

Report On
Liquidity Crisis and Post Crisis Management of Islami Bank Bangladesh Limited

By
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An internship report submitted to the BRAC Business School in partial fulfillment of the
requirements for the degree of
Bachelors of Business Administration

BRAC Business School (BBS)
BRAC University
May, 2023

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Declaration

It is hereby declared that

1. The internship report submitted is my/our own original work while completing degree at Brac University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

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Letter of Transmittal

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Bangladesh

Subject: Liquidity Crisis and Post Crisis Management of Islami Bank Bangladesh Limited

Dear Sir,

I have had the honor and privilege of presenting you my internship report, which I wrote on the subject of "Liquidity Crisis and Post Crisis Management of Islami Bank Bangladesh Limited," with the highest thanks and respect. This report I have written is a compilation of the expertise and experience I have gained over the course of my three months of employment at Islami Bank Bangladesh Limited.

I hope that my report satisfies your expectations since I have used my time wisely to organize and compile the most relevant data in order to complete my internship report. I truly appreciate your kind assistance and guidance all through this process.

Sincerely yours,

Samiha Hasan

18204013

BRAC Business School

BRAC University

Date: June 3, 2023

Non-Disclosure Agreement



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Date: 26.01.2023

TO WHOM IT MAY CONCERN

This is to certify that **Samaha Hasan**, a student of BBA, **BRAC University**, has been selected by Islami Bank Training and Research Academy (IBTRA) for its 153rd Batch Internship Program (Non-Residential) from 03 January, 2023 for 90 days. Her enrollment number is **153173**.

We wish the participant every success in life.

(S. M. Rabiul Hassan)

Principal, IBTRA

Acknowledgement

First and foremost, I am grateful to the Almighty Allah for guiding my way through his infinite wisdom and guidance and keeping me in good health and mind for me to be able to attend to my day-to-day activities, be it my professional life or personal life.

Second, I want to convey my heartfelt appreciation to Mr. Mahmudul Haq, my academic internship supervisor as well as a faculty member, for assisting me in selecting a unique idea for my report. I am grateful to him for providing me with sound advice and instructions during my internship program. I am grateful that every time I went to meet him at his office, he was accessible and made time for my queries, and with his support, advice, and recommendations, I have successfully completed my report.

Finally, I would like to express my deepest and sincerest gratitude towards Mr. Mirza Siddiqur Rahman, my organizational supervisor during my tenure at Islami Bank Bangladesh Limited. During my tenure at the office, he had treated me as an integral part of his organization rather than an intern who will be leaving soon. As a result, I have had the opportunity to take on tasks and duties that have given me a glimpse of the corporate world and how things work.

Executive Summary

This internship report focuses on Islami Bank Bangladesh Limited's Financing, Marketing, Management, and responses to the recent liquidity crisis of December 2022-2023. A three month long internship was completed at IBBL where everything starting from the bank's day-to-day operations to more complicated happenings of the institutions were explained and given hands-on training on shariah based banking operations through a multi-disciplinary effort. The post crisis management situation of IBBL was closely observed as well, which has also been written about here in detail.

Keywords: Liquidity Crisis; Islami Bank Bangladesh Limited; Shariah; SWOT Analysis; Fintech

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List of Acronyms

BB- Bangladesh Bank

ADC- Alternate Delivery Channels

LC- Letter of Credit

MSA- Mudaraba Savings Account

MSSA- Mudaraba Special Savings Account

IBBL- Islami Bank Bangladesh Limited

AGM- Annual General Meeting

ACR- Annual Confidential Report

KPI- Key Performance Indicators

SME- Small and Medium Enterprise

RPA- Robotic Process Automation

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Graph of Need fulfilment questionnaire

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Chapter 1

Overview of Internship

1.1 Student Information

Name : Samiha Hasan

ID : 18204013

Program : Bachelor of Business Administration

Major : Finance

Minor : E-Business

1.2 Internship Information

1.2.1 Institution

Institution name: Islami Bank Bangladesh limited

Designation: Intern

Period: 3 Months

Addresses:

- **Head Office:** Islami Bank Tower, 40 Dilkusha, Dhaka 1000
- **Branch Office:** Islami Bank Bangladesh limited, Modina tower, Darus Salam Rd, Dhaka-1216.

1.2.2 Organization Supervisor's Information

- **Name:** Mirza Siddiquir Rahman
- **Designation:** Manager Operations

1.2.3 Internship Description

I did my internship for 3 months in IBBL and during that period I familiarized myself with various banking terms and systems. IBBL selects the interns and sends them to different branches. Each branch has five sections of banking including cash counters. The cash counter and vault is restricted for the interns for safety reasons. Other than that, they have accounts opening and closing section, ADC section, foreign exchange and investment section.

Each intern gets the opportunity to visit the sections in the first week and observe. After that they can pick their desired section to work. During the internship period, one can always observe and visit the other sectors in terms of learning. I personally was interested in the accounts section. So, I worked most of the days there besides visiting other parts.

1.2.4 Responsibilities in Different Sections

- **Accounts:** Account opening in IBBL usually requires collecting data from the customers. To open accounts like MSA or MSSA or student accounts requires a very small amount of data as IBBL has their personal application called "Cellfin". On the other hand, a business account or current account requires a lot of data. Furthermore, there are procedures to close an account or the formalities for cheque clearing. These matters are handled in this section.

