2013 and subsequently issued ‘Prudential Guidelines for Agent Banking Operation in Bangladesh’. The ultimate objective is to deliver the banking services to the under-privileged, under-served people specially living in the geographically remote location through an alternative delivery channel of existing banking networks. These guidelines prescribed that banks can provide a variety of services including savings, loans, remittances, and different payment services (like utility bills, taxes, government transfer benefits, etc.) to customers through their nominated agents. Commercial banks in Bangladesh have already taken some initiatives to reach the unbanked CMSEs through agent banking activities, in a limited scale. However, the big concern is that banks lack offering lending services in the rural areas by which CMSEs in the remote areas can have access into the formal financial sector to fulfill their financing needs. Based on these realities, the study attempted to explore how banks can ensure lending activities in the rural areas with their agent outlets.

1.1 Objectives

The main objective of the study is to find out the feasibility and challenges of lending CMSEs through agent banking operations of different banks in Bangladesh. Thus, the specific objectives of the paper are to:

- (i) discuss about the current status of CMSEs financing in urban and rural areas in Bangladesh;
- (ii) review the overall activities and status of agent banking in Bangladesh; and
- (iii) analyze the responses of agents who are providing banking services to the banks’ customers and banks regarding the lending services through their agent banking.

1.2 Organization of the Study

The contents of this report are organized into six sections. Section-1 covers the introduction, background, objectives; Section-2 explains the data and methodology of the study; Section-3 discusses the financing scenario of CMSEs in urban and rural areas of Bangladesh; Section-4 reviews the overall activities and status of agent banking in Bangladesh; Section-5 highlights the policy and guidelines on agent banking; Section-6 represents the findings and analysis of the study; and finally, Section-7 raise the issues related to lending through agent banking for discussion.

2. Data & Methodology

Both primary and secondary sources are considered in order to achieve the study objectives. The study uses two units of analysis. One, the agent who are providing banking services specially located in the areas. The other unit of analysis is the higher officials working in the agent banking department of commercial banks in Bangladesh. The study follows survey method for collecting primary data from the agents. For this purpose, one questionnaire (Appendix-I) is developed for agents. For collecting the information from the agents, the study followed the purposive sampling method. In this process, the survey is carried out in 29 districts covering eight divisions of Bangladesh, based on the CMSEs' concentration and lack of adequate banking network. Although the term CMSMEs is commonly uses in different literatures and studies of Bangladesh, the present study focuses on CMSEs only. Therefore, throughout the report the term CMSEs has been used. The total number of 372 questionnaires has been distributed among 29 districts, out of which 236 questionnaires were received. Therefore, the response rate was 63.44%. From the received questionnaires, 4 questionnaires were rejected due to missing data and lack of needed information. Finally, 232 questionnaires were used for the analysis purposes.

For collecting data from the banks, Key Informant Interview (KII) is conducted among the CMSME departments of banks. A total of 17 higher

officials are participated in the interview those have agent banking network and used for the analysis purposes. Secondary information is used to show the financing scenario of CMSEs' both in urban and rural areas including lending through agent banking. Moreover, published literature, research papers, different books are reviewed to complete the theoretical background and relevant websites are visited to collect secondary information.

3. Financing Scenarios of CMSMEs' in Urban and Rural Areas in Bangladesh

3.1 Share of Urban and Rural Deposits of Banks

Table 3.1 shows the percentage of deposits of different categories of banks in Bangladesh based on urban-rural concentration. Overall, for all banks, the deposit is concentrated mostly (79.5% to 78.8%) in urban branches starting from 2016 to 2022. For all banks, the contribution of rural areas has slightly increased during 2020 to 2022. It is evident from table that, SCBs and SBs have major concentration in rural area compared to PCBs. However, the FCBs do not have any rural branch.

Table 3.1: Deposits in Banks: Share of Urban and Rural by Types of Banks (%)

Year	SCBs		SBs		PCBs*		FCBs		All Banks	
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
2016	66.0	34.0	51.2	48.8	85.3	14.7	100	0	79.5	20.5
2017	65.6	34.4	50.8	49.2	85.1	14.9	100	0	79.4	20.6
2018	66.1	33.9	50.6	49.4	84.4	15.6	100	0	79.4	20.6
2019	65.2	34.8	49.9	50.1	84.0	16.0	100	0	79.1	20.9
2020	65.2	34.8	49.1	50.9	83.6	16.4	100	0	78.7	21.3
2021	65.4	34.6	49.4	50.6	83.4	16.6	100	0	78.5	21.5
2022	64.5	35.5	46.5	53.5	83.9	16.1	100	0	78.8	21.2

Source: Scheduled Bank Statistics, Bangladesh Bank; **including IBs.*

3.2 Loans and Advances of Banks by Division

Table-3.2 highlights the geographical distribution of loans and advances by different categories of banks. It shows that 89.74% loans and advances are concentrated in Dhaka, Chattogram and Khulna division loans and advances. The rest 10.26% loans and advances are distributed in remaining 5 divisions.

**Table 3.2 Loans and Advances by Geographical Distribution:
Share and Growth of Each Group of Banks (%)**

Sl. No.	Divisions	Dec-21					Dec-22				
		SOCBs	PCBs	SBs	FCBs	Total	SOCBs	PCBs	SBs	FCBs	Total
1	Chattogram Division	9.06	21.53	14.93	7.50	18.51	8.88	20.59	14.66	6.42	17.63
2	Dhaka Division	66.50	68.44	28.18	91.99	67.56	66.40	69.16	28.92	93.16	68.15
3	Khulna Division	8.04	2.59	13.91	0.10	3.91	7.73	2.68	14.27	0.09	3.96
4	Mymensingh Division	2.48	0.77	10.43	0.00	1.36	2.53	0.76	10.13	0.00	1.36
5	Rajshahi Division	5.23	3.42	9.42	0.08	3.85	5.26	3.60	9.29	0.06	4.00
6	Barisal Division	2.23	0.65	7.89	0.00	1.15	2.33	0.65	7.88	0.00	1.18
7	Sylhet Division	1.29	1.11	4.93	0.33	1.24	1.41	1.05	4.79	0.27	1.20
8	Rangpur Division	5.18	1.48	10.31	0.00	2.42	5.46	1.52	10.05	0.00	2.52
	Total	100	100	100	100	100	100	100	100	100	100

Source: Researchers' Calculation Based on Data from Scheduled Bank Statistics

3.3 Loans and Advances of Banks by Urban and Rural

Considering the urban-rural segmentation of loans and advances for all banks, Table-3.3 shows that, overall urban areas are seen heavy concentration than the rural segment. However, the SCBs and SBs have wider coverage in rural areas than the PCBs and FCBs in the rural areas of Bangladesh.

Table 3.3: Loans and Advances of Banks by Urban and Rural (%)

Year	SCBs		SBs		PCBs*		FCBs		All Banks	
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural
2016	81.3	18.7	37.3	62.7	94.0	6.0	100	0	89.8	10.2
2017	80.5	19.5	33.6	66.4	93.3	6.7	100	0	89.4	10.6
2018	78.0	22.0	33.7	66.3	94.1	5.9	100	0	89.6	10.4
2019	78.8	21.2	33.2	66.8	94.1	5.9	100	0	89.7	10.3
2020	77.8	22.2	32.5	67.5	93.9	6.1	100	0	89.2	10.8
2021	77.5	22.5	33.3	66.7	93.5	6.5	100	0	88.8	11.2
2022	74.9	25.1	33.7	66.3	93.6	6.4	100	0	88.3	11.7

Source: Scheduled Bank Statistics, Bangladesh Bank; **including IBs.*

3.4 Aggregate Financial Sector Exposure to CMSMEs by Urban and Rural

Table 3.4 shows that gradually the share of CMSEs' loan have been increasing from 59.10% in 2017 to 74.6% in 2022. Again, the aggregate exposure to rural CMSEs also increased to 21.8% in 2022 compared to 16.4% in 2017, which is a positive sign.

Table 3.4: Total CMSME Loan of Financial Sector by Urban and Rural (BDT in Crore)

Year	Total CMSMEs Disbursements	Share of CMSEs (%)	Share of Urban CMSEs (%)	Share of Rural CMSEs (%)
2017	161,777.3	59.1	83.6	16.4
2018	162,643.1	64.7	82.9	17.1
2019	167,970.7	71.2	81.7	18.3
2020	153,496.2	71.0	81.0	19.0
2021	185,428.5	73.2	81.8	18.2
2022	220,489.4	74.6	78.2	21.8

Source: SME & Special Programs Department, Bangladesh Bank

3.5 Aggregate CMSEs Exposure by Banks and NBFIs

Table-3.5 shows that the share of CMSE loans held by Banks increased to 96.3% in 2022 to compared to 2017. However, the share of CMSE loans held by the NBFIs decreased to 3.7% in 2022 compared to 2017.

Table 3.5: Total CMSEs Loan by Banks and NBFIs (BDT in Crore)

Year	Total CMSEs of Financial Sector	Share of Banks (%)	Share of NBFIs (%)
2017	95,616.1	94.3	5.7
2018	101,343.3	95.2	4.8
2019	119,379.3	96.1	3.9
2020	108,767.6	97.2	2.8
2021	135,776.7	95.1	4.9
2022	164,543.4	96.3	3.7

Source: SME & Special Programs Department, Bangladesh Bank

3.6 Exposure to CMSMEs by Different Group of Banks

Table-3.6 shows that the cumulative disbursement of CMSME loan increased in 2022 by 18.32% compared to 2021 by different groups of banks. Although having the largest network by the SCBs and SBs in Bangladesh their share of cumulative disbursements in rural CMSMEs were 14.8% in 2021 and 13.1%, respectively. The PCBs, IBs and FCBs are playing the major role in terms of covering the rural CMSMEs, although these bank group does not have wide ranges of bank branch in Bangladesh.

Table 3.6: CMSMEs Loan Disbursement by Group of Banks (%)

Group of Banks	2021		2022	
	Cumulative Disbursement	Share of Rural CMSMEs	Cumulative Disbursement	Share of Rural CMSMEs
FCBs	1.7	3.7	1.9	1.8
IBs	34.4	43.8	33.2	51.2
PCBs excluding IBs	53.9	37.7	52.7	33.9
SBs	1.9	6.6	2.0	5.7
SOCBs	8.1	8.2	10.2	7.4
Total of CMSMEs by Banks (BDT Crore)	178,760.9	37,229.9	211,527.0	54,373.8

Source: SME & Special Programs Department, Bangladesh Bank

3.7 Bank Branch: Urban, Rural, Fully Online Branch, Partially Online and Fully Offline

Table 3.7 shows the composition of bank branches based on Urban, Rural, Fully Online, Partially Online and Fully Offline. Based on the Bangladesh Bank guidelines the gap between urban and rural branch network started to be minimized since 2010.

Table 3.7: Bank Branches: Urban, Rural, Fully Online, Partially Online and Fully Offline

Year	Share of Urban and Rural Based Branch (%)		Share of Online and Offline Branch (%)		
	Urban	Rural	Fully Online Branch	Partially Online Branch	Offline Branch
2010	42.6	57.4	NA	NA	NA
2011	42.8	57.2	NA	NA	NA
2012	42.8	57.2	NA	NA	NA
2013	42.9	57.1	NA	NA	NA
2014	43.0	57.0	NA	NA	NA
2015	43.2	56.8	NA	NA	NA
2016	43.4	56.6	NA	NA	NA
2017	43.5	56.5	NA	NA	NA
2018	51.5	48.5	82.4	11.6	6.0
2019	51.5	48.5	88.4	7.1	4.6
2020	51.4	48.6			
2021*	51.5	48.5			

Source: Scheduled Bank Statistics, Bangladesh Bank; *up to June 30, 2021

3.8 Particulars of Sub-branch Services in Rural and Industrial Areas

Bangladesh Bank has introduced sub-branches to bring banking services close to the common people which is helpful for low cost banking services, creating new customers, increasing the flow of deposits, investments and remittances. Table 3.8 shows the status of Sub-branch in banking sector of Bangladesh.

Table 3.8: Status of Sub-Branches of Banks (As of June 2021)

Sl. No.	Particulars	Number
1	Banks Opening Sub-Branches	36
2	Total No. of Sub-Branches	1672
3	IBBL Sub-Branches	196
4	NRBC Sub-Branches	147
5	Others	1329

3.9 Alternative Delivery Channels (ADCs) of Banking in Bangladesh

Table 3.9 shows the Alternative Delivery Channels (ADCs) in Bangladesh Banking sector. ADCs are means for providing banking services straight to the customers of banks. Using ADCs, customers can transact through ATM / POS / Multi-functional Kiosks, contact the bank's Call Centre, access the digital Interactive Voice Response (IVR), perform transactions through Internet Banking etc. By ADCs bank can directly reach their wide consumer-base across geographies. ADCs ensure the smooth flow of regular transactions and provide banks with higher profits with lower operational expenses and transaction costs while expanding their business.

Table 3.9: Status of Alternative Delivery Channels in Bangladesh (up to December, 2022)

Sl.	Particulars	Numbers
1.	Credit Card	2,115,861
2.	Debit Card	29,849,136
3.	Prepaid Card	3,383,951
4.	Total Card	35,348,948
5.	Internet Banking Account	6,252,634
6.	Mobile Banking Agents	1,554,637
7.	Mobile Banking Customers	191,063,573
8.	Agent Banking Agents	15,226
9.	Agent Banking Customers	17,478,884
10.	ATMs	13,434
11.	POSTs	103,055

Source: Monthly Economic Trend, Bangladesh Bank

3.10 Status of Total Loan, CMSME Loan and Lending through Agent by Banking Sector

Table-3.10 shows the Status Total Loan, CMSME Loan and Lending through Agent by Banking Sector. It shows that the compared to Total loans and advances of the Banking sector, Lending to CMSMEs as well as to the Agents has slightly increased in 2022. Besides, percentage of Agent lending compared to total CMSME loans increased more than double to 4.87% in 2022 than 1.27% in 2020.

Table 3.10: Status Total Loan, CMSME Loan and Lending through Agent by Banking Sector (BDT in Crore)

Year	Total Loan & Advanced	Total CMSME Loan	CMSME % of Total Loan	Total Lending by Agent	Agent Lending % of Total Loan	Agent Lending % of Total CMSME Loan
2020	1175000	149203.6	13%	1893.1	0.16%	1.27
2021	1324410	178760.9	13%	5346.1	0.40%	2.99
2022	1502610	211527	14%	10306	0.68%	4.87

Source: Financial Stability Report 2022 and SMESPD, Bangladesh Bank

4. Policy and Guidelines of Agent Banking in Bangladesh

4.1 Introduction

Agent banking operation are conducting in Bangladesh according to Payment Systems Department through Agent Banking Guidelines 2013 (Circular No: 05, dated: 09 December 2013) for the Banks and Prudential Guidelines for Agent Banking Operation in Bangladesh-2017.

Agent banking operation will be conducted through Unit Agent. Each agent banking outlet will be monitored by adjacent branch of the respected bank. Unit agent has no ownership and has not considered as an employee of the bank but will operate banking activities on behalf of the bank. An account

opened from agent banking outlet will be automatically incorporated with CBS and the account holder of agent banking outlet will be treated as account holder of the respective bank. Biometric finger print/PIN will be used for operating the account. Even going to the branch, agent outlet account holder will perform transaction. Each bank will ensure available facilities to conduct smooth operation of agent outlet customers. All the transaction from agent outlet will be done by prepaid basis. An agent will open a current account in the name of agent with the controlling branch. Each and every financial transaction by the agent outlet will be instantly reconciled with the current account. Cash withdrawal and cash deposit depends on the available balance with the current account. No agent shall relocate, transfer or close its agent banking outlet without the prior written consent of the bank.

4.2 Regulatory Issues

Without having approval from Bangladesh Bank no bank shall be allowed to undertake agent banking business. Bangladesh Bank may withhold, suspend or cancel approval for providing agent banking services if it is detrimental to the public interest. Usual business hours for agent banking outlets should be regular banking hours announced by Bangladesh Bank from time to time. Some other regulatory issues are as follows:

- To establish agent banking services outlet, banks shall give priority to areas where bank branches or other forms of formal banking services access points are not available.
- Banks shall give preference to such places for establishing new agent banking outlets where there is no bank branch or agent point within 1 (one) km radius (with an exception of agent on UDC).
- Banks shall give priority to remote rural areas, chars, islands and other geographical areas with limited accessibility.

- Banks should maintain a minimum ratio of 3:1 for rural and urban agent banking outlets.
- Banks shall put emphasis in its agent banking policies to prioritize low income households, cottage, micro and small businesses without access to formal banking services in the priority areas for opening new accounts.

4.3 Agent Banking Model

An agent can act as agent of more than one bank at a time but at the customer end an agent shall represent and offer banking services of only for a single bank. The bank shall assign one of its branches to be responsible for the agent operating in the designated area of the branch. In the customer end the transaction should be operating through ICT devices that are continuously and uninterruptedly integrated to the system developed by banks. The transaction should be executed on real time basis. The bank shall brand agent banking business in such a clear manner so that the customer can realize that the agent is providing services on behalf of the bank. Usual business hours for agent banking outlets should be regular banking hours announced by Bangladesh Bank from time to time.

4.4 Who can be an Agent?

Proprietor, Partner, Pvt. limited company, Pharmacy, Post office, Pump owner, Chain shop, NGOs, Union Information and Service Centre (UISC).

4.5 Permissible Agent Banking Activities

A/C Opening, Cash deposit, Cash Withdraw, inward foreign remittance disbursement, Utility bill payment, Small value loan disbursement and recovery, facilitate social safety net program, Receiving of clearing cheque, RTGS, Fund transfer etc.

4.6 Prohibited Activities

- a. Giving final approval of opening of bank accounts and issuance of bank cards/ cheques,
- b. Dealing with loan/ financial appraisal
- c. Encashment of cheques and d. Dealing in Foreign currency

4.7 Charge for the Services

Agents are not allowed to charge customers directly any fee beyond banks prescribe fees. Bank shall pay reasonable fee/commission to their agents.

4.8 Anti-Money Laundering Compliance

Agent banking activities must comply with Anti-Money Laundering (AML)/ Combating the Financing of Terrorism (CFT) related issues by ensuring KYC, SAR/STR etc. tools.

4.9 Risk Mitigation

Banks must ensure a control environment to mitigate all kinds of risk. Banks should pay special attention to credit risk, operational risk, legal risk, liquidity risk, reputation risk, technical risk and compliance with rules for combating money laundering and financing of terrorism. An effective and proper training shall be arranged before and during the agent banking operation.

4.10 Internal Audit and Monitoring

The banks must formulate internal audit policy to monitor and control agents. They should visit the agent's outlets at a regular interval to ensure that the agents are working in accordance with the terms and conditions of the agreement and following the rules and regulations issued by regulators.

4.11 Dispute Resolution

The bank needs to ensure adequate measures for dispute resolution. The bank must run a call centre to receive and process dispute 24 hours a day via phone, SMS, IVR and mail. Each of the disputes must be resolved within 3 working days.

5. Overall Activities and Status of Agent Banking in Bangladesh

5.1 Introduction

Agent Banking is facilitating customers full-fledged banking services to their doorsteps, and making suitable channeling of remittance, depositing and withdrawal of cash and supporting small loans for cottage micro and small enterprises and also for agricultural farmers at low cost. Now people in many remote areas of the country are able to receive easy banking facilities with comfort. The government's social safety-net benefits, including elderly, widow and disabled allowances are being reached to disadvantaged segments in a timely and cost-effective manner. Salary payment and other financial services to Ready-Made Garment (RMG) workers have been started through this platform. Advantages of Agent Banking broaden smiles of the beneficiaries of a number government and non-government development programs. With the support from the government's Union Digital Center (UDC) and City Digital Center (CDC) expedites its specialized banking service to grassroots. Agent Banking is a business model heading through a journey taking along entrepreneurs, remittance partners, development partners, Government visioning the outcomes of new employment generation, business expansion of the CMSE enterprises, retail loans for individual, strengthen farmers and digitization of mattress money for a thriving economy like Bangladesh. Bank-wise number of agents and outlets are shown in Table-5.1. In Bangladesh, 31 commercial banks are involved in Banking with the 15540 agents and 21448 outlets. Most of the agents (8.99%) and agent outlets (85.5%) are in the rural areas.

