

Report On
**Issues and Challenges of Non-Banking Financial Institutions
and Financial Institutions in Bangladesh**

By

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An internship report submitted to the “Brac Business School” in partial
fulfillment of the requirements for the degree of BBA

Brac Business School
Brac University
June 2022

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Declaration

It is hereby declared that

1. The internship report is my own original work completed while studying at Brac University.
2. The report does not contain any previously published or authored by a third-party content, unless properly cited through complete and correct referencing.
3. This report contains no content that has been approved or submitted for any other degree program at a university or other institution.
4. I have acknowledged all major sources of assistance.

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Letter of Transmittal

Saif Hossain
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Subject: Internship report submission titled “Issues and Challenges of Non-Banking Financial Institutions and Financial Institutions in Bangladesh”

Dear Sir,

I am submitting my Internship Report titled “Issues and Challenges of Non-Banking Financial Institutions and Financial Institutions in Bangladesh” under your supervision as a part of BUS400. I have tried my level best to make this report comprehensive and informative as possible within the time allowed. Apart from the academic knowledge gained, the internship program and preparation of report has given me the opportunity to acquaint myself with a reputed development financial institution.

I did my best to fill the report with all of the relevant information and making it accurate. I am optimistic that the report will provide answers to all of the questions.

Sincerely yours,

MD. Arafatuz zaman

ID: 17204030

BRAC Business School

BRAC University

Non-Disclosure Agreement

This agreement was prepared and entered into by ACNABIN Chartered Accountants and Md. Arafatuz Zaman. Md. Arafatuz Zaman is looking for training and skills from ACNABIN Chartered Accountants but may be access to private services as a result of his efforts (as defined below). The agreement's goal is to prevent Sensitive Information from being shared without consent.

A non-disclosure agreement specifies the parameters under which sensitive information must remain privileged and secret. A secrecy agreement may be signed by a group of persons and businesses. On the non-disclosure agreement, any party may expose sensitive information to the other, or both sides may share contents with one another.

Not every data may well be protected under a non-disclosure agreement. A non-disclosure agreement can only protect material that has the requisite sense of credibility. In other terms, you can't keep anyone else's data private once it's accessible.

I accept that during my internship, I may have exposure to and be engaged in the retention of oral, recorded, computer produced, computer viewed, filmed, or means the provision about employees, managers, and items, or organizations or enterprises.

Acknowledgement

First and initially, I would like to convey my appreciation to Allah.

Then I'd want to thank Saif Hossain, Assistant Professor & Director (BBA Program) BRAC Business School at Brac University, for his great help, direction, and good advice in drafting my internship report.

I am thankful to Muhammed Aminul Haque, FCA, an ACNABIN partner, who encouraged me to apply for an internship with ACNABIN. I am also sincerely grateful to MD. Mofiz Uddin (Senior Assistant Manager) an ACNABIN.

Regardless of my personal attempts to make the reports faultless, there may be unintended flaws. I pray and seek pardon for my shortcomings, and I am eager for other lessons to understand.

Finally, I'd want to thank ACNABIN for creating an internship opportunity for me. That was a pleasant event, so I aim to communicate my feelings in my report.

To sum it all up, I'm confident that the new abilities I picked up while interning will help me succeed in my career going forward.

Executive Summary

This report focuses on the Issues and Challenges of Non-Banking Financial Institutions and Financial Institutions in Bangladesh and identifies those mechanism which can improve the NBFI's and Financial sector.

The main objective of this report is to find out the factors which are responsible for Banking and Non-Banking Issues- Challenges and necessary steps to reduce those problems. Financial management systems in countries wealthy or poor, established or emerging, developed or undeveloped, include Banks and Non-Bank Financial Institutions (NBFIs). The deadly COVID-19 Pandemic has had a devastating influence on the financial and finance industries of most nations throughout the globe, including Bangladesh. As a result of the COVID-19 Pandemic, opportunistic global financial and economic circumstances, a decline in exports and imports, mismanagement, and corruption, Bangladesh's financial industry has been enduring terrible suffering and hardships. Bangladesh's banking system is experiencing a liquidity crisis as a result of a variety of demand and supply side problems. As a consequence, there is a loss of trust and confidence in the banking and non-banking sectors as a result of high levels of non-performing loans (NPLs), leading to a loss of faith and credibility in this industry. Moreover, the primary concern of Bangladesh's NBFIs is raising funds for low-cost investment and due to banks' present liquidity issue, it has become hard for them both to obtain cash at a fair rate. However, When Peoples Lending and Wealth Management Limited went bankrupt recently as a result of massive financial mismanagement by the company's executives, it tarnished the financial and economic reputations of NBFIs by robbing depositors of their hard-earned monies and shattering public faith in NBFIs.

Keywords: Non-Banking Financial Institutions, Financial Institution, Bank, Investment, High Risk Portfolio, Non-Performing Loans.

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List of Acronyms

ACA	Associate Chartered Accountant
ACCA	Association of Chartered Certified Accountants
ACNABIN	ACNABIN Chartered Accountants
GGAP	Generally Accepted Accounting Principle
ICAB	Institute of Chartered Accountants of Bangladesh
IAS	International Accounting Standard
NBFIs	Non-Banking Financial Institutions
NPLs	Non-Performing loans
NSCs	National Savings Certificate
SDG	sustainable Development Growth
SMEs	Small and Medium Enterprises

Chapter1: Overview of Internship

1.1 Student Information:

Name	MD. Arafatuz zaman
ID	17204030
Program	Bachelor of Business Administration
Major	Accounting & CIM

1.2 Internship Information

1.2.1: Period, Company Name, Division, Address

Period	16 th January, 2022 – 15 th April, 2022
Company Name	ACNABIN Chartered Accountants
Division	Audit & Consultancy
Address	BDBL Bhaban (13th and 14th Floor), 12 Kawran Bazar C/A, Dhaka-1215

1.2.2: Internship Company Supervisor's Information:

Company Supervisor's Name	MD. Mofiz Uddin
Position	Senior Assistant Manager

1.3: Internship Outcomes

1.3.1: Internship Experience and contribution to the company:

I had opted to study Chartered Accountancy after completing my undergraduate studies as a professional degree after finishing my undergraduate studies. As a result, after completing my internship program, I planned to work for a certified accounting company after graduation. I feel myself to be really lucky to have been given the chance to be a part at ACNABIN CA as an intern, which I took advantage of. The previous twelve weeks have allowed me to gain a little amount of knowledge about the accounting field, as well as about the sort of culture and dedication that a person must have in order to remain effective in this sector. I am hoping that my gained additional understanding of the auditing processes and rules will prove to be quite beneficial when I begin my article ship, and thus will provide me with a significant advantage. The more significantly, ACNABIN CA has educated me how to perform well below stress and the importance of taking responsibilities seriously. It has improved my capacity to establish peaceful existence with a varied group of individuals, as well as my potential to function as part of a team. Those priceless teachings will endure to be enough for me during my professional life as well as the remainder of my daily experience as well.

My internship period started from 16th January and closed on the 15th April 2022. During this internship, I was assigned with the team who conducting external audit and this team belongs to audit and consultancy department. During my internship, I performed audits for three well-known organizations. As previously stated, I am prohibited from revealing the identity of the client due to legal restrictions.

Because I was hired by the client as an inexperienced employee with little or no prior expertise in auditing as a profession, I was only given a restricted set of responsibilities. During the internship period, I was responsible for the following tasks:

- Cross-checking the client's vouchers in order to uncover any differences or false statements in the information.
- To checking loan sanction part: whether they are providing the loan by following the rules and regulations of Bangladesh Bank.
- To check financial statement and profit & loss statement
- Assisting senior auditors with the organization of their clients' files.
- Assisting with the preparation of the annual audit report
- Creating the departmental procedure for the client's commercial division.