I worked here, met new people everyday, helped them with opening accounts, transactions or even with closing an account.

- **ADC:** Alternate Delivery Channels usually issue cards, help customers withdraw money using a pos machine, fix anybody's bank account related issues through call, setting a new pin for the customer etc.
- **Foreign Exchange:** In this section, customers usually come to open student accounts for foreign transactions in college or universities. Besides, they can conduct other foreign transactions here. Also, if someone is willing to buy or sell foreign currencies, they are welcome too. Most important task here is doing LC which keeps the export-import business running.
- **Investment:** IBBL had numerous investment schemes. Employees here usually advise the customers so that they can know how and where to invest. Or in some cases, IBBL checks their proposal and then IBBL invests on properties or projects. They have forms to collect data and the core responsibility here is to collect data from the customers and make the investment work. Bai-Murabaha (Purchase & Sell), Bai-Salam (Advance Purchase & Sell), Bai-Istisna, Bai-As-Sarf, Bai-Muajjal -these are few investments mode of IBBL which are taught during the internship period.

1.3 Internship Outcomes

1.3.1 Student's Contribution to the Bank

The interns were trained in the first few days to work actively and so all of the students always did perfectly what they were assigned for. In banking business, it is quite essential to have a closer look of what the depositors or the customers think. While the students were working as interns, all of them including me were assigned to different tasks. Even though we were being treated as regular employees, we had the responsibility to mix among the customers. We were able to see things from the customer's perspective. At the end of the day

interns would report the feedback and suggestions regarding the observation. In this way, the problems and concerns of the customers were more visible and easier to solve.

Moreover, when the interns were assigned to their jobs, that was a great relief for the regular employees because they could rely on the additional employees or the interns. When the interns were treated as regular employees and given real banking tasks, they treated the company as something of their own and it added value to the business. The way interns handle the tasks, speed up the banking procedure. During my internship period, there were several campaigns as well. We took part, communicated with the customers, inspired them to open bank accounts and deposit.

1.3.2 Benefits to the Students

- A chance to experience banking from a renowned bank of Bangladesh
- Meeting new people everyday
- Improving Communication Skill
- Getting a clearer view of career opportunities
- Understanding the differences between conventional and Islamic bank
- Getting paid as many organizations offer unpaid internships
- Being able to keep in touch with every class of employees
- Experiencing job life and feeling empowered

1.3.3 Training as an Intern

Before the main internship started, they trained us for the first few weeks. Where we had slowly started to make ourselves comfortable with the corporate culture. Besides, we had a lot to know about Islamic banking. Before the internship, they took a few classes on various topics related to it.

The classes are taken by the senior instructors of IBTRA, which is IBBL's training center. The topics they thought were- Overview on Financial System of Bangladesh, Overview on IBBL the First

Shariah Based Bank of South Asia, Deposit Products of IBBL: Principles, Features & Procedures, Investment Mechanism & Modes of IBBL Bai, Shirkat and Ijarah Mode, Islamic Banking: Definition, Features, Objectives & Differences Between Islamic Banking and Conventional Banking, Contemporary Economic System and Differences between Conventional and Islamic Economic System, Prohibitions of Riba in Financial Operations & Socio Economic Impacts Thereof, Opening of A/Cs: Principles and Procedures, Overview on Foreign Trade Operations of IBBL, Micro Finance (RDS & UPDS) and CSR Activities of IBBL, Financial Inclusion: Agent Banking of IBBL, Marketing of Islamic Banking Products (Deposit & Investment) Removing the Misconceptions about Islamic Banking, Review on General Banking and Deposit Products, Sustainable Finance and Green Banking Activities : Perspective IBBL, Special Deposit and Welfare Oriented Investment Scheme of IBBL and Alternative Banking Products of IBBL: Fintech & Future Banking.

They also taught us the moral values and ethical terms related to banking. We learned why islamic banking is important and how it is not just for the sake of religion. Islamic banking is for the welfare of the society and it is suitable for all people of different beliefs.

1.3.4 Problems Faced During the Internship

- Not being able to get entire access to the computer system due to confidentiality
- The bank has a mission to get its reputation back so there is a pressure on the employees including the interns
- Entering workplace right away from the university was not easy in the beginning

Chapter 2

The Organization

2.1 Introduction

One of the largest and leading private banks in Bangladesh is Islami Bank Bangladesh Limited and this bank is highly ambitious to provide their services by following shariah. From the beginning of its establishment it has been serving its customers with honor. Not just providing services, they even believe in the welfare of the people through their banking business. They try to make sure no party faces loss and the economy of the country thrives with the essence of shariah. IBBL has banking products that are suitable for the people of every walk of life. The diversification in their customers is very impressive. As their business kept expanding, their customers also kept growing, People started to open bank accounts and deposit their savings. The schemes and products of Islami Bank Bangladesh Limited were customer friendly and even better for those who are practicing muslims. With all the reputations and achievements, everything was going fine until the liquidity crisis occurred at the end of the year 2022. It started to spread tension among the customers and the people who are related to the bank. S Alam group decided to withdraw a huge amount of money under the nose of the bank authority. While there is already economic tension and inflation going on in the country, this event caused a big damage to the bank.