Table 5.1: Bank-wise Number of Agents and Outlets

		No. of Agents			No. of Outlets		
Sl.	Bank Name	Urban	Rural	Total	Urban	Rural	Total
1	AB Bank PLC	54	105	159	57	118	175
2	Agrani Bank PLC	36	530	566	36	530	566
3	Al-Arafah Islami Bank PLC	101	407	508	88	642	730

		No. of Agents			No. of Outlets		
Sl.	Bank Name	Urban	Rural	Total	Urban	Rural	Total
4	Bank Asia PLC	492	4527	5019	500	4616	5116
5	BRAC Bank PLC	210	743	953	223	821	1044
6	Dutch-Bangla Bank PLC	623	462	1085	1156	5015	6171
7	Eastern Bank PLC	33	39	72	22	58	80
8	Exim Bank PLC	4	6	10	4	8	12
9	First Security Islami Bank PLC	11	84	95	10	85	95
10	Global Islami Bank PLC	8	7	15	7	9	16
11	Islami Bank Bangladesh PLC	180	2521	2701	180	2521	2701
12	Jamuna Bank PLC	11	33	44	11	33	44
13	Meghna Bank PLC	9	16	25	13	13	26
14	Mercantile Bank PLC	34	148	182	34	148	182
15	Midland Bank PLC	20	67	87	19	89	108
16	Modhumoti Bank PLC	35	566	601	36	572	608
17	Mutual Trust Bank PLC	56	127	183	52	141	193
18	NRB Bank Limited	3	303	306	4	305	309
19	NRB Commercial Bank PLC	53	564	617	62	568	630
20	One Bank PLC	60	159	219	60	162	222
21	Padma Bank PLC	1	0	1	3	4	7
22	Prime Bank PLC	25	98	123	24	99	123
23	Shahjalal Islami Bank PLC	36	79	115	36	79	115
24	Social Islami Bank PLC	60	304	364	55	315	370
25	Sonali Bank PLC	10	217	227	10	217	227
26	SBAC PLC	4	20	24	4	20	24
27	South East Bank PLC	12	74	86	10	78	88
28	Standard Bank PLC	1	16	17	1	16	17
29	The City Bank PLC	143	405	548	151	409	560
30	The Premier Bank PLC	34	57	91	57	98	155
31	United Commercial Bank PLC	129	368	497	184	550	734
Grand Total		2488	13052	15540	3109	18339	21448
Percentage		16.01%	83.99%	100%	14.5%	85.5%	100%

Source: Quarterly Report on Agent Banking, July-Sep 2023, Bangladesh Bank

5.2 Products and Services of Agent Banking

Agent Banking provides almost all types of banking services except foreign exchange transactions. This service started eliminating difference of time and distance. Agent banking has reached the doorsteps of people and provided the following products and services according to the prescribed guidelines of Central Bank:

- i. **Cash deposit and cash withdrawal:** Customers can transact by opening different types of conventional and Islamic banking accounts i.e. savings A/c, current A/c, term deposit, SND, SME A/c, Tk 10 A/c and school banking A/c. However, there are restricted limits on cash deposits and cash withdrawals. In general, the maximum number and volume of transactions for client at agent banking outlet should not exceed the limits pacified in Table 5.2.

Table 5.2: Daily Number of Transactions and Amount (BDT in Lac) Limit

Nature of Accounts	Cash Deposit		Cash Withdrawal	
	No. of Transactions	Total Volume	No. of Transactions	Total Volume
Current Account	4	6.00	2	5.00
Savings Account	2	4.00	2	3.00
Special Notice Deposit (SND)	4	6.00	2	3.00

- ii. **Inward foreign remittance disbursement:** Inward foreign remittance can be sent from abroad to a secret number or directly disburse through the account.
- iii. **Disbursement and repayment of loans:** Some banks are giving small loans through agent banking including personal loan, agriculture and CMSEs. However, all types of loans can be disbursed and collected through agent banking.
- iv. **Collection of bills/ utility bills:** All types of utility bills can be paid through agent banking. At present REB, DPDC, DESCO, DESA, WASA, GAS bills are being deposited through various agent outlet.

- v. **Collection of insurance premium:** All types of insurance premium deposits are available through agent banking. BANCASSURANCE has now brought new opportunities for agent banking.
- vi. **Payment of retirement and social benefits:** Common people are getting government's social safety-net benefits, including elderly, widow and disabled allowances easily through agent banking.
- vii. **Payment of salaries:** Employee salaries can be easily paid through agent banking. Agent banking makes payment of salaries to garment workers easier and accounts are maintained at low cost for them.
- viii. **Transfer of funds:** Agent banking has made transactions in any bank easier from rural areas. Though small limits can be transacted but rural trading has become easier.

**Table 5.2: Daily Number of Transfer of Funds and Amount
(BDT in Lac) Limit**

Nature of Accounts	Transfer/BEFTN/RTGS/ Inter-bank/Intra-bank	
	No. of Transactions	Total Volume
Current Account	4	15.00
Savings Account	2	5.00
Special Notice Deposit (SND)	4	10.00

- ix. **Balance enquiry:** People who do not have banking literacy can easily know their balance through agent banking.
- x. **Generation and issuance of mini bank statements:** Customers get mini statement assistance from agent banking and can also receive complete bank statements if required.
- xi. **Collection of documents in relation to accounts:** Agent can collect all documents related to banking deposits and loans in favor of the bank. The bank's head office or zonal/ regional office conducts operations based on the documents collected by the Agent outlet.
- xii. **Collet account opening forms, loan application forms, credit and debit card applications:** Agent can collect documents related to debit card processing, credit card processing, loan application, check book

issuance, check clearing, mobile apps, online buying and selling and all these services can be availed by agent banking customers.

xiii. Monitoring and recovery of loans and advances sanctioned by the bank: Banks can easily monitor and recover rural CMSE and Agri loans by involving agents.

xiv. Any other activity as Bangladesh Bank may prescribe from time to time.

5.3 Status of Agent Banking Operations in Bangladesh

5.3.1 Overview of Agent Banking Activities in Bangladesh

Table-2.3 focuses on the coverage, customer penetration, collection of deposit, ratio of male-owned and female-owned accounts, disbursement of loan and the inward remittances through agent banking.

Table 5.3: Overview of Agent Banking Activities in Bangladesh

Particulars	Sep '22	Sep'23	Growth %
No. of Banks with License	31	31	0.00
No. of Banks in Agent Banking	31	31	0.00
No. of Agents	14,663	15,540	6.00
No. of Outlets	20,177	21,448	6.30
No. of Accounts	16,780,576	20,684,537	23.26
No. of Female Accounts	8,195,790	10,287,881	25.50
Number of Rural Accounts	14,471,090	17,818,966	23.10
Amount of Deposits (BDT crore)	306,631.97	352,007.62	14.80
Amount of Loan Disbursed (BDT crore)	88,809.02	141,926.50	59.80
Amount of Inward Remittance (BDT crore)	1,066,287.97	1,364,732.63	28.00

Source: Quarterly Report on Agent Banking, July-Sep 2022 and July-Sep 2023, Bangladesh Bank

5.3.2 Scenarios of Deposit and Lending through Agent Banking

Table-5.4 shows the different aspects of deposit and lending through Agent Banking. At the end of September 2023, the total amount of deposit through agent banking reaches BDT 352,007.62 million. The major share of deposit (79.03%) has been collected from the rural areas where deposit in male customers' accounts (56.27%) is significantly higher than that of female customers (34.12%). In addition, that savings accounts comprise 44.37% of the total deposit while other categories of accounts including institutions and term deposit comprise 49.44% of the total deposit and current accounts comprise 6.19% of the total deposit.

Table 5.4: Deposit and Lending through Agent Banking

Item	Amount of Deposit (million)	% (Sep 2022)	Amount of Deposit (million)	% (Sep 2023)	Growth (%)	Amount of Lending (million)	% (sept 2022)	Amount of Lending (million)	% (sept 2023)	Growth
	Sep 2022	%	Sep 2023	%		sept 2022	%	sept 2023	%	
Urban	64534.58	21.05	73824.82	24.08	14.40	31365.38	35.32	32987.71	36.74	5.17
Rural	242097.40	78.95	278182.80	90.72	14.91	57443.64	64.68	56799.21	63.26	-1.12
Male	179387.46	58.50	198075.20	64.60	10.42	70097.89	78.93	71,605.07	79.75	2.15
Female	105080.87	34.27	120109.60	39.17	14.30	10179.35	11.46	11968.59	13.33	17.58
Others	22163.64	7.23	33822.76	11.03	52.60	8531.78	9.61	6374.87	7.10	-25.28
Current	18908.79	6.17	21778.45	7.10	15.18	N/A	N/A	N/A	N/A	N/A
Saving	145359.78	47.41	156198.50	50.94	7.46	N/A	N/A	N/A	N/A	N/A
Others	142363.40	46.43	174030.70	56.76	22.24	N/A	N/A	N/A	N/A	N/A
Total	306631.97	100.00	352007.62	114.80	14.80	88809.02	100.00	89786.93	100.00	1.10

Source: Quarterly Report on Agent Banking, July-Sep 2022 and July-Sep 2023, Bangladesh Bank

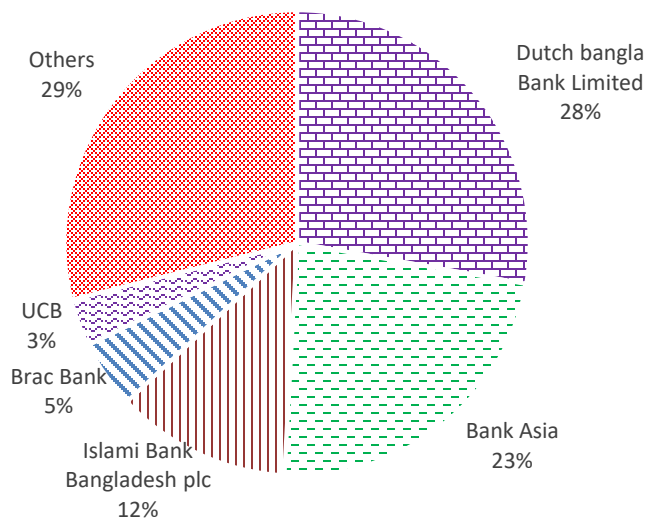
From the Quarterly Report on Agent Banking, July-Sep 2023, Bangladesh Bank it is evident that as of September 2023, the lending through agent banking rises to BDT 141,926.50 million. The volume of total loans has increased by 8.82% over the previous quarter, where rural customers have received BDT 89,786.93 million (63.26%) of the total loan disbursed through agent banking channel.

Male borrowers have received BDT 112,922.9 million (79.57%) of the total loan compared to female borrowers who have received only BDT 18,923.73 million (13.33%). The variation in male and female borrowers may be due to banks' lack of confidence in the female customers for various reasons while making lending decisions or female customers' limited participation in rural enterprises.

5.3.3 Top Five Banks' Share of Outlets and Account

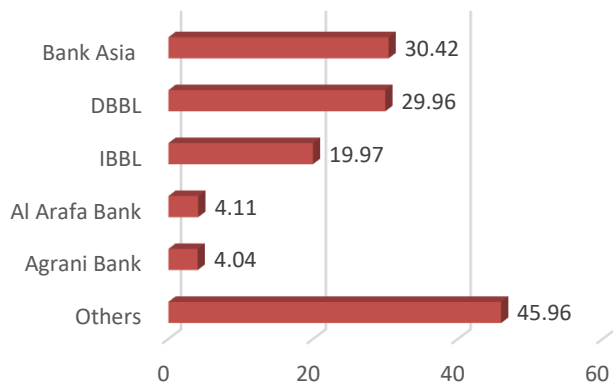
The Dutch-Bangla Bank PLC, Bank Asia PLC, Islami Bank Bangladesh PLC, BRAC Bank PLC and United Commercial Bank PLC are the top 5 banks in Bangladesh banking sector which are engaged in agent banking. As of June 2023, the top five banks have established 73.51% of the total agent outlets. Dutch-Bangla Bank Limited has ranked the top with 6,171 outlets, comprising 28.77% of the total outlets (Figure-5.1) under operation.

Figure 5.1: Top Five Banks' Share of Outlets (Sept 2023, in %)



Source: Quarterly Report on Agent Banking, July-Sep 2023, Bangladesh Bank

Figure 5.2: Top Five Banks' Share of Accounts (Sep-23, in %)

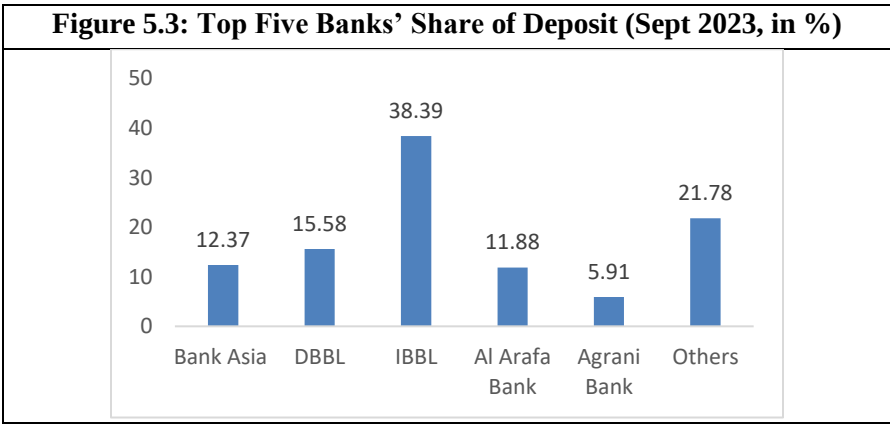


Source: Quarterly Report on Agent Banking, July-Sep 2023, Bangladesh Bank

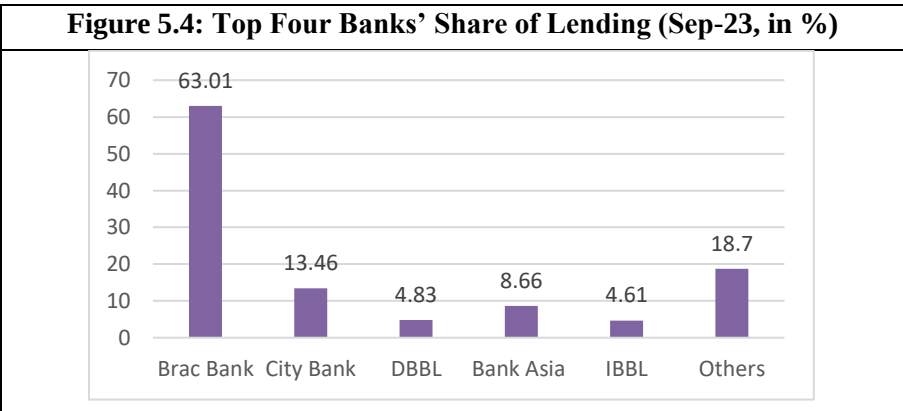
Besides, these Banks have opened 88.48% of the total accounts opened through agent banking. Bank Asia Limited has opened the highest number of 6,291,411 accounts, comprising 30.42% of the total accounts (Figure 5.2). That bank has opened 152,297 new accounts in this quarter.

5.3.4 Top Five Banks' Share of Deposit and Lending

As of September 2023, the top five banks have secured 84.22% share of the total amount of deposit accumulated through agent banking. Islami Bank Bangladesh PLC has ranked top in this list, with 38.49% of the total deposit (Figure-5.3) amounting BDT 135,477.98 million followed by the Dutch-Bangla Bank PLC with 15.58% of the total deposit.



Source: Quarterly Report on Agent Banking, July-Sep 2023, Bangladesh Bank



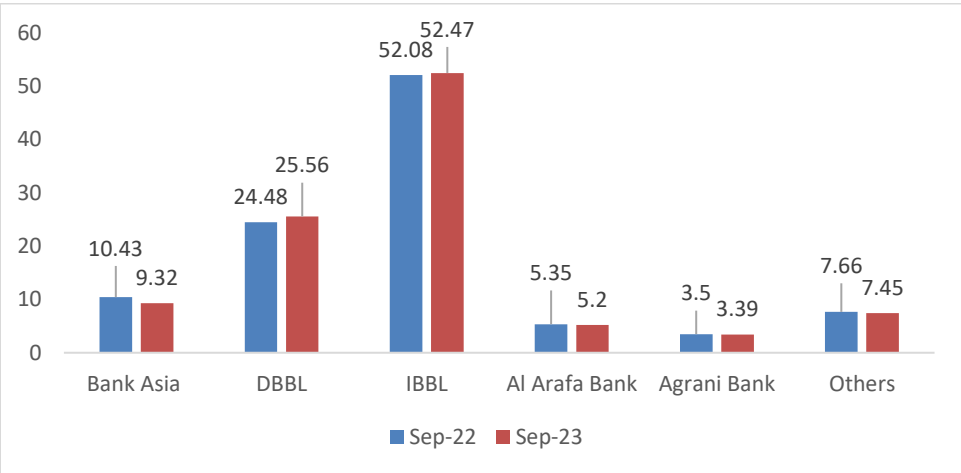
Source: Quarterly Report on Agent Banking, July-Sep 2023, Bangladesh Bank

The top five banks have carried out 94.57% of the total lending through agent banking till September 2023. BRAC Bank PLC has ranked the top with the largest volume of lending amounting to BDT 89,428.72 million, which is 63.01% of the total loans disbursed through agent banking (Figure 5.4).

5.3.5 Top Five Banks Share of Inward Remittance

The top five banks have 95.94% share of the total inward remittances distributed through agent banking as of June 2023. Islami Bank Bangladesh PLC ranks the top with BDT 716,111.25 million, which is 52.47% of the total inward remittances distributed through agent banking (Figure-5.5).

Figure 5.5: Top Five Banks' Share of Inward Remittance (in %)



Source: Quarterly Report on Agent Banking, July-Sep 2023, Bangladesh Bank

6. Survey Findings and Observations

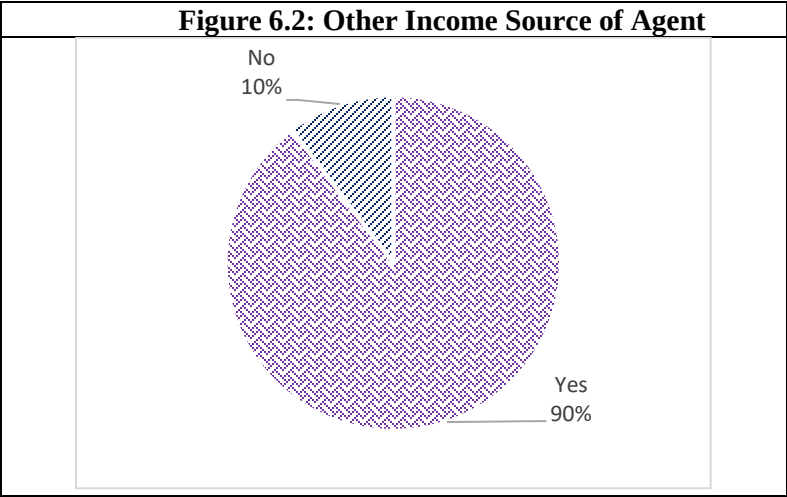
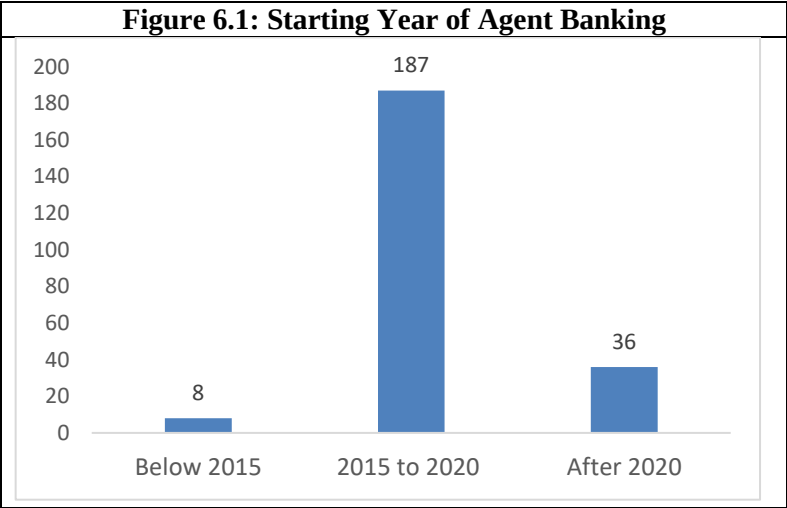
This section presents the study findings and analysis based on the survey results. The findings from agents are discussed and analysed in Section 6.1 and Section 6.2 presents the finding and analysis based on banks' responses.

6.1 Findings from Agents

The responses received from the agents to identify the actual activities and lending scenarios through agent banking are presented as follows.

6.1.1 Respondents’ Profile: Starting Year of Agent Banking and Other Income Source of Agent

The survey results revealed that out of the total sample (232), majority (187) of the agents started their business between 2015 to 2020 (Figure-6.1) and 89.66% of total sampled agents has other sources of income (Figure-6.2).



