The Institute of Bankers, Bangladesh

Governance in Financial Institutions

Reading Materials

Compilation and editing

FARUQ MAINUDDIN

Forward

This compilation of reading materials has been designed in such a way that can help the candidates of banking diploma examination as reference and guide for their preparedness. Nevertheless, further reading from other sources of materials in each of the topics will not only add value to their knowledge but can also enrich the professionals as per their appetite.

The chapters have been arranged in line with syllabus formulated by the experts of our banking industry, which can certainly enlighten the bankers of all levels that will make them more confident to serve the industry, organizations where they belong to and cross section of the clientele.

There are total eight chapters in this book, which again are divided into sub-chapters following the syllabus. Some additional sub-chapters have been included where relevant and necessary to elaborate the subject matter. The regulations of central bank, BIS or other regulators have been quoted in full so that the readers do not have to look for those from alternative sources.

Since this is not an original creation, this compiler does not take any credit for his work. While expecting that the materials compiled here will be helpful to the candiates of banking diploma examination, he also hopes that the same materials can be of some use by the others to have an idea on various aspects of the subjects.

Faruq Mainuddin
September 2022
Banani, Dhaka

Contents

Module A

Concept and pre-requisits Pages 5-33

Corporoate Governance — Definitions — Historical perspective — Need and importance of Corporate Governance in Banks — How to achieve good corporate governance — Basel principles on Corporate Governance of banks — Supervisory Guidlines — Benefits of Good Governance in banking institutions — Vission and Mission — Purpose of a mission statement — Brand Promise — Code of conduct — BIS Code of Conduct

Module B Pages 34-55

Board and it's Responsibilies

Responsibilities and authorities of the Board Of Directors — Independent Members of the Board — Independent Members of the Board — Board Committes — Strategic objectives — Governance Framework — Corporate culture — Boards performance evaluation — BB guidelines for measuring board perfromance — Dissolving Board — Appointment of observer

Module C Pages 56-64

CEO and Senior Management

The role of a senior management team — Chief Executive Officer (CEO) — Business Strategy: Organizational and Management Culture — Ways Organizational Culture Impacts Business Strategy — Culture and Business Strategy Connection — Work Ethics

Module D Pages 65-81

Capital, Liquidity and Asset

Capital Adequacy — The importance and implications of CAR — Constituents of Capital and Minimum Requirement — Liquidity Profile — Liquidity risk indicators — Bangladesh Bank guidelines — Asset composition of commercial banks — Risk-weighted assets (RWA) — Problem Assets — Problem asset management

Module E Pages 82-113

Risk Management and Control

Enterprise Risk Management Framework ERMF — Challenges in adopting enterprise risk Management — Components of ERM — Key requirements — Weaknesses of ERM — Risk scanning and Emerging Risk — Risk scanning or Horizon scanning — Risk apetite — Risk Culture — Managing material risk — Appropriate implementation of three lines of defense — Third Line: Internal Audit — Strength and independent functioning of 2nd line functions and internal Audit —Regulatory compliance

Module F Pages 114-127

Subsidiary and other business governance

Brokerage — Merchant Banking — Custodial services — Offshore Banking Unit (OBU) — Islamic Windows — MFS — Agent Banking

Module G Pages 128-151

Stakeholder Governance

Relationship with Regulators — Local Government Agencies — Relationship with Sharholders — Relationship with Competitors and Market Conduct — Relationship with Customers — To build deeper relationships with customers — Complaint Management— Relationship with Media — Disclosure and Trasparency

Module H Pages 152-170

Future Looking Organizations

Market Repositioning — New Business Initiatives — Digital Agenda — People Plan — Succession Plan — Recruiting and upscaling employees of future — Upscaling employees

Referances Pages 171-175

Module A

Concept and pre-requisits

Corporoate Governance: Basic concept

Corporate Governance (CG) has become a very common and much used term in the present-day world, especially when the performance of the business concern comes into consideration. The word governance comes from the Latin word "***gubarnare***" (গুবার্নারে) which means "**to steer**". So, the ordinary meaning of **governance** is the manner of directing and controlling the actions and affairs of an entity. In other word, this how a business entity is run through it's variuos functions and arms. In this growing and complex business world the importance of a good corporate governance culture cannot be ignored which has been proved through various scandals, mishaps and business failure.

While realising the importance of good CG we need to know the formation of a corporation or business entity and the way it is run and the people responsible to steer it successfully. We know that the corporations or the business entities (we shall call it a company for better understanding) are owned by stockholders who purchase shares and therefore own a portion of the corporation's assets ascertained by a certain percentage according to respective investment in shares. As all the stockholders cannot run a company jointly, they need to elect a board of directors to represent their interests and govern the operation of the company. The directors in turn appoint an executive or number of executives to oversee the affairs of the entity. Out of the numbers of executives one is appointed as Chief Executive who is responsible to run the show on behalf of the Board of Directors, which in turn represents the stockholders. In such a company the Chief Executive is sole responsible and accountable to the Board of Directors for all purposes. It is the role of the directors to govern the actions of the executive(s) and ensure that the interests of the shareholders remain the prime agenda of all the functions and decisions .

As because the shareholders are the legal owners of the company, the concept, roles and rights of ownership of a company is different from those of a privately owned business entity. In corporate structure the roles of ownership and operation are separated. It is true that the shareholders are the legal owners of the company, but they do not have much control over its operations. As a result, they have no other functions except receiving regular dividend and the portion of asset in case of dissolution of the company. So, the general shareholders are

not personally liable for the debts of the company, although they have to suffer the loss in case the stock value falls.

In view of the above discussion, we come to a realization that the companies are often referred to as ‘a legal fiction,’ which means that they are entities that do not actually exist but have a legal existance and significance. Thus it can be said that although the companies are not human beings, but they have eyes, ears and hands in the form of it's Board, executives and the employees and do have some of the rights and powers that people have. It is believed that the companies should be subject to the same ethical and social standards that are applied to other citizens. It is also believed that companies should be accountable to the society, environment, their employees, and the country as a whole, instead of being interested solely in the price of shares and dividend. This is exactly where the concept of good corporate governance originates.

Definitions

Sir Adrian Cadbury, the pioneer in raising the awareness and stimulating the debate on CG gave a refined definition of the term which was adopted by the World Bank. According to him CG is “The system by which companies are directed and controlled Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society.”

This definition stresses (1) on the importance of CG to provide the incentives and performance measures to achieve business success, (2) to provide the accountability and transparency to ensure equitable distribution of the resulting income and (3) the significance of CG to enhance stability and equity of society that calls for a more positive and proactive role for business.

According to OECD (Organization for Economic Co-operation and Development) “Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the

company objectives are set, and the means of attaining those objectives and monitoring performance.”

This definition implies that CG is an arrangement which manages the affairs of a company. The form of CG defines the duties and obligations of all the employees of the company and set the objectives and methods of attaining the goal.

All the definitions above signify that corporate governance is a mode by which the management is motivated to work for the betterment of the real owners of the corporation i.e., the shareholders keeping a balance between economic and social, individual and communal interest.

Historical perspective

The term coporate governance gained its' importance when seperation between shareholders, directors and the managers became extremely necessary and the roles required to be ascertained for best practices of business. In his famous book *The Wealth of Nations*, Adam Smith identified differing interest between managers and shareholder as an, insumountable dilemma for efficient operation of a company. He wrote, "Being managers of other people’s money than their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private copartner frequently watch over their own." Thus, he believed that "Negligence and profusion, therefore, must always prevail more or less in the management of the affairs of a joint-stock company."

This view of Adam Smith was further substantiated by Alfred Marshall mentioning about versatilities of conflict in a company.

Upto the end of the 16th century, business firms were jointly owned by the partners and thus the partnership was the only form available for most types of business entities. Partners had to bear unlimited personal liability for all types of contractual obligations of the firm, as because such firms didn't have a seperate legal entity. The most widely known joint stock company was the British East India Company for operating trade expeditions to India. This joint-stock company was granted an English Royal Charter by Queen Elizabeth I at the end 1600. The company had 125 shareholders, and a capital of 72, 000 Pound Sterling. This was one of the first companies established as well to gather investors to collect the huge capital required for large projects.

Among the the oldest companies The Dutch East India Company, founded by a government - directed group of several rival Dutch trading companies established in 1602 and was chartered to trade spices, textiles and silk with Mughal India especially the most developed region of Bengal. It is believed to be the largest company to ever have existed in recorded history.

It is to be noted that that during that period the companies were small, quasi-governmental institutions chartered by the crown for a specific purpose of trade privileges and for a limited time. The Queen Elizabeth I and other kings and queens used to closely watch those companies and revoked charters if their operations and activities were not upto their satisfaction.

The importance of CG, though not uttered, was felt in post World War II period especially in the US when it experienced a boom in war economy boom and companies grew rapidly. Yet in such corporate prosperity, the issue of good governance of companies was not a priority, and as such the term "corporate governance" did not become a subject of discussion. During this period in the US, it was evident that the managers placed themselves in the steering seat and made the shareholders and the directors follow them. Even the dominant shareholders did not care much about the internal governance of the company as long as they were compalcent about the dividends and the stock price.

As separation of ownership and control became one of the distinct features of the joint stock companies, focus on good practices of Corporate Governance required to be ensured for safeguarding the interest of the shareholders. The owners or shareholders of the joint stock companies were not involved in day to day operational issues, so they required assurances from the directors and managers who control the affairs of the company that they were taking care of their investments and properly reporting the financial result and health of the institution. From this notion it is clear that the directors were the original targets of CG. In other words, the practices and principles of the same were formulated to protect the interests of the shareholders from wrong decision and/or misdeeds of directors.

However, the importance of CG was felt in the mid-1970s when SEC in the US brought allegations against the outside directors of Penn Central, a railway company which had diversified into pipelines, hotels, industrial parks and commercial real estate, failed to detect wide range of misconducts of the executives of the company. The main allegations were that the company managers had misrepresented the company's financial condition under federal

securities law. It is worth mentioning that the Penn Central had gone bankrupt in 1970 for which serious inaction of the board was believed to to be the main reason. The term CG appeared in the official books of US SEC for the first time in 1976 under which managerial accountability issues were treated as a part of regulatory compliance. At the same time the regolatory body asked to introduce an Audit Committee composed of all independent directors in all the listed companies.

From the above this is evident that the issue of CG started to be implemented in the mid-1970s in USA.

Need and importance of CG in Financial Institutions

The advancement of technology, growing complex landscape of the business world etc., pose considerable interim and structural challenges for banks, such as very low interest rates, radical innovations in IT management that creates the backbone of present-day banking, the onset of new competitors in the provision of financial services like payment services, consumer credit, corporate lending, mobile and internet banking and increasingly strict banking regulations and many others.

In general, good corporate governance refers to the effective and proactive control of a bank's fate by its board and senior management, i.e. it implies control and management and means that the bank's top managers lead it in such a way that it can fulfil its corporate mission.

While the industrial corporates, especially the listed companies had to adopt the issue of industry-specific CG codes in the 1970s, the same came into being in the banking industry at the extreme end of 20th century. For the first time in 1999 the Basel Committee on Banking Supervision issued governance principles for the banking institutions in a paper "Enhancing Corporate Governance for Banking Organizations," which however was updated and modernized in 2006 and 2010. We should remember that unlike other business entities which are funded mainly through shareholders' funds, business of the financial institutions (FI) involves funds raised from the depositors. So, business of raising public deposits places huge fiduciary responsibilities on the banking institutions and its managers, since safeguarding depositors' money is the foremost responsibility of the FIs. It is interesting that FIs being most crucial and sensitive business organizations with higher responsibilities, the sector got its' code of conduct much later than the industrial sector.

Whereas the FIs, with complex organization structures, should have a CG code before the industrial sector for various valid reasons.

- FIs have an overwhelmingly dominant position in a financial system, and are extremely important engines of bringing economic growth for which a banking system with good governance is extremely important.
- The FIs have the same legal structure and soietal standing like other corporate entities, because banks also have their stakeholders and have accountability to them, while their operational efficiency and integrity have impact on the relationship with the stakeholders.
- FIs are not only the financial intermediary but also act as the agency on behalf of the depositors to assess and monitor the behaviour of the borrowers so that they can minimize the risk of default. Banks have specilaization to diversify the risks through portfolio diversification so that they can return the depositors money as and when demanded.
- FIs are the agents of the payments system where they facilitate payments domestically and internationally, through various instruments such as bank accounts, fund transfers, credit cards, etc.
- FIs can undertake their business operations having public trust and confidence which is not common in any other business nature. They can generate monetary activities through their credit creation functions and thus have direct and storng influence on the national economy.
- The FIs need to comply with the same standards and principles of CG which sometimes are more stringent than the companies in other sectors. Banks have to operate and depend on other markets which are not directly related to other industries, e.g., the intrebank market for which very strict and stringent regulations have to be followed.
- If financial markets are usually underdeveloped, FIs in developing economies are typically the most important source of finance for the majority of firms thereby augmenting and sustaining growth. This function can only be ensured through good CG.

- The interests of FIs' shareholders may oppose that of governmen or the regulators, sometimes which may not coincide with maximising sharholders value. Shareholders or the board want managers to take more risk than is socially optimal, whereas regulators may not like managers' risk taking venture for financial stability
- As well as providing a generally accepted means of payment, FIs are usually the main depository for the economy's savings that arranges capital for industrialisation and economic prosperity. Unless there is sound CG in banks, this need cannot be catered.
- The banking industry is less competitive than other business sectors and the inefficient banks are not vulnerable to be forced out of the market becase of regulatory protection. So, the FIs need stronger CG mechanisms than other business.
- The contagion effect resulting from the instability of one bank, may affect a class of FIs or even the entire financial system and the economy. If one FI becomes unstable, there may be a heightened perception of risk among depositors for the entire class of such banks, resulting in a run on the deposits and putting the entire financial system in jeopardy. If a corporate fails, the consequences can be restricted only to the stakeholders, but if a bank fails, the impact can spread rapidly through to other banks with potentially serious consequences for the entire financial system and the macro economy.
- Finally, FIs have to operate under specific regulators and supervision authorities which are not common for other business corporations, as such this special accountability requires the banks to ensure special corporate compliance different than other industries.

As CG is treated as a powerful tool to generate trust and confidence in an institution, the same is essentially important for banks. The importance is substantiated by the banks' nature of business that requires funds raised from the public, their vulnerability to credit risk, liquidity risk, frauds etc., and in case of such failures of the banks, erosion of peoples' confidence can jeoperdize the entire financial system of a country.

From our experience of bank failures, worldwide economic crises and their reasons it can be deduced that good governance is crucial for a bank's stability and growth.

Good governance has several aspects:

- **Proper leadership.** Members of the Board must be in charge of defining, guiding and controlling the bank's strategy in areas such as organizational and corporate culture, risk control, business management, etc.
- **Risk control.** Boards must understand the risks posing threat to the bank. In all the financial crises in the history, most of the board members did not have sufficient knowledge of their bank's risk management capability and experience required to supervise or even understand and conduct the financial business itself.
- **Capabilities.** The banks must have technical capabilities and suitable staff to ensure adequate leadership and risk control experienced so far. For this reason high standard of training for board members has been suggested by the regulators so that they can assume greater individual and group responsibilities.
- **Incentive structure.** During many previous crises, banks boards induced the managers' to make their balance sheets considerably larger or getting involved in all sorts of complex products to occupy the market. They set very ambitious growth targets and commensurate incentives were designed to encourage this growth. This strategy clashed with the interests of banks' depositors and employees.
- **Seriousness.** The criminal proceedings of the past financial juggleries have revealed the need for transparent, well-documented and detailed decision-taking by the boards and senior managers of banks, and maximum compliance with regulations.
- **Role of the shareholders.** Board members must safeguard the interests of the bank and all its shareholders. As a result, the regulators calls for increasing numbers of independent board members, which can increase better participation of the shareholders or reduce hegemony of the board members.

How to achieve good corporate governance

1. Diversified board

If all board members have homogenity in experience, skill sets and category of profession, diversity of opinion cannot be found in decision which is required to make the best choice of options to formulate the company's strategy and other plans. Diversity in the boardroom is all about filling gaps in expertise to provide a broader range of viewpoints and a fresh perspective using strategic planning.

2. Review the Board Regularly

For a diverse board to work effectively, regular evaluations are important. This helps to track progress over a period of time and understand the strengths of the company as well as giving a good understanding of the areas that need improvement. Evaluations should be candid and in-depth conversations that give real data to work with to instil a culture of continuous improvement. This way good CG can be infused in the company.

3. Directors' independence

Independence of directors is required that wants to break away from safe, conservative thinking. Forward-looking boards need directors that are not afraid to think differently, rather than simply continue down the same path the company has always taken in the past. It helps create innovation and avoid stagnation of thoughts. So independent directors are introduced in the company who are more likely to provide insights that benefit the shareholders, given different perspective on matters.

4. Auditor independence

Undue influence over the work of audit committees and independent auditors is a concern in terms of CG. Investors need to know that they can trust the financial reporting that an issuer makes, so independence is key to show that the reports are accurate and tell the true tale of the company.

5. Transparency

Transparency is an essential tool for good CG. The openness and willingness to share accurate, clear and easy-to-understand information with stakeholders, builds trust and solidifies a business's reputation, which is the cornerstone of banking industry. So, the organizations have to accurately report the bad and good news both.

6. Shareholder rights

Shareholders should know their rights when they invest in a business. They should be ensured of their rights are backed up by Articles of Association, constitution and bylaws. In our country the rights of the shareholders, however, are limited to certain issues only.

7. Risk Management

Establish a risk management process and internal control framework that is both effective and conducive to your business needs and aim to review its effectiveness periodically. Disaster

recovery plans are critical to any business endeavor, so regularly keeping update is always necessary.

8. Adequate Disclosures

This refers to the disclosure of all related parties' transactions, and the other interests of all director's involved. If a director has external financial interests outside of the company, it could influence their decision-making.

Benefits of Good Governance in banking institutions

Good governance not only boosts the reputation of the bank but also has several benefits to its progress. Employees, stakeholders, shareholders, and other concerned groups can rest assured that the bank is in good hands at the highest level when good governance is considered.

Below are some of the benefits that arise from good governance.

1. Efficient Processes

To start, good governance ensures consistency and repeatability in a bank. In turn, the overall productivity and efficiency of the bank are boosted.

2. Reducing the cost of capital

In today's competitive and volatile environment, implementation of good governance practices can be a tool to the reduction in cost of capital of the company. A stable and reliable organization capable of mitigating potential risks will be able to borrow funds at a lower rate than those with weak CG.

3. Visibility of Errors

When a bank adopts the principles of good governance, transparency and accountability become the watchword. As a result of this, board directors can quickly spot errors that can affect the organization. The equity between the board directors also allows for experiences and opinions to be shared openly. This allows for a dependable corporate structure that is error-proof.

4. Improving top-level decision-making

There is a strong and demonstrable link between an organization's governance and rapid decision-making associated with improved performance. It is found that a number of

performance failures have been directly linked to poor governance. Good governance assures rapid access to information and the good communication among stakeholders that leads to better results. Good governance also enables rapid and accurate prioritising of actions. This can enable the organization to face tough economic crises and imroves the organization's sustainability.

5. Smoother Running Operations

With all members of the board working in unity, smooth operations ensured. The characteristics of good governance gurantee that the members of the board are mutual in their decisions. This saves time for other essential discussions, thereby ensuring faster and convenient operations.

6. Assuring internal controls

By implementing CG, the board may be certain that an adequate and effective control process is in effect, with the level of assurance associated with each important component of governance. Moreover, the board or a board committee is better positioned to take action when the controls signal non-compliance.

7. Good Reputation

The overall output of good governance is the right products and services. This leads to good business performance and possible domination of the market. Since a bank's reputation can make or break it, good governance ensures it is the former, not the latter.

8. Enabling better strategic planning

With more quick access to information and close communication with management, boards can formulate more successful strategies. This includes efficient allocation of resources and capital. The strong governance framework will further assist the board by understanding the regulatory environment governing the business; leveraging technology and identifying and managing the reasonable interests of all stakeholders in the business. All these factors are essential elements of a strong strategic plan.

9. Clarity

To continue, all banks have issues that arise at some point. But a bank with acceptable governance practices can easily tackle these problems. There will be a reduction in the market's impact, and very often, the risk will get contained internally.

10. Financial Sustainability

Good governance significantly reduces the threat of safety, legal, performance, and warranty issues that can affect the organization. This is why the corporate body can reduce unnecessary expenses and spend more on progressive needs. It also ensures that the stakeholders, shareholders, depositors, customers, employees, directors, and others are financially secured.

11. Higher staff retention

An increase in staff retention and motivation can be expected, especially from senior staff, when the company has a well-defined and communicated vision and direction. A focus on the company's core business will also make it easier to penetrate the market and attract the interest of shareholders. Additionally, millennials – now the largest single group on the labour market in many countries – tend to rank an organization's commitment to responsible business practices highly in their employment choices.

12. Focus on compliance

Good corporate governance will rest on policies requiring the company to stay compliant with local laws and regulations; it will synchronise risk management and compliance to ensure the company has proper control mechanisms, meets its objectives, and operates efficiently in terms of people, processes, technology, and information.

13. Share Value

A company with good CG remains robust, profitable and sustainable, that increases the confidence of the shareholders which has a positive impact on the share price. Empirical evidences establish correlation between CG and stock market performance of listed companies because as information are more accessible.

14. Effective Response to External Environment

Finally, the modern business world operates in an environment of constant change. The process of understanding these changes does not happen due to chances. It takes leadership, commitment, and resources from the governing body. This depicts the benefits of good governance to the appropriate response pattern of corporate bodies to changes in the environment.

Basel principles on Corporate Governance of FIs

With a view to preventing any bank failure because of weak or absence of CG Basel Committee has formulated certain code of Corporate Governance for banks and financial institutions with the following 13 principles:

Principle 1: Board's overall responsibilities

The board has overall responsibility for the bank, including approving and overseeing management's implementation of the bank's strategic objectives, governance framework and corporate culture.

Principle 2: Board qualifications and composition

Board members should be and remain qualified, individually and collectively, for their positions. They should understand their oversight and corporate governance role and be able to exercise sound, objective judgment about the affairs of the bank.

Principle 3: Board's own structure and practices

The board should define appropriate governance structures and practices for its own work, and put in place the means for such practices to be followed and periodically reviewed for ongoing effectiveness.

Principle 4: Senior management

Under the direction and oversight of the board, senior management should carry out and manage the bank's activities in a manner consistent with the business strategy, risk appetite, remuneration and other policies approved by the board.

Principle 5: Governance of group structures

In a group structure, the board of the parent company has the overall responsibility for the group and for ensuring the establishment and operation of a clear governance framework appropriate to the structure, business and risks of the group and its entities.[21] The board and senior management should know and understand the bank group's organizational structure and the risks that it poses.

Principle 6: Risk management function

Banks should have an effective independent risk management function, under the direction of a chief risk officer (CRO), with sufficient stature, independence, resources and access to the board.

Principle 7: Risk identification, monitoring and controlling

Risks should be identified, monitored and controlled on an ongoing bank-wide and individual entity basis. The sophistication of the bank's risk management and internal control infrastructure should keep pace with changes to the bank's risk profile, to the external risk landscape and in industry practice.