2.2 Shariah Based Banking System

A shariah based bank basically indicates the bank which is operated by following the rules of the religion- islam. These types of banks are quite different from the conventional banks or most banks in the world. This means, the guidelines they follow prohibit them to engage in

speculation, interest based transaction (usury) or investments related to alcohol, pork, gambling and every other thing that is haram or banned in islam.

The core principles help them operate their business without charging or receiving any kind of interest. They prefer the profit-sharing or sometimes profit-and-loss sharing methods.

Uncertainty is a part of most businesses but they manage theirs without getting involved in any kind of ambiguity or high risk (gharar).

Usually islamic banks invest in the industries which are shariah-compliant. It's because they are promoting investments which align with islamic values and ethics.

2.3 Overview of the Company

Islami Bank Bangladesh is a shariah based commercial bank of bangladesh established in 1983. It is the very first bank in south asia to offer shariah based banking services to customers. The bank has about 365 branches and more than 13,000 people are working in these branches. The bank operates in accordance with Islamic principles and has a unique business model that is based on profit-sharing and risk-sharing arrangements with its clients. They are constantly working on promoting socio-economic development through their unique banking principles. Islami bank has made banking easier and comfortable by installing more than 2000 automated teller machines all over the country.

Islami bank has some unique products and services which do not include any kind of interest. These modes and schemes are mainly dependent on profits. In some cases, just to follow the shariah, the bank earns very little profit compared to other banks. Notable products and services of Islami Bank Bangladesh Limited include Mudaraba Savings Account, Mudaraba Term Deposit Account, Mudaraba car and home financing, Mudaraba hajj savings scheme etc.

2.3.1 Challenges faced by Islami Bank Bangladesh Limited

Islamic banks encounter numerous obstacles. In the beginning they have yet to devise an interest-free mechanism to place their funds on a temporary basis. They face the same issue when it comes to financing consumer loans and government deficits. Furthermore, the risk associated with profit-sharing appears to be so significant that most banks have turned to financing approaches that provide them with a guaranteed fixed return. As a result, there has been a lot of legitimate criticism that these banks have not eradicated interest but have simply modified the definitions of their activities. Also, Islamic banks lack the legal protection of their own central banks (with the notable exception in Pakistan and Iran), leaving them vulnerable.

In addition, Islamic banks lack the expertise and professional staff required to appraise, monitor, analyze, and monitor the projects they are supposed to finance. As a consequence, while possessing financial liquidity, they are incapable of growing their businesses.

The issues and problems that Islamic banks face can be divided into two parts. They face issues related to both- macro and micro operations. Liquidity and Capital, Valuation of Bank Assets, Credit Creation and Monetary Policy, Financial Stability, The Ownership of Banks, Lack Capital Market and Financial Instruments, Insufficient Legal Protection- all these fall under macro operation issues. On the other hand, Increased Cost of Information, Control over Cost of Funds, Mark-up Financing, Excessive Resort to the Murabaha Mode, Utilization of Interest Rate for Fixing the Profit Margin in Murabaha Sales, Financing Social Concerns, Lack of Positive Response to the Requirement of Government Financing- all these fall under micro operation issues.

2.3.2 IBBL's Vision

The vision of Islami Bank is to always strive for outstanding financial results and to be recognized as a leading Islami Bank in terms of prestige and performance as well.

2.3.4 IBBL's Mission

The mission is to construct Islamic Banking by introducing a welfare-oriented banking system, as well as to guarantee equity and justice in all economic activities, and to achieve balanced growth and equitable development through diverse investment operations, particularly in priority sectors and underdeveloped areas of the country. Also, to promote socioeconomic development and financial services to low-income people, particularly in rural areas.

2.3.3 IBBL's Goal

Their goal is to establish and maintain modern banking techniques, to ensure the soundness and development of the financial system based on Islamic principles, and to become a strong and efficient organization with highly motivated professionals working for the benefit of people, based on accountability, transparency, and integrity to ensure the financial systems' stability.

They plan to make an effort to encourage savings through direct investing. The bank will also aim to stimulate investment, particularly in projects that are more likely to result in more employment.

2.4 Management Practices

A bank's management practice implies how smoothly a bank's operations can run. If there's any fault in the system, the management scenario will tell about that as well. During my internship period, I got the opportunity to connect with the employees, managers, or even some of the stockholders.

2.4.1 Leadership Style

From the beginning of the internship to the end, all the interns, including me, felt prioritized in terms of many official affairs. It is because IBBL values the opinions of all the stakeholders. Even Though we were interns, we were asked about certain matters related to the office. This indicates the organization has “**Participative Leadership Style**”. The meaning of participative leadership is to encourage employees to participate in organizational decision-making, and the key to the leadership process is to make a series of management tasks such as consulting employees before making decisions (Benoliel and Somech, 2014). That is one of the reasons why we were always highly encouraged to work.

The bank has a board of directors. The Board is made up of experienced members from various professions such as banking and finance, business administration, teaching, physicians, chartered accountancy, general management, engineers and Shari'ah experts making the Board very efficient as well as balanced when deciding and directing various Bank issues. Besides that the bank almost every year arranges a AGM which helps the bank to connect with its shareholders. In the meeting they discuss events, financing, profit, loss etc. This makes all of them feel included. The employees, the directors, the stockholders, everyone has a say. When the employees, out of the board of the directors get to represent their opinion on a matter, they certainly feel empowered. That accelerates the speed of their work as well. The directors give the proper respect to the employees along with all the stakeholders and they bring efficiency and effectiveness to the organization.