6.1.2 Services Provided through Agent

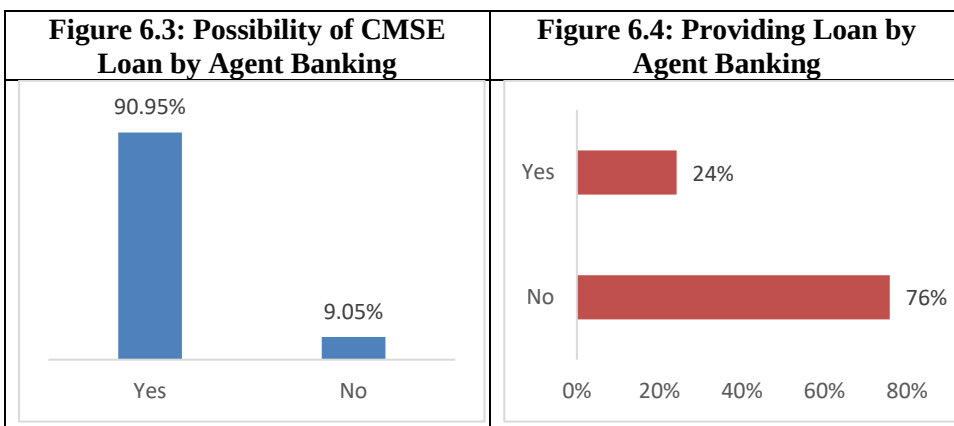
The agents are engaged in offering following services as mentioned in the Table-6.1.

Table 6.1: List of Services Provided by Agent

Sl.	Services
1	Account opening, deposit, and withdrawal services.
2	Issuance of checks, ATM cards, and electronic fund transfers (EFT).
3	Real-Time Gross Settlement (RTGS) services.
4	Fixed Deposit Receipts (FDR) and various types of loans, including personal, farming and special loans for women.
5	Mother and child support allowance.
6	Elderly support, widow's allowance, and disability support.
7	Insurance premium collections.
8	Payment of electricity bills.
9	Handling other utility bills.
10	Online fund transfers.
11	Provision of account statements.
12	Handling passport fees, visa statements, and MetLife services.
13	Progoti Sandhani and government allowances.

6.1.3 Possibility and Providing Loan by Agent Banking

According to the survey findings, a lion portion of the agents (90.95%) opined that CMSE loan can be disbursed through the agent banking (Figure-6.3). However, the findings evident that at present only 24 % (Figure-6.4) of the gents provide the loan through their agent outlets. It is important to note that sampled agent distributed 21% of loan against the deposit they have collected.



Although many of the agents think that they are confident to provide loan by their outlet, but they cannot offer this service as banks are reluctant to distribute the loan through agents. Agents cited several reasons for not providing loans by them which is mentioned in Table 6.2.

Table 6.2: Reasons not to Provide Loan by Agent

Sl.	Responses
1	Bank authorities have not taken necessary measures to provide CMSE loans
2	Documents verification problems
3	Only personal loan is disbursing no CMSE loan
4	Sometime we refer CMSE customer to the bank
5	We don't like to take the risk of loan recovery
6	Don't know how to select a loan customer
7	Non-approval for disbursing loans through agents
8	Non-cooperation of bank authorities
9	Authorities are reluctant to give loans to small businesses by agent
10	The bank lacks a policy to disburse loans via agent banking outlets
11	Challenges related to manpower, both in terms of quantity and support
12	Loan processes have not started from the bank
13	There is no contract with the bank during the agent's appointment

6.1.4 Problems Faced by Agent while Providing Loan

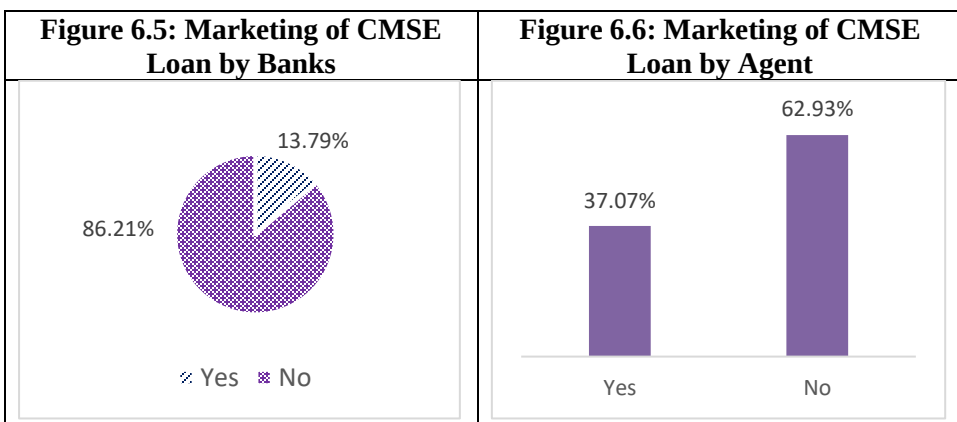
The agents mentioned the problems associated with providing loan as shown in Table-6.3.

Table 6.3: Problems Faced by Agent while Providing Loan

Sl.	Responses
1	The maximum loan limit is up to 5 lacs
2	Correct and appropriate documents are not readily available
3	Collateral is required but most of them do not have
4	There is a need to collect necessary documents, which takes a long time
5	Proper land documents are often not available for use as collateral
6	Lengthy loan approval times
7	Loans are restricted through agent banking outlets
8	Lack of cooperation from banks' authorities
9	Authorities reluctant to give loans to small businesses through agents
10	Customers lacking necessary documents, trade licenses, and savings preservation
11	Lack of belief from banks about the agent's ability to repay the loan
12	Lack of a policy to disburse loans via agent banking outlets
13	Lack of manpower for loan processing
14	Challenges in obtaining guarantor documents and TIN

6.1.5 Marketing of CMSE Loan by Banks and Agent

A few of the banks are disbursing loan through their agent outlets. CMSE customers around the agent outlet must aware about the availability of loan in the agents. In this regard, majority of the agents (86.21%) stated that dedicated officials of banks marketing their CMSE loan near the agent outlet (Figure-6.5). Around 37% of the agents also claimed that they are marketing the CMSE loan in their areas (Figure-6.6).



6.1.6 Role of Agent for Recovery of Loan

Although agents are not disbursing the loan directly, they play several roles for recovering the loan amount. The role of agents in recovering the disbursed loans are summarized in Table-6.4.

Table 6.4: Role of Agent for Loan Recovery

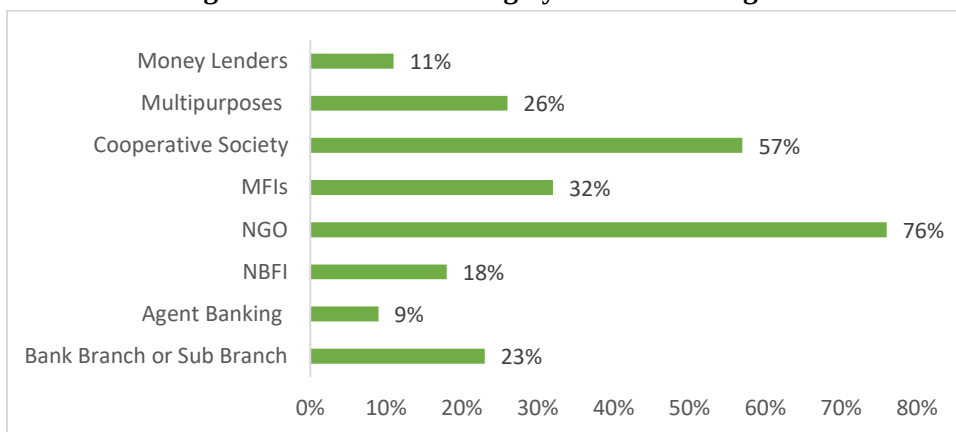
Sl.	Responses
1	Agents are associated with the team of bank to recover the loan
2	Sometime we communicate with the customers
3	Customers are informed by phone before the due date every month
4	Encouragement is given to customers to avoid fines
5	Customer visits are conducted to encourage instalment payments
6	Strong monitoring is conducted
7	Meetings are held with customers who are unable to provide instalments
8	Physical visits to customers are made to pressure them to pay instalments

From the questionnaire survey it is evident that only 6.03% of the respondents opined that they get some commission from the banks for providing and recovering the loan. According to their opinion 5.56 % of the loan are classified out of total loan providing from their agent outlets.

6.1.7 Loan Providing by Others near Agent

From Figure-6.7, it is evident that many actors are engaged in providing loan to different borrowers nearby agent locations. NGOs are the highest (76%) provider of loans to the borrowers followed by the cooperative society (57%), MFIs (32%, multipurpose samities (26%), bank branch/sub-branch (23%), NBFIs (18%), money lenders (11%), and the agent banking (9%).

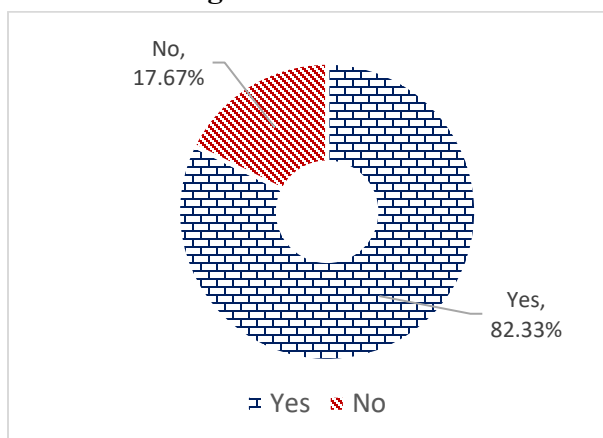
Figure 6.7: Loan Providing by Others near Agent



6.1.8 Satisfaction of Agent with the Banks' Services while Lending

Most of the banks are not disbursing CMSE loan through agent outlets. However, a few of the banks provide small loan through the agents' references and also utilize the agent outlets to recover the loan. As per the opinion of the majority of agents (82.33%), they are satisfied about the banks services while lending (Figure-6.7).

Figure 6.7: Satisfaction of Agent with the Banks' Services while Lending



Although a majority of the agents are satisfied with the banks services in case of lending, around 18% of them showed their dissatisfaction which are listed in Figure-6.5.

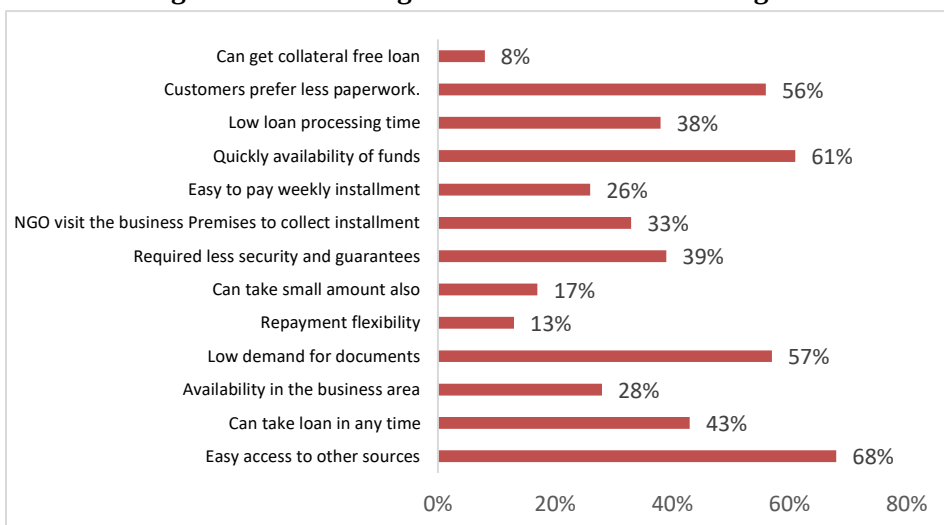
Table 6.5: Dissatisfaction of Agent while Lending

Sl.	Responses
1	Long processing time for loans
2	Borrowing from alternative sources is quicker and almost collateral-free
3	Despite high demand, loans are given to a fewer number of people
4	Document processing takes a considerable amount of time
5	Improvement needed in the quality of service
6	Lack of facility to disburse loans through agents

6.1.9 Advantage of Loan other than the Agents

Banks are offering lending services through agent banking in a limited scale. Therefore, most of the CMSEs are still trying to fulfill their financing need from many other sources. According to the opinion of the agents, CMSE customers are getting much more advantages from the other sources than banks while borrowing (Figure-6.8).

Figure 6.8: Advantages of Loan other than the Agents



6.1.10 Important Factors in Disbursing Loans through Agents

While disbursing loan through agents, banks need to consider the following aspects as mentioned in Table-6.6.

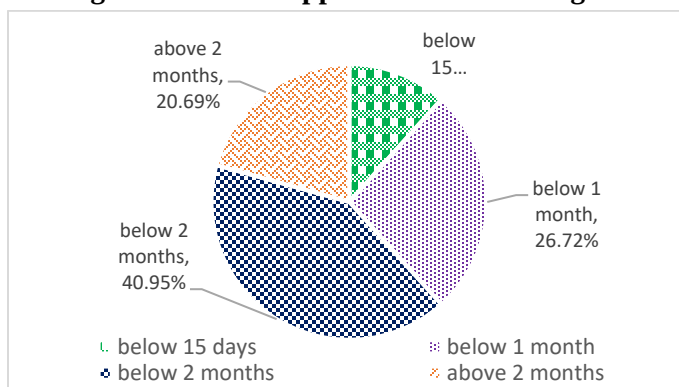
Table 6.6: Considerable Factors in Disbursing Loans through Agents

Sl.	Responses
1	Adoption of a fast loan disbursement system by the bank
2	Confirmation of the customer's required documents for loan disbursement
3	Desire of banks to give loans through agents for easier accessibility
5	Emphasis on choosing the right customers
6	Continuing communication with customers after the loan is disbursed
7	Local agents can monitor easily because of good familiarity with customers
8	Consideration of the customer's financial behavior and business status.
9	Banks officials should work closely with agents
10	Consideration of cashflow and guarantor rather than more collateral
11	Courtesy and cooperation from bank authorities.
12	Providing training to agents for CMSE loan disbursement
13	Simplify the loan disbursement process
14	Reducing documentation requirements
15	Providing services within a short period

6.1.11 Loan Approval Time from Agents

From the survey findings it is evident that bank's loan processing and approval time is higher through agent banking network. According to the opinion of the agents, most of the small loan take (41%) from 1 month to 2 months for getting approval from banks (Figure-6.9).

Figure 6.9: Loan Approval Time from Agents



6.1.12 Disruption of Agent Banking Activities Due to Banks Terms and Conditions

Agent banking activities may be disrupted due to certain terms and conditions imposed by banks as shown in Table-6.7.

Table 6.7: Disruption of Agent Banking Activities due to Banks Terms and Conditions

Sl.	Responses
1	Most of the agents are closely located
2	One bank to other bank money transfer is not possible
3	Communication issues between the Head Office (HO) and agents.
4	Lengthy loan processing time creates customer satisfaction
5	Delay of decisions due to the absence of banks' officials near agents
6	Fund limitations in vault affecting the ability to disburse loans
7	Banks are not permitting small business loan through agent
8	Challenges related to engagement of cheques and foreign currency exchange.
9	Problems with customers regarding loan limits.
10	Agent bank operations being disrupted as all services are not available as per contract
11	Discrimination of commissions among banks agents leading dissatisfaction among agents

6.1.13 Agents Expectation from Banks to Work More Effectively

To make agent banking more effective, the expectations of the agents from banks are summarized in Table-6.8.

Table 6.8: Agents' Opinions Regarding their Expectation from Banks

Sl.	Expectations from Banks
1	Providing logistic support to improve operational efficiency
2	Permitting different types of small loan disbursement
3	Ensuring better cooperation from bank officers
4	simplifying CMSE loan processing
5	Imparting IT training for skill enhancement
6	Including services, especially for schools and local institutions
7	Presence of a bank officer regularly at agent outlets
8	Adding 'SOD' facility against customers' account with agents
9	Allowing higher transaction limits
10	Simplifying the documentation for loan disbursement
11	Increasing service commissions for agents
12	Enhancing stronger internal and external supervision
13	Seeking help for server-related issues

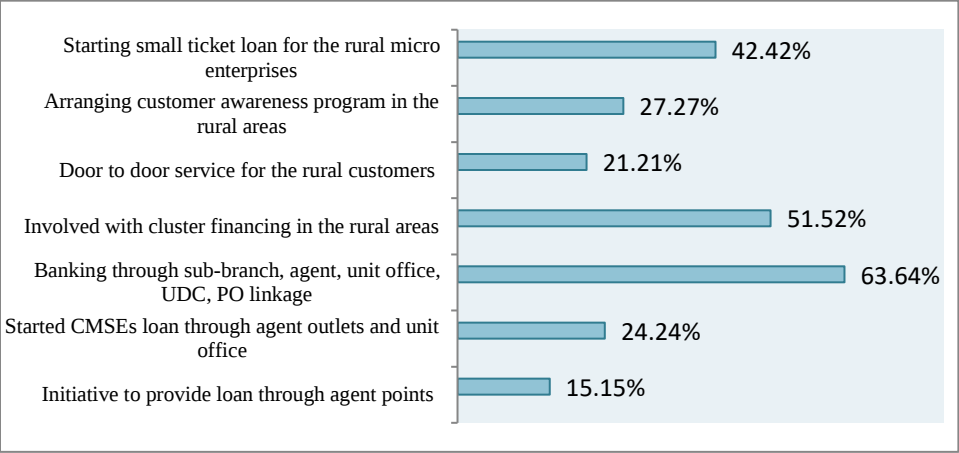
6.2 Findings from Banks

The responses received from the higher officials of banks working closely with the agent banking activities to identify the lending scenarios through agent banking are discussed below.

6.2.1 Current Initiatives of Banks to Serve Rural Areas

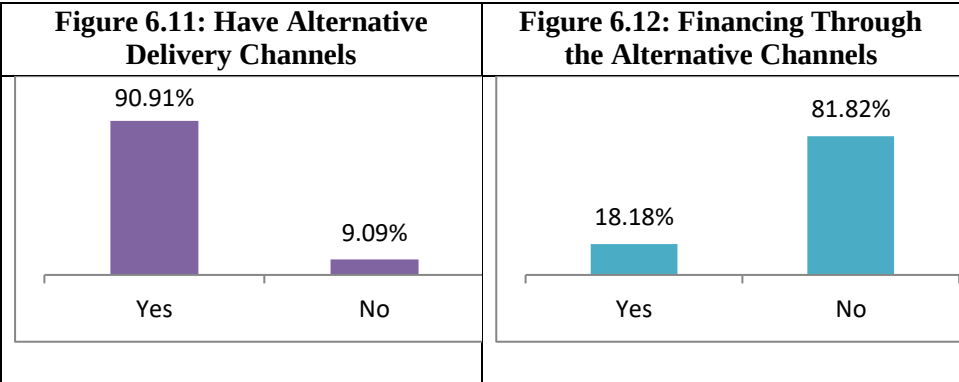
To reach the dispersed CMSEs located in the rural areas of Bangladesh, different banks have taken a number of initiatives as shown in Figure-6.10.

Figure 6.10: Initiatives of Banks to Reach Rural CMSEs Entrepreneurs



6.2.2 Existing Alternative Delivery Channels (ADCs) and Financing through the ADCs

90.91% banks have alternative delivery channels (Figure 6.11) but only 18.18% use the ADC as mode of financing (Figure-6.12)

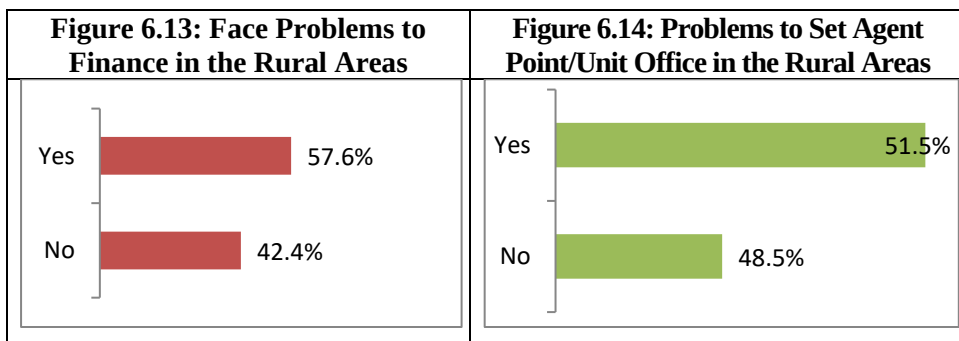


Banks often face different challenges from its other competitors than bank as shown in Box 6.1 and there are several reasons of underserved rural CMSEs by the banking sector as mentioned in the Box-6.2.