Principle 8: Risk communication

An effective risk governance framework requires robust communication within the bank about risk, both across the organization and through reporting to the board and senior management.

Principle 9: Compliance

The bank's board of directors is responsible for overseeing the management of the bank's compliance risk. The board should establish a compliance function and approve the bank's policies and processes for identifying, assessing, monitoring and reporting and advising on compliance risk.

Principle 10: Internal audit

The internal audit function should provide independent assurance to the board and should support board and senior management in promoting an effective governance process and the long-term soundness of the bank.

Principle 11: Compensation

The bank's remuneration structure should support sound corporate governance and risk management.

Principle 12: Disclosure and transparency

The governance of the bank should be adequately transparent to its shareholders, depositors, other relevant stakeholders and market participants.

Principle 13: The role of supervisors

Supervisors should provide guidance for and supervise corporate governance at banks, including through comprehensive evaluations and regular interaction with boards and senior management, should require improvement and remedial action as necessary, and should share information on corporate governance with other supervisors.

Supervisory Guidlines

While formulating the principles for ensuring good governance in the FIs the Basel Committe, in addition to framing code of conduct for the board and the senior management, has highlighted the roles and responsibilities of the regulators and supervisors. The following guidelines have been spelt out in the basel document:

- Supervisors should establish guidance or rules requiring banks to have robust corporate governance policies and practices. Such guidance is especially important where national laws, regulations, codes or listing requirements regarding corporate governance are not sufficiently robust to address the unique corporate governance needs of banks.
- Supervisors should have processes in place to fully evaluate a bank's CG. Such evaluations may be conducted through regular reviews of written materials and reports, interviews with board members and bank personnel, examinations, self-assessments by the bank, and other types of on- and off-site monitoring.
- Supervisors should evaluate whether the bank has in place effective mechanisms through which the board and senior management execute their respective oversight responsibilities.
- Supervisors should interact regularly with boards of directors, individual board members, senior managers and those responsible for the risk management, compliance and internal audit functions.
- Supervisors should have a range of tools at their disposal to address governance improvement needs and governance failures and should be able to require steps towards improvement and remedial action, and ensure accountability for CG of a bank.

The FIs, as agreed already, have a unique nature among the other business enterprises and thus need to have special types of CG culture because they have many stakholders. Basel

Committee also identifies all such stakeholders of the banks and recommend that the CG to be administered by them jointly and severally in the following way:

- Shareholders by way of remaining active and informed exercise of their rights;
- Depositors and other customers by not conducting business with banks that are not operated in a sound manner;
- Auditors through a well-established and qualified audit profession, by their audit standards and by keeing communications with boards of directors, senior management and supervisors;
- Banking industry associations through their initiatives related to voluntary industry principles and agreement on and publication of sound practices;
- Professional risk advisory firms and consultancies through assisting banks in implementing sound Corporate Governance practices;
- Governments through laws, regulations, enforcement and an effective judicial framework;
- Credit rating agencies through review and assessment of the impact of CG practices on a bank's risk profile;
- Securities regulators, stock exchanges and other self-regulatory organizations through disclosure and listing requirements; and
- Employees through communication of concerns regarding illegal or unethical practices or other CG weaknesses.

Vission and Mission

A **vision statement** is a short statement, that describes the future goals and ambitions of an organization. It is the extract of the company's vision for the future in a way that outlines it's long-term goals and reflects core values. A well-composed vision statement should serve as a guide that inspires the employees to work toward the greater goal of the organization.

Questions to consider when drafting vision statements include:

- What problem are we seeking to solve?
- Where are we headed?
- If we achieved all strategic goals, what would we look like 10 years from now?

On the other hand, a mission statement expresses organization's core values and purpose. A strong mission statement is usually a concise phrase that sets forward what the company does, how it does it, and, sometimes, why. It can also include information on where the company is based, its target market or audience, or a general statement about the company values and goals. The audience for a mission statement is large encompassing customers, employees and the investors.

The following two questions are considered while drafting mission statements:

- What is our organization's purpose?
- Why does our organization exist?

In a very brief note, we can explain the two terms as under:

- **Vision** – Big picture of what you want to achieve.
- **Mission** – General statement of how you will achieve the vision.

Both the terms are closely related and often used interchangeably.

There is a close relationship between the vision and mission of a company. As the vision statement is a static mental picture of what the Management want to achieve, the mission statement is a dynamic process of how the vision will be accomplished. To create successful statements, it should be made simple, concise and easy to remember with simple words enough to capture the essence. The statements need to capture the very essence of what the organization or business will achieve and how it will be achieved. So statements of vision and mission should be a single thought that can easily be carried in the mind. This makes it easy for everyone in the organization to focus on them. To test the effectiveness of the statements, the same can be asked to the leaders, managers and employees. If they cannot instantaneously tell both the vision and mission, it should understood that the statements have not created any impact on them.

For example, vision statement of a bank can be like:

To be a leading bank in the country, supporting the small and medium businesses and financial inclusion of the population of Bangladesh.

While the mission statement of a bank can be something like this:

The mission of XYZ Bank is to contribute to the sustainable development of Bangladesh by providing responsible financial services and solutions to households small and medium

enterprises, using best banking practices. We are committed to delivering value for our clients, shareholders, employees and the society at large. The mission is based on our values: integrity and openness, professionalism, commitment to customers, team work, and social and environmental responsibility.

LinkedIn's mission statement makes it clear to us when they write:

"To connect the world's professionals to make them more productive and successful."

Typically, senior managers write a company's overall Mission and Vision Statements. Other managers at different levels may write statements for respective divisions. This process requires managers to:

- Clearly identify the corporate culture, values, strategy and view of the future by interviewing employees, suppliers and customers
- Address the commitment of the company to its key stakeholders
- Ensure that the objectives are measurable, the approach is actionable and the vision is achievable
- Communicate the message in clear, simple and precise language

Mission and Vision Statements help the company in the following ways:

- Guide management's thinking on strategic issues, especially during times of significant change
- Help to define performance standards
- Inspire employees to work more productively by providing focus and common goals
- Guide employee decision making
- Help establish a framework for ethical behavior
- Attract external support
- Create closer linkages and better communication among thr stakeholders
- Enhance public relations depth

Purpose of a mission statement

Both vision and mission are important to a company that is looking to create movement and tangible results in the definition of its goals and itself as a company. The piece that will tie this all together is getting really clear on the idea of creating and leading with purpose and defining how it shows up every day.

The purpose of a mission statement is to explain what an organization sets out to do, who it wants to support, why it wants to support them, and how it aims to fulfill its objectives.

The statement communicates the firm's purpose and direction to its staff, customers, vendors, and other investors. It is the roadmap for the organization's vision statement. This statement aims to give clarity, direction, focus, confidence, and motivation to all the stakeholders.

Mission statements are supposed to be guidelines by which a company operates. Its quality and content can affect all parts of a business, without exception to customers and employees. Everything a brand does should work toward the mission statement.

To be more precise, vision is the picture while mission is the road map to reach there. Purpose is the feeling that everyone, from the CEO to the bottom of the hierarchy, contains when the journey is accomplished.

The importance and the benefits of a mission statement can be described as under:

1. Clarity

Creating a mission statement and having it actually "written down" helps clarity. It is of paramount importance to write down all the reasons why this business has been choosed, why does it matter so much to the sponsors everyone else concerned; and how to plan to bring the vision to reality. This exercise gives clarity which helps build an establishment with a solid foundation.

2. Direction

The second purpose of a mission statement is direction. When the goals, values, and scope of the new venture are clearly defined, the next step should be about implementation. At this stage answers to the following questions will make it clear how to approach the business and what route to take.

- How do you want to be seen and perceived?
- What are the values that you want to highlight?
- Who are your competitors and how would you positively distinguish yourself from them?
- What strategies do you have in place to edge out your competition?
- What are your goals for the next five or ten years?

Ultimately, what is the vision of your organization?

People want to do business with someone or a company that has a clear purpose and direction, and a mission statement will help to find a direction and stay on track.

3. Focus

Another important purpose of a mission statement is focus**.** These three qualities combined allow a business to optimize inputs for maximum output. Good use of resources is only possible through focus. A mission statement will help all the employees and stakeholders to understand and align with the company's purpose and vision.

4. Trust

It's easy to attract the employees, target audience, and investors on a mission and sell the ideas to them with less hassle if the leadership follows a clear and trustworthy path. For this reason, an important purpose of a mission statement is trust.

5. Uniqueness

The mere exercise and purpose of a mission statement by itself forces the creator to think deeply about the brand**.** Who the people are, what do they represent, and what do they do? Who are the competitors and what makes the company different from them? Analyzing these questions will reveal special insights that will help a company to edge out the competition.

6. Motivation

Another key purpose of a mission statement is motivation. Having a clear, focused mission and vision cuts down wastage to foster extra drive and accelerate organizational growth. In turn, investors and consumers will be willing to identify with the brand and do business.

7. Support/building community

Undoubtedly, the purpose of a mission statement is to also help the company establish a community around its brand. Whether in business or a different organization, it has to have a mission statement that champions an honorable cause, that appeals to people's emotions, or that solves a special problem, it will be easier to get the support of investors, consumers and the general public.

8. Identity

A mission statement creates a sense of identity for the brand it serves and a feeling of purpose for the employees. Together with a company's vision and values, it creates a face or a specific perception about the brand.

9. Guiding culture

A firm's mission statement is a guide for the organization's culture and workplace setting to grow positively. Mission statements provide a formal method for expressing a distinct cultural environment created by the values, norms and beliefs of an establishment. These values should be clearly reflected in the employee actions and organizational initiatives.

10. Improved performance

Employees can increase their job performance when there is a clear goal, a guiding culture, and behavior alignment. Talk of a great way to motivate staff members to work toward a firm's vision and raise the bar for themselves.

Brand Promise

Brand can be defined as a name, term, design, symbol, or any other feature that identifies a particular good or service as distinct from those of others in the market or industry. The legal term for brand is trademark. A brand may identify one item, a family of items, or all items of that producer. A brand promise is a value or experience a company's customers can expect to receive every single time they interact with that company. The more a company can deliver on that promise, the stronger the brand value in the mind of customers and employees.

To the marketers, branding essentially differentiate them from the others in the market, mainly through advertising. But, mere publicity or advertisement is not enough to create a brand image. For establishing a real brand image an organization needs to go beyond the tangible.

Sometimes in most of the cases, distinguishing a company's brand from its mission statement become confusing. It is a common idea that a brand promise is redundant when there is a vision and mission statement. The concept is not unusual for the way brand is defined. Although both are all about what the organizations do, but their foundations and purposes are different.

A **mission statement** is created to describe what the company does from an internal perspective, often to inspire and motivate its' employees. A **brand promise**, on the other hand, is externally focused. It is crafted to hold the company accountable for delivering a consistent customer experience.

In other words, mission is purpose, while brand is the one thing people remember the product or the organization. A brand is always a promise. CNN or Coca-cola is brand. Brand is predictable long term consistency. They keep the course as it is the promise to the target audience. So, brand is for outside people. On the otherhand, mission statement is for company's internal management.

Elements of an Effective Brand Promise

If an organization is ready to clarify it's brand promise, here are the five elements need to be considered:

1. Simple

The brand promise should be no longer than a simple sentence. It is not the same thing as a mission statement, which sometimes become vague and complex with sentences having no actual meaning. An effective brand promise should be catchy that reinforces the essence of the company’s mission.

2. Credible

If the customer experience doesn’t match the brand promise, the value of a brand becomes weak. Example of such can clear the matter. During the 1980s, Ford’s brand promise was “Quality is Job 1.” Though the buyers of Ford’s vehicles were not impressed as they had to spent money on repairs frequently. The situation became so bad that consumers named Ford as “Ford—Found on Roadside Broken.”

3. Different

If the brand promise sounds similar to other brands, especially that of the competitor’s, how can it be distinguished from the others? So, something suitable to be discovered what makes the company unique and different from it's competitors.

4. Memorable

A brand promise should impact every decision the company makes. While a promise may not be as catchy as a tagline or slogan, it must be memorable enough for employees to use it during customer interactions and can be imprintsd in the customers mind.

5. Inspiring

People, in general, will act when they feel an emotional connection to a product, or company. An effective brand promise helps establish that connection by being inspiring. At the same

time, nothing should be promised what can't be delivered. A brand promise is meant to inspire, but the promise should also be realistic. A great example of an inspirational brand promise is Apple's "Think Different." On the other hand, Biman had a slogan, "Your home in the air." But for their constant delay and schedule failure, people sarcastically changed it to "Your home at the airport."

Code of conduct

A code of conduct (CoC) is a set of values, rules, standards, and principles outlining what employers expect from staff within an organization. Creating a code of conduct is a statement from leadership laying out their expectations and communicating the ethical principles they feel are most fundamental to success. Generally, it reflects the culture already present, or the culture leadership is looking to promote. A CoC is closely related to a code of ethics, to the extent where the phrases are often interchangeable.

There is are overlapping features of Code of ethics and the CoC, but there is also a subtle difference between the two:

A code of ethics is broader, providing a set of principles that affect employee mindset and decision-making. On the other hand, CoC offers principles defining the ethics of a business, but it also contains specific rules for employee actions and behavior. Generally, both are combined into a single document, and an organization rarely has a different code for each.

A CoC in practice can range from big picture ideals to specific rules. It can outline how employees should behave to reflect the organization's wider mission, but it can also define fixed regulations related to internal practices such as dress code or break policy. A well defined CoC can emphasize ethical attitudes and staff communication policies to prevent conflict or harassment while also outlining the consequences for poor behaving that violates the code.

With a CoC in place, the organization has a framework to inform ethical decision-making for each and every stakeholder. It shows staff the organization's guiding principles and helps them make better choices in their daily activities.

The CoC is also a vital part of a company's compliance and legal policies. From a compliance point of view, if an employee engages in illegal activity while at work, the CoC provides sufficient documentation showing he/she broke company policy.

From a well articulated CoC:

- The employees understand what rules and expectations management has. It defines how to act while at work, how to communicate both internally and externally, and helps employees be successful at the company.
- The organization ensures concrete company policies to help compliance.
- Potential customers and business partners understand the values of the organization.
- New customers are attracted because of the values that the organization believes in and are ensured of the expected treatment from the employees.

An ideal CoC should include information in some form regarding:

- The values the organization believes in
- Guidelines for behavior
- Day-to-day business practices
- How employees should interact with co-workers and the outside parties
- Procedures and consequences of code violations where applicable.

The following important factors need to be considered for inclusion in CoC. While covering every element detailed may seem unrealistic, especially for new or small businesses, it is better to have something in place than react and define policies after an issue arises.

1. Company values

This could include but is not limited to:

- Business ethics
- Social responsibility
- Environmental responsibility
- Employee rights
- Commitment and responsibility

2. Employee behavior

Within a CoC, Management must explain to all employees what is expected of them in terms of behavior and performance. This could be related to how they treat the people around them and communicate or specifics related to how they perform their role. A company could cover numerous employee behavior topics within a code of conduct like:

- Standards of professionalism
- Discrimination and sexual harassment policies
- Use of company assets
- Use of social media
- Communication rules
- Disciplinary process

3. Internal practices

In this instance, internal practices refer to defined rules related to day-to-day business practices that are easy to explain. While similar to employee behavior, it is hard to define a simple black and white definition for “Standards of professionalism.” That topic requires more explanation to convey the expectation to an employee. Whereas a company’s rules related to attendance and punctuality is a set thing that is simple to understand. For internal practices, a CoC should contain the followings:

- Dress code
- Annual leave/holiday time
- Break policy
- Onboarding process
- Job duties
- Training guidelines
- Rules related to time off through illness/injury
- Attendance and punctuality
- Use of phone while at work
- Chain of command

4. External practices

A CoC should define the expectations for employees when dealing with external parties. For example, this could be in relation to confidential company material or a level of courtesy and respect when dealing with customers. There are many examples of external practices a code of conduct may define, such as:

- Confidentiality
- Privacy

- Intellectual property policies
- Customer communication requirements
- Conflict of interests

BIS Code of Conduct

Bank for International Settlements has formulated Special Staff Rule in their September 1997 (last revised 1 June 2015) edition which is quoted below:

Standard of conduct

In the interests of their professional standing, and to protect the reputation of the Bank, Members of Staff shall maintain the highest standards of conduct both at and outside the Bank.

1 Basic principles

(i) Members of Staff shall act honestly and impartially, and carry out their duties diligently, efficiently and to the best of their abilities.

(ii) Members of Staff are required to devote their working hours to the interests of the Bank. In particular, they may not conduct other activities in or from within the Bank in ways that interfere with the performance of their professional duties.

(iii) Members of Staff may only commit the Bank to engagements on matters falling within the scope of their responsibilities. They should, as far as possible, avoid committing the Bank to an engagement on the Bank's behalf in a situation where the outcome may be detrimental to the interests of the Bank. When committing the Bank to an engagement in writing, they should be reasonably satisfied that the supporting document accurately reflects the engagement.

(iv) Members of Staff should treat all their colleagues with courtesy and respect, without harassment or physical or verbal abuse. Members of Staff should avoid behaviour that, although not rising to the level of harassment or abuse, may nonetheless create an atmosphere of hostility or intimidation.

(v) Members of Staff shall avoid any form of discrimination based on race, nationality, gender, age, physical disability, sexual preference, political opinions, or religious convictions.

(vi) Members of Staff are responsible for ensuring that Bank resources, including Bank funds and facilities, are used for business purposes only, unless private use is permitted under a relevant service note or other internal rule. They should also ensure that Bank resources are used in an appropriate manner and that reasonable measures are taken to limit costs and expenses incurred by the Bank.

2 Avoidance of potential conflicts of interest

(i) Members of Staff shall, as far as possible, avoid any situation where their private or personal interests may conflict with their duties to the Bank. "Private or personal interests" means any potential benefit or advantage for themselves, their spouse or partner, a member of their family, a relative or a friend. In particular:

- Members of Staff who have influence over the existence or extent of the Bank's business relationship with a counterparty may not use that influence in order to benefit themselves, their spouse or partner, or their family, relatives or friends;
- unless expressly authorised by the Head of Compliance, Members of Staff shall not participate in the Bank's negotiations with a counterparty where their spouse or partner or a member of their family is employed;
- and personal financial transactions are to be conducted in accordance with the Bank's policy as set out in the service note "*Personal Account Transaction Rules*".

(ii) Members of Staff may not accept any gift of more than modest value or hospitality from any third party in connection with their duties to the Bank, except in the circumstances set out in the relevant service note. In particular, due care should be taken to avoid any impression of seeking or accepting any advantages from potential or current business partners of the Bank.
(iii) Members of Staff involved in negotiations concerning prospective employment with another employer should behave with integrity and discretion.

3 External activities

(i) The privileges and immunities which Members of Staff enjoy pursuant to the Headquarters Agreement of the Bank and the host country agreements concluded by the Bank are intended solely to ensure the freedom of action of the Bank and the complete independence of the persons concerned in carrying out their duties with respect to the Bank.

(ii) Members of Staff may not, unless expressly authorised to do so by the Chief Administrative Officer of the Bank:

– accept other business functions, professional employment, or remuneration for services rendered concurrent with their employment by the Bank;

– become a candidate for or accept appointment to any public office. Members of Staff may exercise their political rights (such as voting, making political contributions, and participating at the local or community level) but shall refrain from participating in political activities - both at and outside the Bank - which may interfere or conflict with their professional duties or their status as officials of an international organization;

– act as representative, agent or counsel for third parties with regard to banking operations, investment services, information systems or real estate business; or

– be a member of a board of directors or trustees or other controlling organ of any kind of external business enterprise.

(iii) Members of Staff should refrain from entering into commitments which would involve an obvious risk of leading them into financial difficulties.

(iv) Members of Staff shall not engage in any activity which may be deemed to constitute the use of inside information.

(v) Members of Staff shall avoid any payments that may improperly influence officials, business partners or other individuals. They must exercise due diligence to ensure that Bank funds are not diverted towards illegal payments of any kind.

4 Contacts with the media and publications

(i) Contacts with the media and public statements relating to the policies or activities of the Bank, whether made orally or in writing, are the responsibility of the General Manager or the Deputy General Manager, or Members of Staff authorised by them.

(ii) Subject to (i) above, any publication or public statement by a Member of Staff should avoid giving the impression that the Bank assumes any responsibility for its contents and should not damage the reputation of the Bank. If necessary, an appropriate disclaimer should be included stating that the opinions expressed are purely private. With respect to articles and editorials contributed to financial newspapers or periodicals, the provisions of the relevant service note apply.

(iii) The Bank owns the copyright on all written material produced by Members of Staff in the course of their professional duties, and has the right to publish such work in a manner it deems appropriate, after consultation with the Member of Staff concerned. If the Bank does

not choose to publish the work of a Member of Staff, he/she may, with the approval of the relevant head of department or service, publish the work elsewhere.

(iv) Members of Staff may not accept any remuneration from a third party for any work produced in the course of their professional duties.

(v) Members of Staff may participate in conferences and seminars which are related to the activities of the Bank or contribute to enhancing their professional knowledge and skills, with the prior approval of the relevant head of department or service.

Duty of confidentiality

(1) Members of Staff are required to maintain the utmost discretion - both within and outside the Bank - with regard to any non-public information which may come into their possession in the course of or in connection with their employment by the Bank.

(2) In particular, all information concerning banking transactions, security measures or the personnel of the Bank and their terms of employment, as well as any unpublished statistical data, are subject to the duty of confidentiality.

(3) The duty of confidentiality applies with respect to all non-public information, be it oral or written, or stored using electronic media. Examples include memoranda, letters, minutes of meetings, accounting vouchers, data stored on paper or on magnetic or electronic media, computer programs, program documentation, photographs and technical drawings, as well as copies of any of the above.

(4) By way of exception, the duty of confidentiality does not apply to the extent that communication of non-public information forms part of the official duties of Members of Staff or in any case in which, notwithstanding the immunities of the Bank, they have a legal obligation to disclose information or to testify before a court.

(5) The duty of confidentiality extends beyond the termination of employment by the Bank.

Module B
Board and it's Responsibilies

Corporate governance is a combination of people, rules, processes and procedures to manage the business of a company. It forms the basis for a company to make decisions that consider different environments, like economic, social, regulatory and the market scenario. CG gets its roots in ethical behavior and business principles, with the goal of creating long-term value and sustainability for all stakeholders.

Previuosly the company or the Board and management were answerable and mostly interested in issues related to their shareholders. But in the recent years, corporations have begun to be answerable to their stakeholders and not only to the shareholders. While using these two groups we need to discuss about them to some extent.

A shareholder is a person or an institution that owns shares or stock in a public or private company. They are often referred to as members of a company, and they have a financial interest in the profitability of the organization. On the other hand, a stakeholder is either an individual, group or organization who is impacted by the outcome of a project or a business venture. They have an interest in the success of the project and can be within or outside the organization that is sponsoring the project.

Responsibilities and authorities of the Board Of Directors: Basel Committee

The Basel Committee, in its' Guidelines (2015) have given a very detailed and elaborate recommendations about responsibilities of the board saying that the board has ultimate responsibility for the bank's business strategy and financial soundness, key personnel decisions, internal organization and governance structure and practices, and risk management and compliance obligations. It also suggests that the board may delegate some of its functions, though not its responsibilities, to different board committees where appropriate.