2.4.2 Recruitment Process

The MD & CEO are responsible for the recruitment and advancement of all bank employees save those in the two ranks below him. In such instances, he conducts in accordance with the

approved service guidelines on the basis of the human resources policy and sanctioned human resources planning established by the Board. Except for those two tiers below the MD & CEO, he has jurisdiction over transfer and discipline proceedings for employees, which he administers in accordance with the approved service regulations. Furthermore, he nominates officers for training, skill development programs, and other activities in accordance with the board's authorized human resources policy.

When it comes to recruiting interns, they go through a selection process by interviewing and going through their gradesheets. They take necessary papers too. IBBL conducts exams in several steps to find the most qualified ones for the bank.

2.4.3 Compensation

During my stay at the bank, I saw the employees were very satisfied after getting their compensation. They get it on time and it's about how much they usually expect. I did not hear them complain about it. In fact, the payment of our internship was also credited in our personal accounts right on time.

The Board of Directors, all of whom are non-executive directors, decides on employee compensation. As directed by the Board, the Managing Director, Additional Managing Directors, Deputy Managing Directors, CFO, Head of Human Resources, and other relevant officials work on the matter (Annual Report, 2022).

2.4.4 Training

Islamic banking concepts and procedures are entirely new and distinct from those of traditional banks. There will inevitably be a need for bank workers to be trained in order to orient and adjust to the new Islamic banking system. Islami Bank Training and Research Academy (IBTRA) was founded in 1984, shortly after the establishment of Islami Bank Bangladesh Limited (IBBL), to meet this demand (2023, IBTRA)

Before starting working as interns, we were trained and taught here, in IBTRA. In this training center they do not conduct any regular banking operations. It is only to train the employees and make them perfect fit for the banking industry.

Address: Islami Bank Training and Research Academy, 13A/2A, Block # B, Babar Road, Mohammadpur, Dhaka-1207, Bangladesh.

Contact Number: +880248121186 , E-mail: it.ibtra@gmail.com

2.4.5 Appraisal

IBBL evaluates employee performance using a well-structured performance appraisal system (usually known as ACR). The initiative has also been taken to systematically adopt the Key Performance Indicator (KPI) to analyze the performance of personnel who have precise and measurable annual business targets (IBBL Annual Report, 2022). The appraisals keep the employees motivated and enthusiastic about their works. This is ultimately the best for the organization. When the employees are treated well, they treat the organization even better. IBBL maintains a disciplined human resources policy when it comes to promoting, rewarding, and recognizing its employees and staff members. Promotion is not a right that can be claimed. It is given to those who deserve it. Every year, IBBL promotes qualified employees based on the quality of their respective job delivery, performance, and potential.

2.5 Marketing Practices

Marketing policies play a very important role for IBBL because they must reach towards their goals and objectives. Islamic banks are always trying to make sure the islamic way of banking gets established in society. So there are already so many islamic banks in our country or even throughout the whole world. IBBL must stand out among them. So the policy makers and marketing managers spend a huge amount of time and their knowledge to ensure so.

2.5.1 Marketing Strategy

In order to remain competitive with conventional banks, which are known to have more experience and expertise in the banking industry, Islamic banks must not only operate in a market where service quality and financial returns are viewed as the most important criteria from the perspective of customers. The religious component, which was long believed to be the primary motivator for Muslims to use the Islamic banking services that are offered by Islamic banks, has since lost relevance for Muslim clients. It is crucial for Islamic banks to evaluate the success of their marketing strategy given the rising competition from conventional and Islamic banks as well as changes in client perception.

In terms of maintaining the product strategy, IBBL is renowned for providing Islamic banking services and products that adhere to Sharia law. Islamic banking functions in accordance with Sharia law, which forbids transactions including interest. IBBL provides a variety of Islamic banking solutions, including Ijarah (lease), Murabaha (profit-sharing investment), and Musharakah (partnership-based finance). It can also be mentioned as a product differentiation strategy.

In terms of pricing, IBBL does not follow the interest system. In that case they can earn through the service charges which depend on their costs. If not all, some of IBBL's goods may use a cost-plus pricing structure. Cost-plus pricing entails raising the price of a good or service in addition to the cost of production. This markup pays for the bank's overhead costs, expenses, and a reasonable profit margin.

Promotional strategy of IBBL has many sectors and ways. They are inspiring people to invest in Islamic schemes. Which gives people the satisfaction of practicing Islam. Besides, they have health care institutes, educational institutions, and some banking strategies by which

they are ensuring the wellbeing of the society and gaining the trust of people. SO people get more encouraged to invest here.

Place is another factor of marketing strategy. It determines where a company sells or runs its business. IBBL has more than 340 branches and they serve plenty of customers. They even have sub-branches and atm booths all over the country. Even in underdeveloped areas of our country, they have set booths so that people can enjoy the services. The booths remain opened for 24 hours and saves time. People now do not have to travel and wait in the queues to get banking services.

2.5.2 Target Customers

As an islamic bank, Islami Bank Bangladesh Limited's target customer is mostly practicing muslims. People who are determined to avoid transactions that are based on interest and want to prioritize the islamic principles in it.