1.3.2: Benefit to the student

- Providing an overall picture of nonbanking financial and financial institutions.
- Providing opportunities for interns to participate directly in the idea generating process helps the intern to get a better understanding of how nonbanking financial and financial organizations operate.
- Interns' capacity to grasp how a CA firm in general audits a non-banking financial and financial institution, as well as in Bangladesh.
- Will have the opportunity to work with all the departments together and easily learn about their processes and practices.

1.3.3: Difficulties and Obstacles to Overcome (faced during the internship period)

It was difficult for me to understand the audit method and process, as well as the laws and regulations, as well as the techniques, since it was mostly a nonbanking financial, and financial organization.

1.3.4: Recommendations (to the company on future internships)

Create a basic training session for the interns that will assist them in understanding the clear concept about CA firm and their audit process and procedure and how to work in it. However, CA firms are difficult to work for because their work is so diverse. From this stage, learners must be able to work effectively because the majority of the annual audit is done in groups. As a result, if they schedule training sessions weekly or twice a month, students will profit from them and demonstrate their positive output in their working area.

Chapter 2

2.1 Introduction

ACNABIN Chartered Accountants is one of the most prestigious and well-established accountancy firms in Bangladesh. The firm was established in February 1985 with a mission to provide consulting and auditing services to a wide range of private and public sector organizations throughout the country, including the government. Since 2002, ACNANBIN has been linked with Baker Tilly International, which ranked 9th out of 149 companies in the globe in terms of revenue. Prior to 2002, the business was affiliated with Arthur Andersen. ACNABIN currently has nine partners, each of whom has extensive experience in audit, accounting, review, business consulting, business process outsourcing, technology solutions, and taxation. This has allowed the firm to establish itself as a multidisciplinary organization in the accounting and auditing fields. All of the partners have extensive expertise working both domestically and internationally, as well as with foreign consultants and organizations that operate both locally and worldwide. ACNABIN provides services such as internal and external

auditing of an organization, market research, and consulting to customers in a variety of industries throughout the nation, including business, finance, education, health, and social services, among others. As part of its recent activities, the company has been able to conduct market research using accredited resources and providing them with appropriate logistical services as well as expert staff.

2.2 Vision

“We go beyond the traditional auditor and client relationship by becoming your Trusted Business Advisor.” (ACNABIN Chartered Accountants, 2022)



2.3 Mission

“We adhere to the strictest principles of client confidentiality. The sensitive and competitive nature of proprietary information and the maintenance of trust-demands it. We have built our success on such principles. We do our utmost to earn and keep client trust.” (ACNABIN Chartered Accountants, 2022).

2.4 Strategic Intent

“ACNABIN aspires to be recognized as a trusted leader in the industry by upholding the highest standards of professional ethics and competency. While we have established a secure and trusted position in the market for financial institutions, telecommunications, foreign branch and liaison offices, and non-governmental organizations (NGOs), we believe there is still room for us to expand our involvement in other sectors in the country and the region.” (ACNABIN Chartered Accountants, 2022)

2.5 Firm's Profile

Name of the firm	ACNABIN Chartered Accountants
Date of Registration	15th February 1985
Address	BDBL Bhaban (13th and 14th Floor), 12 Kawran Bazar C/A, Dhaka-1215
Phone	(880-2) 8144347-52
Fax	(880-2) 8144353
E-mail	acnabin@bangla.net
Web	http://www.acnabin-bd.com
Branch Office	House # 734, Road # 26, CDA Residential Area, Chittagong.
Number of Partners	9 Partners
Member	
Logo	

2.6 Operational Organogram of ACNABIN



Figure 1: Operational Diagram

2.7 Services

An extensive variety of high-quality services of varying kind are provided by ACNABIN to customers in both the private and public sectors across Bangladesh. It also acts as an international development agency and as an expatriate consultant for a variety of projects in Bangladesh. Here is a list of the most important kinds of services given by ACNABIN Chartered Accountants:

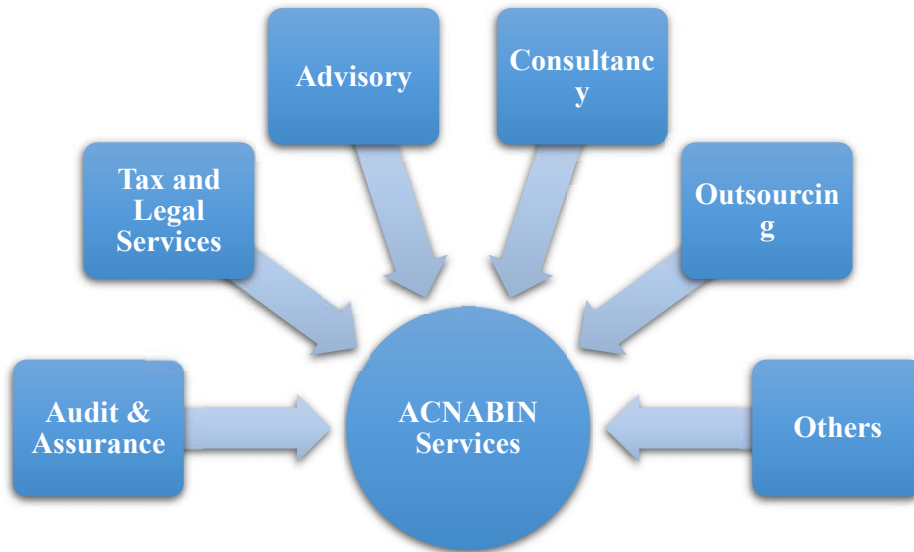


Figure 2: ACNABIN Chartered Accountants Services

2.7.1 Audit and Assurance

The primary function of a CA company is auditing. Expert specialists that provide a variety of audit services to various commercial and public organizations in accordance with national accounting and auditing standards applicable to Bangladesh as well as internationally are available. Auditing that is carried out with a thorough understanding of corporate systems, processes, and controls. Customers of ACNABIN may expect to get individualized and tailored services in the areas of auditing and assurance. The company provides a variety of auditing and assurance services to meet the needs of its customers including:

- Statutory audit
- Internal audit
- Special audit
- Cost audit
- Compliance audit
- Management audit
- Performance audit
- Forensic audit
- Interim audit
- Review audit
- NGOAB audit
- Donor audit

2.7.2: Tax and legal advice

The business provides a wide range of tax and legal guidance to meet the needs of its customers. An individual tax team exists at ACNABIN, and each member is dedicated to providing tax services that exceed the expectations of their customers. ACNABIN also employs a number of needed advocates, who are responsible for dealing with legal disputes brought by clients.

The following tax and legal services are provided by the firm to its clients:

- Corporate & individual tax planning
- Personal Income Tax
- Calculation and application of deferred taxes
- Indirect tax
- Creating a VAT Management System and Conducting a Compliance Audit Tax assessments and appeals
- Income tax return preparation
- Customs and Import Duty cases

2.7.3: Advisory

Chartered Accountant Firms are concerned with auditing, taxation, advice, and consulting, among other things. In addition to business advising services, ACNABIN also provides services in several other areas of an organization, such as company formation, finance and banking, investment and stock exchange, among others. The following services are provided by ACNABIN Chartered Accountants:

- Financial management training for non-finance executives;
- Accounting services including IFRS and budgeting;
- Design and implementation of appropriate accounting systems;
- Services linked to inventory management, fixed asset management, etc.
- Business Plan Development and Feasibility Study
- Micro-Finance Consulting, Business and Asset Valuation
- Company acquisitions, mergers, spin-offs, and amalgamations:

2.7.4: Consultancy

A thorough grasp and knowledge of accounting, finance, auditing, taxes, and management are possessed by the consultants of the Chartered Accountants. The services of a consultant may be divided into two categories: internal consulting and external consultancy. ACNABIN provides consulting services to customers in both sorts of situations. Using the services of a CA consultant, customers may obtain access to higher levels of competence than would be fiscally practical for them to keep in-house on an ongoing basis. When it comes to regulating expenditures in companies, CA consultant provides various modules that help to reduce costs while simultaneously increasing the efficiency and effectiveness of the organizations' production. ACNABIN provides the following consulting services to its workers as and when they are required:

- Management Accounting Services
- Structured financing advisory
- Management Consultancy
- Fixed assets management
- Payroll management
- Accounts receivables management
- Inventory Management

2.7.5: Business Process Outsourcing + BPO , Services

It has been observed that many corporations outsource their irregular work to third-party providers, which assists the organizations in cost reduction and increased output. Business process outsourcing is another area in which ACNABIN Chartered Accountants can assist firms in evaluating and improving their business process outsourcing. ACNABIN assesses bookkeeping and accounting operations, as well as payroll processing and payments to the appropriate contractor, among other things. It is important for the company to be involved in the resolution of any conflicts that may arise between the recruit organizations and the outsource provider.