According to the Basel Committee the board should:

- actively engage in the affairs of the bank and keep up with material changes in the bank's business and the external environment as well as act in a timely manner to protect the long- term interests of the bank;
- oversee the development of and approve the bank's business objectives and strategy and monitor their implementation;
- play a lead role in establishing the bank's corporate culture and values;
- oversee implementation of the bank's governance framework and periodically review that it remains appropriate in the light of material changes to the bank's size, complexity, geographical footprint, business strategy, markets and regulatory requirements;
- Establish, along with senior management and the CRO, the bank's risk appetite, taking into account the competitive and regulatory landscape and the bank's long-term interests, risk exposure and ability to manage risk effectively;
- oversee the bank's adherence to the RAS, risk policy and risk limits;
- approve the approach and oversee the implementation of key policies pertaining to the bank's capital adequacy assessment process, capital and liquidity plans, compliance policies and obligations, and the internal control system;
- require that the bank maintain a robust finance function responsible for accounting and financial data;
- approve the annual financial statements and require a periodic independent review of critical areas;
- approve the selection and oversee the performance of the CEO, key members of senior management and heads of the control functions;
- oversee the bank's approach to compensation, including monitoring and reviewing executive compensation and assessing whether it is aligned with the bank's risk culture and risk appetite; and
- oversee the integrity, independence and effectiveness of the bank's policies and procedures for whistleblowing.

The board should hold members of senior management accountable for their actions and enumerate the possible consequences (including dismissal) if those actions are not aligned with the board's performance expectations. This includes adhering to the bank's values, risk appetite and risk culture, under all circumstances. In doing so, the board should:

- monitor that senior management's actions are consistent with the strategy and policies approved by the board, including the risk appetite;
- meet regularly with senior management;
- question and critically review explanations and information provided by senior management;
- set appropriate performance and remuneration standards for senior management consistent with the long-term strategic objectives and the financial soundness of the bank;
- assess whether senior management's collective knowledge and expertise remain appropriate given the nature of the business and the bank's risk profile; and
- be actively engaged in succession plans for the CEO and other key positions, as appropriate, and ensure that appropriate succession plans are in place for senior management positions.

Responsibilities and authorities of the Board Of Directors: Bangladesh Bank

As the regulator of the banking institutions, Bangladesh Bank formulated the 'Prudential Regulations for Banks (2014)' to ensure good governance in the banks. These guidelines fix the responsibilities and authorities of the Board over bank affairs. The Bank Company Act, 1991 Section 15 (kha) & (ga) also demarcates responsibility of the board of directors for establishing policies for the bank companies, for risk management, internal controls, internal audit and compliance and for ensuring their implementation. The responsibiites of the board in the said guidelines are as follows:

1. Work-planning and strategic management:

i. The board shall determine the objectives and goals and to this end shall chalk out strategies and work-plans on annual basis. It shall specially engage itself in the affairs of making strategies consistent with the determined objec tives and goals and in the

issues relating to structural change and reformation for enhancement of institutional efficiency and other relevant policy matters. It shall analyze/monitor, at quarterly rests, the development of implementation of the work-plans.

ii. The board shall have its analytical review incorporated in the Annual Report as regards to the success/failure in achieving the business and other targets as set out in its annual work-plan and shall apprise the shareholders of its opinions/ recommendations on future plans andstrategies. It shall set the Key Performance Indicators (KPIs) for the CEO & officers immediate two tiers below the CEO, and have it evaluated from time to time.

2. Credit and risk management:

i. The policies, strategies, procedures etc. in respect of appraisal of loan/investment proposal, sanction, disbursement, recovery, reschedule and write-off thereof shall be made with the board's approval under the purview of the existing laws, rules and regulations. The board shall specifically distribute the power of sanction of loan/investment and such distribution should desirably be made among the CEO and his subordinate executives as much as possible. No director, however, shall interfere, direct or indirect, into the process of loan approval.

ii. The board shall frame policies for risk management and get them complied with and shall monitor the compliance at quarterly rests an d review the concerned report of the risk management team and shall compile in the minutes of the board meeting. The board shall monitor the compliance of the guidelines of Bangladesh Bank regarding key risk management.

3. Internal control management:

The board shall be vigilant on the internal control system of the bank in order to attain and maintain satisfactory qualitative standard of its loan/investment portfolio. The board will establish such an internal control system so that the inte rnal audit process can be conducted independently from the management. It shall review the reports submitted by its audit committee at quarterly rests regarding compliance of recomm endations made in internal and external audit reports and the Bangladesh Bank inspection reports.

4. Human resources management and development:

i. Policies relating to recruitment, promotion, transfer, disciplinary and punitive measures, human resources development etc. and service rules shall be framed and approved by the board. The chairman or the directors shall in no way involve themselves or interfere into or influence over any administrative affairs including recruitment, promotion, transfer and disciplinary measures as executed under the set service rules. No member of the board of directors shall be included in the selection committees for recruitment and promotion to different levels. Recruitment, promotion, transfer and punishment of the officers immediate two tiers below the CEO shall, however, rest upon the board. Such recruitment and promotion shall have to be carried out complying with the service rules i.e., policies for recruitment and promotion.

ii. The board shall focus its special attention to the development of skills of bank's staff in different fields of its business activities including prudent appraisal of loan/investment proposals, and to the adoption of modern electronic and information technologies and the introduction of effective Management Information System (MIS). The board shall get these programmes incorporated in its annual work plan.

iii. The board will compose Code of Ethics for every tier and they will follow it properly. The board will promote healthy code of conducts for developing a compliance culture.

5. Financial management:

i. The annual budget and the statutory financial statements shall be finalized with the approval of the board. It shall at quarterly rests re view/monitor the positions in respect of bank's income, expenditure, liquidity , non-performing asset, capital base and adequacy, maintenance of loan loss provision and steps ta ken for recovery of defaulted loans including legal measures.

ii. The board shall frame the policies and procedures for bank's purchase and procurement activities and shall accordingly approve the distribution of power for making such expenditures. The maximum possible delegation of such power of expenditures shall rest on the CEO and his subordinates. The decision on matters relating to infrastructure development and purchase of land, building, vehicles etc., for the purpose of bank's business shall, however, be adopted with the approval of the board.

iii. The board will review whether an Asset-Liability Committee (ALCO) has been formed and it is working according to Bangladesh Bank guidelines.

6. Appointment of Chief Executive Officer (CEO):

In order to strengthen the financial base of the bank and obtain confidence of the depositors, one of the major responsibilities of the board of directors is to appoint an honest, efficient,
experienced and suitable CEO or Managing Director. The Board of directors will appoint a
suitable CEO with the approval of the Bangladesh Bank.

7. Other responsibilities of the Board:

The board should follow and comply with the responsibilities assigned by Bangladesh Bank.

8. Meeting of Board:

Board of directors may meet once or more than once in a month if necessary. But Board ofdirectors shall meet at least once in every three months. Excessive meetings are discouraged.

Responsibilities of the chairman of the board of directors

1. As the chairman of the board of directors or chairman of any committee formed by the board or any director does not personally possess the jurisdiction to apply policy making or executive authority, he/she shall not participate in or in terfere into the administrative or operational and routine affairs of the bank.

2. The chairman may conduct on-site inspection of any bank-branch or financing activities under the purview of the oversight responsibilities of the board. He may call for any information relating to bank's operation or ask for investigation into any such affairs; he may submit such information or investigation report to the meeting of the board or the executive committee and if deemed necessary, with the approval of the board, he shall effect necessary action thereon in accordance with the set rules through the CEO. However, any complaint against the CEO shall have to be apprised to Bangladesh Bank through the board along with the statement of the CEO.

Independent Members of the Board

An independent director, in corporate governance, refers to a member of a board of directors who does not have a material relationship with a company and is neither part of its executive team nor involved in the day-to-day operations of the company. Independent directors are generally desirable to be appointed to the board of directors and are key to good corporate governance.

A board that is majority independent would be better suited to oversee the CEO as opposed to a board comprised of dependent directors. Additionally, appointing more independent directors generally results in greater third-party advice and expertise (due to the executives coming from different backgrounds). Since the independent directors, by definition, do not have a material relationship with the company, they are not subject to undue influence from the management team.

Bangladesh Securities and Exchange Commission by a notification no. BSEC/CMRRCD/2006-158/207/Admin/80 dated 03.06.2018 prescribed a Corporate Governance Code in order to enhance corporate governance in the interest of investors and the capital market. This notification prescribed provisions regarding independent director and it is applicable to listed companies in Bangladesh.

According to the said notification, independent director means a director-

(a) who either does not hold any share in the company or holds less than one percent (1%) shares of the total paid-up shares of the company;

(b) who is not a sponsor of the company or is not connected with the company's any sponsor or director or nominated director or shareholder of the company or any of its associates, sister concerns, subsidiaries and parents or holding entities who holds one percent (1%) or more shares of the total paid-up shares of the company on the basis of family relationship and his or her family members also shall not hold above mentioned shares in the company;

(c) who has not been an executive of the company in immediately preceding 2 (two) financial years;

(d) who does not have any other relationship, whether pecuniary or otherwise, with the company or its subsidiary or associated companies;

(e) who is not a member or TREC (Trading Right Entitlement Certificate) holder, director or officer of any stock exchange;

(f) who is not a shareholder, director excepting independent director or officer of any member or TREC holder of stock exchange or an intermediary of the capital market;

(g) who is not a partner or an executive or was not a partner or an executive during the preceding 3 (three) years of the concerned company's statutory audit firm or audit firm engaged in internal audit services or audit firm conducting special audit or professional certifying compliance of this Code;

(h) who has not been convicted by a court of competent jurisdiction as a defaulter in payment of any loan or any advance to a bank or a Non-Bank Financial Institution (NBFI); and

(i) who has not been convicted for a criminal offence involving moral turpitude.

Independent director shall be a knowledgeable individual with integrity who is able to ensure compliance with financial laws, regulatory requirements and corporate laws and can make meaningful contribution to the business. Independent director may be a business leader, corporate leader, former official of government or statutory or autonomous or regulatory body, university teacher, who has educational background in economics or commerce or business studies or law; professional who is or was an advocate practicing at least in the High Court Division of Bangladesh Supreme Court or a Chartered Accountant or Cost and Management Accountant or Chartered Financial Analyst or Chartered Certified Accountant or Certified Public Accountant or Chartered Management Accountant or Chartered Secretary or equivalent qualification.

The independent director shall have at least 10 (ten) years of experiences in any above stated field although in special cases, the above qualifications or experiences may be relaxed subject to prior approval of the Commission.

The success of an independent director largely depends on his personal capabilities as well as knowledge. His independent representations in Board may help the company in framing long term strategic decisions. He will apply his independent judgment to secure best interest of the company as well as its investors. His proactive attitude may be a safeguard against mismanagement especially oppression to minority shareholders. He will apply his mind to ascertain bona fide character of all sorts of related party transactions. Certainly, his stout voice shall help to prevail fairness in the dealings of the company with its members indiscriminately.

The total number of members of a company's Board of Directors shall not be less than 5 (five) and more than 20 (twenty). At least one-fifth (1/5) of the total number of directors in the company's Board shall be independent directors. Any fraction shall be considered to the next integer or whole number for calculating number of independent directors. A person may discharge the functions of an independent director at maximum in 05 (five) listed companies. Independent directors may contribute significantly with their valuable experiences as well as expertise in small companies of young entrepreneurs. Although they lack the inside business knowledge of the company but the existing directors should make all material information available to them.The independent director(s) shall be appointed by the Board and approved by the shareholders in the Annual General Meeting. The primarily responsibility, therefore, is on the board to choose the right persons. The tenure of office of an independent director shall be for a period of 3 (three) years, which may be extended for 1 (one) tenure only. A former independent director may be considered for reappointment for another tenure after a time gap of one tenure i.e. three years from his or her completion of consecutive two tenures i.e. six years. The independent director shall not be subject to retirement by rotation as per the provisions of the Companies Act, 1994. For the purpose of counting tenure or term of independent director, any partial term of tenure shall be deemed to be a full tenure. In fact, if a person performs functions of independent director of a company for a long period of time his independence may fall in question. However, the post of independent director(s) cannot remain vacant for more than 90 (ninety) days. In appointing in the office of independent director compliances of law must strictly be adhered to. Every appointment must be on merit and not through any form of patronage. In case of corrupt appointment, the entire purposes of the institution shall be futile.

Board Committes

Various board committees are to be formed to act in order to obtain the most effective operations. Such committees are important CG tools to monitor corporate activities and can play a valuable role in the protection of shareholder value. As per 'Prudential Regulations for Banks (2014)' of Bangladesh Bank, each bank needs to have Executive Committee, Audit Committee and Risk Management Committee to ensure the best practices of CG in Bank Management.

Executive Committee

Executive committee should be formed with the members of the board to continue the urgent and daily or routine works between the intervals of two board meetings. Executive committee will perform according to their terms of reference determined by the board of directors. The organizational structure of the executive committee will be as follows:

i. Members of the committee will be nominated by the board of directors from themselves;

ii. The executive committee will comprise of maximum 07 (seven) members;

iii. Members may be appointed for a 03 (three)-year term of office;

iv. Chairman of the Board of Directors can be the chairman of executive committee;

v. Company secretary of the bank will be the secretary of the executive committee.

Audit Committee

The board will approve the objectives, strategies and overall business plans of the bank and the audit committee will assist the board in fulfilling its oversight responsibilities. The committee will review the financial reporting process, the system of internal control and management of financial risks, the audit process, and the bank's process for monitoring compliance with laws and regulations and its own code of business conduct. The organizational structure of this committee will be as follows:

i. Members of the committee will be nominated by the board of directors from the directors;

ii. The audit committee will comprise of maximum 05 (five) members, with minimum 2 (two) independent directors;

iii. Audit committee will comprise with directors who are not executive committee members;

iv. Members may be appointed for a 03 (three) year term of office;

v. Company secretary of the bank will be the secretary of the audit committee.

Risk Management Committee

To play an effective role in mitigating impending risks arising out from strategies and policies formulated by the Board and to carry out the responsibilities efficiently, a risk

management committee will be formed. After identifying and assessing several risk factors like credit risks, foreign exchange risks, internal control and compliance risks, money laundering risks, information and communication risks, management risks, interest risks, liquidity risks etc.; the risk management committee will scrutinize whether appropriate risk management measures are being put in place and applied and whether adequate capital and provision is being maintained against the risks identified. The organizational structure of this committee will be as follows:

i. Members of the committee will be nominated by the board of directors from themselves;
ii. The Risk Management Committee will comprise of maximum 05 (five) members;
iii. Members may be appointed for a 03 (three) year term of office;
iv. Company secretary of the bank will be the secretary of the Risk Management Committee.

Strategic objectives

Strategic objectives are the big-picture goals for a banking company as they ascertain what the company will do to fulfill its mission. Strategic objectives are usually some sort of performance goal—for example, launching a new product, increase profitability, or grow market share for the it's product.

Once a strategic analysis is completed, the next step in the strategy process is to establish strategic objectives. At this point, the managers decide why the company exists and how it will try to fulfill its mission. Strategic analysis has provided information about customer preferences, competitors, and the firm's resources and capabilities to start planning for success.

Commercial banks are financial institutions that plays an effective role in the economic development. They provide services such as accepting deposits, making business loans, and offering basic investment products either for individuals or companies. The unified goal for all commercial banks is to provide good services to its customers and good returns to its shareholders to continue to be successful.

In other words, the strategic objective of a bank is to increase the long-term profitability through appropriate allocation of resources on profitable ventures while maintaining an

acceptable level of risk, serving all sorts of organizations and individuals, to guarantee the efficiency and effectiveness of the internal control system, and be more conservative against surrounding conditions and economic cycles.

At this stage we need to define "Goals" and "Objectives" which often seem like two interchangeable phrases on the surface. A goal is an achievable outcome that is typically broad and long-term. A company might use goals to inform yearly strategies that each department will execute. An objective, on the other hand, defines the specific, measurable actions each team employee must take to achieve the overall goal. To sum it up, the main difference between a goal and an objective is that goals provide direction whereas objectives measure how you should follow that direction.

Goals are undoubtedly critical to a business success. Ultimately, a company's goals should align with it's vision and mission in order to set best guidelines for the employees about their actions and decisions.

For instance, let's say this year the management team has outlined three broad goals for the banka:

1. Create a more inclusive workplace culture
2. Grow brand awareness across the country
3. Increase customer retention by 40%

Here's where objectives come into play — objectives are essentially the measurable actions you can take to achieve your overall goals. Typically, you'd use the SMART (specific, measurable, attainable, relevant, and time-bound) criteria to define and measure specific objectives.

We also need to find the difference between objective and strategy. An objective is a measurable, specific action an employee or team needs to take to meet the needs of a larger company goal. A strategy, on the other hand, defines how each employee or team will accomplish the objective. A strategy can change throughout the course of a campaign, while an objective should remain the same.

Governance Framework

The governance framework provides a mechanism for senior management, as well as those at the operational level, to have a clear understanding and oversight of each other's expectations,

objectives, performance, risk appetite, and reporting requirements. In addition, that these aspects are effectively communicated to relevant persons in the organization. Thus, the governance framework can be termed as a guidance system which is a combination of standard management practices within the governance framework designed to suit the requirement and objectives of an organization. It sets objectives, policies, values, culture, accountabilities, and performance. The governance framework acts as an essential supporting structure, a framework of rules and practices by which the board ensures accountability, fairness and transparency in both how the company runs and how it communicates with its stakeholders.

The purpose of Governance Framework is to:

- set out the principles of good governance that underpin our operations; and
- outline corporate governance structure to ensure consistency across the organization.

It is designed to meet regulatory and statutory requirements, achieve effective self and co-regulation, and provide the flexibility to manage changes which are inevitable for an evolving and developing organization.

The governance framework should focus on establishing a chain of responsibility, authority and communication channels within the organization. It should put in place mechanisms to measure policies, procedures and standards, implementation progress and enforcement. The governance framework should look holistically at the entire business process, including the relationship with the organization's employees, suppliers and customers. The framework should ensure a balance between coordinating regulations and standards, satisfying the customer and aligning with the suppliers.

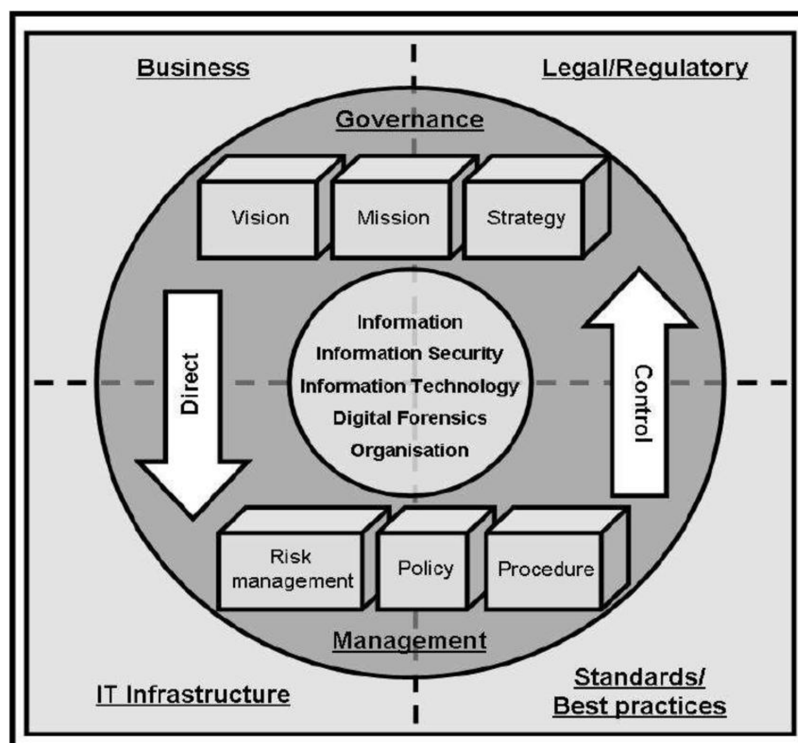
The Framework covers:

- compliance with the statutory and regulatory framework (including the Code) within which we operate;
- the relevant constitutions of the group companies;
- the Group Financial Standing Orders;
- the Group Delegation Framework;
- Risk Management Policy

A governance framework consists of two distinct sides: governance and management (as shown in the following figure).

The governance side directly involves the executive management's function, as well as the direction of the organization. The main responsibilities of the governance side are business and legal/regulatory aspects, involving the vision, mission and strategy of the organization. The governance side strongly involves all strategy decisions, and regulates the overall direction of the organization. The governance side directs the management aspects.

The management side is more concerned with the implementation and execution of the organizational strategy, as well as the functional and operational management levels. This involves risk management, policy and procedure development and implementation. Successful management requires the commitment from various managers within the organization. This side can also be referred to as the tactical or operational role of the executive management. The management side controls the governance aspects.



How to make a strong governance framework?

A strong governance framework organizes operational, risk management, reporting and financial processes to ensure that the board gets continually updated. Rules and systems create the robust framework for governance, and the framework provides the structure that drives the strategic plan. A strong governance framework is integral to organizational

success: it helps boards make considered, data-based decisions. A good framework can expose gaps or weaknesses within the board or management. Beyond the broad governance processes, a solid framework supports the company in numerous ways to effectively connect leadership with operations. A governance framework is an important basic tool for effective board oversight; the process of building the framework is often just as important and meaningful as the end result. Governance brings authority and accountability while enabling effective decision-making in an organization.

The importance of governance frameworks and structures

The importance of corporate governance in today's progressive and aggressive business environment cannot be denied. Corporate governance allows companies to put their positive traits firmly on display. With these intentions made visible to all, companies are more likely to be held accountable for their behavior and actions — and thus more willing to distance themselves from duplicity. Businesses today are held to incredibly high standards by investors and customers alike; being honest and open about process and operations counts for a great deal. Both shareholders and customers want to see companies operating with integrity and transparency. Business advisory firm PwC calls corporate governance "a performance issue" as it provides a framework for how the company operates, stating that corporate governance should encompass:

- The company's performance and the performance of the board
- The relationship between the board and executive management
- The appointment and assessment of the board's directors
- Board membership and responsibilities
- The "ethical tone" of the company, and how the company conducts itself
- Risk management, corporate compliance and internal controls
- Communication between the board and the C-suite
- Communication with the shareholders
- Financial reporting.

To help organizations navigate corporate governance, Deloitte offers a Governance Framework that outlines the board's objectives and responsibilities, and how they relate to

the corporate governance infrastructure. Before we examine the potential of the Framework, it may be helpful to understand what the Framework is not.

• It is not meant to be prescriptive. The concepts presented here should be tailored to fit the specific circumstances of the organization. Regulatory and legal requirements will vary based on the industry, and demands may differ depending on the ownership structure and stakeholder expectations for each entity. Simply stated, there is no “one size fits all” approach for a system as complex and interconnected as corporate governance.

• It is not a replacement for existing models for internal governance. Rather than replacing models such as those related to enterprise risk, compliance, and internal controls over financial reporting, the Framework seeks to connect these various models to present an integrated picture of the activities that comprise a company’s governance system. Furthermore, the Framework provides a useful construct for defining the roles and responsibilities — including those related to the board — within the various models.