IBBL also targets SME's in trading, manufacturing, services, agriculture etc. Here IBBL works as an advisor beside financing these small and medium enterprises. Those businesses which struggle to run according to shariah, IBBL guides them. But IBBL makes sure the SME's are established according to islamic rules. The businesses can not be of anything or of any product that is prohibited in islam. IBBL also targets some of the large enterprises. These enterprises seek shariah based financial advice from IBBL beside handling their treasury.

Despite being a shariah based bank, IBBL attracts non-muslim people too. During my internship period, I have encountered multiple people of different religions.

2.5.3 Marketing Channels

IBBL has numerous marketing channels to connect with their target market. The main channel is their branches. They have branches all over the country and few across the county

as well. From opening accounts to transferring money, these branches provide all the facilities to their customers on spot.

Besides their strong branching, IBBL has a very active online presence in terms of banking and advertising. Mobile banking has become quite popular so it already works as an advertisement. They are reaching out to the customers through social media as well. After all these, they still use the conventional channels like radio, television, news paper etc. It is because they tend to look for customers of various levels including less uneducated people who are not familiar with internet banking or technologies.

2.5.4 Products

IBBL has a vast range of products and services and all of them follow the shariah. They are divided into financial products, deposit products, investment products and many more. Some of the main products are given below.

These are the financing products-

- Bai-Murabaha
- Bai-Muajjal
- Mudaraba
- Musharaka
- Ijarah
- Quard
- Home Financing
- Car Financing

They also have investment products and those are-

- Mudaraba Term Investment
- Mudaraba Micro Industries Investment
- Mudaraba Transport Investment
- Mudaraba Agriculture Investment
- Mudaraba Real Estate Investment
- Mudaraba Special Investment Scheme

In terms of depositing, they have-

- Mudaraba Savings Account
- Mudaraba Waqf Cash Deposit Account
- Mudaraba Hajj Savings Account
- Mudaraba Term Deposit Account
- Mudaraba Monthly Profit Deposit Account
- Mudaraba Special Notice Deposit Account

Other products-

- Foreign Remittances
- Deposit Pension Scheme
- E-banking
- Locker Service

2.6 Financial Performance

Islami Bank Bangladesh Limited has always been a pioneer in serving people with financial satisfaction. Sadly, recent years have not been as good. Economic downfall of the whole country and the liquidity crisis have caused so many issues.

2.6.1 Profitability of IBBL

The percentage of revenue that is remaining as net profit after all costs, including taxes and interest, have been paid, is calculated using the net profit margin formula to assess a company's profitability.

The formula: $\text{Net Profit Margin} = (\text{Net Profit} / \text{Revenue}) \times 100$

IBBL annual reports of 2020,2021 & 2022, the net profit margin can be calculated. The numbers are collected from the consolidated profit and loss statements.

2020's Net Profit Margin= $(4,521,008,058/14,798,221,393)*100 \approx 30.551\%$

2021's Net Profit Margin= $(4,807,565,191/17,177,804,257)*100 \approx 28\%$

2022's Net Profit Margin= $(6,166,998,229/21,749,732,036)*100 \approx 28.354\%$

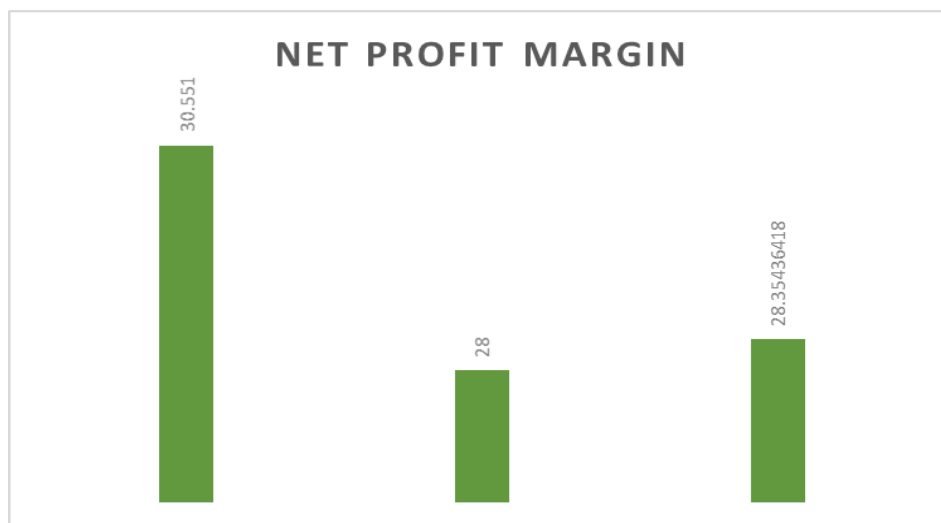


Figure 1: Net profitability margin of 2020, 2021 & 2022

From the chart, we can see there is a decline in profitability of IBBL after the year 2020.

There is about 2% of decline in 2021 and 2022.

2.7 Industry and Competitive Analysis

Analyzing the industry is essential to keep up with the current market conditions and ensure sustainability. SWOT analysis can help to find out a company's situation and how it should move forward in the competitive environment. IBBL's SWOT analysis is given below.

Strengths

Islami Bank Bangladesh Limited is a very renowned name in terms of following shariah rules in their banking system. This attracts a vast amount of customers who plan to abide by the rules of islam and make interest free transactions.