Box 6.1: Threats Banks are Facing from Competitors other than Banks	Box 6.2: Reasons of Underserved Rural CMSEs by Banking Sector
- Offered Collateral free loan - Flexible in documentary requirements - Less security requirement to provide loan. - Local competitors are well known to CSMEs - Customers do not like banking Process - Some of the competitors do not assess properly - Provide personal loan which CMSE use for the business - Offer very small ticket loan	- Many CMSME clients in rural areas are still out of consideration due to security and collateral issues - Lack of innovation in banking services and products - Lack of start-up financing - Most of the banks are not capable to reach the rural areas CMSEs - Lack of efficient manpower to work in the rural areas - Many customers do not visit the banks and go elsewhere - Some customers are not the qualified loan customers - Most of the micro businesses do not have trade license

6.2.3 Problems of Banks to Finance in Rural Areas and Setting Agent Point/Unit Office

Around 58% banks revealed that they face problems while financing in the rural areas (Figure-6.13) and 51.5% have problem in setting agent point/unit office in the rural areas (Figure-6.14).



Some of the problems that the banks are facing in financing CMSEs in the rural areas are mentioned in Box-6.3.

Box 6.3: Reasons of Underserved Rural CMSEs by Banking Sector

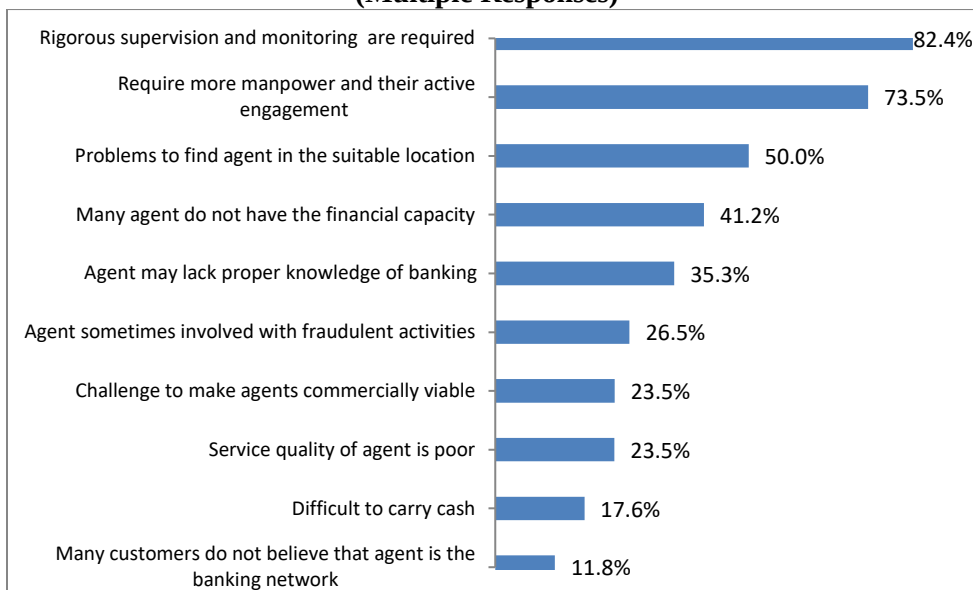
- Opening branch or sub-branch is costly - The clients of rural area still prefer to take loan from NGO, Samiti, multipurpose or Moneylenders to avoid banking process - Regular Supervision and monitoring are difficult - Lack of business plan & technology-based products - Lack of sector specific skilled manpower - The absence of SMEs support centers	- Clients are not fully prepared for getting loan - Non-availability of security - Hard to reach the clients located in the remote areas - Most of the business do not have trade license - Repayment behavior differs from area to area - Lack of banking network & mind set of the Banks - Absence of technology-based products
--	---

Over four-fifths (82.4%) of banks identified the requirements of rigorous supervision and monitoring of the agents, the lack of which may distort the overall credit discipline in the CMSE sector. The banks have to select an agent, based on the location of borrowers, agent's capacity and skill, and commercial viability.

6.2.4 Problems to Set Agent Point/Unit Office in the Rural Areas

Banks cited a number of problems while setting agent point / unit office in the rural areas which are shown in Figure-6.15.

Figure 6.15: Problems to Set Agent Point / Unit Office in the Rural Areas (Multiple Responses)



6.2.5 Challenges of Banks Dealing with Existing Agents

Banks are facing several challenges while dealing with the agents as mentioned in Table-6.8.

Table 6.9: Challenges faced by Banks in Dealing with Agents

Sl.	Challenges
1	Selection of agent through proper appraisal
2	Prescribed low commission discourage people to get the agency
3	Network/Server problems and not to enter into server in closed day
5	Difficult to provide lending services through agent
6	Long time to issue cheque book
7	Time to time close monitoring is very difficult from branch
8	Longer time to get approval from branch for account opening/KYC and others
9	Low commission for remittance discourages the agent to serve
10	Customers cannot see the account balance without their finger print
11	Difficulties to arrange sufficient training for agent owner
12	Proving marketing, decoration and other support services is difficult
13	Some fraudulent activities of few agents degrade the banking sector image
14	Cash collection from agents located in the remote areas is costly and difficult
15	Customers do not open FDR or deposit for large amount for getting fear with agents

6.2.6 Reasons Cited by Banks not Lending Directly through Agents

Commercial banks now offering some loan services through agent banking directly. As per the opinion of the banks, lending directly through agents is very difficult for various reasons as stated in Table 6.10.

Table 6.10: Reasons for not Lending Directly through Agents

SL.	Responses
1	Agents do not have proper expertise to assess credit proposal
2	Lack of adequate banking knowledge
3	May select wrong customers and bias for someone
4	Agents are not interested to take default risk
5	Agents cannot sue against borrower and ultimate liability goes to the banks
6	Lack of monitoring and recovery expertise
7	Whimsical decision of agents will increase the default risk
8	Lack of knowledge regarding credit documentation
9	Huge manpower and logistics set-up are required
10	Document verification and mortgage procedures are difficult for agents

7. Recommendations

The study raises various issues in the seminar for discussion. Based on the observations and findings of the survey, secondary data analysis and accommodating the comments of seminar participants, the study recommends the following:

One, CMSEs are very heterogeneous and scattered throughout the country, therefore, it is absolutely impossible for banks to reach all the qualified customers through the branch. Since the existing market structure is not sufficient enough for rural CMSE financing banks may start thinking about extensive financing through agent banking along with the deposit mobilization. Banks may higher some contractual employees (to reduce the administrative cost) and tag them with the agent after providing adequate training on lending along with lending mechanism. The contractual credit

officer then does the feasibility assessment of the loan request coming through agent and send them to the branch or head office for quick decision.

Two, Many banks claimed that they have competitors other than banks in rural areas for financing CMSEs and they are facing various threats from those competitors namely offering small ticket loan, loan without trade license, provide personal loan, and also because most businesses in rural areas are micro businesses. Banks may differentiate cottage and micro from CMSME and consider small ticket loan by agent through analyzing the transactions behavior of customers with agent. Agent will select the customers, assess primarily and then send the proposal to the branch for approval. The branch manager may have the authority to approve the loan up to a certain limit with proper responsibility. Finally, the agent monitors and recover the loan. In this case, banks may consider the business volume and the future prospects of CMEs rather than asking so many documents and collateral.

Three, Due to the distance of bank's branch and sub-branch, CMSEs face various problems (cost and time requirement, business operation disturbance, get instant service, fail to do transaction on time, communication interruption), banks may stat app-based banking in rural areas utilizing the agent. Banks may provide the agent an app developed by banks. When any loan request received by the agent, they will collect necessary documents and a snapshot about the business and will do the KYC primarily. Agent then send them to the branch or head office using the prescribed app. After assessing the enterprise, the credit officer will take decision and can sanction credit to the quality customers within very short time. Subsequently, the local officers frequently monitor those businesses along with the agent, collect installments and deposit to the agent.

Four, Now-a-days, cluster-based financing is gaining popularity all over the world. In Bangladesh, there are also various clusters in different locations and most of them are in rural areas. Since opening bank branch or sub-branch everywhere is not feasible, banks may design some cluster-based schemes and establish agent near to the specific cluster to provide banking services including

lending to those clusters. This will reduce the cost and can generate more business for banks. Agent will find out the potential borrower, collect necessary papers as prescribed by banks, send them to the nearest branch for approval and subsequently monitor and recover the funds. Selected bank officials will frequently supervise the agent's lending activities.

References

- Bianca, A. (2016). Reasons why small businesses are important. Retrieved from <http://smallbusiness.chron.com/reasons-small-businesses-important-54131.html>, accessed on September 29, 2016.
- Bangladesh Bank (2022). Chauvet, L., & Jacolin, L. (2017). Financial inclusion, bank concentration, and firm performance. *World Development*, 97, 1-13.
- Bangladesh Bank (2022). Financial Stability Report 2022, Issue 13.
- Bangladesh Bank (2022). Hossain, M., Yoshino, N., & Taghizadeh-Hesary, F. (2018). Local financial development, access to credit and SMEs' performance: Evidence from Bangladesh. *ADB Working Paper Series*. No. 906.
- Bangladesh Bank (2022). Hossain, M. M., & Ibrahim, Y. (2020). Working capital financing by banks in small enterprises: Problems and challenges for Bangladesh. In *Start-Ups and SMEs: Concepts, Methodologies, Tools, and Applications*. IGI Global. pp. 1042-1063.
- Bangladesh Bank (2022). Hossain, M., Yoshino, N., & Taghizadeh-Hesary, F. (2018). Local financial development, access to credit and SMEs' performance: Evidence from Bangladesh. *ADB Working Paper Series*. No. 906.

- Bangladesh Bank (2022). Leon, F. (2015). Does bank competition alleviate credit constraints in developing countries? *Journal of Banking & Finance*, 57, 130-142.
- Bangladesh Bank (2022). Mamun, A. A., Hossain, M. M., Hossain, M. M., Shaha, S. C, & Rahat, I. A. (2022). SME Financing in Bangladesh: Do Local Banking Market Structures Matter? *Research Monograph No 59*. BIBM, Dhaka.
- Bangladesh Bank (2022). Quarterly Report on Agent Banking, July-Sep 2022.
- Bangladesh Bank (2023). Quarterly Report on Agent Banking, July-Sep 2023.
- World Bank (2018). Small and medium enterprises (SMES) finance improving SMEs' access to finance and finding innovative solutions to unlock sources of capital. Retrieved January 26, 2021.

Appendix I: Questionnaire for Agents
Questionnaire for the Agents (‘প্রশ্নপত্র’)

- ব্যাংক এর নামঃ
- উত্তরদাতার নামঃ
- এজেন্টের ঠিকানা, মোবাইল নম্বর সহঃ
-
১. আপনি কোন সালে এজেন্ট ব্যাংকিং শুরু করেছেন?
২. আপনার এজেন্ট ব্যাংকিং ছাড়া অন্য কোন ব্যবসা/ আয়ের উৎস আছে কি? হ্যাঁ না
৩. ব্যাংকের কি কি সার্ভিস আপনার এজেন্টের মাধ্যমে দেয়া যায়?
-
- যে ব্যাংকের এজেন্টশিপ পরিচালনা করেন সেই ব্যাংক কি এজেন্ট ব্যাংকিং এর মাধ্যমে এসএমই ঋণ/ বিনিয়োগ প্রদান করে থাকে? হ্যাঁ না
৪. আপনি কি মনে করেন আপনার এজেন্ট এর মাধ্যমে এসএমই ঋণ দেয়া সম্ভব? হ্যাঁ না
৫. আপনার এজেন্ট হতে এসএমই ঋণ/ বিনিয়োগ দেয়ার ব্যবস্থা আছে কি? হ্যাঁ না
- হ্যাঁ হলে, আপনি কি এসএমই ঋণ দিয়েছেন? হ্যাঁ না । না হলে কারন কি?
-
৬. আপনার আদায়কৃত মোট আমানতের কতটুকু ঋণ বিতরণ করেছেন?%
৭. এসএমই ঋণ দিতে যেয়ে আপনি কি কি সমস্যার সম্মুখীন হয়েছেন?
-

৮. এসএমই ঋণ মার্কেটিং করার জন্য আপনার ব্যাংকের কোন ডেভিকেটেড অফিসার আছে

কি? হ্যাঁ না

৯. আপনি নিজে কি এসএমই ঋণ মার্কেটিং করেন? হ্যাঁ না

১০. ঋণ আদায়ের ক্ষেত্রে আপনার কোন ভূমিকা আছে কি?

.....

১১. এজেন্টের মাধ্যমে এসএমই ঋণ বিতরণ/ আদায়ে আপনি কি কমিশন পেয়ে থাকেন?

হ্যাঁ না

১২. আপনার পার্শ্ববর্তী প্রতিযোগি প্রতিষ্ঠান কারা এসএমই ঋণ প্রদান করে থাকে?

ক্রমিক নং	প্রতিষ্ঠান	সংখ্যা
১	ব্যাংকের শাখা/ উপশাখা	
২	এজেন্ট ব্যাংকিং	
৩	আর্থিক প্রতিষ্ঠান (NBFIs)	
৪	এন জি ও	
৫	ক্ষুদ্র ঋণ দানকারী প্রতিষ্ঠান	
৬	মাল্টিপারপাস, সমিতি, মহাজন	

১৩. আপনার নিকটবর্তী অন্য ব্যাংকের শাখা/ উপশাখা থাকায় আপনার এসএমই ঋণ দিতে কি কোন সমস্যা হয়?

.....

১৪. আপনি কি এসএমই ঋণ প্রদানের ক্ষেত্রে ব্যাংকের প্রদানকৃত সেবায় সন্তুষ্ট? হ্যাঁ না।

না হলে কেন নয়?

.....

১৫. এজেন্ট ব্যাংক ছাড়া অন্য উৎস হতে ঋণ নিলে গ্রাহক কি কি সুবিধা পায়?

.....

১৬. এজেন্ট এর মাধ্যমে ঋণ বিতরণের ক্ষেত্রে আপনার মতে কোন কোন বিষয় সমূহ গুরুত্বপূর্ণ?

.....

১৭. এজেন্ট হতে ঋণ অনুমোদনে গ্রাহকের কতদিন সময় লাগে?

ক) ১৫ দিনের কম খ) ১ মাসের কম গ) ২ মাসের কম ঘ) ২ মাসের বেশি

১৮. এজেন্ট ব্যাংকি হতে এসএমই ঋণ প্রদানে কি কোন সমস্যা হয়?

.....

১৯. আপনার এজেন্ট এর মাধ্যমে প্রদানকৃত ঋণের কতটুকু আদায় করা সম্ভব হয়নি?
.....%

২০. এজেন্ট ব্যাংকিং হতে এসএমই ঋণ আদায়ে কি কি সমস্যা হয়?

.....

২১. ব্যাংকের কোন শর্তের কারণে আপনার এজেন্ট ব্যাংকিং কার্যক্রম ব্যাহত হচ্ছে কি?

.....

২২. ব্যাংক থেকে কি ধরনের সুবিধা পাওয়া গেলে আপনি আরো ভালভাবে কাজ করতে পারবেন বলে মনে করেন?

.....

আপনার সহযোগীতার জন্য ধন্যবাদ।



Paper Four

Service Rules Uniformity in Banks of Bangladesh: Issues and Challenges

Dr. Mohammad Tazul Islam
Professor, BIBM

Anila Ali
Assistant Professor, BIBM

Sheikh Akhter Uddin Ahmed
Deputy Managing Director, National Bank PLC

G. M. Safed Ali
Joint Director, Human Resources Department-2, Bangladesh Bank

The keynote paper was presented in a Roundtable Discussion on 07 May, 2024 and published at BIBM website in November, 2024.

Online Link: <https://bibm.org.bd/publications-read.php?id=124>

List of Abbreviations

ACR	Annual Confidential Report
AGM	Assistant General Manager
AVP	Assistant Vice President
BB	Bangladesh Bank
BCA	Banking Companies Act
BSC	Bankers Selection Committee
CIB	Credit Information Bureau
DMD	Deputy Managing Director
DOS	Department of Offsite Supervision
EIB	Employee Information Bureau
ESR	Employee Service Rules
FAVP	First Assistant Vice President
FGD	Focus Group Discussion
FI	Financial Institutions
HR Forum	Human Resources Forum
HR	Human Resources
IBA	Institute of Business Administration
ICRRS	Internal Credit Risk Rating System
JAIBB	Junior Associate of the Institute of Bankers, Bangladesh
JAVP	Junior Assistant Vice President
KPI	Key Performance Indicator
MD	Managing Director
MTJ	Medium-Term Jump (Medium-Term Strategy)
MTO	Management Trainee Officer
PF	Provident Fund
PRR	Performance Review Report
SAVP	Senior Assistant Vice President
SO	Senior Officer
SOCB	State-Owned Commercial Bank
SR	Service Rules
STJ	Short-Term Jump (Short-Term Strategy)
Taka	Bangladeshi Taka (BDT)
TAO	Trainee Assistant Officer
VP	Vice President
WHO	World Health Organization

Executive Summary

Service rules means the rules of conduct, discipline and appeal of management employees and other than management employees in an organization. The functions of service rules start immediately after onboarding or employee orientation from the date of joining in the organization. The main objectives of an organization's service rules are to regulate operational procedures and manage the relationship between workers and management effectively. These rules should include essential provisions such as clearly outlining the job descriptions of employees or workers; ensuring compliance with labor laws, rules, and regulations, which must provide at least the same level of benefits as mandated by the government. The significance of employee Service Rules (SR) is emphasized in Bangladesh due to the economic transition of Bangladesh from less developed to the developing economy. This was transpired due to the transition to the industrialization. Now it is mandatory for all businesses to follow SR in Bangladesh (The Labor Law, 2006).

The generic objective of the round table discussion is to examine the issues and challenges of service rules uniformity in the banking sector of Bangladesh. However, the specific objectives of the study are to – i) Examine the areas of service rules in the banking sector of Bangladesh; ii) Identify the issues and challenges of service rules uniformity in the banking sector of Bangladesh; iii) Develop strategic avenues to ensure service rules uniformity in the banking sector of Bangladesh. The paper contains nine chapters. After explaining the background and research objectives in Chapter-1, the study covers research methods in Chapter-2. Chapter-3 includes relevant laws & regulations for service rules followed by Chapter-4 with relevant Bangladesh Bank initiatives for uniformity of services rules among the commercial banks in Bangladesh. Further, Chapter-5 explains the summary FGD finding on the issues of service rules uniformity while Chapter-6 includes the summary findings of service rules of the banks. Chapter-7 covers employee perception survey on the uniformity of service rules and Chapter-8 explains strategic avenues for uniformity of service rules followed by issues and challenges in Chapter-9.

The study used both primary and secondary data. The secondary data has been collected from the published laws and regulations, published articles, service rules

of the commercial banks in Bangladesh. This round table discussion paper is basically prepared based on the secondary data, hence, desk-based research has been conducted.

The study analyzed service rules of 36 banks including 04 state owned commercial banks, 02 specialized banks, 20 private commercial banks and 10 Islamic banks. The study also conducted a Focus Group Discussion (FGD) with the heads of HR or a representative of heads of HR of different commercial banks in Bangladesh. Total 35 participants' comments have been analysed in the report. Moreover, the study also conducted an opinion survey on the bankers regarding service role uniformity. Using snowball sampling technique total 321 sample respondents have been analyzed for this opinion survey analysis.

The study finds that among the six State-Owned Banks the Employee Service Rules (ESR) are almost same. Lastly, in 2023, BASIC bank adopted their ESR similar to other state-owned banks, although some areas of BASIC bank's ESR are not same to other State-Owned Banks. For example, BASIC bank has no pension facilities. Further, the number of job hierarchy are almost same among the State-Owned Banks in Bangladesh. The number of job hierarchy among the state-owned banks are ranged from 9 to 11. Moreover, the recruitment and selection process of the State-Owned Banks are also same which is conducted through the Bankers Selection Committee (BSC) of Bangladesh Bank (BB). The government scale is followed by the state-owned banks to define the salary structure and benefits. Moreover, they have different types of allowances. There are different types of leave and leave encashment benefits of the government banks' employees in Bangladesh. These are 15 (fifteen) types of different leave facilities of the employees in the State-Owned Banks. Some of these are – earned leave, extraordinary leave/leave without pay, mandatory annual Leave, without salary exceptional leave, special disability leave, quarantine leave, maternity leave, study leave, causal leave, recreation leave, sick leave, medical leave etc. Employees transfer and posting, termination, resignation and retirement policy, provident fund and gratuity, leave facilities, disciplinary, punishment and appeal procedure and performance appraisal procedure are almost same among the State-Owned Commercial Banks in Bangladesh. Definition of seniority and promotion policy are same among these banks. Disciplinary, punishment and appeal procedure are clearly articulated in the service rules of the State-Owned Banks in Bangladesh.