• It is not a tool for assessing legal or regulatory compliance. Within each element of governance, there are specific requirements for both management and boards. In that way, legal compliance is an element of the Framework. However, the concepts presented go beyond compliance with laws and regulations to encompass attributes of an effective governance program.

How to start building own governance framework

Governance frameworks exist to ensure that a company remains in compliance and operates within legal boundaries. This means that any governance framework must take into account the local regulations wherever the organization has entities located. The governance framework then dictates the governance operating model appropriate to the aims of the organization. To start building your own governance framework, aim to answer these questions:

- Who are the people with authority in the organization?
- What information do those people need to access, and when?
- What does the organizational structure look like?
- How does the structure influence how decisions are made?
- What are the organization’s reporting obligations?
- How does information need to flow around the business?

- What is the relationship between entities - and does this present any challenges in terms of accountability, authority or responsibility?
- What is the relationship between departments and stakeholders?
- Where does the organization have entities based - and does that influence obligations?
- How does the organization manage compliance risk?

Corporate culture

Corporate culture (CC) refers to the beliefs and behaviors that determine how a company's employees and management interact and handle outside business transactions. Often, CC is implied, not expressly defined, and develops organically over time from the cumulative traits of the people the company hires. It is the collection of values, beliefs, ethics and attitudes that characterize an organization and guide its practices.

While an organization's culture can be articulated in its mission statement or vision statement. But elements of CC include the organization's physical environment, human resource management practices and staff work habits. CC is also reflected in the degree of emphasis placed on various defining elements such as hierarchy, process, innovation, collaboration, competition, community involvement and social engagement.

All organizations, whether they are for-profit companies or nonprofit entities or even government agencies, have a sense of self that can be called CC.

CC is sometimes referred to as organizational culture or company culture. The same is also sometimes considered to be synonymous with workplace culture. However, some experts classify workplace culture as a separate idea that specifically and narrowly describes the conditions under which employees conduct their work. According to this view, workplace conditions are shaped by and ultimately reinforce the overall corporate culture.

An organization's culture determines to a great degree the way workers behave and what they consider acceptable ways of interacting with each other as well as with business partners and customers.

An organization's culture also greatly determines how it reacts to change, evolution and crises. It deeply impacts the organization's ability to innovate and succeed in both the short term and the long term.

Today executive advisors, management consultants, business schools and researchers are all engaged in research to better understand corporate culture - what defines it, what influences it and which traits can deliver success.

The importance of developing a corporate culture

Culture can shape and influence almost all aspects of an organization, including organizational effectiveness, overall success and the bottom line. Researchers have found that organizations that have well-conceived cultures supported with good policies that attract workers who fit well with the environment ultimately have more committed and productive employees. Business partners, customers and the general public also often react to companies that are considered to have positive corporate cultures, which in turn helps organizations succeed over time.

On the other hand, research has found that organizations that lack a defined culture or that have fostered a toxic culture are at higher risk for poor economic results, higher employee turnover and even failure. In fact, experts have found that negative corporate cultures have caused or at least contributed to criminal corporate activity and other serious problems. The case of crisis and fall of energy company Enron in 2001 can be cited as an example of poor or non-exixtent corporate culture.

Boards performance evaluation

In most of the cases investors or the general sharholders feel that boards and managers are keeping them in the dark either intentionally or unintentionally. The lack of sufficient information makes the shareholders feel insecured about their investments. The regulatory requirement of periodic disclosure of accounts are not always a true reflection of long-term financial performance.

One of the most important factors for successful organizational performance is the functioning of its board of directors, and that's why the companies should annually review the effectiveness of their boards, which has become a pressing demand by the largge institutional investors after the bitter experiances of numbers of financial scandals in the influentioal companies.

By now we all agree that the boards of directors are responsible for overseeing the systems and processes that direct, control and govern an organization's strategy, leadership decisions,

regulatory compliance, and overall performance. But the criteria for evaluating board's performance and effectiveness was not unanimous until the recent years.

Generally, the board effectiveness has often been evaluated in terms of financial indicators, such as return to shareholders, return on investment or return on assets, but the effective boards should also proactively oversee the management's strategic, compliance, and operational decisions. The reasons for a most of the of corporate failures, scandals and wrong business strategy has been detected as ineffective board functioning.

A common practice of assessing board performance is applying the input-output model, where input is board members' qualification and output is company performance expressed in financial data. Although corporate financial data is an important parameter, yet insufficient as because the other non-financial parameters matric are ignored and thus cannot judge the gamut of boards desired territory of control. Two concerns arise from reflection on financial data as board performance indicators.

Firstly, financial data can be misleading and there is a risk of bias in a singular performance concept approach.

Secondly, indicators used in financial accounting like debt, cash conversion rate or dividend affordability can be misleading. Net debt figures do not always convey the full level of indebtedness, as is the case when not all creditors are included into debt to earnings calculations due credit classification variations.

So, considering the growing complexities of business environment, board performance measurement should encompass areas beyond corporate financial data.

BB guidelines for measuring board performance

The term Performance Evaluation of the board, though silent in the guidelines of Bangladesh Bank, yet the same include variuos conditions on stucture, functions, reporting and disclosures of the board, adherance to which give a demonstration of performance test. Among the guidelines for board structure there are different Board Committees, their structure, qualification of members, frequency of the meetings, areas to cover and regular reporting to the regulators.

Basel Committee

The Basel Committee, however, has formulated guidelines for performance assessment of the Board. In the para, Organization and assessment of the board the Committee puts it's recommendations as under:

To support its own performance, the board should carry out regular assessments – alone or with the assistance of external experts – of the board as a whole, its committees and individual board members. The board should:

- periodically review its structure, size and composition as well as committees' structures and coordination;
- assess the ongoing suitability of each board member periodically (at least annually), also taking into account his or her performance on the board;
- either separately or as part of these assessments, periodically review the effectiveness of its own governance practices and procedures, determine where improvements may be needed, and make any necessary changes; and
- use the results of these assessments as part of the ongoing improvement efforts of the board and, where required by the supervisor, share results with the supervisor.

Bangladesh Bank

On the otherhand, Bangladesh Bank, as per Financial Institutions Act, 1993 may take appropriate action upon failure of a banking comany to meet demands of the depositors, or for any action of the banks detrimental to the interests of its depositors or failed to comply with the conditions of licence granted to it. The action may include appointment of any person for proper management of its business, or assuming the responsibility for the control and management of the errant bank's business or direct any other person to do the same at the expenses of the bank.

The said Act says:

(1) If any financial institution informs the Bangladesh Bank about its inability to meet its demands in accordance with the provisions of section 21 or if the Bangladesh Bank has, on an inspection under section 20, reason to believe that a financial institution carries on its business in a manner which is detrimental to the interests of its depositors, or that it has become financially insolvent or that a financial institution is in a situation to be almost unable to pay its dues, or that a financial institution has contravened, or failed to comply with, the

conditions of a licence granted to it, the Bangladesh Bank may, after giving reasonable opportunity to the financial institution concerned to submit a statement, take, by order, all or any of the following measures, which such institution shall be bound to observe, namely:-

a) it may direct the actions to be done or not to be done in connection with its financing business;

b) it may direct the appointment, at its expense, of any person for the proper management of its business;

c) it may assume the responsibility for the control and management of its business or direct any other person therefore.

(2) The Bangladesh Bank may, by itself or in view of an application, alter or withdraw any measure taken under sub-section (1) and may impose such conditions on such alteration or withdrawal as may be required.

(3) Notwithstanding anything contained in this section, the Bangladesh Bank may apply to the High Court Division for the winding-up of any financial institution for the reasons mentioned in this section.

(4) Where the Bangladesh Bank assumes the responsibility for the control of a financial institution, it shall control it so long as it is not satisfied that it is no longer necessary to control its business in order to protect the interests of its depositors, and such institution shall be bound to grant the Bangladesh Bank every facility required in order to facilitate such control or general management of the financial institution.

(5) The Bangladesh Bank shall determine the remuneration to be paid to any person appointed to control or manage a financial institution under this section or the other conditions etc. of his work, and the financial institution shall bear the expenses thereof and such other expenses as may arise through its control.

Dissolving Board

Bank Company Act, 1991 has given abosolute power to Bangladesh Bank to dissolve the entire board of a bank in case it appears to the regulator that the Board is failing to secure the interest of the depositors or the banking company. The section 47 says Bangladesh Bank may dismiss or dissolve the Board of a bank if the former is satisfied "a) that the Board of Directors of a banking company, by whatever name it be called, conducts its affairs in a

manner detrimental or prejudicial to the interest of the banking company or its depositors; ... A Board of Directors being dismissed, the person appointed in this behalf from time to time by the Bangladesh Bank shall have all the powers and functions, and accomplish all the duties of the Board."

The Bank Company Act has also empowered Bangladesh Bank under Section 46 of the Act of 1991, which mentions, “Where the Bangladesh Bank is satisfied that it is necessary to remove a chairman or director or principal executive officer, by whatever name he be called, of a banking company in order to prevent its affairs being conducted in a manner prejudicial to the interests of the banking company or its depositors or to secure in the public interest the proper management of the banking company, it may, after committing its reasons to writing, issue direction that such chairman, director or principal executive officer be removed from his office.”

Appointment of observer

In order to elevate good corporate governance, endorse proper credit disciplines and most importantly to protect depositors (people) interest, Bangladesh Bank can appoint, if required, an observer in the board of any bank and financial institution according to the Bank Company Act, 1991. Section 49 of the act says That Bangladesh Bank may "depute one of its officers to watch the proceedings at any meeting of the Board of Directors of the banking company or of any committee or of any other body constituted by it and require the banking company to give an opportunity to that officer to be heard at such meetings, and require that officer to send a report of the proceeding at such meetings to the Bangladesh Bank;" or "appoint one of its officers to observe the manner in which the affairs of the banking company or of any of its branches are being conducted."

Module C

CEO and Senior Management

A senior management team consists of top-level employees who work together to manage an organization. Headed up by the chief executive officer (CEO), this group of individuals sits at the top of a company's structure and provides strategic steer. Senior management typically comprises several well-defined roles that oversee activities in different parts of the business.

The role of a senior management team (SMT)

The senior management team plays a number of vital roles within a business, including:

- Devising an appropriate strategy and ensuring it is implemented effectively;
- Setting ambitious yet achievable goals, then managing teams to work towards them;
- Coordinating activities in functional departments (i.e. finance and HR);
- Organising the management of resources within the firm;
- Managing the demands of stakeholders through the board of directors.

Bangladesh Bank in draft guidelines on Internal Control and Compliance in banks (2015) has innumerated the functions of the Management Committee as under:

- The MANCOM will put in place an internal control structure in the banking organization, which will assign clear responsibility, authority and reporting relationship.
- The MANCOM will monitor the adequacy and effectiveness of the Internal Control System based on the bank's established policy & procedure.
- The MANCOM will review on a yearly basis the overall effectiveness of the control system of the organization and provide a certification on a yearly basis to the Board of Directors on the effectiveness of Internal Control policy, practice and procedure.
- During the audit period if present audit team finds any lapse or irregularity which was not detected or identified by previous auditor then that will be reported to the Head of ICC.
- The senior management will enrich audit team with adequate skilled manpower and proper IT system as per requisition of the ACB for purposive and effective audit.

- The senior management will ensure compliance of all Laws and regulations that are circulated by various regulatory authoritie s like, Bangladesh Bank, Ministry of Finance, Security and Exchange Commission etc.

Subsequently with some modifications in the previous guidelines, Bangladesh Bank in February 2016 has finalized the roles and responsibilities of the senior management. It is worth mentioning that the term MANCOM has been repharsed as Senior Management Team (SMT). The final guidelines are as under:

Responsibilities of the SMT

In setting out a strong control framework within the organization the role of Managing Director/CEO is very important. The board of directors of the bank/organization will define/form Senior Management Team(SMT) that should include the MD/CEO and the Chief Financial Officer. Any officer that perform a policy making function or is in charge of a principal business unit/function may be member of SMT. However, any executive of ICC audit should not be member of SMT. The bank/organization should report the composition of the SMT to Banking Regulation and Policy Department of Bangladesh Bank.

Functions of Senior Management Team(SMT)

Responsibilities of the SMT should include monitoring the adequacy and effectiveness of the Internal Control System based on the bank's established policy and procedure.

The SMT will review on a yearly basis the overall effectiveness of the control system of the organization and provide a certification on a year ly basis to the Board of Directors on the effectiveness of Internal Control policy, practice and procedure.

The management will enrich audit teams with adequate skilled manpower and proper IT support as per requisition of the Audit Committee of the Board (ACB) for purposeful and effective audit.

The management will ensure compliance of all laws and regulations that are circulated by various regulatory authorities such as, Bangladesh Bank, Ministry of Finance, Bangladesh Securities and Exchange Commission, etc.

During the audit period, if the present audit team finds any lapse or irregularity which was not detected or identified by the previous auditor, then that will be reported to the Audit Committee.

Chief Executive Officer (CEO)

The CEO sits at the top of the senior management team structure and is ultimately responsible for the operational success of the company. Working closely with the other senior executives and the board of directors, they will make top-level decisions that govern the direction in which the business goes.

There is often confusion around the roles of the CEO and managing director. The difference between a CEO and a managing director is that the former reports to the board and oversees the company's progress from a strategic standpoint, whilst the latter comes under the authority of the CEO and manages day-to-day operations.

In general, the CEO's roles and responsibilities are to:

- Set the strategy for the organization with the support of other senior executives and the board of directors;
- Decide on top-level business goals through discussions with the board and senior management team members such as the company VP;
- Ensure that the organization is implementing its strategy effectively and achieving targets;
- Report back to the board of directors on the company's progress;
- Work with the chairperson to communicate with shareholders and the public;
- Delegate critical business tasks to the senior executives that lead functional departments and ensure that they are achieving their goals.

Professor Daniel Isenberg of Babson College Executive Education has given an interesting account of the role of CEO of a bank. He says that the CEO may have a network of dozens of related problems and issues which he is concerned about. Some of those can be establishing credibility to the foreign correspondant banks, strengthening bank's role in corporate banking, diversifying and increasing the range of financial services and products, being prepared to defensively introduce new products in response to competitors' innovations, reducing operational costs, standardizing branch layouts and utilizing the space efficiently.

The CEO classifies these problems in terms of broad issue categories. In doing so he finds that many were related to the issue of expanding and broadening the bank's competence beyond consumer banking in which it is already firmly established. A second issue may be

standardizing the bank's branches with regard to physical layout, accounting systems, and so on.

Having such interrelated network of issues senior management gets opportunities more flexibly and to use progress on one problem to achieve progress on another related issue. Daniel Isenberg gives in interesting example that a "bank CEO likened himself to a frog on a lily pad waiting for the fly—the problem or issue—to buzz by." That clarifies a bank CEOs position of waiting for opportunities or problems to catch to grab.

Bangladesh bank vide BRPD Circular Letter No. 18 dated 27 October, 2013 has fixed the duties and responsibilities of CEO of a commercial bank as under:

The CEO of the bank, whatever name called, shall discharge the responsibilities and affect the authorities as follows:

a) In terms of the financial, business and administrative authorities vested upon him by the board, the CEO shall discharge his own responsibilities. He shall remain accountable for achievement of financial and other business targets by means of business plan, efficient implementation thereof and prudent administrative and financial management.

b) The CEO shall ensure compliance of the Bank Company Act, 1991 and other relevant laws andnregulations in discharging routine functions of the bank.

c) At the time of presenting any memorandum in the Board Meeting or Board Committee Meeting, the CEO must point out if there is any deviation from the Bank Company Act, 1991 and other relevant laws and regulations.

d) The CEO shall report to Bangladesh Bank any violation of the Bank Company Act, 1991or of other laws/regulations.

e) The recruitment and promotion of all staff of the bank except those in the two tiers below him shall rest on the CEO. He shall act in such cases in accordance with the approved service rules on the basis of the human resources policy and sanctioned strength of employees as approved by the board.

f) The authority relating to transfer of and discipl inary measures against the staff, except those at two tiers below the CEO, shall rest on him, which he shall apply in accordance with the approved service rules. Besides, under the purview of the human resources policy as approved by the board, he shall nominate officers for training etc.

Business Strategy: Organizational and Management Culture

Almost all leading business leaders finds a close link between organizational culture and the company’s success, because culture is not a byproduct of any company, rather corporate culture is a vital part of the strategic plan as it can influence the strategy of any organization.

Organizational culture can be defined as it's own traditions, values, policies and attitudes in business operation. A company can achieve their business very easily if they put organizational culture into their vision and mission. It is obvious that each company has its' unique culture from which the company can be immensely benefitted. The culture can have a large effect on it's employees and even on the customers. As long as the employees know about the culture of their organization, they understand the core business of the company. So, the strategies they make will surround the organizational culture and thus will not deviate the organizational goal.

On the other hand, a clear and strong organizational culure can attract customer’s attention that will let them know the business goal of company.

Some other companies focus on being leaders in innovation and creativity. They may offer various benefits to the employees, which give the employees more responsibility and belongingness. They may encourage their employees to participate in programs that are good for the community.

Some other company may focus on cost control that is stringent and culture that is more concerned about the numbers than anything else.

Ways Organizational Culture Impacts Business Strategy

Organizational culture impacts business strategy in many ways. There are multiple ways culture impacts strategy in business, it can be from making provision for innovation and creativity to create unique hiring criteria.

Treat employees with dignity, empathy, and respect

A company’s culture should be to attract and retain talent, because, ultimately it gives the return. If the employees are treated with security, dignity and respect, they do not hesitate to give the best to the company.

Opportunity for innovation and creativity

A positive work culture will enhance the positive attitude of the employees. When employees feel supported in a positive way, they are more creative and innovative, which usually leads to more profitability.

Using company values

Company's values are one of the key cornerstones of its' organizational culture. They should serve as a touchpoint into as many different aspects of operations as possible—when recruiting people, during performance reviews, and as dialogue when making business decisions.

Treating culture as a business strategy

Organizational culture not only impacts business strategy, but it itself is a business strategy too. Companies often lose sight of the fact that their employees are running their businesses. Therefore, a clearly stated mission, vision, values, essential attributes, and actions must be an integral part of the foundational structure of any successful organization.

Keeping culture over strategy

If there is a mismatch or conflict between organizational culture and business strategy, the former will almost always prevail. It is easier to change the business approach than to redefine the culture and values that a company believes. If an organization that advocates altruism but employs a profit mongering business model, it will easily lose support from stakeholders.

Building a diverse team

If a company is destined to build a best organization, it must employ a diverse team from the very begining, otherwise they give varying results. This eventually pays off, because by having a diverse team, the company can make many better-informed decisions about product direction, market planning, and overall growth.

Empowering employees to give feedback

When an organization prioritizes transparency with its stakeholders, it results in a host of positive benefits. Employees trust companies that are open and honest with them, leading to a more connected environment in which employee goals align with their organization’s culture.

Transparency in business nurtures an environment that welcomes feedback and empowers employees in decision-making.

Creating unique hiring criteria

A company should strategize continuous learning and skill development within the employee ranks to compete with the best in the market and understand the organizational culture, thus equipping them for effective communication with our clients. The aim is to foster loyalty because we aim to be leaders in the industry.

Culture and strategy go hand in hand

The strategy is what helps break down goals into attainable steps with the correct planning. When the organization's culture is created , the values and beliefs into the strategy are also put in place. This helps with keeping the company mission at the forefront of every goal and strategy.

Culture and Business Strategy Connection

Every business leader who admits and emphasizes on the close link between organizational culture and company's success. They also strongly believe that no matter how detailed and solid a CEO's strategy is, all are futile if the people implementing the same aren't operating within the framework of a strong organizational culture. Strategy is outlined on paper, but a company's culture—the human factor—is how it's executed.

Plans to achieve specific goals should be flexible and revisited regularly so that an organization can stay on right path and change course with various changes in the industry. Because even if the other areas of strategy fluctuate, the basic elements of a strong culture should remain constant.

Workplace culture, by definition, is the common set of behaviors demostrated by staff members. To create a organizational culture, leaders should identify core behaviors that will enable people to drive all areas of company strategy successfully. Then, their aim should be to define, model, and reinforce these behaviors to empower their employees to execute plans effectively as they evolve.

It is to be remembered that culture shouldn't be an afterthought—something leaders use to bring strategy to life, rather the corporate culture should be a vital part of the strategic plan from the outset. Developing the right culture to achieve strategic goals is as critical to outcomes as carefully crafted sales, budget, and operational plans.

Changing CEO and Senior Management

Changing of a CEO is different from filling any other role in the FIs. It's a major strategic initiative that impacts the entire business and its stakeholders. This process is also different from the other non-FI organizations, as the FIs are governed by if not more, by two regulators, Bangladesh Bank and BSEC. Appointing a CEO does not solely depend on Board decision, the appointment requires approval from BB. Nevertheless, hiring from outside or appointing a CEO from within requires very careful decision to sustain the business continuity, uphold the organization culture and values. As such it's a major strategic initiative that impacts the entire business and its stakeholders.

For a board, changing CEO is a critical decision in the events of the organization, as such the directors should expect to contribute more than they normally ordinarily do. Though selecting a CEO may not require series of meetings, directors should treat it as a teamwork, where contribution from all members can help to take judicious decision, because this crucial position will be the Boards representative and that of the employees as well.

In the modern concept of human resouce and change management it is thought that the process of assessing, identifying and final selction of internal or external candidates consists only of half the job. A succession should include activities that occur after the new CEO takes the job, while the later stages are more difficult than the recruitment phases. They involve emotions, ego, beliefs about what the organization should become, and, in particular, company culture and politics.

This is a common notion that an internal candidate who's promoted to CEO does not need much attention because he/she has already navigated a career with the company. But even an internal candidate will benefit from a well-defined transition process that recognizes several specific challenges to be faced in the new job. Because, the candidate promoted from inside have never been a CEO before and must learn to handle a level of responsibility for which they have had little preparation. Furthermore, they will inherit a team made up of former peers, some of whom have been his/her rivals for the position. An insider CEOs need to forge new relationships with directors, because reporting to and managing a board is vastly different from making periodic presentations to it.

As, changing CEO is a regular phenomenon, creating a formal succession process to fill up this crucial position can streamline collaboration, increases efficiency and mitigates risk.

Although there is not a very well-articulated and formal textbook formula of CEO succession plan, HR experts recommend some measures.

1. Creating a future CEO criteria

The board and the existinf CEO should decide the essential future CEO capabilities. The development of future CEO capabilities should include the organization's fute revenue, market positioning, customer set, size and culture. This plan should also examin the potentials of an internal successor or an external candidate.

2. Building a talent pipeline

Having identified the criteria, potential internal CEO candidates should be identified and they should be properly trained them for the job. Ideally, the organization can provide on job learning, relationship building and formal training.

3. Assessing internal candidates

Irrespective of experience of an internal candidate, becoming a CEO increases the complexity of their work. Even if the candidate is a known top performer in the organization, it’s important to take time to thoroughly evaluate their ability to take on CEO responsibilities. Performing comprehensive evaluations for internal candidates should include understanding candidate's readiness, comparing to other candidates etc.