Another strength is, they have their network all over the country, even in many rural areas. This helps them to reach people of all kinds and that is why they have a very diversified market. Besides, they have huge companies, businesses as their customers. It is a bank for all.

Opportunities

People these days are getting more enthusiastic about islamic banking. If islami banks can retain the old customers besides gaining some new customers, they can increase a lot in terms of market share. As there are still more conventional banks than islamic ones, IBBL still can experiment on many new shariah based products and services.

Threats

Worldwide the banking industry is very competitive these days and many banks are adapting islamic ways of banking besides conventional ways. Those banks will do better in the long run if IBBL does not make sustainable plans. IBBL is also taking many initiatives for online banking. They are now very much dependent on cloud data and technology. The chance of losing the data or getting hacked is very high. There are many outer sources who would plan to break into the system. IBBL must stay very cautious.

Weakness

Changes to the regulatory frameworks that govern Islamic banking could make it more difficult for IBBL to innovate new products, manage risks, and comply with current requirements. This could slow down the banking process. IBBL's operational effectiveness, according to some detractors, may be increased. This covers potential improvement areas like customer service, process improvement, and digitization.

2.8 Operations Management

In the context of IBBL, operations management refers to the effective and efficient management of the bank's operational procedures. They guarantee efficient operations, compliance with Islamic banking standards, and client pleasure. IBBL is vastly concerned with regulating customer transactions, account establishment and closure procedures, financial transfers, foreign exchange activities, and other shariah-compliant banking services.

IBBL operations management also prioritizes creating and putting in place reliable internal controls, operational risk assessment frameworks, and promising regulatory compliance. In order to protect the bank's operations, it also entails regularly assessing operational risks and putting risk mitigation measures in place. IBBL's operations management focuses a great priority on providing top-notch services and guaranteeing an outstanding client experience. The management of client complaints and feedback, training workers to offer exceptional customer service, and ongoing monitoring of service quality measures are all included in this. In order to meet customer expectations, operations management makes sure that customer-centric procedures and service standards are in place.

In addition to all of these, IBBL collaborates with a wide range of suppliers and service providers to support its operations. The choice, assessment, and administration of these

vendors are within the control of operations management. This entails creating service level agreements (SLAs), keeping track of vendor performance, and assuring adherence to legal and shariah criteria.

Chapter 3

Liquidity Crisis and Post Crisis Management of Islami Bank Bangladesh Limited

3.1 Introduction

3.1.1 Objective

By studying the liquidity crisis of the bank and its management will help us understand the practices and strategies of any bank when in financial stress. It will clear up on what can be the causes of issues like this and how to prepare for upcoming fatal events.

3.1.2 Description of Liquidity Crisis

When there's scarcity of cash or assets in any company or financial institution, it causes a liquidity crisis. This can even occur to an individual. During a crisis like this, it becomes difficult for the individual or the company to meet their daily needs. If it is not solved immediately, the short term cash need will increase and lead them to a devastating position. A liquidity crisis is caused by widespread maturity mismatches among banks and other enterprises, resulting in a scarcity of cash and other liquid assets when they are needed. Large, negative economic shocks or normal cyclical fluctuations in the economy can both generate liquidity crises (The Investopedia Team, 2020).

Liquidity is vital for a business to functionate rapidly and smoothly. If a country's prospective short-term obligations in foreign currency exceed the amount of foreign currency it can access immediately, its financial system is regarded as internationally illiquid. (Chang and Velasco 1998a, b). Liquid assets let entities meet their day-to-day expenses, seize investment

opportunities and most importantly, repay debts. This helps to hold a good image of the company and makes it trustworthy to others.

3.1.3 Reasons Behind Liquidity Crisis

Liquidity crisis can be caused by several factors, which could be an internal issue or might be some outer reason. Common reasons include -

Losing Trust: When stakeholders, such as the depositors, debtors, or creditors, or investors lose faith in an entity's financial viability or solvency, they might withhold their cash or refuse to provide additional financing. This may result in a liquidity shortfall.

Difficult Assets: If an entity owns assets that are difficult to sell or cannot be transformed into cash rapidly, liquidity can occur. Illiquid assets are incapable of producing quick cash flow to pay short-term obligations.

Maturity Differences: When someone's liabilities have shorter maturities than its assets, it may struggle to generate enough cash flow to satisfy its immediate obligations. This maturity mismatch may end up in a liquidity gap.

Market Disruptions: Liquidity crises can be caused by financial market disruptions such as credit freezes, diminished market liquidity, or higher borrowing rates. These disruptions might make it challenging for businesses to obtain capital or sell assets at reasonable prices.

Credit Conditions Tightening: When lenders become extra cautious or conservative in granting credit, businesses may find it difficult to get new financing or roll over existing debt, resulting in a liquidity shortage.

During a liquidity crisis, businesses may face cash flow issues, difficulties fulfilling debts and commitments, and the possibility of insolvency if they are unable to resolve the liquidity gap

properly. To resolve the crisis, they may resort to steps such as asset sales, securing emergency capital, negotiating with creditors, or implementing cost-cutting measures.

Addressing a liquidity crisis frequently necessitates quick and decisive action, such as restoring market confidence, properly managing cash flows, and securing emergency funding or help from central banks or other financial institutions.

3.2 Methodology

3.2.1 Data Collection

- Data was collected by using a secondary research method to understand the employees activity and satisfaction level.
- Primary data collection was done by using likert scale through a questionnaire survey.