The service rules for the specialized banks are designed based on the specialization of the banks. Although job hierarchy, salary structure and benefits, promotion procedure, transfer and posting are same but these are not same with the State-Owned Commercial Banks. Further, the specialized banks' service rules are devised and developed by respective banks.

On the other-hand, the number of job hierarchy among the Private Commercial Banks varied widely. The minimum number of job ladder is 12 and the maximum is 17. The maximum number of job hierarchy of the typical bank is depicted Table-6.5. However, the title of the designation among the banks also varied. For example, a bank defined a title as FAVP on the other hand another bank explains this same post as JAVP. Even a few banks have 3/4 positions immediate before the Executive Post. These are Junior Assistant Vice President, Assistant Vice President, First Assistant Vice President and Senior Assistant Vice President. Moreover, few banks considered VP as their executive post and few banks consider AVP as their executive post. Moreover, the management entry-level designation also largely varies among the commercial banks in Bangladesh. Such as, 'Special Cadre Officer', 'Probationary Officer', 'Management Trainee Officer', 'Young Leader' and 'Officer' etc. The recruitment and selection process are not same across the commercial banks. Unlike the State-Owned Banks, the recruitment and selection process widely varied. Hardly, a bank has own mechanism to recruit entry level employees in their banks. Banks outsource to perform the recruitment and selection function.

The salary and benefit structure also varied among the private commercial banks. For example, minimum salary for MTO/Probationary Officer/Officer/Young Leader/Special Cadre Officer is Tk.45,000 and maximum is Tk.90,000 after confirmation. After confirmation of the management entry-level employees, banks are terming them as 'Senior Officer', 'First Executive Officer', 'Executive Officer' or 'Junior Assistant Vice President'. The duration of such probationary officers varied from 06 months to 03 years. Similarly, salary structure of same position in a bank differs. An employee working as a VP getting salary Tk. 2,50,000 but in a lateral entry another employee joins the banks as VP with salary Tk. 4,00,000. Employees' transfer and posting also varies from bank to bank. On an average, after every 03 years an employee is transferred from one place to another of the bank.

As number of job hierarchy in the private commercial banks marked at highest by 17 and since average promotion from one hierarchy to another hierarchy is 3 (three) years, an employee who joined as TAO requires 51 years to be the CEO of the bank. Similarly, for the management entry level post, an Officer requires 42 years to be the CEO of the bank. The definition of ‘Seniority’ is not clearly defined in the SR of the private commercial banks in Bangladesh. The respective banks refine their policy to explain seniority of the employees. The promotion policy among the private commercial banks are largely varied. For example, from Officer to Senior Officer (SO) a bank has a policy to give promotion by 2 years with satisfactory performance while another bank give promotion by 3 years. Further, designation from a lower grade post to the higher grade are not same across the banks. For example, in some banks an employee is promoted to AVP from SPO while in some banks they promoted their employees to JAVP, SAVP then AVP from SPO. These variation in defining job ladders and grades decline organization corporate culture and encourages employees to switch another bank.

The termination procedure is not clearly articulated in many private commercial banks in Bangladesh. It is only limited to give the timeline of termination. Although the employees of State-Owned Banks retire at 59 with one-year preparatory leave, the retirement age for the Private Commercial Banks started from 57 and there is not preparatory leave for retirement. There are only a few leave facilities available for the private commercial banks which are largely limited to casual leave, sick leave, earned leave and maternity leave. However, the kinds of leave facilities and number of days in the leave are varied across the banks in Bangladesh. The kinds of leave facilities are enlisted below Table-6.6. Hardly a bank has leave encashment facilities to their employees. The Private Commercial Banks follow basically two methods – Annual Confidential Report (ACR) and Performance Review Report (PRR). The employee’s welfare of the private commercial banks in Bangladesh are limited to provident fund, gratuity and superannuation fund.

Similarly, to the Private Commercial Banks in Bangladesh, the Islamic Banks’ recruitment and selection process, salary structure and benefits, employee transfer and posting, seniority and promotion policy, termination, resignation and retirement procedure, provident fund and gratuity, leave facilities, disciplinary,

punishment and appeal procedure, performance appraisal are same as the Private Commercial Banks. However, the number of job hierarchy is maximum at twenty.

Based on the survey on the bankers the study finds that a significant 44.9% of respondents strongly agree that such uniformity enhances banks' performance in metrics like Return on Assets (ROA), Return on Equity (ROE), and reduces Non-Performing Loans (NPLs). Additionally, 34.23% of respondents agree that uniformity in service rules contributes to a positive organizational culture. Nonetheless, a substantial 49.66% strongly agree that uniformity in service rules promotes healthy HR practices across banks.

Finally, the study proposed some strategies. These are generic strategy that delineates Short-term, medium term and long-term strategies: Short-terms strategies includes employee transfer and training, job hierarchy, leave facilities; medium-term strategies includes recruitment and selection process, salary structure and benefits, seniority and promotion policy and performance appraisal while long-term strategies includes employee termination, resignation and retirement procedure, provident fund and gratuity, disciplinary, punishment and appeal procedure. The study also proposed to use clustering strategy of the banks, forming expert panel, forming an HR Forum, developing Employee Information Bureau (EIB), developing HR Reporting System for such implementation.

Service Rules Uniformity in Banks of Bangladesh: Issues and Challenges

1. Background

1.1 Introduction

Rules are the explicit set of regulations for governing specific area of activity to conduct or process. Service rules means the rules of conduct, discipline and appeal of management employees and other than management employees in an organization (The Service Rules, 1979). The total process and operation of human resource management can be explained into four – acquisition function, development function, maintenance and retention function (Islam, 2014; Mamun et al., 2020). Acquisition function includes the recruitment and selection of right kind of employees for an organization while development function of HR includes employees training and development; maintenance function includes ensuring employee wellbeing, employee safety and health, grievance management, effective communication and industry agreement with legal responsibilities; and retention function includes the employee turnover by developing better working environment, attractive pay and benefits, healthy work-life balance, and other non-monetary rewards (Mamun et al., 2020). The functions of service rules start immediately after onboarding or employee orientation from the date of joining in the organization. Every organization has a designated service rules to govern their employees where banking companies are no exception. The main objectives of an organization's service rules are to regulate operational procedures and manage the relationship between employees and management effectively. These rules should include essential provisions such as clearly outlining the job descriptions of employees or workers; ensuring compliance with labor laws, rules, and regulations, which must provide at least the same level of benefits as mandated by the government; including details of employees'

services and information on any existing trade unions; in cases where the same service rules apply to multiple firms owned by the same entity, additional information should be provided, such as a list of owners, their addresses, and a declaration of compliance for all companies.

Now the root question is whether service rule is hygiene factor or motivation factor. According to Doglus McGragor two-factor theory of motivation, there are two factor of employee motivation – dissatisfier or hygiene factor and motivation factors. An organization’s Service Rules (SR) falls within the hygiene factor which is a precondition for motivation factor. It indicates that if hygiene factors are not well accomplished or not achieved the employee motivation is beyond consideration. An organization have to fulfil the hygiene factor first followed by the motivation factor (Table-1.1)

Table 1.1: Employee Hygiene and Motivation Factor

Motivating Factors	Achievement, Recognition, Work itself, Responsibility, Advancement, Growth
Hygiene Factors	Company policy, Supervision, Working conditions, Interpersonal relationships at work, Salary and benefits, Job security

The significance of employee Service Rules (SR) is emphasized in Bangladesh due to the economic transition of Bangladesh from less developed to the developing economy. This was transpired due to the transition to the industrialization. Now it is mandatory for all businesses to follow SR is Bangladesh (The Labor Law, 2006). The SR must be compatible with the Labor Law or else, if it is not approved by the Chief Inspector of Labour. The SR includes employment standards, employers and employee relations, payment of compensations and benefits, compensation due to injuries during the office/working hours, formation of trade union, settlement of employee grievances, employee safety and security, employee welfare and working conditions, etc. The formal

legislation on SR has been published in 2015 on Labor Rules in a gazette of Bangladesh that includes concrete legal requirements for SR of the employees (The Labor Rules, 2015).

Under the Labour Act, the employer is also required to provide appointment letters. The Labour Rules mandate that specific information, including pay, other financial advantages, applicable regulations, etc., be included in the appointment letter. According to the rules, a labourer who works consistently for a year is required to get two festival bonuses annually. The Rules give specific instructions for provident funds. Provisions pertaining to nominee selection, fund management, and trust operations for provident fund management are among the new additions. The holiday-related provisions were described in full in the Rules.

The labour service regulations may have flaws that provide employers the chance to defraud workers by imposing an unjustified minimum wage. For example, it does not specifically specify a minimum percentage, but the bonus cannot exceed the base pay. This may be fixed by clearly defining the standard parameters in the service rule, which will make it more suitable and particular. Though the employment rules still have many flaws, at least we are now headed in the right direction. Furthermore, recent changes to labour regulations have made the requirements more adaptable and practical.

1.2: Objectives: The generic objective of the round table discussion is to examine the issues and challenges of service rules uniformity in the banking sector of Bangladesh. However, the specific **objectives** of the study are to –

- a) Examine the areas of service rules in the banking sector of Bangladesh
- b) Identify the issues and challenges of service rules uniformity in the banking sector of Bangladesh and
- c) Develop strategic avenues to ensure service rules uniformity in the banking sector of Bangladesh.

1.3 Chapter Plan: The paper contains nine chapters. After explaining the background and research objectives in Chapter-1, the study covers research methods in Chapter-2. Chapter-3 includes relevant laws & regulations for service rules followed by Chapter-4 with relevant Bangladesh Bank initiatives for uniformity of services rules among the commercial banks in Bangladesh. Further, Chapter-5 explains the summary FGD finding on the issues of service rules uniformity while Chapter-6 includes the summary findings of service rules of the banks. Chapter-7 covers employee perception survey on the uniformity of service rules and Chapter-8 explains strategic avenues for uniformity of service rules followed by issues and challenges in Chapter-9.

2. Chapter: Research Methods

Both primary and secondary data has been used for the study. The secondary data has been collected from the published laws and regulations, published articles, service rules of the commercial banks in Bangladesh. This round table discussion paper is basically prepared based on the secondary data, hence, desk-based research has been conducted.

2.1 Analysis of the Service Rules: We have collected services rules of the commercial banks in Bangladesh and total 36 banks' service rules have been analysed (Table-2.1).

Table 2.1: Sample Bank's Analysed

Bank Category	Population	Sample
A. State-Owned Banks (SBs)	06	04
B. Specialized Banks	03	2
C. Private Banks		
a) Foreign Banks	09	0
b) Private Banks	32	20
c) Islami Banks	10	10
Total	60	36

2.2 Focus Group Discussion: The study conducts a Focus Group Discussion (FGD) with the heads of HR or a representative of heads of HR

of different commercial banks in Bangladesh. Total 35 participants' comments have been analysed in the report.

2.3 Bankers' Opinion Survey: The study also conducted an opinion survey on the bankers regarding service role uniformity. We use snowball sampling technique following Jilani et al. (2020). Snowball sampling, also known as chain-referral sampling, is a non-probability sampling technique used when the samples have unique characteristics. Asking existing participants for suggestions on how to locate the required sample groups for studies is part of this sampling technique. A main data source suggests other potential data sources that may be used in the research projects using this sampling approach. Referrals are the only basis for the snowball sampling strategy. Total 321 sample respondents have been analysed for this opinion survey analysis.

3. Chapter: Relevant Laws & Regulations for Service Rules

Bangladesh's labor laws play a crucial role in regulating employment conditions and compliance for both employers and employees. These laws, also known as labor laws, aim to protect workers' rights, ensure fair treatment, and uphold employers' interests. They are based on the country's constitution, legislation, administrative rules, and court opinions, often governed by employment contracts. The service sector, which accounts for more than half of Bangladesh's GDP, has seen significant growth in recent decades, with employment service rules playing a vital role in facilitating employment opportunities within this sector.

3.1 Employment Service Rule in Bangladesh: Before implementing its own service regulations or employment policy, any organization must obtain approval from the Chief Inspector of Labour, who will review and approve the organization's organogram and Service Rule. These rules must align with the Labour Act for approval. The Act mandates employers to issue appointment letters containing essential details such as pay, benefits, and restrictions. According to the Rules, employees who have worked

continuously for a year are entitled to two festival bonuses annually. Detailed guidelines on provident funds, including nominee selection and fund management, have been added. The Rules also clarify provisions regarding holidays and compensatory weekly holidays. While employment laws still have gaps, recent amendments have made them more adaptable and practical. The Bangladesh Labour Law Service Rules 2015 now govern the country's labour laws, with the service sector driving a significant portion of the national economy's growth.

In 2013, the government amended the Labour Act-2006 to include banking businesses under Chapter XV. Since then, bank executives and staff have advocated for the banking industry's exclusion from employment laws. They argue that banks operate under the Banking Companies Act (BCA), which supersedes labour legislation. The proposal, supported by the Association of Bankers, Bangladesh (ABB), highlights concerns that allocating 5% of banks' net profits to a workers' welfare fund would negatively impact profitability and share prices. Banks assert that they provide superior benefits, including incentive bonuses and medical coverage, creating a favourable working environment to the bankers. Due to the nature of white-collar work in banking, the government is considering removing banks from the scope of the Labour Act 2006. The Financial Institutions Division has proposed this change, which has been accepted by the Legislative and Parliamentary Affairs Division as reasonable. Additionally, the Banking Companies Act prohibits salaried individuals from participating in profit-sharing, contradicting the modified labour act's inclusion of a profit-sharing fund. This underscores the distinction between white-collar bankers and factory workers in terms of job nature and compensation structure.

3.2 The Bangladesh Labour Act, 2006: The Bangladesh Labour Act, 2006, unifies and modifies the rules governing the employment of labour, the interactions between employees and employers, the payment of salaries and benefits for worker accidents, as well as other labour-related issues. It is

the main piece of labor law that establishes requirements for occupational health and safety as well as accident and injury compensation. This act's overarching goals are to better employee lives and create a positive work environment.

The Act consists of 21 chapters, each addressing various aspects of labor law. Chapter-1 provides definitions crucial for understanding labor regulations, such as retirement, retrenchment, and employer-employee classifications. Chapter-2 focuses on employment conditions, including probation periods and leave procedures. Chapter-3 prohibits the employment of children and adolescents, emphasizing certification of fitness for adolescent workers. Chapter-4 outlines maternity benefits for women employees. Chapters-5, 6, and 7 address health, hygiene, and safety concerns. Chapter-8 emphasizes welfare measures, while Chapter-9 details working hours and leave entitlements. Chapter-10 covers wage-related provisions. Chapters-11 to 21 encompass diverse topics, including workers' compensation, trade unions, dispute resolution, and administrative procedures. The amendments to the Bangladesh Labour Act, 2006, adopted on November 2, 2023, aim to align with international standards, including an extension of maternity leave to 120 days from 112 days. The revision also facilitates easier formation of trade unions, with companies over 3,000 employees requiring 15% support, and those with fewer employees needing 20%. Groups of enterprises can now establish a union with just 20% of their workforce. Additionally, the amendment allows disputing parties to contest rulings from the Labour Appeal Tribunal in the nation's Appellate Division.

The service industry has grown consistently over the last ten years, averaging 6% each year. Bangladesh's service industry also generates a substantial amount of jobs. As a result, the service industry accounts for more than 35% of employment in Bangladesh. Previously, there was no official legislation governing service standards, but now that the Labour standards - 2015 have been published, there is a clear legal standard that governs the employment terms of each employee that a company hires.

3.3 Bangladesh Labour Rules, 2015: Bangladesh Labour Rules, 2015 sets implementation procedures to corresponding sections of Bangladesh Labour Act, 2006. In short, Service Rules can be referred to as the constitution of any organization for internal control. When the employer of any establishment wishes to ensure an ideal work environment, it is necessary to draw up some internal rules & regulations regarding operation, behaviour, and overall discipline. The owner of any organization has the freedom to introduce their own service rules with a view to controlling the operation and employees or organizational behaviour whereas these service rules must be in writing.

The legislation is structured into nineteen chapters, encompassing labor rights, workplace conditions, and industrial relations. Starting with preliminary definitions, it progresses to conditions of employment, including provisions for adolescent workers and maternity benefits. Subsequent chapters outline arrangements for health protection, safety measures, and welfare initiatives, highlighting the importance of worker well-being. Detailed regulations cover working hours, leave entitlements, wages, and compensation for workplace injuries to ensure fair treatment and protection. Additionally, provisions for trade unions, dispute resolution, and worker participation in profits are included to uphold their rights. The legislation also addresses matters like provident funds, apprenticeships, administration, inspection, and miscellaneous provisions, offering a comprehensive framework for labor regulation and fostering harmonious industrial relations.

The Employment Services Rules in Bangladesh have gained prominence due to the country's shift from a less developed to a transitional economy, transitioning from agriculture to industrial and service sectors. Displaying service rules in all business units is mandatory, with formal legislation outlined in the Labour Rules 2015.

The government has amended the Bangladesh Labour Rules 2015. The government issued a gazette of amended Labour Rules on September 1, 2022 bringing changes in 99 rules and repealing two rules. Before the amendment, employees in industrial establishments were entitled to at least one weekly holiday, with the provision that if this holiday couldn't be provided, it must be compensated within the next three working days. However, workers were not permitted to work more than ten consecutive days without a weekly holiday. With the amendment to the Labour Rules on September 1, 2022, this provision is no longer applicable, and workers can choose to work on weekends and take their holidays on festival days. Additionally, if a worker who has worked on weekends is terminated before enjoying the holidays, they are entitled to receive wages equivalent to those holidays, calculated by dividing the total wages (excluding overtime allowance and bonus) by 30.

3.4 Factories Act, 1965: The Factory Act in Bangladesh holds a crucial role in legislation, significantly shaping industrial practices and ensuring the well-being of workers is diligently protected. The Factories Act 1965, also known as Act XXV of 1934, was enacted with the intention of controlling the hiring of laborers, their pay, and the working conditions in factories. These conditions included welfare, safety, and health as well as working hours, leave, and holidays, as well as the penalties and punishments for both employers and employees who disobey the rules. The Act was enacted by the Bangladeshi government, which also declared it national law. There are 116 sections and 11 chapters.

The Factory Act outlines and defines key terms integral to its regulations, such as adolescent, adult, child, day, explosive substance, factory, machinery, manufacturing process, occupier, prime mover, shift in factory, transmission machinery, working hour, and wages. It mandates the government's appointment of chief inspectors, inspectors, and certifying surgeons to oversee compliance and ensure workers' fitness. The Act stipulates that all factories must maintain cleanliness, dispose of waste

properly, prevent dust accumulation, ensure ventilation, and regulate room temperature. Additionally, it requires factories to implement fire safety measures, provide escape routes, and safeguard workers from hazardous machinery. Proper training for operating dangerous machinery is mandatory, along with provisions for canteens and childcare facilities. Larger factories must employ welfare officers as prescribed by law to cater to the well-being of their workforce.

As per the Act, adult workers are constrained to work a maximum of forty-eight hours per week in a factory, inclusive of weekly holidays unless exceptions apply. While workers may be assigned duties on their days off, they must be provided with an equal number of compensatory holidays. The employment of any child under 14 years of age in a factory is strictly prohibited, and adolescents can only be employed after obtaining a fitness certificate from a certifying surgeon, with their daily working hours limited to five. The Act also specifies provisions for annual leave with wages, festival holidays, and casual and sick leave under different circumstances, though leave without pay may be granted to workers in certain situations.

3.5 Issues of Employee Service Rules: The Bangladesh Labor Act, 2006; Bangladesh Labour Rules, 2015 and Factories Act, 1965 includes the issues of services rules for employees. The important issues of employee service rules are as follows:

Table 3.1: Issues of Employee Service Rules

• Employment Conditions • Interaction of employees and employers • Establishing minimum pay rates and wage payments • Compensation for work-related injuries • Establishment of unions • Leave and leave encashment • Provoking and resolving employee conflicts/dispute resolution • Discipline and administrative procedure • Fitness • Security and safety measures • Welfare of employees' working circumstances and environments • Apprenticeship and other related issues

Chapter-4: Bangladesh Bank Initiatives for Uniformity of Services Rules among the Commercial Banks in Bangladesh

Bangladesh Bank took several initiatives for ensuring uniformity of service rules among the state-owned and private commercial banks. Bangladesh Bank issued several circulars and guidelines to ensure service rules uniformity. Some of these initiatives are as follows:

4.1 Universal Pension Scheme: In a move to extend comprehensive social security coverage, the Bangladesh Government introduced the Pension Management Act, 2023, on January 31, 2023, and followed it up with the Pension Scheme Rules, 2023, on August 31, 2023. Under BRPD Circular Letter No. 08, Bangladesh Bank mandates that employees, employers, entrepreneurs, individuals below the poverty line, and Bangladeshi citizens employed abroad are eligible to enrol in the Universal Pension Scheme. Banks, excluding State Owned Commercial Banks and Specialized Banks, are directed to actively encourage their staff to participate in this scheme.