4. Benchmarking against external talent

For changing CEO benchmarking required to compare external candidates against internal successors. This benchmarking should be done without notifying candidates to evaluate neutrally. It also helps the organization to observe potential external candidates vis a vis the internal aspirant(s).

Changing CEO by regulatory action

In addition to the above ideal situation Bangladesh Bank also has the authority to CEO of an FI through the Financial Institution Act 1993. This is, however, very rare and abnormal situation and does not fall under a normal process of CEO change.

Changing Senior Management should have the above process of identifying the right internal candidate or hiring from external sources.

Module D

Capital, Liquidity and Asset

Capital Adequacy

Capital Aadequacy refers to maintaining sufficient capital as a cushion for various risks or unexpected loss of a bank to absorb a reasonable amount of losses before they become insolvent. Capital for any business enterprise is obviously an indispensable factor, which becomes more crucial for the banks, because banks have to meet its' obligation to the depostors who are the prime supplier of capital for investment in their lending business. So as per regulatory guidelines banks have to maintain a prescribed rate of capital as compared to its weighted risks. This rate is called the capital adequacy ratio (CAR). This is a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. The CAR, also known as capital-to-risk weighted assets ratio (CRAR), is used to protect depositors and promote the stability and efficiency of financial systems around the world.

Risk-weighted assets are used to measure the amount of capital that must be held by a bank based on the ratio of assets weighted by risk. This is to help banks avoid inability to pay liability or settle credit exposures. Risk-weighted assets help to determine the capital requirement needed to cater for the risk of each asset.

CAR seeks to assess the capital available to a bank and how this value influences its ability to pay liabilities and respond to credit exposures. To put it in simple terms, CAR indicates the ratio of a banks' capital to its risk or credit exposures. CAR is important to regulators as it helps to determine the solvency of a bank or its ability to absorb losses given the available capital.

A bank is theoretically insolvent either (a) when its liquidity is so low that it cannot pay its debts, i.e., a negative cash flow cannot be met, or (b) when the market value of its liabilities exceeds that of its assets reduced by the costs of bankruptcy. Because of gains and losses on intangibles assets not shown in a bank’s books, the determination of insolvency is complex.

While assessing CAR, two types of capital are measured: tier-1 capital, which can absorb losses without a bank being required to cease trading, while tier-2 capital, can sustain losses in the event of liquidation.

The importance and implications of CAR

The minimum capital adequacy ratios (CARs) are critical to the banks because:

- It makes sure that banks have enough cushion to absorb reasonable amounts of losses before they become insolvent and consequently lose depositors' funds.
- It also ensures that the efficiency and stability of a nation's financial system by lowering the risk of banks becoming insolvent. Generally, a bank with a high capital adequacy ratio is considered safe and likely to meet its financial obligations.
- During the process of winding-up of a bank, depositors' money are given a higher priority than the bank's capital. Yet the depositors can lose their savings if a bank registers a loss exceeding the amount of capital it possesses. Thus the higher the bank's capital adequacy ratio, the higher the degree of protection of depositor's assets.
- Off-balance sheet items of the bank such as letters of credit and guarantees, commitments and contracts, also have credit risks. Such exposures are converted to their credit equivalent figures and then weighted in a similar fashion to that of on-balance sheet credit exposures. The off-balance sheet and on-balance sheet credit exposures are then lumped together to obtain the total risk-weighted credit exposures.

All things considered, a bank with a high capital adequacy ratio (CAR) is perceived as healthy and in good shape to meet its financial obligations.

Capital and liability composition

Bangladesh Bank gave complete guidelines about constituent of capital as under:

The total regulatory capital will consist of sum of the following categories:

1) Tier 1 Capital (going-concern capital*)

1. a) Common Equity Tier 1
2. b) Additional Tier 1

*Note: Going-concern capital is the capital which can absorb losses without triggering bankruptcy of the bank.

2) Tier 2 Capital (gone-concern capital*)

* Note: Gone-concern capital is the capital which will absorb losses only in a situation of liquidation of the bank.

Common Equity Tier 1 Capital

For the local banks, Common Equity Tier 1 (CET1) capital shall consist of sum of the following items:

1. Paid up capital
2. Non-repayable share premium account
3. Statutory reserve
4. General reserve
5. Retained earnings
6. Dividend equalization reserve
7. Minority interest in subsidiaries*

*Note: Minority Interest (in case of CRAR calculated on a consolidated basis) i.e. common shares issued by consolidated subsidiaries of the bank and held by third parties meeting eligibility criteria,

Less: Regulatory adjustments applicable on CET1 as under:

- Shortfall in provisions against NPLs and Investments
- Remaining deficit on account of revaluation of investments in securities
- Goodwill and all other Intangible Assets
- Deferred tax assets (DTA)
- Defined benefit pension fund assets
- Gain on sale related to securitization transactions
- Investment in own shares
- Reciprocal crossholdings in the Capital of Banking, Financial and Insurance Entities
- Investments in the Capital of Banking, Financial and Insurance Entities

Tier 2 Capital

Tier 2 capital, also called 'gone-concern capital', represents other elements which fall short of some of the characteristics of the core capital but contribute to the overall strength of a bank. For the local banks, Tier 2 capital shall consist of the following items:

1. a) General Provisions*
2. b) Subordinated debt / Instruments issued by the banks that meet the qualifying criteria for Tier 2 capital as specified at Annex 4 of Bangladesh Bank *Guidelines on Risk Based Capital* Adequacy, December 2014
3. c) Minority Interest i.e. Tier 2 issued by consolidated subsidiaries to third parties as specified at Annex 2 of Bangladesh Bank *Guidelines on Risk Based Capital* Adequacy, December 2014

1. Less: Regulatory adjustments applicable on Tier 2 capital as mentioned at paragraph 3.4 of Bangladesh Bank *Guidelines on Risk Based Capital* Adequacy, December 2014.

Liquidity Profile

Liquidity is an FI's ability to meet the cash demand of its customers, especially the depositors and other creditors. As such, the liquidity profile of an FI is a function of its assets and liabilities. Banks in their course of managing all its assets and liabilities face a variety of risks, namely market risk, credit risk, operational risk, reputational risk, liquidity risk etc in their day-to-day operations. Although liquidity related risks are very vital for smooth and efficient functioning of all FIs and thus for survival and stability of financial system of an economy, due attention not being given as given in the case of market risk, operation risk or credit risk.

Traditionally liquidity is defined as the ability of the FIs to fund increases in assets and meet obligations whenever they become due. Yet this definition does not completely capture the probable dimension of liquidity issue, but this dimension is important where there is unexpected utilisation of credit lines, unexpected deposit withdrawals, untimely loan adjustments which can be termed as asset side risk, failed or delayed payments by the boerrowers.

FIs basically function as financial intermediaries and have to collect fund from different groups within the society in order to lend to the other groups. Therefore, they are expected to maintain adequate liquidity to efficiently meet their daily obligations such as meeting depositors' demand or withdrawals, settling commitments and provision of funds when borrowers draw on committed credit facilities. In doing so FIs transform short-term, liquid liabilities into long-term, less or illiquid assets. In providing this function, FIs protect their customers against liquidity problems, but at the same time become exposed to such risks themselves. In an extreme case, such liquidity problems can manifest themselves in runs, even on sound FIs, when customers withdraw their deposits on a massive scale. Furthermore, an individual liquidity problem can quickly spread to the whole banking sector, resulting in a real bank panic. Such a situation can be compared and exemplified with the situation of ICICI Bank of India, which faced almost a run out of mere rumour, but could be handled successfully by their ability and strength of liquidity.

As FIs cannot avoid borrowing money in the form of deposit, nor they can ignore the demand for long term financing, which eventually contribute to the economic growth. Therefore, efficient coordination between cash inflows and outflows, in order to meet the cash flow shortfalls, requires effective risk management system for managing liquidity of the banks.

Most common liquidity risk is the Funding liquidity risk, which arises when an FI is not able to meet the funding obligations to the deopsitos. Such a risk gives rise to systemic liquidity risk, which can be seen as the risk of drainage of liquidity circulating in the whole financial system.

Liquidity risk indicators

The set of indicators banks use is based on a cash-flow analysis through the calculation of liquidity gaps, (cumulative) cash outflows, etc. The most advanced banks use a combination of indicators. European Central Bank has mentioned the most frequently used indicators as follows:

- cash outflows for different maturity buckets, flows that are known as well as can be expected (e.g. on the basis of statistical estimates or scenarios) may be included as well;
- the level of unsecured funding;
- the ratio of liquid assets to total assets;

- the ratio of liquid assets to contingent liabilities;
- the ratio of liquid assets to customers' CASA deposits;
- unused capacity in short-term borrowing;
- large depositor concentration;
- the ratio of term liabilities to illiquid assets;
- intra-group exposures

The responsibility of a bank is to mobilize and manage liquidity in such a way that would minimize mismatches between future cash outflows and inflows. Banks mobilize funds from depositors with surplus funds and lend the same to the borrowers who are in deficit. Banks are bound to honour claim of the depositors on their deposits, while they remain uncertain as to whether the borrowers will repay the loans in due time or will repay at all. This is a common phonomena that the banks deploy short-term deposits to finance long-term portfolio of loans which are nearly illiquid assets. So, to mitigate the degree of uncertainty of mismatches and for a smooth and efficient banking operation, banks are required to have access to sufficient funding in the form of liquidity in order to service their financial obligations as and when they fall due.

Funding liquidity refers to the ability of a financial intermediary to raise cash on demand within a short notice. That is why banks in turn provide funding liquidity to customers so that the depositors can withdraw cash on demand from the bank. This is also ageed that a bank is considered having enough liquidity as long as its cash outflows are less than or equal to the cash inflows and cash in hand held by the bank, which is expressed mathematically as: Liquidity= Outflows ≤ Inflows + Stock of money.

Banks as such must ensure adequate liquidity at all times should constantly assess the maturity profile of liabilities and assets, returns and costs in order to enable them to determine the types and amount of liquidity to be held. For determining the level of potential liquidity needs to be held by banks to meet their day-to-day obligations, a number of suggestions are prescribed:

i. Ensuring availability of adequate ‘cash’ at customers’ outlets to meet withdrawals.

ii. Maintaining sufficient settlement account balance to meet overnight settlement.

iii. Making projection of likelihood of future net withdrawals and cash inflows based on maturing deposits, loan draw downs, customer's transactions and so on.

The nature of banking business is such that banks are vulnerable to sudden and unexpected demand for funds by their customers irrespective of depositos and borrowers. Inability to honour those demands due to liquidity problems may have serious and negative impact on the entire financial system. To avoid this kind of scenario, Basel Committee in 2006 suggested a list of potential sources of funding and maintaining liquidity which banks have to consider in their liquidity management strategy. These funding sources include the following:

1. Deposit growth.
2. Lengthening of maturities of liabilities.
3. New issues of short and long-term debt instruments.
4. Inter-group funds transfer, new capital issues and the sale of subsidiaries lines of business.
5. Asset securitization.
6. Sales of repo of unencumbered, highly liquid assets.
7. Drawing-down committed facilities.
8. Borrowing from the Central Bank's managed lending facilities.

Asset composition of commercial banks

Assets composition of a bank reflects the deployment of sources of funds, main source of which is deposits. The other sources are borrowings from other banks, capital, reserves and surplus. The deposits of commercial banks come mainly from savings, current and term deposits. These deposits constitute 80 per cent of the total sources of funds. Out of the total deposits, term deposits constitute above 50 per cent. Borrowings are normally around 5 per cent of the total liabilities. These sources are deployed by the banks mainly on its financial assets i.e., loans and advances. The investments is another important component of the assets. This is because of pre-emptions like SLR and CRR requirements in the banking sector.

Assets of Banks:

The assets structure of the banks is governed by certain principles, like liquidity, profitability, convertibility and risk assessment. The other factors which influence the assets structure are

nature of money market, economic growth of the country, policies and vision of the governments.

Banks, like other business firms, are profit-making institutions, though public-sector banks are also guided by broader social directives from the the government and the central bank. To earn a profit, a bank must place its funds in earning assets, mainly loans and advances and investments. While lending or investing, a bank must look at the net rate of return obtained and the associated risks of holding such earning assets. Furthermore, since a large part of its liabilities are payable in cash on demand, a bank must also consider the liquidity of its earning assets, that is, how easily it can convert its earning assets into cash at short notice and without loss.

Thus, the twin considerations of profitability and liquidity guide a bank in the selection of its asset portfolio. Banks try to achieve the twin objectives by choosing a diversified and balanced asset portfolio in the light of institutional facilities available to it for converting its earning assets into cash at short notice without incurring any loss. In addition, banks have also to meet various statutory requirements regarding cash reserves, liquid assets, and loans and advances. We describe below various classes of assets banks hold. They will also describe the uses of bank funds.

1. Cash:

Cash, defined broadly, includes cash in hand and balances with other banks including the central bank. Banks hold balances with the central bank as they are required statutorily to do so under the cash reserve requirement. Such balances are called statutory or required reserves commonly known as CRR. Besides, banks also hold voluntarily extra cash to meet the day-to-day drawals by their depositors.

Cash as defined above is not the same thing as cash reserves of banks. The latter includes only cash in hand with banks and their balances with the central bank only. The balances with other banks in whatever account are not counted as cash reserves.

The concept of cash reserves is useful for money-supply analysis and monetary policy, where we need to separate the monetary liabilities of the authorities from the monetary liabilities of banks. Inter-bank balances are not a part of the monetary liabilities of the monetary authority, whereas cash reserves are. These balances are only the liabilities of banks to each other. So, they are not included in cash reserves.

2. Money at Call at Short Notice:

It is money lent to other banks and other financial institutions for a very short period varying from 1 to 14 days. Banks place their surplus cash in such loans to earn some interest without straining much their liquidity. If cash position continues to be comfortable, call loans may be renewed day after day.

3. Investments:

They are investments in securities usually classified under three heads of (a) government securities, (b) other approved securities and (c) other securities. Government securities are the treasury bills, national savings certificates, etc. Other approved securities are securities approved under the provisions of the Banking Companies Act, 1991.

A large part of the investment in government and other approved securities is required statutorily under the SLR requirement of the Bangladesh Bank. Any excess investment in these securities is held because banks can borrow from the BB or others against these securities as collateral or sell them in the market to meet their need for cash. Thus, they are held by banks because they are more liquid than and advance even though the return from them is lower than from loans and advances.

4. Loans, Advances and Bills Discounted-or Purchased:

They are the principal component of bank assets and the main source of income of banks. Collectively, they represent total 'bank credit' are usually made in the form of cash credit and overdrafts, loans like demand or term loans. They may be repayable in single or many installments. Various forms of hank credits are as under:

(a) Cash Credit:

Cash credit is the main form of bank credit. Under cash credit arrangements an acceptable borrower is first sanctioned a credit limit up to which he may borrow from the bank. But the actual utilization of the credit limit is governed by the borrower's 'drawing power,' which is determined by the value of the borrower's current assets, adjusted for margin requirements as applicable to these assets. To cover the credit further against the risk of default, banks impose 'margin requirements' on borrowers, that is, they require borrowers to finance a part of their current assets. In addition, banks ask for collateral securities which are mainly landed property and building.

(b) Overdrafts:

An overdraft, as the name suggests, is an advance given by allowing a customer to overdraw his current account up to agreed limit. The overdraft facility is allowed on only current accounts. The security for an overdraft account may be person shares, debentures, government securities, life insurance policies, or fixed deposits.

(c) Demand Loans:

The loans that become repayable on demand by the bank are treated as Demand Loan. If any contingent or any other liabilities are turned to forced loan (i.e. without any prior approval as regular loan) those too are treated as Demand Loan. Such as: Forced Loan against Imported Merchandise, Payment against Document, Foreign Bill Purchased, and Inland Bill Purchased, etc.

(d) Time Loans:

Contrary to the OD or cash credit Time loans are fixed term one-time loan for a short period which may vary fro few months up to a maximum period of on year. Such loans are given for meeting temporary reqirement of the customers like financing supply orders or executing work order, to purchase raw materials in bulk etc. Time loans may of on revolving basis too, where fresh disbursement is made once the earlier deal is repaid.

(e) Term Loans:

A term loan is a loan with a fixed maturity period of more than one year. Generally this period may vary from 2 years to ten years. Term loans provide medium-or long-term funds to the borrowers. Most such loans are secured loans. Like demand loans, the whole amount of a term loan sanctioned is paid in one lump sum by crediting it to a separate loan account of the borrower.

5 Fixed Assets:

Fixed assets are the tangible assets or property, plant, and equipment that are purchased for long-term use and are not likely to be converted into cash easily. Although banks have general asset just like any other industry, their main asset include loan and advances that may form above 60 per cent of the total asset of the bank. The fixed or physical asset include land and building which banks acquire for their own use, software, vehicles, furniture, office equipments etc. There are other assets like investment in subsidiry(ies), advancde payment of

tax, account receivables, interest income receivables, investment in shares, prepaid expenses, security deposits, advance against rent, stock of stationeries etc.

Risk-weighted assets (RWA)

As the banks possess common and special types of assets, and most of them bear various degrees of risk, those are assessed in terms of risk, which ultimately are used to determine the minimum capital that banks should keep as a reserve to reduce the risk of insolvency. Banks face the risk of loan borrowers defaulting or investments flatlining, and maintaining a minimum amount of capital helps to mitigate the risks.

The different classes of assets held by banks carry different risk weights, and adjusting the assets by their level of risk allows banks to discount lower-risk assets. For example, assets such as debentures carry higher risk weight than government bonds, which are considered low-risk and assigned a 0% risk weighting.

When calculating the RWA of a bank, the assets are first categorized into different classes based on the level of risk and the probability of incurring loss. The banks' loan portfolio, along with other assets such as cash and investments, is measured to determine the bank's overall level of risk. This method is preferred by the Basel Committee because it includes off-balance sheet risks.

Riskier assets, such as unsecured loans, carry a higher risk of default and are, therefore, assigned a higher risk weight than assets such as cash and treasury bills. The higher the amount of risk an asset bears, the higher the capital adequacy ratio and the capital requirements.

How to Assess Asset Risk

When determining the risk attached to a specific asset held by a bank, regulators consider several factors. For example, when the asset being assessed is a commercial loan, the regulator will determine the loan repayment consistency of the borrower and the collateral used as security for the loan.

On the other hand, when assessing a loan used to finance the construction of apartment complex, the assessor will consider the potential revenues from sale (or rental) of the apartments and if their value is sufficient to repay the principal and interest payments. This is assuming that the condos serve as collateral for the loan.

If the asset being considered is a Treasury bill, the assessment will be different from a commercial loan, since a Treasury bill is backed by the government surity, which translates to lower risk to the bank. Regulators require banks holding commercial loans on their balance sheet to maintain a higher amount of capital, whereas banks with Treasury bills and other low-risk investments are required to maintain far less capital.

Problem Assets

An asset is defined as a problem asset when there is reason to believe that all amounts due, including principal and interest, will not be collected in accordance with the contractual terms of the agreement. Such uncertainity of collection must be identified as a problem asset, which is a very crucial function for managing problem asset.
It is inevitable to avoid a problem loan in banking business. No lender intends to make a problem loan, but lending institutions must anticipate and prepare themselves for having some level of problem loans and loan losses. Problem loans are simply a by-product of the business of lending. While there are different strategies for managing and resolving problem loans, the underlying problem is the same – a lack of cash flow to pay their creditors and operating costs. Resolving these problems are expensive and difficult, and managing problem loans effectively is a complex, time-consuming task, frequently requiring specialized knowledge and expertise in, credit analysis, adequate laws, as well as negotiating. The overriding objective in managing problem loans is to improve the lender’s position enough to get repaid in full.

The term "Problem asset" is mentioned in the Basel framework under Principle 18 of Core Principles for Effective Banking Supervision. This term is commonly known as Non-performing Loan (NPL), i. e., NPL is used as a synonym for problem loan or problem asset.

The principle 18 named Problem assets, provisions and reserves enumerate the process of handling problem asset or NPL as under:

The supervisor determines that banks have adequate policies and processes for the early identification and management of problem assets, and the maintenance of adequate provisions and reserves.

Essential criteria

1. Laws, regulations or the supervisor require banks to formulate policies and processes for identifying and managing problem assets. In addition, laws, regulations or the

supervisor require regular review by banks of their problem assets (at an individual level or at a portfolio level for assets with homogenous characteristics) and asset classification, provisioning and write-offs.

2. The supervisor determines the adequacy of a bank's policies and processes for grading and classifying its assets and establishing appropriate and robust provisioning levels. The reviews supporting the supervisor's opinion may be conducted by external experts, with the supervisor reviewing the work of the external experts to determine the adequacy of the bank's policies and processes.
3. The supervisor determines that the bank's system for classification and provisioning takes into account off-balance sheet exposures.
4. The supervisor determines that banks have appropriate policies and processes to ensure that provisions and write-offs are timely and reflect realistic repayment and recovery expectations, taking into account market and macroeconomic conditions.
5. The supervisor determines that banks have appropriate policies and processes, and organizational resources for the early identification of deteriorating assets, for ongoing oversight of problem assets, and for collecting on past due obligations. For portfolios of credit exposures with homogeneous characteristics, the exposures are classified when payments are contractually in arrears for a minimum number of days.
6. The supervisor obtains information on a regular basis, and in relevant detail, or has full access to information concerning the classification of assets and provisioning. The supervisor requires banks to have adequate documentation to support their classification and provisioning levels.
7. The supervisor assesses whether the classification of the assets and the provisioning is adequate for prudential purposes. If asset classifications are inaccurate or provisions are deemed to be inadequate for prudential purposes, the supervisor has the power to require the bank to adjust its classifications of individual assets, increase its levels of provisioning, reserves or capital and, if necessary, impose other remedial measures.
8. The supervisor requires banks to have appropriate mechanisms in place for regularly assessing the value of risk mitigants, including guarantees, credit derivatives and collateral. The valuation of collateral reflects the net realisable value, taking into account prevailing market conditions.

9. Laws, regulations or the supervisor establish criteria for assets to be: (a) identified as a problem asset and (b) reclassified as performing.
10. The supervisor determines that the bank's Board obtains timely and appropriate information on the condition of the bank's asset portfolio, including classification of assets, the level of provisions and reserves and major problem assets.
11. The supervisor requires that valuation, classification and provisioning, at least for significant exposures, are conducted on an individual item basis. Banks need to set an appropriate threshold for the purpose of identifying significant exposures and to regularly review the level of the threshold.
12. The supervisor regularly assesses any trends and concentrations in risk and risk build-up across the banking sector in relation to banks' problem assets and takes into account any observed concentration in the risk mitigation strategies adopted by banks and the potential effect on the efficacy of the mitigant in reducing loss.

Managing problem asset

As per existing regulations the problem assets are to be classified as under:

Special Mention, where a credit has potential weakness that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the credit or the institution's credit positions. Special mention credits are not considered as part of the classified extensions of credit category and do not expose the credit risk holder to sufficient risk to warrant classification.
Substandard, where well identified and defined weakness are evident which could jeopardize repayment, particularly of interest. The credit risk holder will sustain some loss if the deficiencies are not corrected. The credit is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged or guarantee(s) given, if any.
Doubtful, where the situation has deteriorated to such a degree that collection of the facility amount in full is improbable and the licensee expects to sustain a loss.