3.3 Findings and Analysis

3.3.1 S Alam Industry Incident

When the country's economy was already going down, Islamic banks started to face liquidity problems. In the end of the year 2022, Islami Bank Bangladesh Limited faced the issue most because of the news saying that a vast amount of money was withdrawn from the bank without their supervision. In November, 2022, it was said that Chattogram's S Alam Group took a loan of 30,000cr from IBBL. The problem is, they were not allowed to withdraw more than 215 crore (Rahman, 2022).

3.3.2 Islami Bank Bangladesh Limited's Liquidity Crisis

When the news spreaded of S Alam group, the regular depositors started to panic. They started to withdraw their money, close accounts and stopped depositing (Prothom Alo, 2023). This happened because the customers were losing trust. When the deposits started to go from the bank, the bank started to face scarcity of liquid money. This was leading their banking system to collapse.

People did not just stop to deposit, the remittance to the bank had also decreased. Bangladeshis who lived far away from the country found it very difficult to trust the bank with their money. They feared losing it entirely. According to a review of the bank's 2022 financial statement, the deposit of Islami Bank Bangladesh Limited (IBBL) declined by Tk 177.83 billion (17,783 crore) in 2022, indicating that depositors withdraw the amount of money from the private bank that year.

3.3.3 IBBL's Opinion on S Alam Group Incident

During my internship period at IBBL, I got the chance to communicate with the banker's of different designation. After the crisis period, they are working hard to convince their customer's and bring them back to the bank.

According to the managing director and the CEO of Islami Bank Bangladesh Limited, Mohammed Monirul Moula, the bank has always followed the rules of Bangladesh Bank. He tried to assure that the crisis was not going to harm the customers.

IBBL does not seem to be excessively bothered by the matter because they believe it is like an usual event which can be recovered with time. There is nothing to be worried or anxious about.

3.3.4 Strategic Plan for the Bank to Recover from the Crisis

Creating a strategic approach to deal with a liquidity crisis is essential for any bank, even an Islamic bank like IBBL. The following are some strategic plans that IBBL can explore in upcoming situations as well.

Liquidity stress test and scenario analysis: Run periodical stress tests and scenario analysis to examine in order to effectively cope with the liquidity crisis.

Identifying Sources: Identifying the sources and reason behind the crisis will provide a good grip on the situation. IBBL will be able to handle the recent situation and stay prepared for the new bank's liquidity status in the event of a market downturn. This assists in identifying future liquidity shortfalls and developing appropriate contingency strategies.

Diversifying finding options: Using a diverse range of financial sources will help you reduce your liquidity risk. IBBL can seek funding from a variety of sources, including interbank borrowing, customer deposits, Islamic money market instruments, and access to liquidity via central banks or liquidity providers.

Using Technology: Implementing automated liquidity management systems may provide precise and up-to-date data on financial positions, sources of capital, and liquidity shortages. Such systems can provide statistics and warnings, allowing management to make timely, rational decisions. Another option is to use RPA technology to automate standard and repetitive operational processes like transaction processing and reconciliation. RPA can enhance efficiency, minimize errors, and free up human resources to focus on strategic liquidity management.

3.3.5 Emergency Loan from Bangladesh Bank

The guardian of all the banks, Bangladesh Bank reached out for IBBL as they were facing the huge crisis. BB, the central bank imposed regulations for the bank to stand again. According to Md Mezbaul Haque, the central bank's spokesman, Islami Bank accepted Tk 8,000 crore under the BB special arrangement on December 29, the last business day before the end of the year, at 8.75 percent interest, which is equivalent to the special repo rate (Prothom Alo, 2023).

3.3.6 Starting Campaigns in the Branches

IBBL launches campaigns frequently. Their campaigns are usually for enlightening the customers about their services and products. These campaigns inspire them to connect more with the bank. By connecting it is always meant by opening a bank account.

Whenever an account is open, people must deposit a minimum amount to the account to run it. This is how they start, and then IBBL talks them through to make them understand how it can be beneficial to them if they deposit on a regular basis.

3.3.7 Using Technology

IBBL is now moving forward and fast with their usage of technology. In terms of marketing, they have gone online to attain customers. Advertisements through social platforms, their website or even through the campaigns.

They offer mobile banking services, allowing customers to access their accounts, perform transactions, and manage their finances through mobile applications. The bank provides internet banking facilities, enabling customers to access their accounts, transfer funds, and avail other banking services securely through online platforms. IBBL has integrated payment gateways for secure online transactions, facilitating e-commerce payments while adhering to

Islamic banking principles. They also have introduced QR code-based payment solutions, making payments quick and secure using smartphones. IBBL offers digital wallets, allowing customers to store funds, make payments, and conduct financial transactions using their mobile devices. They allow prospective customers to open accounts remotely through digital channels, simplifying the account opening process. IBBL has integrated digital remittance solutions for quick and secure international money transfers.

3.3.8 A Game Changer: Cellfin

Islami Bank Bangladesh Limited has already been a renowned name in terms of electronic banking. They had this app called IBBL iSmart. This has been very useful in terms of online transactions. To make people more comfortable with banking, they have launched “CellFin”. This is their very own mobile application. In my internship period, I have seen people being excited about opening bank accounts and depositing money. Because the app is very easy to use and helps to skip filling the 16 pages of the tiring “KYC” form.