2.7.6: Others

The services described above are provided using a variety of procedures and approaches, which vary based on the needs of the service receivers and the applicable laws. In certain cases, services are provided by deputing a need-based team with suitable technical capabilities, and in others, services are provided on a Business Process Outsourcing basis (BPO). Although business process outsourcing (BPO) is limited to a few particular services, various additional services are sometimes handled under this arrangement.

- Company establishment and the function of the RJSC (Registrar of Joint Stock Corporations)
- Registration of businesses with the Board of Investment, Ministry of Industries
- The establishment of bank accounts for overseas clientele
- The use of computers in data processing.

2.7.7: Major category of clients receiving services

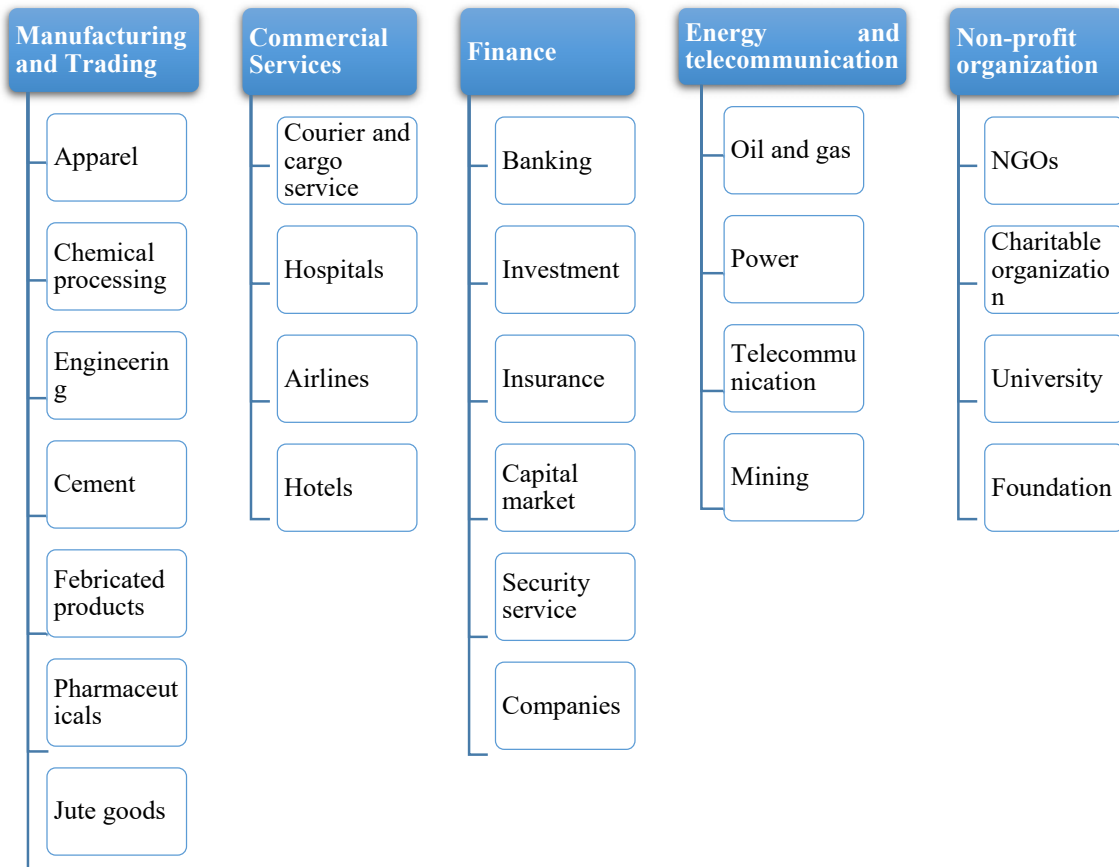


Figure 3: Category of clients receiving services

2.8 SWOT Analysis of ACNABIN



Strengths

The significance of the ACNABIN brand in the accounting industry is the company's primary competitive advantage. ACNABIN has been consistently regarded as one of the most reputable chartered accounting companies in Bangladesh for the last several decades. In addition to this, each year they are creating a sizable number of trained chartered accountants and other accounting experts. In addition to this, they have a sizable clientele that they have serviced in the past and continue to serve now. ACNABIN has strong connections with several of the country's most prominent businesses. In addition, the company is a partner in a partnership with BAKER TILLY worldwide, which gives them an advantage in terms of their branding. Last but not least, the current partners of the company have a strong linkup with ICAB, which provides a significant competitive advantage for the company in its operations.

Weaknesses

The setting in which they do their business is the primary shortcoming of ACNABIN chartered accountants. The work atmosphere at this well-known accounting business is extremely demanding and exciting at the same time. The atmosphere on the inside of ACNABIN just isn't very pleasant. In addition, both the trained team and the article students have to deal with an excessive amount of pressure and strict deadlines in their job, which is not an effective organizational strategy. In addition, there are not many individuals who are interested in

entering the CA profession because the achievement rate is so low. Because of this, there is a significant lack of pupils interested in article writing. As a consequence of this, the business accepts students with very little professional experience and assigns them immediately to auditing roles. Like a result, the level of quality control has significantly declined. In addition to this, there is a significant geographical benefit given that the customer office is located a great distance from of the home office. Because of this, a large number of experienced experts quit the company shortly after finishing their article assignment. In conclusion, the company has a very bad staff retention policy when compared to the policies of other operating accounting firms in the sector.

Opportunities

In recent times, the ICAB has enacted a few new rules that are beneficial to CA businesses. For instance, the ICAB recently introduced a new DVS regulation, which enables businesses to more effectively archive their records (ICAB,2022). Additionally, the ICAB has implemented the DVC policy, which assists companies in more fully justifying the contents of their financial statement and statements (Nath, B.B, 2022). In contrast, there are a lot of new businesses opening up shop in Bangladesh, as well as businesses from other countries setting up shop here. These massive corporations have the potential to become ACNABIN's next significant customers in the near or distant future. In addition, Bangladesh's economy has been expanding over the last several years, which has helped new businesses expand further and benefited existing businesses like ACNABIN in the process. (Ridam, S. R, 2022.The mechanism and efficiency of improving the auditing process in Bangladesh: A study on Bank Audit).

Threats

ACNABIN faces a major challenge from a new CA business entering the accounting service market. In order to save money on their audits, many current clients are now looking for a new company. Additionally, since audits are often conducted in groups that include both professionals and non-professionals, maintaining complete client anonymity might be challenging at times. If customer information is leaked, the corporation has the right to file a lawsuit. Finally, there is a severe shortage of CAs with the necessary training and experience. CA might not be for everyone, and those that do CA aren't all competent. As a result, it's unusual for ACNABIN to have a large enough pool of experts that are both certified and available.

2.9 Porter's Five Forces Analysis of ACNABIN

Threat of new entrance: H

Each year and the, new CA companies emerge in the accountancy service market with the goal of improving auditing quality. Several accounting companies have recently entered the audit service business. Anika sultana and Co, for example, is one of the organizations that is well-known to be a strong competitor in the sector. Such businesses pose a significant threat to ACNABIN's capacity to absorb its clientele.