4.2 Promotion Policy: Through BRPD Circular No. 03, Bangladesh Bank mandates that for promotions from officer or equivalent positions to General Manager or equivalent roles, specific marks for Banking Diploma (JAIBB and DAIBB) must be attained at each promotion stage. It's now compulsory for senior officers or equivalent positions to have passed both parts of the Banking Diploma to advance to higher ranks, excluding non-banking roles like doctors, engineers, and communication officials. This regulation takes effect from January 1, 2024. Furthermore, BRPD Circular Letter No. 24 exempts bankers appointed or promoted before Circular No. 03's publication from the mandatory Banking Professional exam for immediate promotions but mandates compliance for subsequent advancements. However, for job transitions to higher positions in other banks, Senior Officers and above must complete the Banking Professional exam, excluding those appointed or promoted before Circular No. 03's release. In case of recruiting Managing Director or Chief Executive Officer

the above condition will be applicable. Individuals excused from the Banking professional exam per BRPD Circular No. 03 must pass it if they switch to departments related to General Banking functions.

4.3 Uniformity in Salary: Bangladesh Bank also issued a circular (BRPD Circular Letter No. 05) on 01 February 2022 regarding the salary of entry level officials and employees of bank-company. The circular stated that each bank should pay minimum Tk. 28,000 to the entry level employees at the probationary period and after the probationary period the minimum payment would be Tk. 39,000 which have been asked to implement by 01 March 2022.

4.4 Maternity Leave Policy: BRPD Circular No. 01 introduces the maternity leave policy for female employees in banks. This policy applies to both permanent and contractual female staff, granting them a 6-month maternity leave. A female employee may utilize maternity leave up to two times throughout her career. During maternity leave, the employee will receive regular compensation, and this leave cannot be offset against any other form of leave. Additionally, annual performance appraisals during maternity leave will be based on the employee's previous rating or the highest rating obtained within the last three years.

5. Chapter: Issues of Service Rules Uniformity – Summary FGD Findings

A Focused Group Discussion (FGD) is arranged by Bangladesh Institute of Bank Management (BIBM) on the roundtable titled “Service Rules Uniformity.” The Director General of BIBM presided over the FGD. Head of HR and representatives of Head of HR from 35 banks have participated in the FGD discussion. The discussion of the FGD is summarised below:

One of the intentions of Bangladesh Bank is to bring or to make uniformity in the service rules across the different Commercial Banks as well as the State-Owned Commercial Banks (SOCB) of Bangladesh, particularly the issues and challenges we face to make uniformity of the service rules in the

banking sector. So, to fulfil the desire of Bangladesh Bank, the research team is intended to prepare a roundtable on that issue.

The objectives of the FGD are to identify the areas and issues whether there is a gap in service rule across the banks and how-to bring uniformity in the service rule of the banks. Based on this, we are going to offer or propose some strategies and policies for the commercial banks. There may be short term, mid-term, or long-term strategies to implement across the banks to bring service rule uniformity.

Box-1: Recruitment and Selection: One of the bankers said that in their bank from 2021, the promotion policy from entry level to senior officer is made 5 years, from senior officer to senior principal officer it requires another 5 years to get promotion. Like Krishi Bank, Sonali Bank, Janata Bank, they require 3 years to get promotion in higher post. He added that they have brought some changes like written test along with viva-voce for recruitment, not for 14-20 grade but for the higher level. Many banks don't have that policy. That's why who have joined at the same post in two different banks one banker is getting promotion in 3 years and another banker is getting promotion in 5 years. So, he emphasized the service rule should be uniformed in these issues so that no one can be superseded the other by joining in another bank.

Another representative from a specialized bank said that service rules have two parts. So, we have to determine on which part we need to be focused such as promotion criteria, recruitment policy which should be uniformed otherwise huge differentiation will be created.

Box-2: Provident Fund: Senior Executive Vice President and Head of HR of a Private Commercial Bank highlighted that he worked for Malaysia in deputation for 12 years. He said that in our country different banks have different mechanism for providing provident fund (PF). When someone resign from a bank he/she has been only given the employee's contribution and sometime PF is given after passing a fixed period. In Malaysia there is central PF policy. So, whenever you are working in any bank, both the banker's contribution and employer's contribution is preserved. So, any time one can leave the bank and join another bank. In our country when we stitch from one bank to another and if there is any gap, it is not considered. But in Malaysia, according to the contact with the employer one will get the PF. So, in case of job security there will be

no obstacles regarding PF. He added that every employee's insurance will be borne by both party-employee and employer. This is also centrally controlled by the Government of Malaysia. In case of sudden demise or accident or after retirement benefit will be disbursed from the insurance fund. If we can implement it in our country, it will be great.

Variations in Retirement Age: Retirement age is different in different banks. In some bank it is 59, 60, 62 etc. A banker proposed whether we can bring any uniformity in this regard. He further added that benefit is also different in different bank particularly in gratuity. In case of transfer policy, when we transfer one employee from one place to another, different regulatory authority started creating pressure on bankers. He mentioned when he was in Malaysia, he never got any request to hold the transfer of any bank official from the regulators. In Government job we see whenever there is any transfer, employees accept it but the main challenge the banks face is the pressure or request from regulators not to transfer a particular employee.

Box-3: Another Head of HR from an Islami Bank said that uniformity should be brought in promotion policy. Otherwise, same batchmate will be discriminated in two different banks. In case of service grade, there is 6, 9, 11, 13 ladders for promotion.

Differences in Salary Structure: Designation should be uniformed. Such as in a bank an officer is getting 90k and in another bank a senior officer is getting 60k. This is all happening for the absence of designation uniformity. In some banks there is salary structure, and, in some banks, there is no salary structure. It means we are not giving salary for designation rather creating designations for providing salary. And this situation is very dangerous which is prevailing in the banking sector. Consequently, the well-deserved employees are suffering. Private bank AVP and Government bank AGM are assumed same by the Government banks. But this is their assumption. There are no fixed criteria.

Government banks have some external regulatory authority. So, Government banks should be uniformed according to them, and Private Banks should be uniformed according to them in their service rules. Salary

structure should be mandatorily uniformed. Otherwise, an employee will be taken in another bank as senior officer with the salary of Tk. 200000 where in that bank the AVP is getting only Tk.60000. One of the representatives of HR stated that this type of discrimination will demotivate employees from inside. So, when we are providing someone higher salary, we should provide them higher designation matched with the salary.

Another representative added that salary structure not only differ in two banks but also in the same bank, two employees in the same rank can get two different salaries in same grade. We are running after performance. So, those who are providing more profitability to the bank, bank will provide him more to appreciate his effort, which is natural. According to the effort of every banker, performance-based increment is given based on last year performance.

One of the representatives of Bangladesh Bank, said that first we must understand what service rule is. It starts with appointing an employee, his whole service period with the bank, how his service will be controlled and how he will leave the bank or organization that is all about service rules. It starts with recruitment and selection and ends with PRL (Post Retirement Leave), under which there are many functions. Such as when we appoint someone what will be his designation, salary, and compensation, leave policy, higher studies benefit, foreign visit requirement, resignation, discipline etc. Therefore, to control his all work, bank must touch all the headlines. In Bangladesh, there are many types of banks such as Central Bank, State-owned Commercial Banks (SOCB), Private Commercial Banks, Specialized bank and each has different service rule. Thus, if we want to bring uniformity, we must separate service rule for central bank and government banks and for private commercial banks. The details will be provided by the organization or bank according to their nature. Bangladesh Bank (BB) has no service rules. He added that BB has staff regulation. It has been developed on the basis of service rule customized according to the need of BB. He expressed that BB could propose salary structure for every bank. But if any bank has the capacity to provide more for highly efficient

employees than they can provide it. No one will have any objection in this regard.

Another Head of HR of a Private Commercial Bank stated that salary depend on many components like as a human resource how I am and what my contribution is towards the organization. For example, if we set entry level salary for 28000, we can't get IBA Graduates. After one year or less they will switch to another opportunity who are offering them higher salary. So, to retain them by only accelerating to further two grades will not be enough rather banks have to give them higher salary which will come the disparity.

A banker expressed his grievance by saying that his bank had last promotion in 2015.

“He added that we are told that we don't have profit and as we had a scam so the bank cannot provide promotion. Before 2019, we had one type of salary scale. After 2019 some increment in salary was given. We were given Government scale and then forcefully there was an unwritten fixation where our salary was reduced.”

He further added that –

Box-4: My boss is facing problem in working with me. We are declared as Government bank but for getting house building loan a government employee has to serve 5 years but for their bank it is 8 years. There is also difference in the amount of loan and benefits offered to their bank and other government bank.

Differences in Job Hierarchy: One of the Head of HR said that they have three service rules. Bangladesh Shilpo Bank, Bangladesh Shilpo Rin Shongstha and in addition to that they follow Bangladesh Service Rule. He said that their policy won't be matched with another bank's policy specifically with Specialized Bank. Their bank has eight slabs for Senior Officer to Executive Level. So, if Private banks can be brought under 8 slabs so that they can appoint employees directly from another bank. In case of

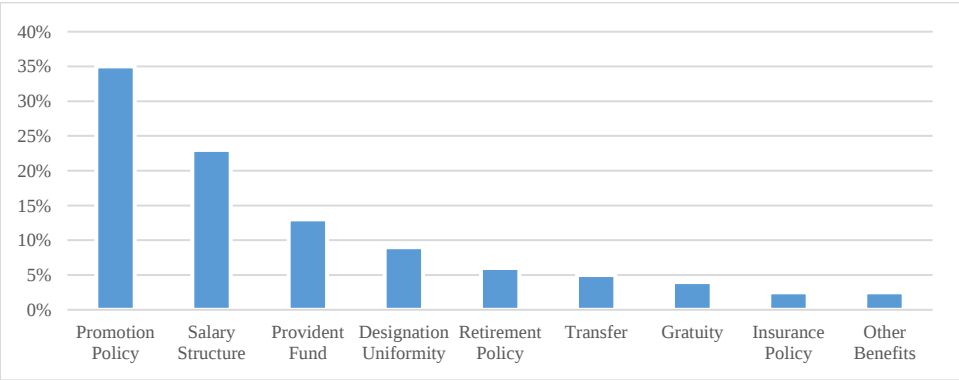
hierarchy differences one bank’s AVP is another bank’s SAVP. Therefore, they are confused regarding the equivalency of the slab and face problem. Another Head of HR added that as they are recruited by Bangladesh Bank so education requirement should also be uniformed.

The representative of Bangladesh Bank again said that promotion is not employees’ right. It is the need of the organization. If the organization feels the need, it will promote the employee. The promotion policy also changed according to the need of the organization.

Variations in Other facilities: Government Bank, Private Commercial Bank, Specialized Banks can have unified service rule according to their nature. If the grade is same for all bank, then we can easily switch from Private Bank to Government Bank and Government Bank to Private Bank. And if we can maintain our benefits like PF centrally then we don’t need to worry about other benefits.

One of the suggestions of the FGD was if we can bring uniformity up to Senior Officer for all categories of banks in term of salary structure and benefits. In case of gratuity and PF there should also be uniformity. Other facilities like medical allowance, house building loan can be dependent on the banks.

Figure 5.1: Issues Mentioned by the FGD Participants in Service Rule (%)



6. Chapter: Issues of Service Rules Uniformity – Summary Findings from the Service Rules Among the Banks in Bangladesh

The study analyses the service rules of banks in Bangladesh. The research team collects the soft or hard copy of the service rules before analysing issues for service rules uniformity. The study clusters the service rules based on the nature of the banks. These clusters are –

- A. State-Owned Banks including the specialized banks (09 banks)
- B. Private Commercial Banks (33 banks)
- C. Islamic Banks (10 banks)

We internationally exclude the foreign commercial banks for analysing due to their unwillingness to provide the service rules. Hence, the study covers all banks excluding the foreign banks in Bangladesh. The study identifies some areas of service rules uniformity across the banks in Bangladesh. These are listed below.

Major Areas of Service Rules Uniformity	Job Hierarchy Recruitment and Selection Process Salary Structure and Benefits Employee Transfer and Posting Seniority and Promotion Policy Termination, Resignation and Retirement Procedure Provident Fund and Gratuity Leave Facilities Disciplinary, Punishment and Appeal Procedure Performance Appraisal
--	--

A. State-Owned Banks Including the Specialized Banks

There are 6 (six) state-owned banks and 3 specialized banks which are also owned by the government of Bangladesh.

State-owned Banks: Among the six State-Owned Banks the Employee Service Rules (ESR) are almost same. Lastly, in 2023, BASIC bank adopted their ESR similar to other state-owned banks, although some areas of

BASIC bank's ESR are not same to other State-Owned Banks. For example, BASIC bank has no pension facilities.

6.1 Job Hierarchy: The number of job hierarchy are almost same among the State-Owned Banks in Bangladesh. The number of job hierarchy among the state-owned banks are ranged from 9 to 11 which is depicted below Table-6.1.

Table 6.1: Job Hierarchy of State-Owned Banks

1	Managing Director (MD/CEO)
2	Deputy Managing Director (DMD)
3	General Manager (GM)
4	Deputy General Manager (DGM)
5	Assistant General Manager (AGM)
6	Senior Principal Officer (SPO)
7	Principal Officer (PO)
8	Senior Officer (SO)
9	Officer (O)
10	Assistant Officer (Grade-1)
11	Assistant Officer (Grade-2)

6.2 Recruitment and Selection Process: The recruitment and selection process of the State-Owned Banks are also same which is conducted through the Bankers Selection Committee (BSC) of Bangladesh Bank (BB).

6.3 Salary Structure and Benefits: The government scale is followed by the state-owned banks to define the salary structure and benefits. Moreover, they have different types of allowances. These are –

Table 6.2: Allowances in State-Owned Banks

1	Travel Allowances
2	Dearness Allowances
3	Additional Charge Allowance
4	Festival Allowances and Bonus
5	Training Allowance

6.4 Leave Facilities: There are different types of leave and leave encashment benefits of the government banks' employees in Bangladesh.

These are 15 (fifteen) types of different leave facilities of the employees in the State-Owned Banks. Some of these are – earned leave, extraordinary leave/leave without pay, mandatory annual Leave, without salary exceptional leave, special disability leave, quarantine leave, maternity leave, study leave, causal leave, recreation leave, sick leave, medical leave etc. These are listed below Table-6.3.

Table 6.3: Different types of Leave Facilities in State-Owned Banks

1	Leave with full salary
2	Leave with Half-salary
3	Leave not due
4	Casual leave
5	Medical leave
6	Earned leave
7	Extraordinary leave/Leave without pay
8	Mandatory Annual Leave
9	Special Disability Leave
10	Maternity Leave
11	Study Leave
12	Recreation Leave
13	Sick Leave
14	Post Retirement Leave
15	Quarantine Leave

Moreover, employees can encash their leave for maximum 12 months in their full-service life. Again, employees have also deputation facilities across the State-Owned Banks in Bangladesh.

6.5 Funds for the Employees Welfare: There are different types of fund for the employee's welfare of the State-Owned Banks in Bangladesh. These are-

Table 6.4: Funds other Facilities for the Employees of State-Owned Banks

1	Provident Fund
2	Gratuity
3	Superannuation Fund
4	Group Insurance
5	Pension Facilities

Employees transfer and posting, termination, resignation and retirement policy, provident fund and gratuity, leave facilities, disciplinary, punishment and appeal procedure and performance appraisal procedure are almost same among the State-Owned Commercial Banks in Bangladesh. Definition of seniority and promotion policy are same among these banks. Disciplinary, punishment and appeal procedure are clearly articulated in the service rules of the State-Owned Banks in Bangladesh.

Bangladesh Government issued a gazette (No. 53.00.000.312.22.002.19-3) on 03 January 2023 for all government owned commercial banks, specialized banks and Financial Institutions regarding promotion procedure, ACR points and promotion committee for Managing Director, Deputy Managing Director, General Manager. The promotion procedure for these posts for State-Owned Banks, Specialised Banks and FIs are same.

Specialized Banks: The service rules for the specialized banks are designed based on the specialization of the banks. Although job hierarchy, salary structure and benefits, promotion procedure, transfer and posting are same but these are not same with the State-Owned Commercial Banks (No. 53.00.000.312.22.002.19-3). Further, the specialized banks' service rules are devised and developed by respective banks.

B. Private Commercial Banks (Excluding Islamic Banks)

Recruitment and selection process, salary structure and benefits, employee transfer and posting, seniority and promotion policy, termination, resignation and retirement procedure, provident fund and gratuity, leave facilities, disciplinary, punishment and appeal procedure and performance appraisal are widely varied among the private commercial banks in Bangladesh. Some of important issues in the service rules are explained below.

6.6 Job Hierarchy: The number of job hierarchy among the Private Commercial Banks varied widely. The minimum number of job ladder is 12 and the maximum is 17. The maximum number of job hierarchy of the

typical bank is depicted Table-6.5. However, the title of the designation among the banks also varied. For example, a bank defined a title as FAVP on the other hand another bank explains this same post as JAVP. Even a few banks have 3/4 positions immediate before the Executive Post. These are Junior Assistant Vice President, Assistant Vice President, First Assistant Vice President and Senior Assistant Vice President. Moreover, few banks considered VP as their executive post and few banks consider AVP as their executive post.

Table 6.5: Job Hierarchy: Private Commercial Banks

1	Managing Director
2	Additional Managing Director
3	Deputy Managing Director
4	Senior Executive Vice President
5	Executive Vice President
6	Senior Vice President
7	Vice President
8	Senior Assistant Vice President
9	First Assistant Vice President
10	Assistant Vice President
11	Senior Principal Officer
12	Principal Officer (General/Cash/IT)
13	Senior Officer (General/Cash/IT)
14	Officer (General/Cash/IT)
15	Junior Officer (General/Cash/IT)
16	Assistant Officer (General/Cash/IT)
17	Trainee Assistant Officer (General/Cash/IT)

Moreover, the management entry-level designation also largely varies among the commercial banks in Bangladesh. Such as, ‘Special Cadre Officer’, ‘Probationary Officer’, ‘Management Trainee Officer’, ‘Young Leader’ and ‘Officer’ etc.

6.7 Recruitment and Selection Process: The recruitment and selection process are not same across the commercial banks. Unlike the State-Owned

Banks, the recruitment and selection process widely varied. Hardly, a bank has own mechanism to recruit entry level employees in their banks. Banks outsource to perform the recruitment and selection function. Largely, banks depend on BIBM, IBA (DU), Bangladesh Army, and some private universities of Bangladesh. Moreover, the number of steps to select an entry level employee also varied. For example, a specimen bank, the initial scanning is conducted by BDJOBS and candidates are asked to play a game such as colour selection in the game etc. After the initial scanning the candidates are asked to sit for the selection process. The age for the recruitment and selection of employees ranged from 18 to 33 years.

6.8 Salary Structure and Benefits: The salary and benefit structure also varied among the banks. For example, minimum salary for MTO/Probationary Officer/Officer/Young Leader/Special Cadre Officer is Tk.45,000 and maximum is Tk.90,000 after confirmation. After confirmation of the management entry-level employees, banks are terming them as ‘Senior Officer’, ‘First Executive Officer’, ‘Executive Officer’ or ‘Junior Assistant Vice President’. The duration of such probationary officers varied from 06 months to 03 years. Similarly, salary structure of same position in a bank differs. An employee working as a VP getting salary Tk. 2,50,000 but in a lateral entry another employee joins the banks as VP with salary Tk. 4,00,000. If lateral entry employees have higher qualification than the internal employees of the bank, why banks are not giving higher post with higher salary? This culture in salary structure destroys governance culture of the bank in Bangladesh.

6.9 Employee Transfer and Posting: Employees’ transfer and posting also varies from bank to bank. On an average, after every 03 years an employee is transferred from one place to another of the bank. Every bank has their own employee transfer and posting procedure which varied from banks to banks. For example, some bank gives transfer the newly appointed employees immediately after the appointment in the banks while some

banks give them on-the-job and off-the-job training before giving them transfer and posting to the particular department.