As I worked in the accounts department, I opened so many accounts for the new customers. Even old ones are opening more as the process is easier.

3.3.9 Restoring the Trust

As most people in Bangladesh is muslim, they are bound to come back here if they are willing to do banking transactions. Islami Bank Bangladesh Limited has proved themselves to maintain the way of shariah. That is why, when they talked to people or during press conferences, people were easily convinced. Besides, the customers realized that their money was untouched during the whole time. Which actually implies that Islami Bank Bangladesh Limited has dealt tactfully with the crisis. It could not reach too close to the customers. Even though the tension was there, they did not let their customers feel the heat of it.

3.3.10 Customer's Feedback

I, during my internship period, interviewed some customers unofficially. I did not let them know that I was a part of the bank. I talked to the people who came for banking services. Sometimes they were just annoyed by the long waiting time but they were not worried about the crisis anymore. Tasneem Kabir, a regular depositor said the waiting time here is long because this bank has so many customers. She was one of them because she has faith in the bank, as the bank keeps her money safe. They had feared at the beginning and now they are back. They believe IBBL can do it. The bank name may suggest it is for the muslim community. I personally met people who were of different religions and still trusting the bank. A customer named Mita Sarker said she keeps her belongings in IBBL's locker as IBBL has proved itself as a trustworthy bank. They are using the locker system because they feel protected. Opening accounts, depositing, creating FDR, etc.

3.3.11 Need fulfilment of the Employee's

After this massive incident, the bank has faced so many difficulties. The question of employee's satisfaction comes right beside the customer's satisfaction. To check, I ran a survey using a 5 point likert scale. The survey was among 30 employees from the bank. It was of IBBL Mirpur branch, as I worked there. They answered through likert scale where 0 means strongly disagree and 5 represents strongly agree.

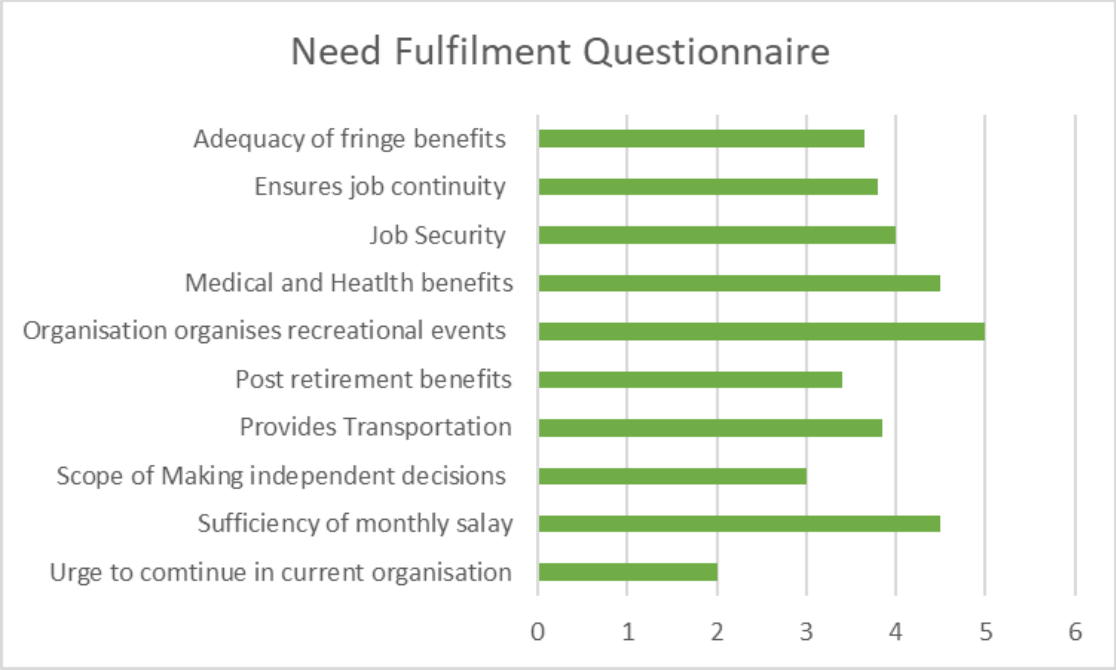


Figure: Graph of Need fulfilment questionnaire

The graph shows that the average of the responses are positive mostly as they are closer to 5 than 0. Eventhough there are some employees who are not quite satisfied but the bank is standing back on its feet.

3.4 Conclusion

Islami Bank Bangladesh Limited (IBBL) displays effective management, financing, marketing tactics, and liquidity crisis readiness. Their leadership team prioritizes on Islamic banking standards while preserving operational efficiency and profitability. The bank has a thorough and transparent governance framework in place to ensure that decision-making procedures adhere to Shariah criteria. The marketing team at IBBL efficiently conveys its value offer, sets itself apart from rivals, and forges enduring connections with clients. After all these, the liquidity crisis of IBBL has been very unfortunate. They faced many unwanted consequences but eventually it was brought under control. Bangladesh bank had stepped up to help them, the whole team of IBBL worked restlessly and lastly, the trust of the customers had started to come back. To keep stakeholder confidence during a crisis, this bank promoted communication and transparency. The profitability is not as good as previous years yet they are still working on it to stand back from the crisis.

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