Threat of substitution: L

In the market, there is no substitute for ACNABIN chartered accountant. Because there are no alternatives to accountancy or tax planning services. Every significant corporation is required to undergo an annual statutory audit. More precisely, for publicly traded firms, an audit of their statement of financial status is required once a year (Akhtar Uddin, M. (2005). As a result, there is no market danger of substitute for the ACNABIN chartered business.

Bargaining power of suppliers: M

CA businesses in Bangladesh regard their suppliers to be prospective CAs or article ships, as well as present professional accounting bodies. The partners sign the audit engagement, but the service is done by these articles' students and experts. Because of ICAB rules, the company has very little negotiating leverage when it comes to recruiting article ships. These ICAB policies benefit companies like ACNABIN. Firms must negotiate with suppliers in order to recruit specialists. Since the specialists are extremely experienced, they want greater pay for their services. Despite the fact that ACNABIN has a very excellent brand value, many experts desire to work with them during the industry.

Bargaining power of buyers: H

Clients of ACNABIN have considerable negotiating power because the sector is crowded with well-known companies like ACNABIN. ACNABIN, Hoda Vasi Chowdhury & Co, , Rahman Rahman Huq, Howladar Yunus & Co, A Qasem & Co and others are among the well-known businesses. Clients may simply transfer accounting companies due to all these existing competitions, as well as the customer satisfaction concern.

Rivalry among existing competitors: H

According to ICAB data, there are around 164 CA businesses in Bangladesh (ICAB, 2021). As a result, there is fierce competition for customers among existing competing companies. In Bangladesh, chartered accounting companies are categorized. There are now three sorts of categories: A category, B category, and C category. However, among the 164 existent enterprises in Bangladesh, there are more than fifty A category firms. As a result, ACNABIN, as an A category corporation, faces fierce competition from its existing competitors. (Ridam, S. R, 2022. The mechanism and efficiency of improving the auditing process in Bangladesh: A study on Bank Audit).

Chapter 3

Issues and challenges of non-Banking Financial Institutions and Financial Institutions in Bangladesh

3.1 Introduction

In any nation, whether affluent or impoverished, established or emerging, banks and non-bank financial institutions (NBFIs) are essential components of the financial management system. Achieving the highest level of Sustainable Development Growth requires well-functioning banks and NBFIs (SDG). 165 million people's savings are accumulated in one hand, and on the other hand, they invest the money in various sectors of economy, including productive and unproductive financing in companies, export-import services, public financing, Small & Medium (SMEs) financing, as well as many other activities. COVID-19 Pandemic has had a severe effect on the financial and economic sectors of most nations, including Bangladesh. COVID-19 Pandemic, opportunistic global financial and economic circumstances, decline in exports/imports, closure of businesses/industries, mis-management, corruption and on and on are just a few of the appalling hardships and obstacles that Bangladesh's financial industry has faced in recent years. The Bangladeshi banking system is in the midst of a liquidity shortage due to a combination of consumption and production concerns. As a consequence, there is a loss of trust and confidence in the banking and non-banking sectors as a result of high levels of non-performing mortgages (NPLs). When Peoples Leasehold and Financial Institutions Limited went bankrupt recently as a result of massive financial mismanagement by the company's executives, it tarnished the financial and economic reputations of NBFIs by robbing depositors of their hard-earned funds and shattering public trust in the sector.

3.1.1 Background

According to the Bangladesh Bank's statement When borrowing from the general public and lending to meet specialized financing needs, non-bank Major Banks are brokers that are forbidden from accepting of that kind investments leviable whether on consumption or by cheque/draft/etc. and operating verifying records about which their own debts are never a based costing supply. Only leasing and financing companies are included in Bangladesh Bank's definition. Aside from NBFIs, there are several additional financial institutions that fall under this umbrella. NBFIs include all types of financial institutions, including insurance companies, merchant banks, and investment firms. In London, a fire insurance business was the very first non-bank financial institution (NBFIs) to be founded in 1680. Since its inception in 1981, the Commercial Marketing and Promotion Company (IPDC) has served as Bangladesh's first private sector NBFIs. An NBFIs is a financial institution that is not permitted to engage in the basic banking activities. Banks, on the other hand, have several activities that they overlap with. An NBFIs is a financial institution that engages in financial activities, such as providing financial intermediary services or providing other financial products and services.

The Financial Institutions Act of 1993 (FIA '93) governs and licenses all financial institutions in Bangladesh, including non-bank financial institutions (NBFIs). The services include everything from commercial banking to insurance, as well as accepting deposits and issuing loans and advances.

3.2 Total Money Lost through Major Scams, Irregularities, & Heists as reported in the media	
Sonali, Janata, NCC, Mercantile & Dhaka Bank	BDT 4,09 crore
BASIC Bank	BDT 4,500 crore
Sonali Bank	BDT 3,547 crore
Janata Bank	BDT 10,000 crore
Janata Bank, Prime Bank, Jamuna Bank, Shahjalal Islami Bank & Premier Bank	BDT 1,174 crore
AD Bank	BDT 165 crore
NRB Commercial Bank	BDT 701 crore
Janata Bank	BDT 1,230 crore
The Farmers Bank	BDT 500 crore
Bangladesh Bank	BDT 679 crore
TOTAL	BDT 22,591 crore (USD 2.68 billion)

Note: As of: 03 December 2010, 03.9 Taka per dollar (Bangladesh Bank).

3.1.2 Research Objectives

The research was carried out in order to achieve the following goals:

- To discuss the current scenario of non-banking financial institutions (NBFIs) and financial institutions in Bangladesh.
- To recognize the financing mechanism and corporate governance in non-banking financial institutions and financial institutions in Bangladesh.
- To identify issues and challenges faced by NBFIs and financial institutions in Bangladesh.

3.2 Methodology

A combination of primary and secondary data has been used in the analysis. Interviews with various executives and management of various non-bank financial organizations and banking firms were used to gather primary data. The whole staff of NBFIs and banks was included in the research. Interviews were conducted with a variety of financial institutions, all of which were chosen at random. For simplicity, two officials from all of these organizations were chosen to be interviewed. According to their time availability, the interviews were chosen. The Bangladesh Bank and other non-bank financial entities were consulted for more information. The information gathered was tallied and reported in order to meet the stated goals. This was accomplished via the use of a variety of statistical methods.

3.3 Finding Analysis

3.3.1 Current scenario of NBFIs and financial institutions:

Bangladesh, as a growing nation, has supported the development of its banking industry in order to short-term political development. The banking business in the nation had grown dramatically during the previous three decades or so. Bangladesh's banking society has

changed even farther by pushing access to financial services of very poor in remote counties, with micro and microcredit serving as policy measures to that end. This has aided in the expansion of the rural country's economic commercialization, and as a result, it became more business. However, according to Bangladesh Bank Non-Bank Financial Institutions are financial institutions that accrue finances by lending from either the general populace and lending that to satisfy specialist funding requirements, but not be permitted to acknowledge such investments account receivable or by cheque, draft, or other means, and to start operating account balances about which one 's debts are not portion of the money production. NBFIs are financial intermediaries which are not permitted to conduct basic banking operations. A few of their operations, although, combine with those of banks. NBFIs are financial companies that provide banking services such as financial intermediation and other banking sectors.

Bangladesh's banking sector has been fighting for survival in recent years. The majority of banks are in problems due to loan defaults, large non-performing loans, and other concerns. The pandemic crisis has exacerbated the overall economic predicament. The banking industry, a critical component of a country's monetary and fiscal systems, is still under attack from the Covid-19 epidemic. There is no doubt that the financial industry in Bangladesh will experience difficulties in 2021 as a result of the ongoing coronavirus pandemic. For ensure healthy development in the next years, Bangladesh Bank and the governments have implemented monetary and fiscal measures to support economic growth, especially the banking sector. In recent days, the financial sector has faced an abundance of funds. The major cause of this surplus money is a lack of investment prospects in the economy as a result of the Covid-19 issue, as well as a large cash infusion by the Bangladesh Bank. Furthermore, surplus liquidity surged to about 105 percent. Remittances, on the other hand, soared dramatically last year, owing to rising global economic uncertainties. It is predicted to climb by more than 40% this year comparable to last. In a somewhat terrible scenario, the banking industry must reflect and make changes in the future years. Together with recovering from of the Covid-19 incident, the banking industry must prepare for the effect of the second wave of coronavirus in 2021. Furthermore, this has been proposed that bad debt can also be collected by utilizing bank profits. It will boost banks' positions in the next decades.