6.10 Seniority and Promotion Policy: As number of job hierarchy in the private commercial banks marked at highest by 17 and since average promotion from one hierarchy to another hierarchy is 3 (three) years, an employee who joined as TAO requires 51 years to be the CEO of the bank. Similarly, for the management entry level post, an Officer requires 42 years to be the CEO of the bank. The definition of ‘Seniority’ is not clearly defined in the SR of the private commercial banks in Bangladesh. The respective banks refine their policy to explain seniority of the employees. The promotion policy among the private commercial banks are largely varied. For example, from Officer to Senior Officer (SO) a bank has a policy to give promotion by 2 years with satisfactory performance while another bank give promotion by 3 years.

Further, designation from a lower grade post to the higher grade are not same across the banks. For example, in some banks an employee is prompted to AVP from SPO while in some banks they promoted their employees to JAVP, SAVP then AVP from SPO. These variation in defining job ladders and grades decline organization corporate culture and encourages employees to switch another bank.

6.11 Termination and Resignation: Employee termination is practiced by the banks while the resignation is practiced by the employees. The termination procedure is not clearly articulated in many private commercial banks in Bangladesh. It is only limited to give the timeline of termination.

The employer can terminate a contractual employee/during probation with one-month advance notice or one-month advance salary while for *two to four* months advance notice or two months advance salary for the permanent employees.

The termination procedure is varied across the Private Commercial Banks and the commercial banks do not follow the Labour Act, 2006 while the State-Owned Banks follow the proper procedure to terminate an employee in banks. The Private Commercial Banks have no pension facilities although they have Gratuity, Provident Fund, Group Insurance, etc.

6.12 Retirement Procedure: Although the employees of State-Owned Banks retire at 59 with one-year preparatory leave, the retirement age for the Private Commercial Banks started from 57 and there is not preparatory leave for retirement.

6.13 Leave Facilities: There are only a few leave facilities available for the private commercial banks which are largely limited to casual leave, sick leave, earned leave and maternity leave. However, the kinds of leave facilities and number of days in the leave are varied across the banks in Bangladesh. The kinds of leave facilities are enlisted below Table-6.6. Hardly a bank has leave encashment facilities to their employees.

Table 6.6: Different Types of Leave Facilities in Private Commercial Bank

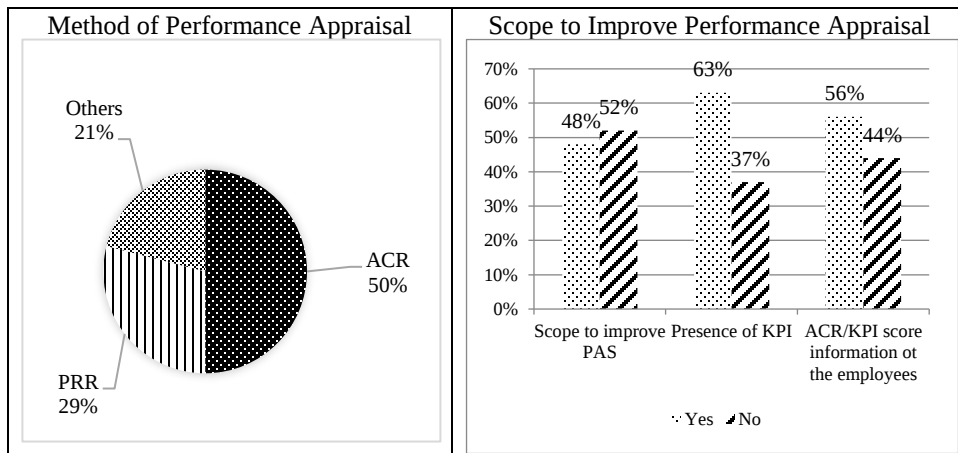
1	Casual leave
2	Medical leave
3	Earned leave
4	Extraordinary leave/Leave with or without pay
5	Maternity Leave
6	Annual Leave
7	Sick Leave
8	Quarantine Leave
9	Study Leave
10	Father's Child Care Leave (in case Wife's death or serious illness)
11	Family Leave (in case of wife, children and parent's death)
12	Pilgrimage leave

6.14 Disciplinary, Punishment and Appeal Procedure: Although most of the Private Commercial Banks have separate chapters on disciplinary,

punishment and appeal procedure in the service rules, however the procedure is not clearly articulated in many banks.

6.15 Performance Appraisal: The Private Commercial Banks follow basically two methods – Annual Confidential Report (ACR) and Performance Review Report (PRR). Some banks develop their own Key Performance Indicator (KPI) to perform performance appraisal of the employees. Mamun et al. (2020) found that 50 % banks use ACR which is very traditional in nature (Figure-6.1). Besides, 29 % banks practice PRR and the remaining portions use other methods to appraise their employees. However, they found that 48% banks believe that there is scope for improvement in performance appraisal methods. The study also mentioned that 63% banks have presence of KPI. Moreover, it is good that 56% banks disseminate ACR/KPI score to their employees.

Figure 6.1: Performance Appraisal Method in Banks



Source: Mamun et al. (2020)

6.16 Funds for the Employees Welfare: The employee's welfare of the private commercial banks in Bangladesh are limited to provident fund, gratuity and superannuation fund (Table-6.7). They have no pension facilities.

Table 6.7: Funds Other Facilities for the Employees of State-Owned Banks

1	Provident Fund
2	Gratuity
3	Superannuation Fund

Islamic Banks

Similarly, to the Private Commercial Banks in Bangladesh, the Islamic Banks' recruitment and selection process, salary structure and benefits, employee transfer and posting, seniority and promotion policy, termination, resignation and retirement procedure, provident fund and gratuity, leave facilities, disciplinary, punishment and appeal procedure, performance appraisal are same as the Private Commercial Banks. However, the number of job hierarchy is maximum at twenty.

Table 6.8: Job Hierarchy: Islamic Banks

1	Managing Director
2	Additional Managing Director
3	Deputy Managing Director
4	Additional Deputy Managing Director
5	Executive Vice President
6	Senior Vice President
7	Vice President
8	Senior Assistant Vice President
9	Assistant Vice President
10	First Assistant Vice President
11	Senior Principal Officer
12	Principal Officer (General/Cash/IT)
13	Executive Officer (General/Cash/IT)
14	Management Trainee Officer
15	Senior Officer (General/Cash/IT)
16	Officer (General/Cash/IT)
17	Trainee Officer (General/Cash/IT)
18	Junior Officer (General/Cash/IT)
19	Assistant Officer (General/Cash/IT)
20	Trainee Assistant Officer (General/Cash/IT)

7. Chapter: Employees' Perception Survey on the Uniformity of Service Rules among some Key Areas

The study conducted a primary survey on the employees' perception on the service rules uniformity in banks of Bangladesh. We consider only bankers as sample respondents. We use snowball sampling technique following Jilani et al. (2020). Non-probability sampling strategy when the samples contain uncommon qualities is called snowball sampling or chain-referral sampling. This sampling method involves asking current participants for recommendations on how to find the necessary sample populations for studies. Using this sampling technique, a primary data source proposes additional possible data sources that could be involved in the research projects. The sole foundation of the snowball sampling approach is referrals.

A 312-total number of respondents has been analysed to examine the level of employee's perception on the service rules uniformity in the banking industry of Bangladesh. The summary biography of the respondents is depicted in Table-7.1. While there are around 87% respondents are male around 13% rest with female. Among them around 61% respondents are within 35 to 44 years of age. Although the study covers all of the geographical division of Bangladesh, 86% respondents are from Dhaka division followed by Chittagong Division (5.70%) and Khulna Division (1.90%).

Table 7.1: Biography of the Respondents

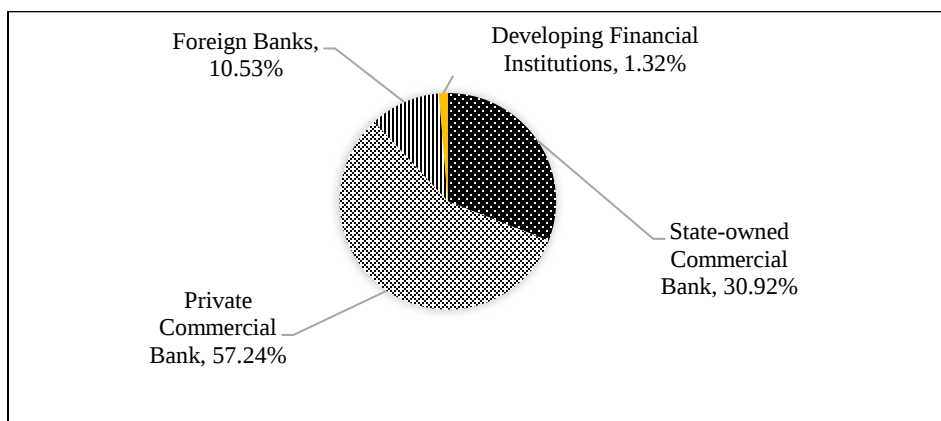
Particulars		Figure in %
Gender	Male	86.54
	Female	13.46
Age Range	Below 25	1.91
	25-34	22.93
	35-44	61.15
	45-54	13.38
	55 and above	1
Division	Dhaka	86.08
	Chittagong	5.70
	Rajshahi	2.53
	Barisal	1.27

Particulars		Figure in %
	Khulna	1.90
	Sylhet	1.27
	Mymensingh	0.63
	Rangpur	0.63
Monthly Income	Below 30000	0.65
	30000 – 60000	27.74
	60000-80000	23.87
	Over 80000	47.74
Qualification	Graduate	5.10
	Post Graduate	91.72
	Phd/Higher studies	3.18

Based on the income analysis, it shows that around 48% respondents' income is more than Tk. 80,000 followed by around 28% respondents' income between Tk. 30,000 to Tk. 60, 0000 (Table-5.1).

Further, figure-7.1 shows that 57.24% respondents are working in private commercial banks followed by 30.92% in State-Owned Banks, 10.53% in Foreign Banks and 1.32% in Development Banks.

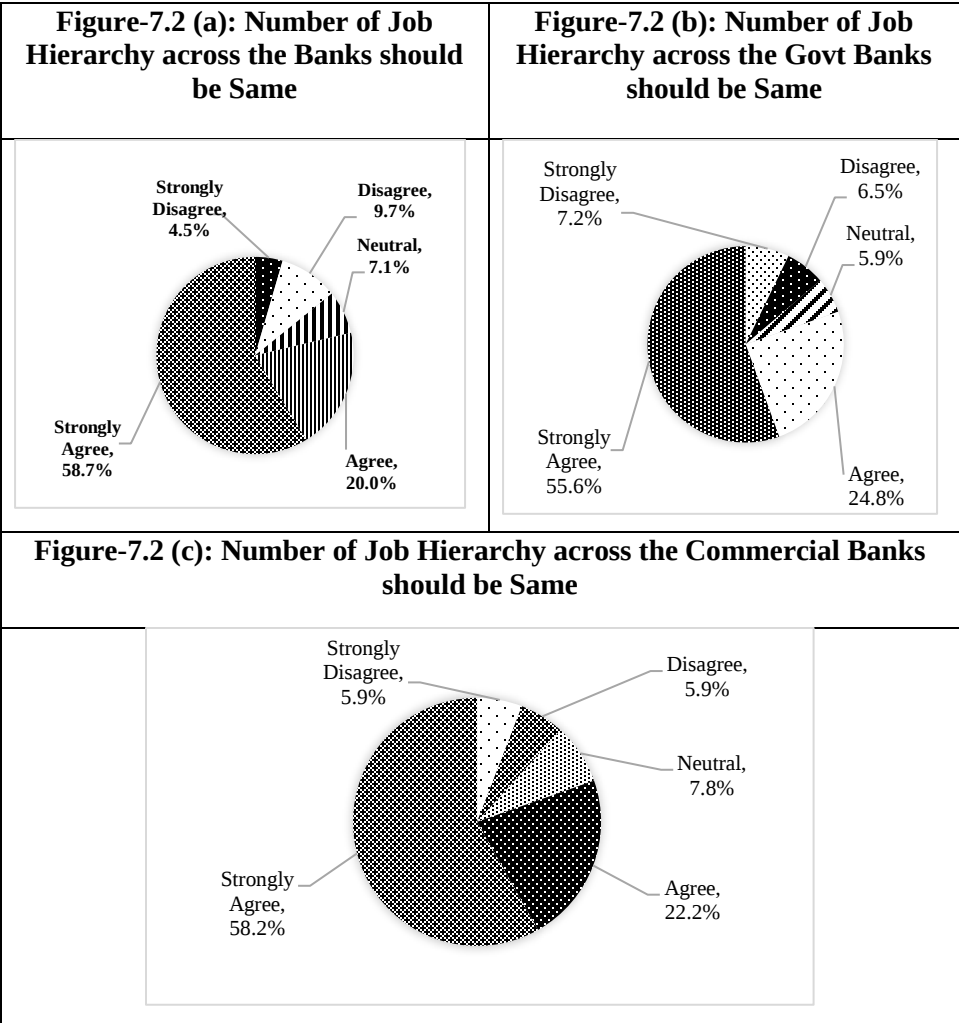
Figure 7.1: Respondents are Working in



Source: Survey data

7.1 Uniformity in Job Hierarchy: Figure-7.2 (a) depicts that 58.7 percent of respondents strongly believe that all banks should have the same job hierarchy, while 9.7 percent disagree. Figure- 7.2 (b) shows that 24.8

percent of respondents think job levels in government-owned banks should be uniform, and 5.9 percent are unsure.

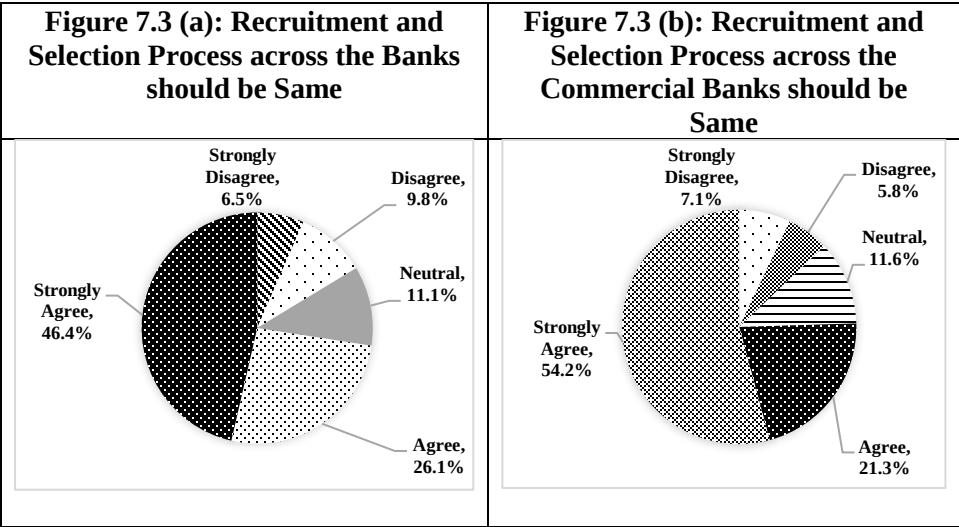


Source: Survey data

Figure-7.2 (c) states that number of job hierarchy across the commercial banks should be same. 58.2 percent respondents strongly agree with the statement where 5.9 percent strongly disagree with the statement. 7.8 percent respondents choose not to share their thought.

7.2 Uniformity in Recruitment and Selection Process

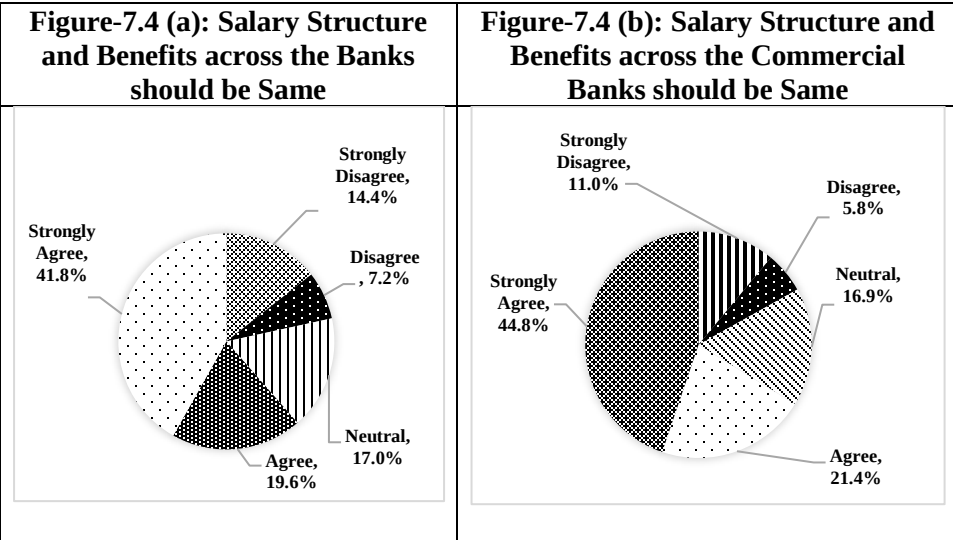
Figure-7.3 (a) expresses that 26.1 percent respondents agree that recruitment and selection process across the banks should be same. On the other hand, 9.8 percent bankers disagree with the statement. When the respondents asked whether the commercial banks should have the same recruitment and selection process 54.2 percent respondents strongly agree and 7.1 percent strongly disagree with the statement (Figure-7.3b).



Source: Survey Data

7.3 Uniformity in Salary Structure and Benefits

Figure-7.4 (a) highlights that 41.8 percent respondents strongly agree the salary structure and benefits across the banks should be same. But, when they are asked whether the salary structure and benefits across the commercial banks should be same, 11 percent respondents said they strongly disagree with the statement (Figure 7.4b).



Source: Survey Data

7.4 Uniformity in Employee Transfer and Posting

Table-7.2 indicates a notable consensus regarding the uniformity of employee transfers and postings within the banking sector. Approximately 37.4% of respondents express strong agreement that such practices should be consistent across all banks. However, there is a dissenting opinion, with 7.8% of respondents indicating disagreement, particularly regarding uniformity across government banks. Conversely, when addressing uniformity across commercial banks, 17.4% of respondents remain neutral on the matter.

Table 7.2: Employee Transfer and Posting

	Employee Transfer and Posting across the Banks should be Same	Employee Transfer and Posting across the Govt. Banks should be Same	Employee Transfer and Posting across the Commercial Banks should be Same
Strongly Disagree	7.7%	7.8%	6.0%
Disagree	12.3%	10.5%	12.8%
Neutral	16.8%	13.7%	17.4%
Agree	25.8%	28.1%	30.9%
Strongly Agree	37.4%	39.9%	32.9%

7.5 Uniformity in Seniority and Promotion Policy

Table-7.3 underscores the importance of consistency in seniority and promotion policies within the banking industry. According to the data, 45.3% of respondents support the notion that these policies should be uniform across all banks. However, there is a dissenting view, with 8.2% of respondents expressing disagreement, particularly concerning uniformity among government banks. On the other hand, when considering the consistency of these policies among commercial banks, 45.9% of respondents strongly support the idea.

Table 7.3: Employee Seniority and Promotion Policy

	Employee seniority and promotion policy across the banks should be same	Employee seniority and promotion policy across the govt. banks should be same	Employee seniority and promotion policy across the commercial banks should be same
Strongly Disagree	9.3%	7.5%	8.8%
Disagree	10.0%	8.2%	8.8%
Neutral	15.3%	9.6%	10.8%
Agree	20.0%	28.1%	25.7%
Strongly Agree	45.3%	46.6%	45.9%

7.6 Termination, Resignation and Retirement Procedure

Table-7.4: outlines the policy regarding termination, resignation, and retirement procedures within the banking sector. A significant portion, 40.67% of respondents, strongly advocate for uniformity in these procedures across all banks. However, there is a minority opinion, with 5.48% of respondents disagreeing, particularly regarding uniformity among government banks. Conversely, when considering uniformity among commercial banks, 12.93% of respondents remain neutral on the matter of termination, resignation, and retirement procedures.

Table 7.4: Termination, Resignation and Retirement Procedure

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Employee termination, resignation and retirement procedure across the banks should be same	5.33%	7.33%	14.00%	32.67%	40.67%
Employee termination, resignation and retirement procedure across the govt. banks should be same	5.48%	3.42%	12.33%	31.51%	47.26%
Employee termination, resignation and retirement procedure across the commercial banks should be same	6.80%	5.44%	12.93%	29.25%	45.58%

7.7 Provident Fund and Gratuity

Table-7.5 presents data on provident fund and gratuity procedures within the banking sector. Approximately 24.67% of respondents support the idea that these procedures should be uniform across all banks. Conversely, 6.76% of respondents strongly oppose the notion of uniformity specifically within government banks. In contrast, a significant majority, 49.66%, strongly advocate for uniform provident fund and gratuity procedures across commercial banks.