Bad and Loss, where facilities are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the credit has absolutely no recovery or salvage value, but rather that it is not practical or

desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future.

They emphasize that the banks must carefully manage NPL portfolios, as elevated ratios can severely hurt a financial institution's financial and operational activities. Significantly high NPL levels can wipe out a bank's profits and dividends for years. The capital market's view and uncertainty of the NPL portfolios' performance and value also can severely reduce a bank's market share and ability to raise capital. NPL issues can also result in regulatory capital requirement challenges that are difficult to resolve.

A seperate Special Asset Managent unit or recovery unit is required to be formed, for which the following steps are are required to be taken into consideration:

1. **Collection process**. The key responsibility of the recovery unit is the collection, which includes all processes related to managing loans that are in default. The collection process starts at the time of default and ends with the settlement and asset liquidation. It consists of NPL transfer, management, and asset liquidation.
2. **Structure**. To effectively execute its NPL management and resolution tasks, a recovery unit should be established as a dedicated NPL unit, the structure of which will depend on each bank's context, including its target customers. A typical organizational structure consists of NPL management, asset liquidation, and support functions.
3. **Governance**. The recovery unit may either be centralized or decentralized. In the centralized form, the unit is located in one location (usually the head office) and handles all NPL cases. In the decentralized approach, the unit is located in multiple locations. For banks serving wide geographical areas and dealing with increased legal complexity of cases due to local regulations, a decentralized approach is suitable.

It is crucial that banks decide on the right strategy going forward. The NPL wave will hit all banks with significantly higher volumes of NPLs, impacting them financially and operationally. As managing NPLs is very time sensitive, banks should decide strategically which model of NPL management suits them best, build their capabilities, and ramp up resources well ahead of time. The banks that address their NPL situation first in the industry will have the best chance of getting out of the crisis, recovering more quickly than the other riping the benefit of a low NPL situation.

Setting up a Special Asset Management (SAM) unit

The key responsibility of a SAM unit is collection, which includes all processes related to managing loans that are in default. The collection process consists of three steps:

1. **Step 1**: NPL transfer. According to Basel III guidelines, loans become non-performing after being in default for 90 days, after which the loans should be transferred to a centralized collection unit.
2. **Step 2**: NPL management. NPL management is core to the workout unit and involves activities such as forbearance, cash collection, and asset foreclosure.
3. **Step 3**: Asset liquidation. In the case of asset foreclosure, the bank must liquidate the foreclosed assets as soon as possible to recover lost resources.

To effectively execute its NPL management and resolution tasks, a SAM unit should be established as a dedicated NPL unit that is a permanent part of the banks' organizational structure reporting directly to the CRO and/or CFO and informing the risk management function. The unit must be kept separate from all loan originating units, since potential conflict of interest may exist between loan issuing agents and collection agents

This separation of duties and responsibilities should cover the decision-making process as well as tasks. The SAM unit should determine the most appropriate approach for collecting a loan with the bank's interest in mind.

The SAM unit's organizational structure depends on each bank's context, including its target customers. For instance, banks serving mainly retail customers would require dedicated collection call center as well as a retail and SME arrears management department. In contrast, banks with retail and large corporate customers require dedicated departments for each segment and may need sub-departments to handle special cases (e.g., follow up and negotiation, legal, dedicated to recover written off loans etc.).

Best practices of problem asset management functions

- Implement an independent SAM unit reporting directly to CRO/CFO and informing the risk function.
- Allocate each case to one collection officer, responsible for the case from start to final settlement.
- Assign all cases of a single debtor to one person.

- Review and adjust collection officers’ portfolios based on workload and number.
- Invest in improving collection officers’ negotiation skills and legal knowledge.
- Design a specific collection path for complex cases or cases with high exposure.
- Link collection officers’ compensation package to their individual performance.
- Do not design an aggressive incentive scheme as it might foster unethical activities that may harm the bank’s image.

Module E

Risk Management and Control

Enterprise Risk Management Framework (ERMF)

In simple terms, Enterprise Risk Management ERM is a way to effectively manage risk across the organization through the use of a common risk management framework. This framework can vary widely among organizations but typically involves people, rules, and tools. This means individuals with defined responsibilities use established, repeatable processes, and the appropriate level of technology to mitigate risk.

FIs face a variety of risks in today's market, from liability and vendor management, through auditing, strategic planning, and project management and what not. Traditionally, these risks were being handled individually, creating a siloed environment with little or no cross-firm visibility. The trouble is such that they were missing the bigger picture. That's where "enterprise risk management" can help. As its name implies, enterprise risk management seeks to control the broadest possible set of risks, from purely financial ones such as market and credit risk to nonfinancial threats such as reputation risk.

Enterprise risk management (ERM) is a more comprehensive approach to identifying and managing risk, where financial institutions view the organization as a whole. ERM allows the banks to view risk from a higher level and make connections that might otherwise be missed.

ERM is essential to protecting FIs' profitability and competitiveness as well as aiding in regulatory compliance. To identify and mitigate risks, banks and financial institutions should leverage technology to gain a unified view of the enterprise and improve reporting and decision making for stronger organizational results.

Challenges in adopting enterprise risk Management

ERM is not a simple project to implement like many others and has to overcome multiple challenges. The challenges are like lack of proper support from top management, insufficient resource to meet the cost and train professionals, inadequate knowledge in risk management etc. Wheras integration of market risk management, credit risk management, liquidity risk management and operational risk with other risks is a difficult step which require significant efforts, time and costs to improve.

Financial and banking consultant Seshagiri Rao Vaidyula and Jayaprakash Kavala pointed out few challenges being faced by the banks in this regard.

Improving efficiency	Achieving greater efficiencies in the risk and control processes, improving coordination, unifying and streamlining approaches.
Challenging regulatory environment	Ever changing regulatory demands, high degree of regulatory scrutiny, variation of regulations across jurisdictions, preparing to Operationlize / compliance with Basel II
Keeping pace with business growth and complexity	Rapid business growth, competitive intensity, M&A activity, global expansion, increasing product complexity, increasing customer expectations.
Attracting and retaining talent	Shortage of good talent in competitive markets, especially in specialized areas or emerging geographies
Managing Change	Dealing with people and organizational issues as new processes demand new methods of work
Fear of compliance failures and emerging risks	Fear of compliance failures despite best efforts, due to human error or unanticipated events; identifying and preparing for future risks.

Components of ERM

Financial experts have identified the follwing components of an Enterprise Risk Management Framework for Banks

1. Code of conduct

An organization's core values and code of conduct play a major role in defining risk aptitude. The aptness to know when to take a calculated risk and when to go the extra mile really matters in a dynamic business environment. A sound work culture sets the tone for employees' work standards and the ability to deal with risks.

2. Setting objective and goals

Organizations set a mission and vision to ensure that everyone works towards a common goal. When these objectives are embedded across the enterprise, all the employees become

aware of respective roles and responsibility. These common business act as a guidebook while forming the risk management plan.

3. Identify

The first component is to identify areas of risk. In this step, organizations must review their entire portfolio. Risk identification is first step to risk management in financial institutions. This includes:

- **Stress test scenario:** A complete stress testing to be done to see if risk factors can be handled appropriately. This test should include security threats and ensure the financial institution has enough capital to withstand a financial crisis.
- **Disaster test:** A disaster test to be performed to ensure the organization's stability in times of war or after a natural calamity.
- **Risk modeling:** Risk modeling can help to identify what areas require attention. These scenarios are analyzed piece-by-piece for a precise understanding of the risks and their possible outcomes. These exercises give an accurate idea of how the financial institution would handle situations with extremely negative consequences. Once the risk management team has this data, preemptive controls and protocols can be put in place.
- **Risk ownership:** Risk management will be most effective if there are people who own and manage aspects of the risk. These individuals should have control over their process area(s). If something goes wrong in their department, that person (or team) is responsible for addressing the problem. With accountability in place, mistakes are less likely to turn into bigger issues.
- **Strategic plan:** Understanding the strategic objectives can help in identifying the risks that may impede the achievement and execution of those objectives.

4. Assess

The most desirable way to mitigate loss is a strong risk assessment. Assessment of inherent and residual risk levels can help determine the appropriate steps to reduce these risks within a defined risk appetite. Inherent risk is the risk posed by omission or error and is due to some factor other than a failure of internal control measures. The banks need to review the risk inherent in their products and services, customers and entity base, and geographical locations. Then, risk is to be quantified by calculating and assigning risk scores. Mitigating controls are

controls designed to reduce the bank’s inherent risks to an acceptable level. Residual risk is the risk level or volume that remains after risk controls have reduced inherent risks.

While a bank’s policies, procedures, and controls may mitigate the inherent risks of high-risk customers, products, services, processes, systems, and geographies, the banks' residual risk score remain unchanged.

5. Response

Proper response is needed by putting the appropriate control mechanisms in place to mitigate areas of high risk. Banks that implement a well-structured risk management infrastructure will reduce risk across all of their points. A financial institution’s ability to counter its threats is a major factor for investors. Because of loan losses, a bank without a proper credit risk management system will see lower profits. Here are some strategies to counter this threat:

- **Credit risk policies:** To ensure processes are developed to identify sources of credit risk, assess their magnitude, and mitigate the risks as appropriate, credit risk policy should include approved loan products, approval processes for large loans, credit concentration limits and portfolio segmentation.
- **Origination/acquisition standards for loans:** Credit marketing criteria specifying types of factors to be considered in loan approval and in acquiring credit-sensitive investments, including how sanctioning, collateral appraisal, and investment selection operations are structured.
- **Loan administration and investment portfolio management:** Credit and portfolio management operating procedures to be formulated that specify how to identify and manage problem loans that have caused credit deterioration, including how to assist customers through periods of financial hardship.

6. Checks and balances

Checks and balances are necessary to ensure that the response activities are carried out according to the policies. The company’s ethics and values are as important as risk mitigation measures. If any employee deviates from the defined laws, it will not go unnoticed.

As a part of the framework and risk management strategy, the board of directors must clarify the roles and responsibilities with transparency. This documentation must also include the internal control measures in case of unethical behavior.

7. Information and communication

Communication is the essence of any business. Especially in the digitally advanced world, it holds immense value. In risk management, every employee must be capable of identifying potential risks and communicating it to the managers and stakeholders. This process will ensure that no risk is overlooked.

To do so, companies should invest in training programs to help their employees learn all about risk assessment and identification. Ultimately, that will give an exponential rise in efficiency level.

8. Monitoring

Talking about the risk management framework, we live in the age of market volatility, and the fast-paced, changing trends put forth various types of risks. These changing trends also change the nature of the risks apprehended to encounter. Organizations must, therefore, monitor and review the strategy at regular intervals. This will keep everyone informed on what is working favourably or unfavourably.

Benefits of ERM

Ensures compliance: ERM helps a business to remain compliant and to mitigate loss, support growth, and improve profitability as well. Implementing an ERM throughout an organization has the power to create a cultural shift, placing greater emphasis on proactive risk management and long-term rather than short-term success.

See Risk as Opportunity: ERM looks at risk with a holistic approach, considering how to treat and exploit risk. It helps to think about how to use risk as an opportunity. This can involve increasing competitive positions or taking better advantage of the market. As because ERM helps to identify risks ahead, the managers are also not blindsided by risk events.

Better Decisions: The risk data received from ERM is vital to decision making at management levels. Data includes the status of risk factors, possible new risks, and strategies to combat or work with risk.

Change the Risk Culture: Once process of considering possible risks to business begins, the company becomes more aware of possible future risks. This insight changes the culture of organization’s management, encouraging open discussion about how to mitigate risk.

Key requirements

Implementing ERM program requires dedicated staff and resources. After the 2008 financial crisis such requirements could be made more specific for managing the risks in more effective way. International management consultancy firm McKinsey & Company highlighted few key capabilities for successful implementation of ERM. They mentions the following factors:

1. Risk insight and transparency

Risk transparency should include factors such as market threats, potential operational crises, and legal issues. Ideally, the business should work to be as proactive as possible—instead of looking at current and past risks, it should consider those scenarios that could happen in the future.

2. Risk appetite and strategy

Establishing a certain risk appetite and strategy requires leadership to help create a risk-appetite statement, which is then incorporated into every level of the organization. Next, risk-appetite metrics can help to set the strategy, guiding the business as a whole.

3. Risk-related decisions and processes

Through a successful ERM program, risk becomes embedded in all levels of the organization and guides the company's processes and decisions. This includes mergers and acquisitions, compliance and conduct, and people and performance management.

4. Risk organization and governance

This segment involves questioning and identifying where financial responsibility for risk lies, as well as the structure and staffing of the risk organization. Also, effective ERM requires dedicated resources. Successful organizations will prioritize risk management by creating a chief risk officer position, as well as leaders from each department who will take ownership of risk.

5. Risk culture and performance transformation

Here, the organization should take steps to introduce programs and initiatives that reinforce a strong risk culture. This is where the ERM program lays out specific actions, identifies team members, and sets milestones to help managing risk, as well as monitor it over time.

Weaknesses of ERM

Despite ERM's expanded focus, the worldwide financial crisis was a risk apparently not foreseen by risk managers. Even if some quarters foresaw it, their cautionary note had no impact. Vern Grose, chairman of Omega Systems Group, Inc., indicates five specific shortcomings of ERM—all of which will need to be addressed if ERM is to used effectively, that include:

Lacks the Framework: ERM lacks the framework it recommends. It has no defined process that assures total management of risk. Instead, it often focuses on the sensational and obvious issues ignoring the mundane and routine matters. We may consider Enron and Worldcom – companies that spent millions on risk management services but never addressed the risks of accounting and financial reporting.

Reactive Instead of Proactive: There is no recognized and endorsed ERM process for foreseeing and identifying risks prior to experiencing their associated losses. This deficiency forces ERM to be reactive instead of proactive – waiting for a loss before implementing countermeasures against it. Reactive management is always inefficient and expensive, as because every loss is much more costly than if it had been foreseen and controlled.

Discards the Wisdom of Insiders: Consultants in financial institutions have always claimed that they know how best to manage risk. So the management have fallen victim to engaging experts from outside, who do not know many inside issues of an organization. This keeps them vulnerable to risks which the outsiders do not know about.

Risks can only be managed or reduced by those who work inside the organization – but unfortunately these people are rarely involved in the ERM process even though they have the greatest knowledge and understanding of those risks.

Doesn't Calculate Mitigation Costs: Generally, ERM measures risk in only two dimensions – severity and likelihood. With little doubt, this short-sighted approach almost guarantees that management will not get involved in addressing it. It may become assigned to a list or a group of similar risks or be classified within a zone of interest. But without a mitigation price tag, management will ignore it. Ignoring mitigation cost assures ignored risk.

Fails to Rank Risks: There are never enough resources in any organization to mitigate every identified risk. So allocating resources to manage risk according to their gravity is a prime concern for the management. Investment decision for risk control, prioritazation of risk in order of importance, allocating limited resources for risk control – such diversity in complexity arises as the ERM function do not rank risk. Thus, risk identification itself may even be manipulated to favor or influence resource allocation decisions.

Risk scanning and Emerging Risk

Emerging risk (ER) is a new or unforeseen risk that haven't yet been contemplated. This is a risk that does not exist in the radar, and its potential for harm or loss is not fully known. In other words, emerging risks are risks which may develop or which already exist that are difficult to quantify and may have a detrimental impact on an organization in the future. Identifying, investigating and monitoring emerging risks is a necessity for large organizations. This is a huge challenge; failure to do it can result in fines, losses, and reputational damage. That's why financial institutions need to utilize new technologies to help them improve their emerging risk strategy.

Institute of Risk Management (IRM) has identified characteristics of ER as under:

Ambiguous: The risk itself is difficult to define.

Chaotic: Emerging risks are constantly changing.

Complex: Emerging risks can affect a large number of factors simultaneously.

Time-horizon can change: Emerging risks sometimes seem a long way off, but the time-horizon can change

Uncertain: The lack of knowledge about what an emerging risk will become and how it will play out makes them difficult to consider with certainty.

Uncontrollable: Emerging risks are often external to the organization, and outside direct control, so the need is to adapt and respond, rather than to control.

Volatile: Significant changes in the risk within a short period.

The most appropriate and timely example of this risk can be cited that arose from Covid-19 which was recognised by the experts but could not describe how, which created a chaotic economy and a social environment due to lockdowns, face covering and social distancing.

This was also a unique example of uncertainty, volitility and uncontrollable situation. From Covid -19 experience we understand that ER may arise and evolve quickly, unexpectedly, or both. The ER may even never happen at all. When happens, it may have a massive economic loss potential at a macro level for society and subsequently may impact charities directly or indirectly.

The IRM identifies three categories of emerging risks

1. **A new risk in a known context**: Risks that emerge in the external environment and impact the organization's existing activities. For example, if it is known that regulations under which a bank is operating will change next year.

2. **A known risk in a new context**: The management of a risk may need to change if a new venture is started. For example, a commercial bank is going for an investment banking and brokerage wing.

3. **A new risk in a new context**: Risks not previously considered because the risk is new to the organization.

In fact, ER is difficult to manage as the responsibilities of risk ownership is complex and unclear. So, one probable solution can be to translate the vagueness of an ER into an organizational risk that they are more familiar with, e. g., regulatory, strategic and operational risks. This makes it easier to take action to tackle the risk.

Risk scanning or Horizon scanning

It cannot be ignored or denied that risks are continually changing, either due to changes within or outside an organization. An organization needs to keep surveillance to make sure that they don't fall victim to any adverse change or unanticipated risk. Organizations will try to look into the future to anticipate the potential changes on the horizon and give them as much time as possible to plan and respond to these changes and avert or minimize risk; this is often know as horizon scanning.

Organizations may also attempt to differentiate risks between those which are likely to become longer-term trends, and can create a material shift in the business or industry, against those which are likely to be a more short-term 'event' that may be temporarily disruptive.

The probability of a particular scenario can be driven by a number of factors like, industry dynamics, political and economic indicators and technological changes. The benefit of

considering emerging risk can be seen in case of many industry or product that have been outdated and total collapse with the new innovation. Invention of video CD has almost ruined the business of movie halls, photo film industry faced a serious crisis because they failed to see the significance and advantage of digital photography, and so on.

Horizon Scanning is not trying to predict the future but rather, as the Institute of Risk Management (IRM) gave several definitions of horizon scanning, for instance:

• An organised and formal process of gathering, analysing and disseminating value-added information to support decision making.

• A systematic examination of information to identify potential threats, risks, emerging issues, and opportunities allowing for better preparedness and the incorporation of mitigation and exploitation into the policy-making process.

• Exploration of what the future might look like to understand uncertainties better and to analyse whether the organization is adequately prepared for potential opportunities and threats.

As per IRM horizon scanning is thus a systematic method for:

• spotting potential causes of uncertainty
• ensuring adequate preparation
• exploiting opportunities and
• surviving threats

So, it is not about predicting the future. IRM suggests that it supports the process of building organizational resilience and is one part of of tools which can help to understand and prepare for future risks. The other tools suggested are:

Forecasting: using qualitative and quantitative techniques, including historical data and statistics; individual and collective judgement; and environmental monitoring.

Driver mapping: using an analytical tool such as STEEPLE (societal, technological, economic, environmental, political, legal, ethical) or PESTLE (political, economic, societal, technological and legal) to consider a wide range of potential sources of future risk

Trend analysis: using mathematical techniques on historical data to predict potential trends

Scenario planning: looking at possible future states on the basis of different starting states

Stress testing: testing how the organization copes in the face of a range of potential situations

As such, horizon scanning works as an "alerting and creative activity" to identify early warning signals of emerging issues that they may have never considered before, empowering organizations to take quick and decisive action where necessary.

In horizon scanning methodology, it is seen how strategic issues can change over time. These relate to short term, medium term and long term risks. Short term horizon scanning can be used to monitor companies, competitors or relevant industries, as well as their own brand and employee performance; items that can have an immediate impact on a companies' profitability. Examples of short term risks include:

- Adverse media report
- Identification of supply chain disruption
- Early detection of product defects
- Identification of country risks like political conflict or civil unrest

On the other hand, the impact of medium to long term risks may not be as clear, relying on regulators, policy makers and consultants to look at these issues closely, to explore the possible outcomes and to adapt policy and strategy in anticipation of future need. Often, ER are about unclear or changing framework conditions, such as regulatory developments, technological innovation or consumer trends. Some general long term risks to businesses that have emerged in recent years include:

- Environmental, Social and Corporate Governance
- Regulation of the technology sector
- Artificial Intelligence
- Autonomous vehicles

Emerging Risks, by nature, are varied, difficult to quantify and identify. They can have a detrimental impact on businesses so there is a pressing need to recognize them as early as possible. The concept of Horizon Scanning aims to detect early warning signals of ER in order to prompt organizations to take decisive action when needed.

Risk apetite

The concept of a risk appetite is fairly new and can be a bit confusing. Price Waterhouse Coopers (PwC) attempts to explain risk appetite as "the amount of risk an organization is willing to accept in pursuit of strategic objectives." Risk appetite can also be described as a

bank's *risk capacity*, or the maximum amount of residual risk it will accept after controls and other measures have been put in place. The need arises to establish the risk appetite that will decisively influence the achievement of the objectives defined by the organization. The most widespread definition of risk appetite is defined as the amount and type of risk that an organization is willing to accept or assume.

Benefits of Articulating Risk Appetite

A well-developed risk appetite statement and process can:

- Help a company better manage and understand its risk exposure
- Help management make informed risk-based decisions
- Help management allocate resources and understand risk/benefit trade-offs
- Help improve transparency for investors, stakeholders, regulators and credit rating agencies.

Risk appetites are unique to each and every organization because they are based on specific strategies and attributes that influence organizational behaviors.

Bangladesh Bank in *Risk Management Guidelines for Banks* also implies that risk appetite statement plays an important role in cascading the risk strategy down through the institution. It should include metrics and indicators in relation to specific risk types. The risk-appetite statement should be well-embedded and be consistent with the bank’s capacity to take risk, taking into consideration the capital constraints, and potential profit and loss consequences.

A good practice includes the followings:

- Regular review of risk appetite statement as a formal process;
- Top-down and bottom-up processes to define risk metrics and risk appetite; and,
- Limit systems that are aligned with overall governance so that breaches are quickly flagged and appropriate counter-measures are taken.

The *Risk Management Guidelines for Banks* (2018) formulated by Bangladesh Bank defines Risk appetite as under:

Risk appetite is the level and type of risk a bank is able and willing to assume in its exposures and business activities, given its business objectives and obligations to stakeholders (depositors, creditors, shareholders, borrowers, regulators). Risk appetite is generally expressed through both quantitative and qualitative means and should consider extreme

conditions, events, and outcomes. It should be stated in terms of the potential impact on profitability, capital and liquidity.

As per Bangladesh Bank guidelines the risk appetite focuses mainly on the following five risk management objectives:

- Upholding the highest ethical standards of conduct;
- Preserving the long-term financial resilience of the bank;
- Avoiding losses when investing public money;
- Ensuring compliance with legal and regulatory obligations;
- Maintaining a robust internal control environment and safeguarding operational continuity.