On the contrast, investments possibilities are required to ameliorate the economic condition, which has worsened as a result of Covid-19. As a result, Bangladesh Bank must take suitable actions to satisfy the demands of managing the economic downturn, expanding economic, and resolving the custodial crisis. Among the most difficult difficulties that banks confront is

collecting money from large debtors. If standard operating procedure continues, lengthy survival will be difficult. Banks must take the required procedures to evaluate debtors' positions in order to reduce the issue of bad loans with in long term.

This is obvious that the banking industry need change, along with more regulation and enforcement. Over 36% of banking sector In Bangladesh face a greater risk of cyber-attacks, owing to a lack of investment in enhancing security precautions, competent people, and a lack of knowledge amongst banker and clients. Additionally, actions should be done to restrict debt restructuring and rearrangement criteria, enhancing organizational administration, upgrade government financial firms, and build more strong loan repayment procedures.

The correct processes and regulations can assist to reduce the dangers to our economic institutions. In addition to these, the benefits and services that the banking and Non-banking Industries provide to us are discussed below:

3.3.1.1 NBFIs and Banking's Provides a Variety of Products and Services

In order to cover the gap in financial services that have not been primarily determined by the banking sector, non-bank financial institutions and financial institutions play a critical role. The rivalry among non-bank financial institutions (NBFIs) has grown in recent years, prompting them to diversify their product and service offerings while also developing novel financial solutions. The banking product basket includes everything from short-term funding for day-to-day company operations to long-term loans for corporate development and diversification. We strive to fully comprehend each client's particular requirements before designing customized and organized alternatives for their organization.

The products and services supplied by NBFIs and Banks may be divided into the following categories:

3.3.1.2 Accepting Deposit

In general, as previously stated, NBFIs deposit products fall into two categories.

- Term Loan: Because nonbank financial institutions (NBFIs) are not permitted to keep checking accounts, the primary deposit product is a term loan. The terms of these loans

range from one to five years in length. Many NBFIs, on the other hand, have levels of maturity that are higher than this.

- **Deposit Pension Scheme:** This is a kind of pension plan where deposits are received on a periodic basis and paid out in equal payments. The future value is paid out in a single lump payment at the conclusion of the time period.

3.3.1.3 Financing

It is possible to get one of the loan packages listed below.

- **Lease financing:** This is among the most significant products offered by nonbank financial institutions (NBFIs), since it allows with the use of an investment property without the need to own it in return for a sequence of periodic payments. There are many distinct forms of leasing that a banking firm might provide its customers. NBFIs often offer capital lease, operational lease, leveraged lease, purchase and lease back, simulated lease, and other types of leases, among other services.
- **Home loan and real estate financing:** This is a home loan and property investment raising capital are provided for the acquisition, renovation, restoration, and outgrowth of an actual house, the buy of office buildings for specialists, the buy and manufacturing of a residential building, and the improvement of a residential project, such as a housing complex. The majority of these mortgages are for a period of three to five years.
- **Bridge finance:** This bridge loan is a financial product that bridges the gap between such a company's need for money and its potential to raise money in the near future. It is provided in expectation of urgent long-term funding, including a share issue, a private investor, a loan syndicate, or other similar arrangement, among others.
- **Syndication of huge loans:** When the number of loans required seems to be so enormous that a central authority is unable to carry the full risk, it is necessary to pool resources. In these kinds of scenarios, a number of commercial banks come with each other to collaborate on the financing of a massive project.

3.3.1.4 Project finance (Long, MID & Short Term)

Using project finance to support large-scale business initiatives is indeed a creative and timely financing strategy that has been successfully used in the past. The process comprises understanding the reason for project financing, establishing the financial plan, analyzing the risks, designing appropriate mix of debt and equity, and obtaining the necessary cash to accomplish the project financial assistance. In order to assist entrepreneurs in putting their ideas into action, the bank provides a wide variety of goods and services, such as assistance in determining the best financing strategy, risk reduction, and other consulting services.

Procurement Finance – Products

- Term Loan – Machineries
- Term Loan – Construction
- Lease Finance (Machineries)
- Foreign Currency Loans

They have a broad range of business and industry expertise in Investment Projects. Our knowledge and experience are especially useful in the following areas:

- Textile, Ready Made Garments
- Cement
- Steel & Engineering
- Paper & Packaging
- Jute Industry
- Telecom, Media and Technology
- Power Sector
- Glassware
- Edible Oil and Consumer Products
- Energy and Infrastructure
- Chemicals and Pharmaceuticals
- Construction
- Renewable Energy (Solar Energy)
- Ship-building
- Aviation

- Healthcare

3.3.1.5 Merchant Banking

It's not only finance and leasing corporations that lend money; certain non-bank financial institutions (NBFIs) help businesses generate capital. Depending on the situation, they might play some or all of the following scenarios.

- **Issue Management:** The Issue Management team can come up with creative solutions for commercial customers to raise debt or equity via private and public placements in the market that are tailored to their specific requirements and limits.
- **Underwriting:** A assurance by underwriters that, in the case of a low level of interest, they would pick up the slack on a top player basis upon receipt of the option's price, is referred to as "underwriting". A team of insurers is in charge of this task.
- **Portfolio:** A merchant bank's portfolio management services include opening a modest shareholder's bank account and helping customers buy and sell stock. Investing choices will be left entirely in the hands of the customers.
- **Corporate advising:** It is the merchant bank's job to advise the company on how to obtain the necessary capital, as well as the best terms and timing for the offering.

3.3.1.6 Trade Finance

Foreign Commerce has been established as a key branch of contemporary banking even after "Business" has expanded beyond the confines of geographical limits. A firm foundation has been established for supplying a broad variety of goods and services linked to Trade Finance in order to assist our clients in growing their enterprises.

- Export LC (Advising & Transfer)
- Export Bill Negotiation/Collection
- Import Finance
- Import Bill Handling
- Shipping guarantee
- EDF Loan
- OBU Financing

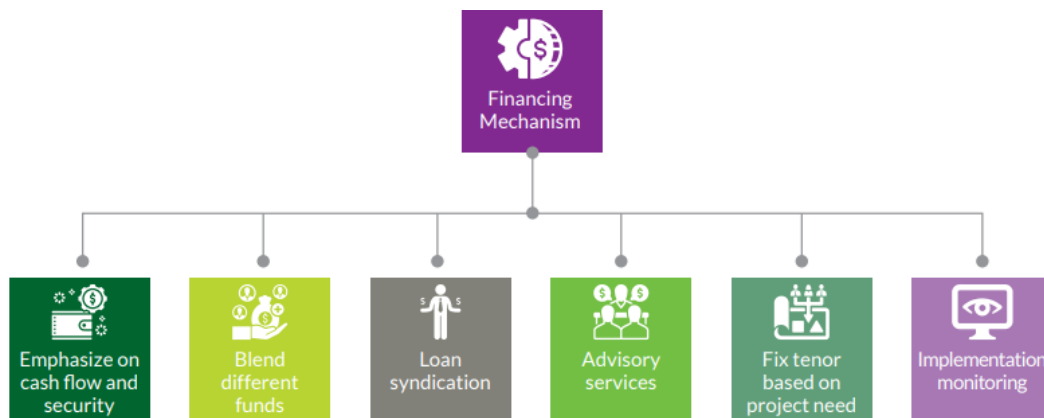
3.3.1.7 Cash Management Solutions

- Payment & collection solution
- Bulk cheque Processing
- Utility Bill collection
- Vendor/Salary Payment
- Cash pickup & Delivery
- Hajj RemittanceCash Processing
- Managing IPOs as Lead Bank
- Act as Banker to the issue of IPOs

3.4 The mechanism of Non-Banking Financial Institutions and Financial Institutions

3.4.1 Financing Mechanism

In the course of non-banking financial institutions and financial institutions both are related to so many sectors.