Table 7.5: Provident Fund and Gratuity

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Employee Provident Fund and Gratuity procedure across the banks should be same	8.00%	9.33%	11.33%	24.67%	46.67%
Employee Provident Fund and Gratuity procedure across the govt. banks should be same	6.76%	6.08%	10.81%	23.65%	52.70%
Employee Provident Fund and Gratuity procedure across the commercial banks should be same	8.16%	9.52%	8.84%	23.81%	49.66%

7.8 Leave Facilities

Table-7.6 illustrates the leave facilities within banks. A majority, 56.67% of respondents, strongly support the idea of uniform leave facilities across all banks. However, when considering government banks specifically, 6.80% of respondents remain neutral on the matter. On the other hand, when discussing leave facilities in commercial banks, 8.84% of respondents express dissent.

Table 7.6: Leave Facilities

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Employee leave facilities across the banks should be same	7.33%	9.33%	6.00%	20.67%	56.67%
Employee leave facilities across the govt. banks should be same	6.12%	6.80%	6.80%	20.41%	59.86%
Employee leave facilities across the commercial banks should be same	4.76%	8.84%	8.84%	20.41%	57.14%

7.9 Disciplinary, Punishment and Appeal Procedure

Table-7.7 outlines the disciplinary, punishment, and appeal procedures within banks. A significant majority, 44.97% of respondents, strongly support the idea that these procedures should be uniform across all banks. Conversely, 7.48% of respondents strongly oppose the notion of uniformity specifically within government banks. However, when considering disciplinary, punishment, and appeal procedures in commercial banks, 33.33% of respondents agree that they should be uniform.

Table 7.7: Disciplinary, Punishment and Appeal Procedure

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Employee disciplinary, punishment and appeal procedure across the banks should be same	7.38%	6.04%	10.74%	30.87%	44.97%
Employee disciplinary, punishment and appeal procedure across the govt. banks should be same	7.48%	3.40%	9.52%	32.65%	46.94%
Employee disciplinary, punishment and appeal procedure across the commercial banks should be same	6.80%	4.76%	10.20%	33.33%	44.90%

7.10 Performance Appraisal

Table-7.8 emphasizes the performance appraisal of bank employees. Around 30.87% of respondents agree that the appraisal process should be consistent across all banks, while 3.40% disagree specifically regarding government banks. However, a substantial 44.90% of respondents strongly support the idea of uniform performance appraisal across commercial banks.

Table 7.8: Performance Appraisal

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Employee performance appraisal across the banks should be same	7.38%	6.04%	10.74%	30.87%	44.97%
Employee performance appraisal across the govt. banks should be same	7.48%	3.40%	9.52%	32.65%	46.94%
Employee performance appraisal across the commercial banks should be same	6.80%	4.76%	10.20%	33.33%	44.90%

7.11 Impact of Uniformity in Service Rules on the Performance Banks

Table-7.9 presents the impact of uniformity in service rules on bank performance. A significant 44.9% of respondents strongly agree that such uniformity enhances banks' performance in metrics like Return on Assets (ROA), Return on Equity (ROE), and reduces Non-Performing Loans (NPLs). Additionally, 34.23% of respondents agree that uniformity in service rules contributes to a positive organizational culture. However, 8.05% remain neutral regarding whether uniformity reduces employee turnover rates. Conversely, 5.37% of respondents disagree that uniformity ensures similar status, prestige, and recognition both in society and within banks. Nonetheless, a substantial 49.66% strongly agree that uniformity in service rules promotes healthy HR practices across banks.

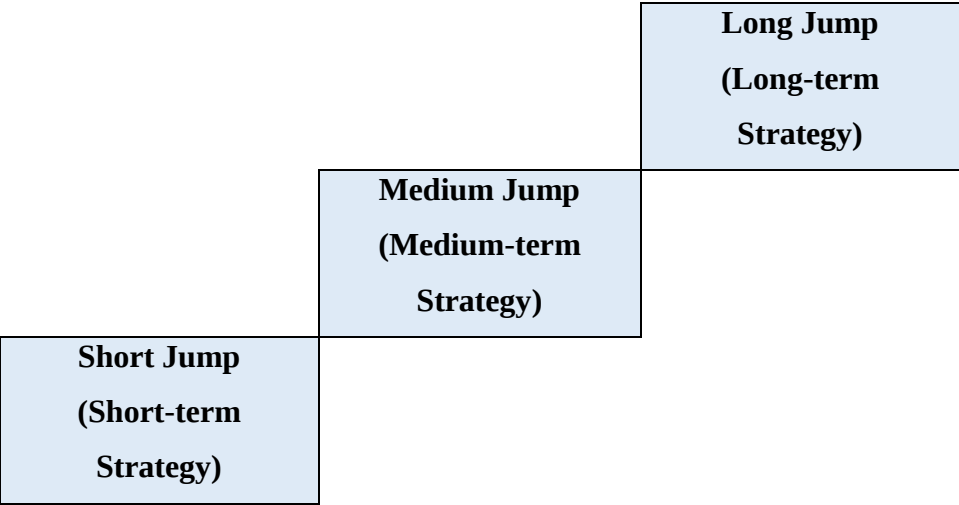
Table 7.9: Performance Appraisal

SI No.	Statements	Strongly Agree	Disagree	Neutral	Agree	Strongly Agree
1	Uniformity in Service roles improves performance of banks in Return on Assets (ROA), Return on Equity (ROE) and reduces Non-Performing Loans (NPLs)	3.36%	10.07%	12.08%	29.53%	44.97%
2	Uniformity in service rules improves organization culture.	4.03%	6.71%	6.71%	34.23%	48.32%
3	Uniformity in service rules reduces employee switching rate.	5.37%	7.38%	8.05%	32.21%	46.98%
4	Uniformity in service rules ensures similar status, prestige and recognition in the society and well as banks.	4.70%	5.37%	10.74%	34.90%	44.30%
5	Uniformity in service rules ensures healthy HR practices among the banks.	4.03%	4.70%	10.07%	31.54%	49.66%

8. Chapter: Strategic Avenues to Ensure Service Rules Uniformity in the Banking Sector of Bangladesh

Based on the study findings and the literature, the study suggests some strategic options to ensure service rules uniformity in the banking sector of Bangladesh. Some of these strategies are as follows:

8.1 Generic Strategies: To ensure uniformity is service rules three generic strategic options can be chosen – short jump, medium jump and long jump which are called as short term, medium term and long-term strategic choice respectively.



*Short-term Strategy*⁷: Some issues such as employee transfer and training, job hierarchy, leave facilities can be considered from ensuring uniformity across the banks in short-term.

*Medium-term Strategy*⁸: Some issues such as recruitment and selection process, salary structure and benefits, seniority and promotion policy and

⁷ Short-term strategy includes the strategies which are taken and implemented within one year.
⁸ Medium-term strategy includes the strategies which are taken and implemented within two to three years.

performance appraisal can be considered for ensuring uniformity across the banks in medium-term.

*Long-term Strategy*⁹: Some other issues such as termination, resignation and retirement procedure, provident fund and gratuity; disciplinary, punishment and appeal procedure can be considered for ensuring uniformity across the banks in long-term.

8.2 Clustering Strategy of the Banks: Further service rules uniformity cannot be generalized for all banks. We can do cluster for based on nature of the banks such as i) State-Owned Banks ii) Specialized Banks iii) Private Commercial Banks (excluding the Islamic Banks) and iv) Islamic Banks.

The generic strategic approach can similarly be applied for the different clusters of the banks. Moreover, among the private commercial banks, we can do cluster of the banks based on the generation i.e. first generation, second generation, third generation and forth generation.

The uniformity principles can be introduced among the first-generation banks first followed by second, third and forth generation banks in second, third and fourth respectively. After having the outcome of the uniformity principles which have been applied in the first-generation banks then should proceed for the next.

8.3 Forming Expert Panel: Before introducing any kinds of issues in uniformity of service rules across the banks an expert panel including regulators, commercial bankers, researchers should be formed who will do a feasibility study and suggest the ways to ensure service rules uniformity among the banks in Bangladesh.

8.4 Forming an HR Forum: An HR forum can be formed by the heads of HR of the banks in Bangladesh. This forum might include the regulators

⁹ Long-term strategy includes the strategies which are taken and implemented for more than three years.

and researchers. The prime motto of the forum will be to discuss the HR issues across the banks in Bangladesh which will ultimately lead for the service rules uniformity across the banks.

8.5 Employee Information Bureau (EIB): Similarly, to the Credit Information Bureau (CIB), an EIB for the employees can be an initiative by the central bank where employee related disciplinary, punishment and other criminal issues will be reported by the respective bank. When a bank hires an employee then EIB can be checked for decision.

8.6 HR Reporting System: Further, Bangladesh Bank might develop separate reporting format for HR operation in banks and asks the commercial banks to report HR related issues to BB. This reporting structure will help BB to making decision in uniformity of service rules of the commercial banks in Bangladesh.

9. Chapter: Issues and Challenges for Service Rules Uniformity in Banks

The study identified some major issues for Service Rules Uniformity in Banks. These includes job hierarchy, employee recruitment and selection process, salary structure and benefits, employee transfer and posting, definition of seniority and promotion policy, termination, resignation and retirement procedure, different employee welfare fund, leave facilities, disciplinary, punishment and appeal procedure and performance appraisal.

9.1 Job Hierarchy: The maximum number of job hierarchy of the Private Commercial Banks is marked at 20 and there are wide variations in the job ranks. Further, the definitions of jobs ranks are not clearly defined in the Private Commercial Banks in Bangladesh. The challenge for the uniformity of job hierarchy across the banks is to define the job ranks and reducing the number of job hierarchy similarly to the State-Owned Banks.

9.2 Salary Structure and Benefits: Salary structure in the Private Commercial Banks are widely varied which is double and some cases triple differences across the banks. Similarly, to the state-owned banks, designing the salary scales for the different categories of the posts is a challenge.

9.3 Seniority and Promotion Policy: There are variations of promotion policy across the banks in Bangladesh particularly among the Private Commercial Banks. Definition of seniority on the basis of station seniority is also a challenge, which should be uniform across the banks.

9.4 Termination, Resignation and Retirement Procedure: As most of the Private Commercial Banks have no clearly articulated termination, resignation and retirement procedure, uniformity of these issues is also difficult. However, Bangladesh Bank can take steps to streamline the rampant termination of the employees in the Private Commercial Banks.

9.5 Disciplinary, Punishment and Appeal Procedure: Employee disciplinary, punishment and appeal procedure are not followed by the banks according to the Bangladesh Labor Act, 2006. Uniformity in following proper process for employee disciplinary action and punishment and their appeal procedure is a great challenge.

9.6 Performance Appraisal: The method of employee performance appraisal is not uniformed across the banks. The banks followed Annual Confidential Report (ACR), Performance Review Report (PRR) or the bank specific designed Key Performance Indicator (KPI). The transformation of ACR to KPI or PRR is a challenge for the banks in Bangladesh.

References

Bangladesh Bank Circulars.

Islam, M. T. (2014). Green recruitment and selection process model: Evidence from the banking sector of Bangladesh. *Bank Parikrama*, Vol. XXXIX, Nos. 1 & 2, March & June 2014, 113-135.

Jilani, M.M.A.K. Fan, L. Islam, M.T. & Uddin, M.A. (2020). The influence of knowledge sharing on sustainable performance: A moderated mediation study. *Sustainability*, 12 (3), 908.

Mamun, A. Islam, M. T. Yesmin, R. Ali, A. Ezaz, S. Islam, M.M. & Hossain, M.M. (2020). Human resources review of banks. *HR Review series of BIBM – 2019*.

Service Rules of the State-Owned and Private Commercial Banks

The Labor Law, 2006

The Labor Rules, 2015

The Service Rules, 1979

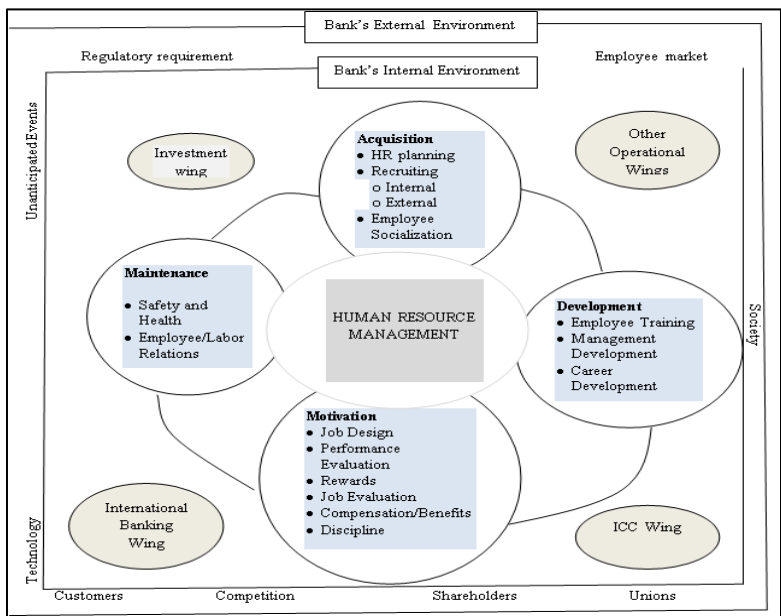
<https://counsellaw.com/rules-and-conditions-of-service-and-appointment-in-bangladesh/>

<https://thefinancialexpress.com.bd/trade/unilever-cuts-prices-of-its-products>

<https://www.fmassociatesbd.com/employment-service-rules-in-bangladesh>

<https://www.google.com/search?q=bangladesh+labor+law&rlz=1C1UEA>

Annexure A: HR Functions in Banks



Source: Mamun et al. (2020)

Annexure B: Questionnaire

On

Service Rules Uniformity in Banks of Bangladesh: Issues and Challenges

1. Name (Optional):
2. Name of the Bank/Organization: (Optional)_____
3. You are working in a. State-Owned Commercial bank b. Private commercial bank
 c. Foreign Banks d. Developing Financial Institutes (DFIs)
4. Gender: ☐ Female ☐ Male
5. Age range: ☐ Below 25 ☐ 25-34 ☐ 35-44 ☐ 45-54 ☐ 55-64 ☐ Over 64
6. Current division in which you are working -
 a. Dhaka b. Chittagong c. Rangpur d. Sylhete. Rajshahi f. Barishal
 g. Khulna h. Mymensingh
7. Qualification: ☐ Graduate ☐ Post graduate ☐ PhD/Higher Degree
8. Monthly income: ☐ Below 30000 ☐ 40000-60000 ☐ 60000-80000 ☐ Over 80000
9. Are you a banker? Yes ☐ No ☐

If yes, please fill-up the following questions; if No please do not fill the questionnaire.

To what extent do you agree or disagree on the following statement, please tick (✓)

1 = Strongly Disagree (SD)

2 = Disagree (D)

3 = Neutral (N)

4 = Agree (A)

5 = Strongly Agree (SA)

Sl. No.	Particulars	SD	D	N	A	SA
1	Number of Job Hierarchy/Ladder among the all scheduled banks (State-owned and Private Commercial) in Bangladesh should be uniform.	1	2	3	4	5
2	Number of Job Hierarchy/Ladder of the job among the all State-Owned Banks in Bangladesh should be uniform.	1	2	3	4	5
3	Number of Job Hierarchy/Ladder of the job among the all Private Commercial Banks in Bangladesh should be uniform.	1	2	3	4	5
4	Recruitment and Selection process among the all scheduled banks (State-owned and Private Commercial) in Bangladesh should be uniform.	1	2	3	4	5
5	Recruitment and Selection process among all of the Private Commercial in Bangladesh should be uniform.	1	2	3	4	5
6	Salary structure and benefits among the all scheduled banks (State-owned and Private Commercial) in Bangladesh should be uniform.	1	2	3	4	5
7	Salary structure and benefits among the all of the Private Commercial banks in Bangladesh should be uniform.	1	2	3	4	5
8	Employee transfer and posting among the all scheduled banks (State-owned and Private Commercial) in Bangladesh should be uniform.	1	2	3	4	5
9	Employee transfer and posting among the all State-owned banks in Bangladesh should be uniform.	1	2	3	4	5
10	Employee transfer and posting among the all Private Commercial banks in Bangladesh should be uniform.	1	2	3	4	5
11	Seniority and Promotion Policy among the all scheduled banks (State-owned and Private Commercial) in Bangladesh should be uniform.	1	2	3	4	5
12	Seniority and Promotion Policy among the all State-owned banks in Bangladesh should be uniform.	1	2	3	4	5
13	Seniority and Promotion Policy among the all Private Commercial banks in Bangladesh should be uniform.	1	2	3	4	5
14	Termination, Resignation and Retirement procedure among the all scheduled banks (State-owned and Private Commercial) in Bangladesh should be uniform.	1	2	3	4	5

Sl. No.	Particulars	SD	D	N	A	SA
15	Termination, Resignation and Retirement procedure among the all State-owned banks in Bangladesh should be uniform.	1	2	3	4	5
16	Termination, Resignation and Retirement procedure among the all Private Commercial banks in Bangladesh should be uniform.	1	2	3	4	5
17	Provident Fund and Gratuity procedure among the all scheduled banks (State-owned and Private Commercial) in Bangladesh should be uniform.	1	2	3	4	5
18	Provident Fund and Gratuity procedure among the all State-owned banks in Bangladesh should be uniform.	1	2	3	4	5
19	Provident Fund and Gratuity procedure among the all Private Commercial banks in Bangladesh should be uniform.	1	2	3	4	5
20	Leave facilities among the all scheduled banks (State-owned and Private Commercial) in Bangladesh should be uniform.	1	2	3	4	5
21	Leave facilities among the all State-owned banks in Bangladesh should be uniform.	1	2	3	4	5
22	Leave facilities among the all Private Commercial banks in Bangladesh should be uniform.	1	2	3	4	5
23	Disciplinary, punishment and appeal procedure among the all scheduled banks (State-owned and Private Commercial) in Bangladesh should be uniform.	1	2	3	4	5
24	Disciplinary, punishment and appeal procedure among the all State-owned banks in Bangladesh should be uniform.	1	2	3	4	5
25	Disciplinary, punishment and appeal procedure among the all Private Commercial banks in Bangladesh should be uniform.	1	2	3	4	5
26	Performance appraisal system (such as ACR and KPI) among the all scheduled banks (State-owned and Private Commercial) in Bangladesh should be uniform.	1	2	3	4	5
27	Performance appraisal system (such as ACR and KPI) among the all State-owned banks in Bangladesh should be uniform.	1	2	3	4	5

Sl. No.	Particulars	SD	D	N	A	SA
28	Performance appraisal system (such as ACR and KPI) among the all Private Commercial banks in Bangladesh should be uniform.	1	2	3	4	5
29	Uniformity in Service roles improves performance of banks in Return on Assets (ROA), Return on Equity (ROE) and reduces Non-Performing Loans (NPLs)	1	2	3	4	5
30	Uniformity in service rules improves organization culture.	1	2	3	4	5
31	Uniformity in service rules reduces employee switching rate.	1	2	3	4	5
32	Uniformity in service rules ensures similar status, prestige and recognition in the society and well as banks.	1	2	3	4	5
33	Uniformity in service rules ensures healthy HR practices among the banks.	1	2	3	4	5

Annexure C: Related BB Circulars from January 2020 to April 2024

Date	Particulars of the Circulars
02/11/22	BRPD Circular Letter No. 43: Regarding fixation of 25 March 2020 as cut-off date for the direct recruitment of candidates in the recruitment circulars publishable up to 30 June 2023.
23/07/23	BRPD Circular Letter No. 24: Inclusion of Passing Banking Professional Exam (Former Banking Diploma Examination) in the Promotion Policy of Officers as Mandatory Requirement.
01/02/22	BRPD Circular Letter No. 05: Regarding salary of entry level officials and employees of bank-company.
09/01/20	BRPD Circular No. 01: Issuance of Maternity Leave Policy for Female Employees working in the Banks
16/09/21	BRPD Circular No. 21: Arbitrary Termination of Bank Employees

Bangladesh Institute of Bank Management (BIBM)
Plot No.4, Main Road No. 1 (South), Section No. 2, Mirpur, Dhaka-1216
Tel: 48032091-4; 48032097-8, 48032104, E-mail: bibmresearch@bibm.org.bd; Web: www.bibm.org.bd

Price: BDT 300.00
USD 8.00