The relevant chapters of the *Risk Management Guidelines for Banks* (2018) are quoted below:

Risk Appetite Framework

The science of developing and adopting a risk appetite framework (RAF) is still evolving at banks all over the world. Some banks have adopted a high-level, brief, and qualitative statement of RAF, while others have made it complex, lengthy, and quantitative. Risk appetite is the cornerstone of a successful risk management framework.

Risk appetite framework should include the following criteria:

- Be reviewed and approved by the board of directors at least annually;
- Be in line with the organization's strategy, objectives and key stakeholders' demands;
- Cover all key risks discussing risk preferences both in terms of risks that are sought
- out and risks that should be minimized;
- Clearly document risks as part of a risk register, including risk-specific definitions, risk owner, how and how often each risk will be measured, assumptions related to each risk, judgment on severity and likelihood, and speed at which risks could manifest;
- Recognize that losses occur and are part of business but include loss tolerances that are reflective of overall business objectives;

- Reflect the human and technological resources needed to measure and manage the bank's risks in a timely fashion.

Developing Risk Appetite Statement

Developing a risk appetite statement is a complex endeavor and is both art and science. The steps in its development include:

- Start with the bank's overall strategic and financial objectives.
- Consider annual reports and financial statements, regulatory requirements, Peerngroup and industry-wise growth, bank's own portfolio growth, trend of NPL, profitability and capital, liquidity position, risk management culture and practices etc.
- Determine the bank's risk profile.
- Set tolerances for exposures and potential losses in consultation with the business line and related departments.
- Get board approval and communicate it throughout the organization.
- In preparing Risk Appetite Statement (RAS), banks are required to set the loan growth target in line with its strategic objectives and mention it in both absolute amount and percentage form. For example, if a bank wants to make 20% loan growth in a particular year to achieve its strategic planning/objective, it should state the percentage of loan growth along with increased amount of loans. In this regard, banks have to mention at least previous three years' real performance along with the current year risk appetite, tolerance and limit. The expected loan growth/amount is also to be distributed in each sector, industry and regional area under the head of Risk Appetite, Risk Tolerance and Risk Limit/Threshold. Risk appetite should be measurable and subject to time consideration for periodic review and must have risk treatments. In case of interim review (if necessary), the revised appetite statement shall have to be approved by the board of directors and submitted to DOS of BB and communicated throughout the organization. However, repeated review of risk appetite statement is discouraged.

Areas of Risk Appetite

Banks shall prepare risk appetite statement covering all regulatory requirements related to risks, components of pillar II under Basel III, strategic planning and all other probable risks

exist in the bank. For example, in setting appetite for liquidity risks they should look into the ratios laid down in the ALM guidelines and related circulars issued by BB. In addition, the banks shall also consider the CRMR report in setting the above limits. Apart from the regulatory requirements, the banks should set risk appetite, tolerance and limit for all the probable areas of risks. Possible areas for setting risk appetite are as follows:

- Overall growth of total loans and advances including off-balance sheet item
- Credit concentration (borrower/sector/geographical area wise)
- Gross and net NPL to total loans
- Cash recovery against classified loans/written off loans
- Amount of loan outstanding with acceptable rated customers (ECA score up to 3) to the amount lies with total rated customers
- Unsecured exposure to total exposure (funded)
- Rescheduled loans to total classified loans
- Written off loans to total classified loans
- Interest waiver as % of NPL
- Impact on Net Interest Income (NII) due to adverse change in interest rate
- Bucket-wise gap under simple sensitivity analysis for interest rate change
- Exchange rate shock to operating income
- Value at Risk (VAR) for securities and FX
- Overdue accepted bills (payable and receivable) to total loans
- Net Open Position limit
- Exchange rate shock to operating income
- Liability concentration (Top-10 deposit suppliers to total deposit)
- Bucket-wise gap under structural Liquidity Profile (SLP)
- Liquidity ratios (at least for regulatory requirements) including Commitment Limit and Wholesale Borrowing Guideline (WBG) Limit
- Loss due to overall operational risk
- Loss due to internal and external fraud
- Operational loss due to employment practice and

workplace safety, clients, products, and business practice, damage to physical assets, business disruption and system failure, execution, delivery and process management

- Expected operational loss as % of operating income
- Operating expenses to operating income
- CRAR including CRAR after combined minor shock
- Credit rating of bank itself
- CAMELS rating
- Core risks rating
- Regulatory ratios

FIs shall set risk limit for regulatory issues in line with the thresholds laid down by BB but they are encouraged to apply their own prudence for determining/fixing the maximum/minimum perimeter for those issues considering their risk-taking capacity, risk management practices etc. For example, bank having trouble with liquidity should follow more stringent/conservative measure and set the limit for AD ratio below the regulatory threshold.

Risk Culture

Risk culture is a term describing the values, beliefs, knowledge, attitudes and understanding about risks and risk taking. Even policies, risk appetite frameworks, governance structures, whistleblower systems and risk management trainings are in place, malpractices and negligence can easily take place if the organizational culture does not support adequate risk taking.

For FIs, risk culture is the their "norms, attitudes, and behavior related to risk awareness, risk-taking, and risk management and controls that shape decision on risks." It influences the decisions of employers and employees during their day-to-day activities, even when they are not consciously analyzing and weighing risks. It also has a bearing on the risks they assume. Basel's Principles for the Sound Management of Operational Risk defines risk culture as "the combined set of individual and corporate values, attitudes, competencies and behavior that determine a firm's commitment to and style of operational risk management."

A strong risk culture is the key to aligning all fronts of a company according to its strategic objectives.

When a FI's customer data is filtered, for example, there is not only a privacy risk, but also a reputational risk. Depending on the course of events, new legal or financial risks could even be triggered in a short time.

Thus, it is important to have a risk culture that allows us to report, escalate and take action on possible damages or take advantage of opportunities. Of course, a risk is not just about danger. It can also provide an opportunity to optimize vulnerable areas and improve company fronts or initiatives.

Experts give the example of risk culture citing the incident of Titanic, that sinking of the Titanic defines what a good risk culture should be and how the weakness thereof could lead to the fall of an entire organization. They argue not the iceberg was solely responsible for the mishap, rather a series of previous events reveal how the lack of a risk culture within the ship caused the disaster. They say that the belief that the ship was indestructible reduced the thoroughness of security and inspection measures. So, the ship sailed with structural problems and at a speed that was unsafe for navigating the high seas. On top of that, the ship's captain had ignored the iceberg alerts on the way. Had there been a proper risk culture in place, the crew members would have a clear assessment of risks, and they would have taken the necessary steps to avoid the collision with the iceberg.

McKinsey in their working paper on risk has citted about several critical elements which are mutually reinforcing for creating a strong risk culture as under:

- A clear and well communicated risk strategy
- High standard of analyrical rigor and information sharing across the organization
- Rapit escalation of threats or concerns to the appropriate authority
- Visible and consistent role-modelling of desired behaviors and standards by senior managers
- Incentive that encourages people to do the right thing and think about the overall health of the whole organization
- Continuous and consrtructive challenging of actions and preconceptions at all levels of the organization

McKinsey identifies ten factors with example and arranged those in four groups which can indicate the reasons for risk culture failure in particular organization. Out of the four factors (1) **Transparancy of risk** contains (a) communication (b) tolerance and (c) level of insight (2) **Acknowledgement of risk** contains (a) confidence (b) challenge and (c) Openness, (3) **Responsiveness to risk** contains (a) level of care and (b) speed of serponse while **Respect for risk** contains (a) cooperation and (b) adhereance to rules.

Each of the risk culture dimension is described in more detail in the following section. Although McKinsey illustrated the factors with examples of failures are due to weak risk culture, it is worth mentioning that the failure events are usually result of more than one cultural factor, not only the weak culture.

Transparency

Poor communication. A culure where warning signs of both internal or external risks are not shared. Example: a global engineering firm where significant project delays routinely surprised senior management, since there was no process to generate insights from data that aggregated minor issues.

Unclear tolerance. A culure where the leadership does not communcate a clear risk appetite or fails to present a coherent approach of strategy. Example: A global logistics firm where cost-cutting decisions were taken without accounting fortheir potential impact on operational risk failure.

Lack of Insight. A cuture where the organization fails to understand the risks it s running of believes that such an understanding is the preserve of risk specialists. Example: a meat

processing company that made a series of bets on corn prices without having the right information to understand and manage their positions

Acknowledgment

Overconfidence. A culture where people believe that their organization is insulated or even immune from risk, because of its superior position or people. Example: an energy trading company whose self-perceived market expertise eventually contributed to its collapse. as it took on too much risk.

No challenge. A culture where individuals do not challenge each others' attitudes, ideas and actions. Example: a leading European bank, where senior managment formed a very tight unit that neither allowed nor invited internal debate and ended up making a series of disastrous strategic and Mergers and acquisitions decisions.

Fear of bad news. A culture where management and employees feel inhibited about passing on bad news or learning from past mistakes. Example: the deadiy outbreak of an antibiotic-resistant bactaria, in a hospital where junior staff were afraid to report early signs of trouble for fear of being blamed or cricized.

Responsiveness

Indifference. A culture which discourages responding to situations or fosters apathy about the outcme, either due to bad faith or incompetence. Example: the retail bank that incurred a large fine after it knowingly allowed unqualified sales staff to sell inappropriate loan guarantee products.

Slow response. A culture where the organization perceives external changes but reacts too slowly or is in denial about innovation or the likely impact of change. Example: the overleveraged hedge fund that collapsed after failing to respond quickly enough to a market shift.

Managing material risk

Material risks are those risks that are recognized by management as having the potential to materially impact the company's business performance. It is a designation that (typically in a particular regulatory context) indicates that a certain risk is of sufficient significance for an organization that it must be managed following certain minimum criteria. To be more precise

it can be said that the risks which can be managed by some measure as against the risks which cannot be avoided nor can be forecasted, such as earthquake risk.

The followings are the matarial risks which can be managed or minimized adopting various measures.

1. **Credit Risk**

   Credit risk refers to the probability of loss due to a borrower's failure to make payments on any type of debt. Credit risk management is the practice of mitigating losses by understanding the adequacy of a bank's capital and loan loss reserves at any given time – a process that has long been a challenge for financial institutions. The global financial crisis – and the credit crunch that followed – put credit risk management into the regulatory spotlight. As a result, regulators began to demand more transparency. They wanted to know that a bank has thorough knowledge of customers and their associated credit risk.

2. **Market Risk**

   Market risk mostly occurs from a bank's activities in capital markets. It is due to the unpredictability of equity markets, commodity prices, interest rates, and credit spreads. Banks are more exposed if they are heavily involved in investing in capital markets or sales and trading. Commodity prices also play a role because a bank might have invested in companies that produce commodities. As the value of the commodity changes, so does the value of the company and the value of the investment. Changes in commodity prices are caused by supply and demand shifts that are often hard to predict. So, to decrease market risk, diversification of investments is important. Other ways banks reduce their investment include hedging their investments with other, inversely related investments.

3. **Liquidity Risk**

   Liquidity risk refers to the ability of a bank to access cash to meet funding obligations. Obligations include allowing customers to take out their deposits. The inability to provide cash in a timely manner to customers can result in a snowball effect. If a bank delays providing cash for a few of their customer for a day, other depositors may rush to take out their deposits as they lose confidence in the bank. This further lowers the bank's ability to

provide funds and leads to a bank run. Short-term liabilities are customer deposits or short-term guaranteed investment contracts (GICs) that the bank needs to pay out to customers. If all or most of a bank's assets are tied up in long-term loans or investments, the bank may face a mismatch in asset-liability duration.

Liquidity risk can be mitigated through conscious financial planning and analysis and by forecasting cash flow regularly, monitoring and optimizing net working capital and managing existing credit facilities.

4. **Interest Rate Risk**

Interest rate risk in bank refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions. When interest rates change, the present value and timing of future cash flows change. In other words, it is the probability of a decline in the value of an asset resulting from unexpected fluctuations in interest rates.

Similar to other types of risks, the interest rate risk can be mitigated. The most common tools for interest rate mitigation include Diversification, Hedging or other types of derivatives like interest rate swap, options, futures etc.

5. **Operational Risk**

Operational risk is the risk of loss due to errors, interruptions, or damages caused by people, systems, or processes. The operational type of risk is low for simple business operations such as retail banking and asset management, and higher for operations such as sales and trading. Losses that occur due to human error include internal fraud or mistakes made during transactions.

With regard to operational risk, several methods may be adopted for mitigating the risk. For example, losses that might arise on account of natural disasters can be insured against. Losses that might arise from business disruptions due to telecommunication or electrical failures can be mitigated by establishing redundant backup facilities. Loss due to internal factors, like employee fraud or product flaws, which may be difficult to identify and insure against, can be mitigated through strong internal auditing procedures.

6. **Information Technology Risk**

Technology risk arises from the use of computer systems in the day-to-day conduct of the bank's operations, reconciliation of books of accounts, and storage and retrieval of information and reports. The risk can occur due to the choice of faulty or unsuitable technology and adoption of untried or obsolete technology.

For banking organization to significantly mitigate the IT risk, an essential prerequisite is to invest in a robust IT infrastructure. While an efficient IT framework will help counter challenges identified in effective IT risk assessments, a capable toolkit will help to prevent security incidents, which has become a real concern for the global financial sector. Research firms the world over are predicting increased IT spending in the financial sector, and the onus is on the individual institutions to allocate substantive funds for IT risk management and data infrastructure. Fencing the data and information in the system is the best way to increse IT security and thus mitigating the risk

7. **Legal Risk**

Legal risk was defined as part of operational risk by the Basel II accord in 2003. It includes the risk of financial or reputational loss resulting from any type of legal issue. This could include a lack of awareness or misunderstanding of the way laws and regulations apply to a business. But companies can take action to reduce this risk. So for example, a corporation may require all its employees to undergo health and safety raining in order to reduce its legal risk from compensation claims.

Legal risk can be reduced largely by appointing exclusive legal experts to review regulatory and litigation risk likely to arise from operation or a product launch. Such a specialized expert can examine the procedure or product and provide a report on potential regulatory violations and lawsuit risks.

The best way to reduce legal risk is to simply be familiar with the law. A legal expert will not always be around to consult, or it may be cost-prohibitive to use their services at times. Law is vast and complicated, but many legal concepts foundational to business are easy to understand. The more one knows about the law, the easier it is to avoid legal risk.

8. **Compliance Risk**

Compliance risk is the current and prospective risk of damage to the organization's business model or objectives, reputation and financial soundness arising from non-adherence with regulatory requirements of the regulators and/or expectations of key stakeholders such as customers, employees and society as a whole.

9. **Reputation Risk**

Reputational risk is the risk that the bank might be exposed to negative comment and opinion due to the contravention of applicable regulatory requirements. This can occur through negative publicity in the news or social media , public sanction by regulators or by word of mouth on the part of staff, competitors, customers and other stakeholders.

10. **Strategic Risk**

Strategic risk refers to the events or decisions that could potentially stop an organization from achieving its goals. It also refers to the danger of an organization's strategic choices being incorrect, or not responding effectively to changing environments.

The following are the examples of events or circumstances that can create strategic risk and derail an organization's strategic goals

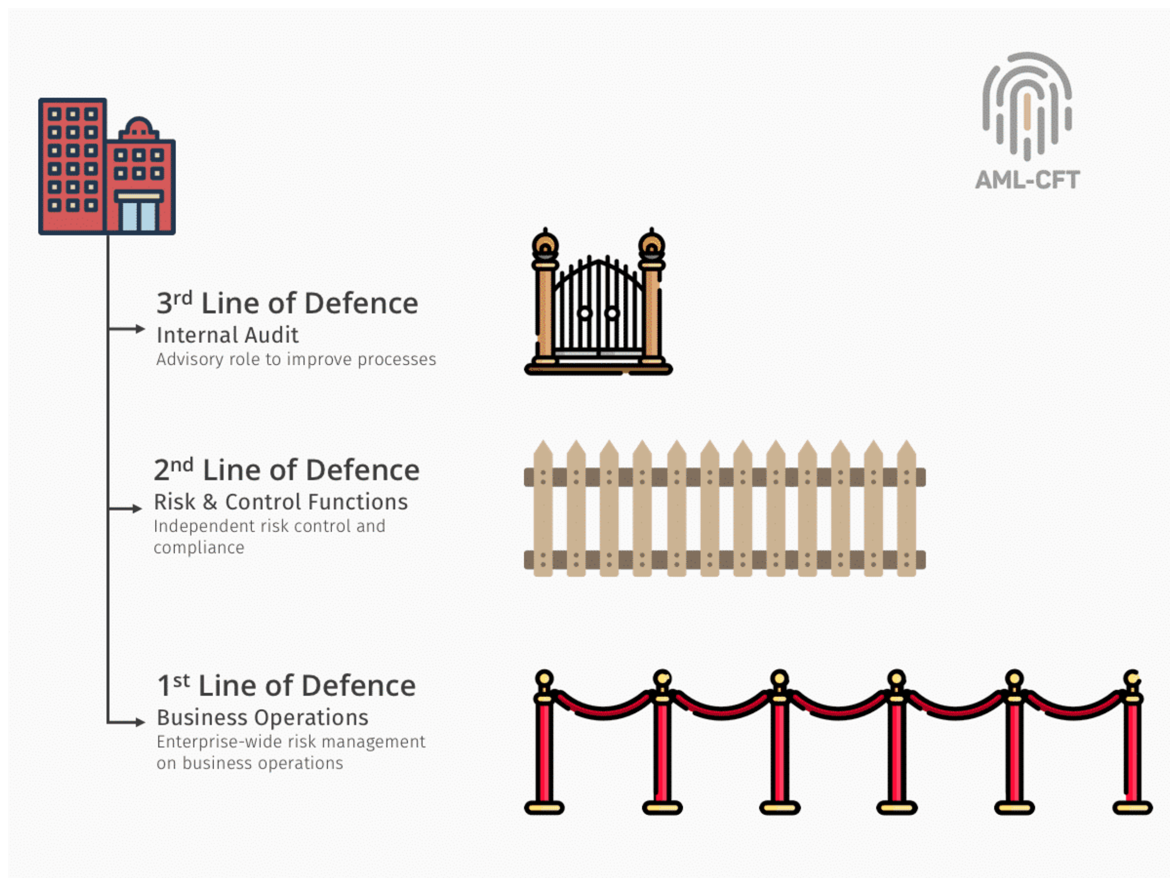
- Strategic decisions that are unclear or poorly made
- Changes in senior management and leadership
- The introduction of new products or services
- Market or industry changes, such as a shift in the needs or expectations of customers
- Problems with suppliers and other stakeholders
- Financial challenges
- Failure to adapt to a changing environment or keep up with competitors

Appropriate implementation of three lines of defense

The Three Lines Model helps organizations to identify structures and processes that suitably and properly assist the achievement of objectives and facilitate strong governance and risk management.

The model is applicable to all organizations and is optimized by:

- Adopting a principles-based approach and adapting the model to suit organizational objectives and circumstances.
- Focusing on the contribution risk management makes to achieving objectives and creating value, as well as to matters of "defense" and protecting value.
- Clearly understanding the roles and responsibilities represented in the model and the relationships among them.
- Implementing measures to ensure activities and objectives are aligned with the prioritized interests of stakeholders.



First line roles

- Leads and directs actions (including managing risk) and application of resources to achieve the objectives of the organization.
- Maintains a continuous dialogue with the governing body, and reports on: planned, actual, and expected outcomes linked to the objectives of the organization; and risk.

- Establishes and maintains appropriate structures and processes for the management of operations and risk (including internal control).
- Ensures compliance with legal, regulatory, and ethical expectations.

As part of the first line of defence, policies and procedures should be clearly specified in writing, and communicated to all personnel. They should contain a clear description for employees of their obligations and instructions as well as guidance on how to keep the activity of the bank in compliance with regulations. There should be internal procedures for detecting and reporting suspicious transactions.

A bank should have adequate policies and processes for screening prospective and existing staff to ensure high ethical and professional standards for hiring staff. Banks should implement ongoing employee training programmes so that bank staff are adequately trained to implement the bank's policies and procedures. Training needs will vary depending on staff functions and job responsibilities and length of service with the bank.

New employees should be required to attend training as soon as possible after being hired, for the same reasons. Refresher training should be provided to ensure that staff are reminded of their obligations and their knowledge and expertise are up to date. The scope and frequency of such training should be tailored in light of the risk factors to which employees are exposed due to their responsibilities and the level and nature of risk present in the bank.

Second line roles

- Provides complementary expertise, support, monitoring, and challenge related to the management of risk, including:
    - The development, implementation, and continuous improvement of risk management practices (including internal control) at a process, systems, and entity level.
    - The achievement of risk management objectives, such as: compliance with laws, regulations, and acceptable ethical behavior; internal control; information and technology security; sustainability; and quality assurance.
- Provides analysis and reports on the adequacy and effectiveness of risk management (including internal control)

The second line of defence has a distinctive role in the model as it provides the fundamental formal management frameworks and instruments, management methods and procedures, as well as systems of training and qualification to raise and promote risk culture and risk awareness in an organization. This centralized management function covers: control systems, management methods, qual- ity management, harmonized actions of individual functions in the first line of defence, information connectivity, and the like.

While ensuring risk management the business interests of the bank should in no way be opposed to the effective discharge of the responsibilities risk management team. Regardless of the size of the bank or its management structure, potential conflicts of interest should be avoided. Therefore, to enable unbiased judgments and facilitate impartial advice to management, the chief of risk unit should, for example, not have business lines responsibilities and should not be entrusted with responsibilities in the context of data protection.

Third Line: Internal Audit

- Maintains primary accountability to the board of directors or the Audit Committee of the Board and independence from the responsibilities of management.
- Communicates independent and objective assurance and advice to management and the Auddit Committee on the adequacy and effectiveness of governance and risk management (including internal control) to support the achievement of organizational objectives and to promote and facilitate continuous improvement.
- Reports impairments to independence and objectivity to the Audit Committee and implements safeguards as required.

By now we understand that Internal audit is the third line of defence, which plays an important role in independently evaluating the risk management and controls, and discharges its responsibility to the audit committee of the board of directors through periodic evaluations of the effectiveness of compliance with policies and procedures of the bank. A bank should establish policies for conducting audits of:

1. the adequacy of the bank’s policies and procedures in addressing identified risks, the effectiveness of bank staff in implementing the bank’s policies and procedures;
2. the effectiveness of compliance oversight and quality control including parameters of criteria for automatic alerts; and

3. the effectiveness of the bank's training of relevant personnel.

The benefits three lines defense model

To implement an effective and efficient model across an organization is not simple or easy task and as such requires vision and constant support from the Board and higher management in terms of direction and resources. If this is ensured the benefits of the model become visible:

- Improved coverage of risks and controls by identifying and refining the people of risks and controls where necessary, and appropriately allocating the ownership and performance of these risks and controls across the lines of defence. Thus, any unintended risks and gaps in controls may be avoided.
- Improved control culture across the organization by enhancing the understanding of risks and controls. Potential conflicts of interest or incompatible responsibilities may be more readily identified and challenged with those risks then either removed or mitigated.
- Improved reporting to the Board and top management through a coordinated approach to provide timely and insightful reporting avoiding potentially duplicate and irrelevant information.