A monetary system is the method through which a firm, organization, or program obtains the funds required to continue operations. For example, such financing is often obtained through a range of sources, including revenue earned from the interests as well as mortgages or the shares. Other groups often get financing through a variety of ways, including donations from individuals and businesses, as well as help finance activities. The finance system for government is primarily derived through taxes or other ways of obtaining public resources, which are then utilized to support agencies and initiatives. Similarly, NBFIs and Banks emphasize on cash flow and security, also blend different funds, Loan syndication, From Advisory service, fix tenor based on project need and finally they implement all the mechanism and monitor their section properly.

Due to the nature of a banking institution as a financial middleman that interacts with money and debt, the adoption of corporate governance contributes significantly to the firm's long-term viability. When seen from the viewpoint of the banking sector, corporate governance refers to the process through which boards of directors and senior management oversee the operations

and affairs of financial institutions. On the other hand, a non-banking financial institution, often known as an NBFIs, is a kind of financial institution that does not have a complete banking license and is not regulated by a domestic or international central bank organization. They make bank-related financial services more accessible to customers, including investing, risk pooling, contractual savings, and market brokering. Since they are dependent on the money deposited by customers, it should come as no surprise that they, too, are required to have an effective corporate governance structure in place.

The following seven metrics are used to conduct an analysis of the present state of corporate governance procedures in Banks and non-bank financial institutions (NBFIs):

1. Board of directors
2. Chief Financial Officer (CFO), head of internal audit and company secretary
3. Constitution of the audit committee
4. Non-involvement of external/statutory auditors
5. Subsidiary company
6. Duties of Chief Executive Officer (CEO) and CFO
7. Reporting and compliance of corporate governance.

Scores and rankings are used in an analysis and comparison of the corporate governance procedures of banks and non-bank financial institutions (NBFIs). Mostly on basis of scores, the corporate governance mechanisms of banking and NBFIs are assessed and evaluated; in addition, a ranking is offered for the highest possible scores. Since then, all banks have adopted the code of corporate governance and selected executives or divisions to deal with the problem. An adequate degree of awareness and natural tendency toward compliance with corporate governance principles has been formed, according to this evidence. When compared to the results of the first three indicators, namely the subsidiary company, CEO and CFO obligations, as well as the planning and reporting with financial regulation, the results are less than adequate. These indicators have just recently been produced, thus banks and NBFIs have not yet adopted them in a potential way. However, the usage of these indicators is steadily expanding.

3.5 Issues and challenges faced by NBFIs and financial institutions

Numerous intriguing information about the issues encountered by various NBFIs and banking institutions have been revealed via the investigation of their financial statements. As a result of the double standard policy, the banks and non-bank financial institutions (NBFIs) sectors face

a devastating liquidity issue owing to insufficient deposits, according to economic analysts and economists. Because NBFIs do not collect consumer deposits, they confront a major difficulty. Banks are able to endure despite significant losses since customer deposits are their primary source of cash, while NBFIs have to close their doors. Non-Banking Financial Companies have the greatest hurdle in raising capital for their activities. ***The following are some other issues:***

The double-standard interest policy has led to problems

As a result of the double standard policy, the banking and non-bank financial institutions (NBFIs) fields have been currently experiencing a catastrophic credit crunch caused by insufficient savings. This has a negative impact on investment in both the private and public sectors, as has been legitimately remarked on by financial analysts and economists. The consistent lending and reserve requirement policy, also known as the 9-6 policy, hampered and stopped the collecting of deposits from ordinary investors, which in turn significantly undermined the economic stiffness and durability of banks and non-bank financial institutions (NBFIs). The adoption of a government policy that established a standard lending rate of 9 percent and a current account of 6 percent, both of which went into effect on April 1st, 2020, had found it challenging and risky to get savings from deposit owners, which led to a judgmental banking collapse.

The Ministry of Finance has responded to the downward trend of interest rates in the financial markets by lowering the rates on National Savings Certificates (NSCs) to 11.5 percent. Despite the decrease, NSC rates remain much higher than deposit rates provided by banks and non-bank financial organizations alike (NBFIs). The Bangladesh government borrows money from its citizens via the usage of NSCs. Users will rapidly and intelligently flock to National Savings Certificates (NSCs) because of the unequal interest rate, which means higher-yielding NSCs, leaving banking institutions and NBFIs astonished. "Recently, the government lowered the rate of interest paid on deposits to 6% and set the borrowing costs at 9% for the banking industry. The financial institutions have expressed unhappiness with this arrangement since it fixes the interest rate at which they earn money on deposits and loans. Because the interest rate on deposits in banks is so low, the average citizen is being urged to put their money into the National Savings Certificates (Source: Prothom Alo, dated 26/01/2021). The significant interest rate gap between national savings certificates (NSCs) and deposits at banks and non-

bank financial institutions (NBFIs) has a negative impact on investor climate in Bangladesh's most sector of the economy.

NSCs (National Savings Certificates) have risen to 11.5 percent, which is still much greater than other bank deposits offered by banks and nonbank financial institutions (NBFI). NSCs are used by the Bangladeshi government to borrow money from its residents. Bangladesh Sanchayapatra, a 5-year NSC, has an interest rate of 11.28 percent; 3-monthly Profit Bearing

Items	as of end June (percent)					
	FY15	FY16	FY17	FY18	FY19	FY20
Deposit rate	6.80	5.54	4.84	5.50	5.43	5.06
Lending rate	11.67	10.39	9.56	9.95	9.58	7.95
Spread	4.87	4.85	4.72	4.45	4.15	2.89

Source: SD, BB.

Figure 4: Trends in the weighted average interest rates and spreads of scheduled banks

Sanchayapatra has an interest rate of 11.04 percent; Family Savings Certificate (FSC) has a rate of 11.52 percent interest for five years; and Pensioner Sanchayapatra has an interest rate of 11.76 percent. Individuals would migrate to greater NSCs, leaving financial institutions and NBFIs stunned. The government now sets the deposit and loan rates at 9% and 6%, respectively. Senior bank executives are tired with the existing interest rate fixing system. The low deposit rate at banks encourages people to invest in NSC. (Prothom Alo, 26 Jan 2021) The wide difference between NSC interest rates and bank and NBFI deposit rates has a substantial influence on Bangladesh's investment environment.

Sources of fund

NBFIs get their funding from a diverse assortment of resources, such as financial instruments, loans from banks, insurance firms, and international agencies, deposits from institutions and the general public, and other forms of capital. The majority of a non-bank financial institution's

overall finances come from lines of credit extended by banks. The deposits made by members of the general public are yet another significant source of funding for NBFIs, and their numbers have been growing over the last several years. In compliance with the specifications of the central bank, NBFIs are not permitted to obtain deposits from the general public for a period compared with fewer than six months. This limitation produces unequal contest with banks, which are also beginning to explore the new business models generated by NBFIs ease of processing of savings account, as NBFIs are prohibited from collecting deposits from the public for less over six months.

High Cost of fund

The majority of the revenue received by non-bank financial institutions come from commercial banks; hence, the expense of funding for non-bank financial institutions is much greater than that of commercial banks. The present lack of financial resources has made their hardships much worse. According to the Department of Statistics of the Bangladesh Bank, the weighted average interest rate on deposits across all banks in December 2012 was 8.47 percent, while the interest rate on loans was 13.80 percent. On contrast, the mortgage rate on deposits with NBFIs may vary anywhere from 14% to 16%, while the mortgage rate on loans can be anywhere from 21.5% to 18%. Therefore, the total average cost of financing for non-bank financial institutions will be at least an additional as those of banks.

Interest Rates of Scheduled Banks

Disastrous COVID-19 Pandemic Challenges As of 10 March 2021, the COVID-19 Pandemic had sickened 118.63 million people, claimed the lives of 2.63 million individuals, and severely harmed the economy of 208 nations throughout the globe. Bangladesh's banks and non-bank financial institutions (NBFIs) are the hardest hit by the financial crisis. An increase from 44.60% to 79.0% in April 2020 was reported by the Bureau of Economic Analysis (BEA). Businesses were unable to pay their LCs in April because of the decline in export and import. An 83 percent drop in export revenues compared to the same period last year was caused by a 62% drop in imports in April. International investors have been tainted by the fact that a number of financial institutions have been late in making import repayments." More and more government buildings have been accusing Bangladesh of failing to pay back its foreign lenders

on schedule, according to a Bangladesh Bank report." (According to the Daily Star of January 27, 2021). There is a danger to banks and NBFIs from non-performing mortgages. Investing Banks and NBFIs struggle to interest accrues and collect principle on scheduled and rescheduled loans, which are referred to as "non-performing loans" (NPLs). NPLs are on the increase in Bangladeshi banks and NBFIs, as well as the news is terrifying and earth-shaking every day. In the third quarter of 2020, Bangladesh's NPL ratio was 8.9%, down from 9.2% in the corresponding period. According to financial experts, an NPL percentage of 2% is considered the norm. Recently, BB has permitted banks and NBFIs to prolong loan repayment schedules by restructuring liabilities Banks and non-bank financial institutions (NBFIs) have predicted that the NPLs ratio would decrease, but it may rise again when the rescheduled periods have expired.

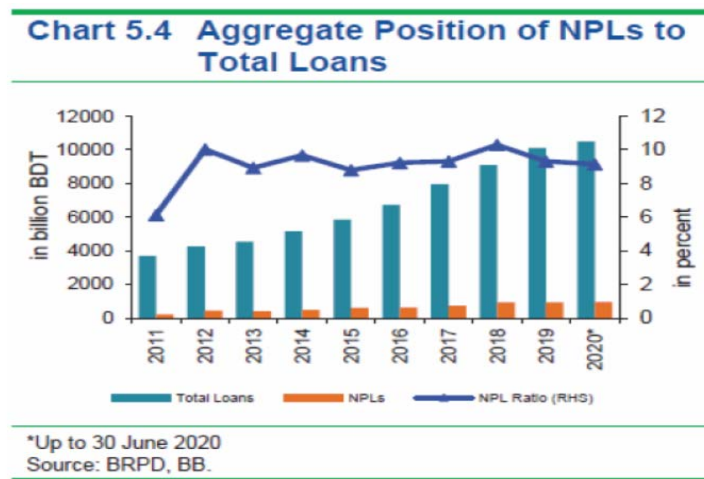


Figure 5: Aggregate position of NPLs to total loans

Hallmark Scam" of BDT 35,470m from Sonali Bank in 2012, embezzlement of BDT 45,000m from Basic Bank in 2013 and deceitfulness of Crescent and AnonTex of BDT 100,000m from Janata Bank in 2018 have raised questions about lending decisions, borrowing monitoring, independent directors, and governance efficacy. The schemes also encourage consumers to deliberately fail on debts. Banks confront liquidity, administrative, and commercial risks. The

large development of NPLs is also putting pressure on banks and NBFIs' business, profitability, investment, management efficiency, and so on. NPLs are called "silent killers" by economists and financial specialists. The NPLs issue is undeniably the biggest challenge facing Bangladesh's banking and NBFIs sectors. Bangladesh's NPL rate is second in Asia and 24th worldwide. Loans back-to-back, poor risk management. NPLs have risen as a result of inadequate corporate governance and oversight, political pressure and wrongdoing in authorizing loans, and insufficient legal and regulatory frameworks for recovering debts. For large-scale loan defaults, a recovery case might take many years to conclude, and this is especially true. The ratio of gross non-performing loans (NPLs) to total loans, as well as the net NPLs to net total loans, are the most telling indicators of a company's overall asset quality. As of the end of December, the banking industry's gross NPL ratio was 9.32%.

Figure 6: Total money lost through Scams, Irregularities & Heists

The banking and NBFIs industries are now mired in turmoil. With no signs of recovery in sight, all indicators in the banking industry point to its steadfast weakness. Non-performing loans are

the most talked about topic in the banking business (NPLs). NPLs rose to BDT 112,430 million in June 2019, accounting for 11.69 percent of all outstanding loans. State-owned commercial banks had NPLs of more over 30 percent of overall mortgages, which was a surprising finding.

High-risk investment and poor capital market

The majority of the NBFIs officials who participated in the study agreed with the statement that their organizations engage in projects with a higher level of risk than banks do. They determined that the reason for this was that since their cost of funds is high, they look for returns that are greater than the average. Therefore, they focus on endeavors that are rejected by financial institutions because to the high level of risk involved. It might lead to an unfavorable balance sheet for such non-bank financial institutions (NBFIs).

Since the beginning of 2010, the performance of the stock market has been exceedingly low. More than three million individual investors saw their investments go down the drain. They had no choice but to demonstrate in the public square. The nonbank financial institutions were hit hard by the fall of the market and the slow economy. The trade substantially decreased, which resulted in a reduction in income for the securities houses. NBFIs who maintain a portfolio also incurred enormous loss owing to price reductions in the market.

Banking and NBFIs face high competition

The most recent data from the BB indicates that there are 61 scheduled banks, including 9 foreign commercial banks, 6 state-owned commercial banks (SCBs), 3 specialized banks (SBs), 43 private commercial banks (PCBs), and 3 specialized banks (FCBs). Furthermore, Bangladesh is home to 34 non-scheduled banks in addition to its 5 non-scheduled banking institutions. BB controls, monitors, and provides direction for everything. In general, the justification for opening new banks and NBFIs relies on the volume of a country 's economic growth, its GDP, the buying power of government, competitiveness, export, import, occupation, and a great deal of other financial indicators; it will not be subject to individual or legal interference. There has been an unanticipated expansion in the number of banks and

NBFIs in Bangladesh, which has resulted in a cutthroat rivalry among these institutions to win and maintain clients. Banks and other non-bank financial institutions (NBFIs) are having to pay higher expenditures in a variety of ways in order to maintain their sustainability in the face of the intense competition that exists within the financial industry. When the current economic climate of the nation is taken into consideration, financial analysts and experts have a negative outlook on the establishment of new banks. As the banking and financial industry continues to be plagued by several loan frauds and bad loans, a new bank is willing to enter the ranks of everybody else. With the present state of business, the existing banks were already battling to stay afloat. Ibrahim Khalid, a former Deputy Governor of BB, claimed that new banks are hesitant to extend their operations to rural regions since they want to concentrate on metropolitan areas. (13/02/2021: The Daily Star). Bangladesh's banks and non-bank financial institutions (NBFIs) are seeing a drop in revenues and net profitability for a variety of reasons, such as the proliferation of banks and NBFIs. The share market in Bangladesh was hit by a decline in bank and non-bank financial institution rewards.

These are some of the numerous banking sector difficulties is the high cost of competitiveness and risk and compliance, which is causing microfinance companies to adapt their internal processes. In addition to the rising cost of capital, low inflation, diminishing cost of capital, and diminished high frequency trading, all of these factors are placing overwhelming pressure on conventional banking revenue. This hasn't reduced targets of the company.

Chart 5.6 Trends in Aggregate Profitability in the Banking Industry

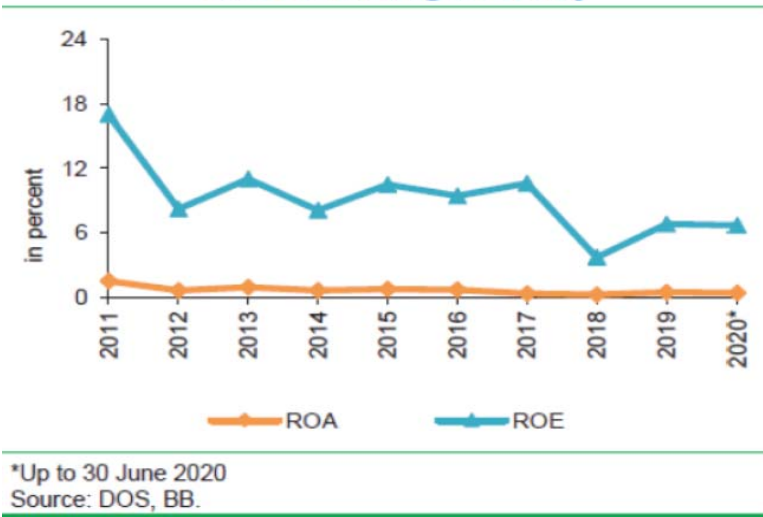


Figure 7: Trends in Aggregate profitability in Banking industry

3.5.1 Innovation and Technology Challenge

Many organizations, including banks and non-bank financial institutions (NBFIs), are experiencing rapid technological change, improvement, and advancement. Vision, prowess, a generous clientele connection, and constant innovation and the newest technology are all necessary for long-term achievement in company. Banks and NBFIs may benefit from benchmarking good practices across the sector to get useful knowledge. When it comes to innovation, on the other hand, benchmarking alone isn't enough. Businesses need to benchmark and innovate in order to survive and prosper; revolution is a critical difference that differentiates wheat from the chaff. The spell casters and fantasies of customers and monophonic organizational analyses are the source of innovation. There are certain FCBs and PCBs that are likely to entice high-value clients and conduct better business than banks that lack the newest creativity and digital-technology capabilities. In an increasingly digitally-first world, banks and NBFIs that rely on antiquated business management tools or isolated technologies will seem sluggish and unprepared. Businesses like banks and non-bank financial institutions (NBFIs) would be left behind if they don't have a strong technology basis. When it comes to the aggressive and emulating banking business, technological remodeling is no more simply an upstanding notion, but a must for existence.

3.5.2 Weak and Ineffective Internal and External Controls in Banks and NBFIs

NBFIs and banks have their very own internal auditors and compliance officers. The audit and inspection team, external auditors, credit rating agencies, and auditors from the Auditor General's office if they are State-owned Commercial Banks are all involved in the audit and inspection process of these institutions (SCBs).

If the scam involves a large quantity of money over a lengthy period of time, the fraudsters will go undiscovered even after several audits and inspections. To put it another way: this raises serious doubts about the legitimacy (capacity, credibility, transparency and performance) of the above-mentioned audit/inspection teams. Earth-shaking news emerged in the local press that the inspection and inspection teams of different agencies failed to report and hide loan-scams and irregularities because they accepted bribes from the banks and NBFIs they were investigating. Only in very few situations are internal proceedings taken against the corrupt officials by shifting the criminal from one division to another or by one section to the other because of weak, fragile, and inefficient management. Senior managers at banks and non-bank financial institutions (NBFIs) must be honest, truthful, ethical, and integrated. Banks and non-bank financial institutions (NBFIs) face an inconceivable danger of business responsibility and insider fraud. Many instances of financial wrongdoing in recent years have harmed investor confidence and weakened market trust, according to an April 2019 letter from the Financial Stability Board (FSB) to G20 finance secretaries and central bank governors. Neglect may have much further consequences, restricting the ability of finance to service real economies and encourage world economic progress."

3.6 Alternative Recommended

3.6.1 Strong and effective internal and external audit

Possible Next Steps It is essential for banks and non-bank financial institutions (NBFIs) to have auditing and inspection procedures that are both internally and externally robust and highly efficient. It's possible that the Board of Directors of Banks and NBFIs, together with BB management, might play an essential part in the process of approving a loan, recovering a loan, and harshly punishing dishonest and criminal managers and personnel. There is an extreme need for effective governance in the banking as well as non-banking sectors of the financial industry. It's possible that the authorities will suggest that the Boards of Directors for SCBs,

SBs, and PCBs be made up of knowledgeable, astute, and up-to-date experts rather than those nominated for purely political purposes. When it comes to running the day-to-day operations of the bank, management should provide complete operational flexibility. The Board of Directors and management are both required to answer to BB for their actions. BB should be given the power to ensure that persons serving on Boards have operational expertise of banking and finance, and it should have this power. It's possible that encouraging and implementing innovation and digital products and services in banks and non-bank financial institutions (NBFIs) could assist banks and NBFIs deal with the tough rivalry they face and enhance their achievements on a national and universal scale.

A lack of customers, stiff competition, and limits on imports are just a few of the business issues that some borrowers encounter. Banks and non-bank financial institutions (NBFIs) need a hospitable investment environment. Investing in NBFIs, NSCs, and banks all have different rates of return, and it's important to make it easier for local investors to put their money into these institutions. Despite taking a variety of steps to ensure that banks and nonbank financial institutions (NBFIs) run smoothly and efficiently, several issues persist.

3.6.2 Using Floating Interest Rates and swap

Asset-liability mismatches is a major concern for every lending institution. The issue may be resolved if NBFIs are able to align the length of their property items with the term of their lending products. However, it's almost difficult to do so. There are no restrictions on using variable interest rates for all borrowing by NBFIs. An interest rate swap exchanges one set of fixed interest payments for another set of variable interest payments, and the other way around. Interest rate increases have a negative impact on financial firms that have more interest rate-sensitive liabilities than assets. Financial firms that have lengthy fixed-rate capital but utilize the money largely for floating-rate mortgages are severely impacted by a decline in interest rate. Interest rate swaps may be used effectively by these financial organizations to mitigate credit risk.

As a result, it's critical that Bangladeshi banks and non-bank financial institutions learn from the policies, procedures, and strategies used by other nations to combat high levels of non-performing loans (NPLs), fraud, and irregularities. Several nations in Asia, Africa, Latin America, and Europe have used imaginative regulatory methods and well-designed risk

extinguishing strategies to lower NPLs to reasonable standards that may be implemented in Bangladesh. Bank and non-bank financial institutions (NBFIs) should only hire managers who are competent, bright, genuine, and coordinated. "When hiring new employees, keep an eye out for these three characteristics: honesty, intellect, and drive. If they don't have the first two, they'll kill you" - Warren Buffett, the business magnate of the United States.

3.7 Conclusion

The objective of this chapter was to understand the issues and challenges of Banks and Non-Bank financial institutions in Bangladesh. The banking and non-banking financial institutions (NBFIs) in Bangladesh are now through a significant and important stage of development. To conquer the formidable obstacles that banks and non-bank financial institutions (NBFIs) are up against, these industries need the establishment of processes that are reliable, sturdy, well-guided, and closely monitored. The existing rules, regulations, and laws that are in conflict with one another and serve as a barrier rather than a simple fit to efficient working (such as the legitimization of loans, the recovery of mortgages from customers who have missed a payment on their payments, and behavior against corrupt government officials, among other things) need to be modified or adjusted. The moment has come to transform the conventional banking systems into one that is customer-focused, digital, mobile, and online, and that makes use of the most recent financial technologies. Banks and non-banks are vital to a strong financial system. Businesses, consumers, and the public sector depend on banks for a broad variety of financial products to satisfy their financial requirements. By offering extra and alternative financial services, NBFIs have gained appeal in developed and developing nations. NBFIs assist ease long-term investment and financing, a difficulty for the banking industry, and their rise expands the variety of products accessible to people and organizations with investment capital.

Keeping one's country's banks and non-bank financial institutions in a state of crisis is a certain way to ensure that your nation won't be able to attain the Sustainable Development Goals (SDGs), economic expansion, or financial viability. In order to salvage this sector from the business and market sound waves and make it robust, strong, productive, and productive, state authorities, the Central Bank, and the stakeholders of Banks and NBFIS need to take initiatives that are proactive, prompt, and responsive.

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