Strength and independent functioning of 2nd line functions and Internal Audit

As seen above, the second line roles can focus on specific objectives of risk management, such as: compliance with laws, regulations, and acceptable ethical behavior; internal control; information and technology security; sustainability; and quality assurance. Alternatively, second line roles may span a broader responsibility for risk management, such as enterprise risk management (ERM). However, responsibility for managing risk remains a part of first line roles and within the scope of management.

But the second line of defense is managerial and is responsible for oversight of the doers. They also develop and implement risk management processes, policies and procedures. The second line needs to be strong and independent because, the first line will be more effective when the second line coordinates their activities. Doers can take pride in owning risk and being accountable, which enhances their ability to lead.

The second line is also in a perfect position to see what's working and what isn't, and they have the authority to make changes like adding controls to reduce risk. As they monitor the first line's activities, the second line can provide input and deliver on the organization's risk management strategy.

Thus, by strengthening the second line of defence – risk management function explores those contents that are of fundamental importance for an efficient risk management. Here it should be kept in mind that the second line of defence is constituted of the basic infrastructure processes of support to the first line of defence and the third line of defence. Processes of the second line of defence, as elaborations of the basic functions, can be presented in the way that is suitable for the analysis of the strengthening impact. Those have been mentioned by The Institute of Internal Auditors in their global document:

- Supporting management policies, defining roles and responsibilities, and setting goals for implementation.
- Providing risk management frameworks.
- Identifying known and emerging issues.
- Identifying shifts in the organization's implicit risk appetite.
- Assisting management in developing processes and controls to manage risks and issues.
- Providing guidance and training on risk management processes. Facilitating and monitoring.
- Implementation of effective risk management practices by operational management.
- Alerting operational management to emerging issues and changing regulatory and risk scenarios.
- Monitoring the adequacy and effectiveness of internal control, accuracy and completeness of reporting, compliance with laws and regulations, and timely remediation of deficiencies

A functionally independent corporate operational risk management function is the second line of defence that, as a rule, complements the activities of business lines` operational risk management. This second line of defence needs to be independent from risk generating

business lines and responsible for the design, maintenance, and ongoing development of operational risk framework within the bank.

Regulatory compliance

The traditional compliance model for the banks was formulated with a different purpose, which was limited to the legal functions. Banks used to make regulations and internal policies as an advisory service with limited focus on actual risk identification and management.

Commonly, the managers create their own device to figure out what specific controls are required to address regulatory requirements, which is a labor-intensive control activity with uncertain effectiveness. Many banks still struggle with the fundamental compliance issues, such as compliance literacy, accountability and risk culture.

Banking industry faces regulatory requirements and compliance challenges like:

- Continuously changing regulations worldwide and thus the compliance function becomes more demanding. Smaller banks with weak compliance culture need to enhance the skill and number of their professionals and to improve their IT tools.
- Basel III requirements on the proper detection, measuring and reporting of risks. Emerging risks are a perpetual threat. Risk functions of the banks need to be changed with innovation and cost-efficiency.
- Surfacing scandals of money laundering, even without the knowledge of the errant banks, although banks always remain liable for any case of money laundering.
- Proper reporting is a demanding requirement for banks and each field of reporting has different reporting standards, which makes the reporting projects more complicated and challenging.
- As banks have to handle large quantities of personal data and information, data storage, management and secrecy remains a significant compliance project.

McKinsey and Company in the paper on the best practices *Model for bank Compliance* has outlined the compliance requirements and issues to be addressed in a comprehensive manner. The literature points out three core priciples to address the challenges:

1. Role of compliance and active ownership of the risk-and-control framework

In most cases banks need to transform the role of their compliance departments from that of an adviser to one that puts more emphasis on active risk management and monitoring. In

practice it means expanding beyond offering advice on statutory rules, regulations, and laws and becoming an active co-owner of risks to provide an independent oversight of the control framework.

Given this evolution, responsibilities of the compliance function are expanding rapidly to include the following:

- Generating practical perspectives on the applicability of laws, rules, and regulations across businesses and processes.
- Creating standards for risk materiality by defining material risk, tolerance levels, and risk appetite.
- Developing and managing a robust risk identification and assessment process and tools.
- Developing and enforcing standards for an effective risk-mediation process like root-cause analysis and performance tracking to ensure addressing the issues.
- Establishing standards for training programs and incentives as per realities of each type of job.
- Ensuring that the front line effectively applies processes and tools that have been developed by compliance
- Performing a regular assessment of the state of the overall compliance program
- Understanding the bank's risk culture and its strengths as well as potential shortcomings

2. Transparency into residual risk exposure and control effectiveness

The traditional practice of second line's engagement with the businessis not sufficient to create a real and comprehensive transparency into material risk exposures and often becomes a merely mechanical exercise.

First, the lack of an objective and clear definition of a "high-risk process" frequently leaves this decision to the discretion of business lines, which can lead to the omission of risks that are critical from a compliance-risk standpoint but deemed less significant from a business standpoint. This approach also suffers from inconsistencies. As an example, an account-opening process may be deemed high risk in some retail units but not in others.

Second, the pursuit of documenting virtually "all risks" and "all controls" implies a significant amount of work and actually limits the first line's ability to go deep on issues that

truly matter, producing lengthy qualitative inventories of risks and controls instead of identifying material risk exposures and analyzing the corresponding process and control breakpoints and root causes.

3. Integration with the overall risk-management governance, regulatory affairs, and issue-management process

Compliance risks are driven by the same underlying factors that drive other banking risks, but their stakes are higher in the case of adverse outcomes. Therefore, it's only fitting that a modern compliance framework needs to be fully integrated with the bank's operational-risk view of the world.

Integrating the management of these risks offers tangible benefits. First, it ensures the enterprise has a truly comprehensive view of its portfolio of risks and visibility into any systemic issues, and that no material risk is left unattended.

Second, it lessens the burden on the business as well as on the control functions. Third, it facilitates a risk-based allocation of enterprise resources and management actions on risk remediation and investment in cross-cutting controls.

The following practical actions can help the FIs firmly integrate compliance into the overall risk-management governance, regulatory affairs, and issue-management process:

- Develop a single integrated inventory of operational and compliance risks
- Develop and centrally maintain standardized risk, process, product, and control taxonomies
- Coordinate risk assessment, remediation, and reporting methodologies and calendars
- Define clear roles and responsibilities between risk and control functions at the individual risk level to ensure there are no gaps or overlaps, particularly in "gray areas" where disciplines converge
- Develop and jointly manage integrated training and communication programs
- Establish clear governance processes and structures with mandates that span across risk and support functions, and that ensure sufficient accountability, ownership, and involvement from all stakeholders, even if issues cut across multiple functions

- Consistently involve and timely align senior compliance stakeholders in determining action plans, target end dates, and prioritization of issues and matters requiring attention
- Establish a formal link and coordination processes with government affairs

Module F
Subsidiary and other business governance

Brokerage

Banks make investment in the capital market, which can be done in two ways, direct and indirect investment. In case of indirect investment banks create a subsidiary and provides capital and loan for investment in capital market. Although there is a continuing conflict between banks and the regulators, mainly the central bank, as they are worried about potential losses to depositors. On the other hand, the banks want reduced regulations to enable them to take greater risks for increasing profit. Of course, the banks take calculated credit risk, but risks in the share market are of a different nature than of selecting to whom the bank lends money. Regulators, however allowed the banks to invest in the capital market in a limited and regulated manner through seperate subsidiary companies. These companies operate as brokerage house for their clients, who need to open seperate account with the.

For doing brokerage business banks have to purchase brokerage license from stock exchanges and to become a member of the exchanges. Brokerage house operates the business activities by following ways.

- Brokerage Service
- Dealer Service. (Stock Dealer)

Brokerage Service: The Company trade shares on behalf of clients in exchange of trade commission as set by BSEC. There are two types of account:

1. Non Margin Account : No loan facility is provided for trading shares.
2. Margin Account : Clients are allowed loan facility for share trading.

Stock Dealer Service: The Company itself can trade shares for its own portfolio to earn capital gain and dividend.

Merchant Banking

Merchant Banker means any person (Organization) who performs all activities related to Fund Management , Portfolio Management, Issue Management , Underwriting and Advisory services on behalf of clients. Merchant Bank acts as a medium between small investors and companies. Bangladesh Securities and Exchange Commission issues license for merchant

Banking operation. The operaton is guided by the Securities and Exchange Commission (Merchant Banker and Portfolio Manager) Rules, 1996 se (2) (1).

In our country, Merchant Banks mainly provide the following services:

1. Issue Management Services.
2. Underwriting Services.
3. Portfolio Management Services
4. Sructured finance

Issue Management Services: Issue management includes preparing prospectus, correspondence with SEC regarding IPO, collecting IPO applications, performing allotment through lottery or other measures, managing placements, listing the Company with DSE/CSE and distributing refund. It also includes arranging Banker to the Issue, arranging / managing of underwriter(s). It enables Issue Management commission for maximum amount of Tk. 20.00 lac per issue.

Underwriting Services: In case of new issue or right issue, Merchant Banks assures that if the issue is under-subscribed, Merchant Bank will purchase the unsubscribed shares at a predetermined price. This service is known as underwriting service. It enables underwriting commission.

Portfolio Management Services: This is the major service area of Merchant Bank in Bangladesh. A portfolio is usually a combination of investment in the Capital Market. The Portfolio Manager acts as the custodian of shares of the clients, provides them information and helps them constricting a portfolio that minimizes risk and maximizes return. Besides these, Merchant Bank provides its clients financing facility against their investment, which is popularly known as margin loan, (margin investment in case of Shariah based Merchant Bank). It enables margin on investment and trade commission and portfolio management fees from the clients. For this service the following accounts are provided:

Bank Discretionary A/C : Bank's Discretionary Investment account is under the direct supervision and operation of portfolio managers. The client only provides fund and shares profit and loss with the portfolio managers.

Investors Discretionary A/C : The investors manage his/her funds/portfolio and instruments. Portfolio managers do not manage or involve with this account. It has two shapes one in Margin Account enjoying investment facilities provided by the

merchant Banker and another one is Non Margin Account sometimes referred as Cash Code involving only own fund of the client.

Structured finance:

Structured finance is a form of financial intermediation in cases of complex financing needs, which cannot be ordinarily solved with conventional financing. This is usually used on a scale too large for an ordinary loan, so syndicated loans are arranged under this sort of financing, where a group of lenders take stake of variuos amount based on their capacity and appetite. Structured finance is typically indicated for borrowers—mostly extensive corporations—who have highly specified needs that a simple loan or another conventional financial instrument will not satisfy.There are many other products of structured financing, like CDO and CBO, though not available in Bangladesh yet.

CBO or collateralized debt obligation (CDO) is a complex structured finance product that is backed by a pool of loans and other assets and sold to institutional investors. This is a particular type of derivative because its value is derived from another underlying asset. These assets become the collateral if the loan defaults.

CBO or collateralized bond obligation (CBO) is a structured product that pools several junk bonds in order to create an investment grade security. Pooling several securities would be otherwise high-risk so diversification is made so that the pooled security become less risky for the investors.

Custodial services

Services provided by a bank custodian are usually the settlement, safekeeping and reporting of customers' marketable securities and cash. A custody relationship is contractual, and the services that are performed for a customer differs. Banks render custody services to a variety of customers, including mutual funds and investment managers, bank fiduciary, retirement plans, and agency accounts, bank commercial security accounts, insurance companies, corporation, endowments and foundations, and private banking clients.

In Bangladesh the true custodial services are not available in the banks excepting locker service. The stock or securities custodial services are provided by an organization named Central Depository Bangladesh Ltd, owned by the banks, FIs, stock exchanges etc., which performs the custodial service only share of the investors.

Offshore Banking Unit (OBU)

Typically, an offshore banking unit (OBU) of a bank is located in another geographical location outside the territory. The modern day OBUs however, can be located within the country, even within the same premises of the mother bank, but they are not allowed to accept domestic deposits or make loans in local currency.

Generally, a commercial bank can have a domestic banking unit and also an offshore banking unit. The domestic banking unit provides banking services to the residents of the country where it is set up, while the offshore banking unit often provides services to residents or the non-residents in foreign currency.

The offshore banking unit does not generally compete with domestic banks already established in the area. Instead, it allows healthy competition to exist between financial institutions. OBUs also operate with lesser cost due to low overhead expenses and government incentives, thus they can provide competetive rates of interest.

As per Bangladesh Bank policy for Offshore Banking Operation of the Banks (BRPD Circular No: 0225 February 2019) there is no restriction on the physical location of the OBUs. They may be located either in the Export Processing Zones/Private Export Processing Zone/Economic Zones, or any other convenient location in Bangladesh. With prior approval from Bangladesh Bank, existing branches of banks may also be allowed to operate offshore banking through separate desk. Authorization of Bangladesh Export Processing Zones Authority (BEPZA)/ Bangladesh Private Export Processing Zones Authority (PEPZA)/ Bangladesh Economic Zones Authority (BEZA)/other similar designated authority, if intended to locate the OBU therein, is a prerequisite before approaching to Bangladesh Bank.

The banks willing to operate OBU must have well-established correspondent relationship with reputed banks/financial institutions abroad and links with important international financial centers. Operation/transactions of OBU can be done with

(i) enterprises in EPZs, PEPZs, EZs and Hi-tech Parks,

(ii) fully foreign-owned enterprises in EPZs, PEPZs, EZs and Hi-tech Parks ony by accepting deposits, making short term loans/advances and investments, discounting bills, negotiating bills, issuing letter of credit and guarantee. However, prior permission from the Foreign Exchange Investment Department of Bangladesh Bank is required in accordance with the

instructions/circulars issued from time to time before making any medium and long term financing facility to the said enterprises.

(iii) enterprises other than fully foreign-owned with prior permission from the Foreign Exchange Investment Department of Bangladesh Bank,

(iv) juristic persons not resident in Bangladesh provided that the full amount of loan/advance is covered by (a) guarantee/letter of credit from a licensed bank abroad with acceptable credit rating, and/or (b) foreign exchange brought in from abroad and deposited in a bank in Bangladesh,

(v) natural persons not resident in Bangladesh including Bangladeshi nationals working abroad (NRBs) by nothing other than accepting deposits,

(vi) persons residents in Bangladesh by discounting accepted bills of ADs in Bangladesh against import L/Cs opened on deferred/usance basis applying due diligence and arrange payment to overseas suppliers.

- Banks are however prohibited from accepting deposit or loan which is repayable on demand by cheque, draft, pay order or any other instrument drawn by depositor on the OBU.
- Source of funds for OBUs shall be the deposits or borrowings received from foreign sources. Banks, however, may also use funds mobilized from other sources of domestic banking operation with a limit not exceeding 20% of its total regulatory capital.
- OBUs may place funds for transactions using the Nostro Account of the domestic banking operation, for emittance of money to any overseas destinations other than for the operation/transactions not athorized by Bangladesh Bank and granting credit facilities to its ‘Bank Related Persons’ as defined in section Bank-Company Act, 1991 not exceeding the quota prescribed by Bangladesh Bank from time to time even if any of them are NRBs.
- Bank shall maintain separate accounts relating to their offshore banking business for assessing financial performance and other purposes. But offshore banking operation shall be included in equivalent Bangladeshi Taka (BDT) denomination while preparing solo basis financial statements of the bank treating it as a business line.

- The records of exchange position in foreign currencies of a bank shall include exposures of the offshore banking operation, if any. Banks shall maintain their overall exposures in foreign currencies (overall exchange position) within the 'Open position limit' at the end of the day as stated therein.

Islamic Windows

By definition Islamic Banking window means branch or office of a conventional bank that operates under shariah law to handle Islamic finance. A separately incorporated Islamic subsidiary of a conventional bank is not treated as a window but as a full-fledged Islamic bank. An Islamic window is consolidated into the financial accounts of its parent bank, but separate information on the Islamic financial activity is required. Although windows are consolidated into their parent, there are multiple reasons why separate accounts must be prepared and reported for Islamic windows. For example, Shariah rules restrict financing to Shariah-compliant activities only and forbid any kinds of conventional banking activities like holding interest-bearing acounts, Shariah-compliant funds must not be intermixed with conventional bank funds, and risk and profit sharing between the bank and depositor/ investors requires detailed calculations of gains and losses. Moreover, there are rules for the types of liquidity support the parent bank can offer its windows, and to prevent Shariah-compliant funding of windows being diverted to the parent.

As per prudential regulations, Islamic windows and their parents are likely to have different funding and financing patterns, while regulatory arbitrage between the parent and the window must be avoided.

The Islamic window of a conventional banking branch needs to have separate counter for the shariah compliant clients and where possible should have separate entrance.

From accounting perspectives, standard accounting and statistical rules can misrepresent the underlying economic flows and values of the Islamic financial activity and could provide distorted views of the financial condition of the consolidated parent bank.

MFS

Mobile Financial Services (MFS) is a technique of delivering monetary services that combines banking with mobile wireless networks, enabling customers to conduct banking and other financial transactions using their cell-phones. Accounts can be operated by users by

Unstructured Supplementary Service Data, SMS, or particular apps on the smartphone. Agents approved by the bank typically cherishes mobile financial services, allowing account holders to transact outside of bank locations in the place of individual agents. This includes both transactional and non-transactional services, such as viewing financial information on a user's mobile phone.

Mobile financial services include both mobile banking and mobile payments.

Mobile banking:

The use of a mobile phone to access banking services and execute financial transactions. This covers both transactional and non-transactional services, such as viewing financial information on a bank customer's mobile phone.

The term 'mobile banking' is often used to refer only to customers with bank accounts. Mobile banking is a type of electronic banking, or e-banking, which includes a broad array of electronic banking instruments and channels like the internet, POS terminals, and ATMs.

Mobile money:

A mobile-based transactional service that can be transferred electronically using mobile networks. A mobile money issuer may, depending on local law and the business model, be an MNO or a third party such as a bank. Often used synonymously with 'mobile financial services'.

Bangladesh Bank guidelines.

Bangladesh Bank vide PSD Circular No: 04 dated 15 February, 2022 has given a detailed guidelines on MFS, salient features of which are innumerated below:

Mobile Financial Services (MFS) refers to E-money services provided against a particular mobile/cell phone number of a client (termed as Mobile Account), where the record of funds is stored on the electronic general ledger. These services can be draw-down through specific payment instructions to be issued from the bearer‟s mobile phone or through alternative digital process or device by ensuring authenticity of the transaction.

Operational Account: Account maintained by MFS providers with scheduled commercial banks for operational purposes other than custody/settlement purpose.

Oversight: The activities carried out by BB to monitor and analyze the key indicators of MFS as part of the national payment systems, assessing them against payment systems objectives and where necessary, inducing change to promote safety and efficiency. Parent Bank/FI/Government Entity: One single bank/FI/Government Entity that holds

at least 51% of the equity share capital along with controlling voting rights in the board of directors of the MFS providing subsidiary.

Products of MFS

BB permits Bank/FI/ Government Entity-led MFS providers as PSP to deliver the following broad categories of payment services in Bangladesh:

I. 'Cash-in' to and 'Cash-out' from MFS accounts through agent locations, bank branches, ATM, Cards, linked bank accounts and other methods approved by BB;

II. Person to Business payments like utility bill payments, educational institutional fees payment, merchant payments, mobile top up, deposits into savings accounts/schemes with banks/non-bank financial institutions (NBFIs), loan repayments to banks/non-bank financial institutions (NBFIs)/non-governmental organizations-microfinance institutions (NGO-MFIs), insurance premium payments to insurance companies and so forth;

III. Business to Person payments like salary disbursements, dividend/refund warrant/ discount payments etc.

IV. Person to Person payments such as one MFS personal account to another MFS personal account with the same MFS provider or another MFS provider as well as the payments from one MFS account to a bank account and vice versa;

V. Business to Business payments like vendor payments, supply chain management payments etc.

VI. Online and e-commerce payments;

VII. Government to Person payments such as pension payments, old age allowances, freedom-fighter allowances, subsidy payments to farmers and so forth;

VIII. Person to Government payments such as tax, fee, levy payments, toll charge, fine etc.

IX. Disbursement of inward foreign remittances.

X. Loan disbursements to borrowers, vendor payments etc.

XI. Other payments approved by the Bangladesh Bank.

Permissible model for MFS providers

MFS providers in Bangladesh will be led by scheduled commercial banks or financial institutions licensed by Bangladesh Bank or Government Entity. To provide MFS in Bangladesh, scheduled commercial banks that are already in MFS operation are permitted to

continue with the existing license or may form a subsidiary. In case of new applicants, scheduled commercial bank(s) or financial institution(s) or Government Entity shall have to form a subsidiary. The scheduled bank(s)/FI(s)/Government Entity interested to form a subsidiary, for the purpose of providing MFS, shall focus entirely on providing mobile financial services. In case of a subsidiary following models are permitted:

I. Subject to the provision of their concerned law/Act, one single bank/FI/Government Entity, known as the parent bank/FI/ GovernmentEntity should have at least 51% of the equity of MFS providing subsidiary. Parent bank/FI/Government Entity will also have majority in Board of Directors along with controlling share.

II. Subject to the provision of their concerned law/Act, parentbank/FI/Government Entity may conduct the operation of subsidiary aloneor may take equity partners from the following business entities:

    (a) Bank(s), financial institution(s) and Government Entity;

    (b) NGOs, investment and fintech companies (local and foreign incorporated) who have experience of working in financial market except Mobile Network Operators (MNOs).

III. MFS provider will act as the primary driver of the products and services, manage customer relationships and distribution channels and mitigate associated risks

IV. However, any entity whether it is a bank/FI/Government Entity or a non bank entity, can hold equity in only one MFS providing subsidiary.

Other conditions:

- The minimum paid-up capital requirement of a subsidiary model-based MFS provider is Taka Forty five Crore, which can't be less than this amount at any point of its operation.
- A further cushion of capital reserve equal to the amount of paid up capital will have to be built up from retained earnings, at a rate not less than ten percent (10%) of annual after tax profits, to mitigate risks.
- Loss incurring MFS providers must be required to inject additional capital to maintain the minimum paid up capital requirement of Taka forty five crore.

- However, in any case, parent bank/FI/Government entity has to maintain at least 51% of the equity capital.
- Bangladesh Bank may determine additional capital requirement for an existing or new MFSP depending on the scale of its operation and risk. If so, the MFSP must be required to maintain the capital in its business. Failure to maintain required capital will be subject to penalty imposed by Bangladesh Bank as it deems fit or cancellation of license.

Agent Banking

Agent banking is a way of providing limited-scale, formal banking service to the doorsteps of the underserved population. For banks, it works as a substitute for branch expansion in rural areas. Therefore, it bridges the gap between the bank and the unbanked people of Bangladesh. It works on behalf of a full-fledged commercial bank. Banks serve people by appointing agents under a valid agency agreement, rather than a teller/cashier.

The number of banks in Bangladesh is very high compared to the size of the market, but the reach of banking services to the rural areas is very insignificant. As per Bangladesh bank regulations if a private bank wants to open a branch in the urban areas, they need to open two branches in the rural areas. High overhead costs, maintenance, and operational cost of a new branch is also important factor that made banks reluctant to open new branches. That’s why many of the banks do not have branches even at the district level. As a result, a large portion of the population from rural areas remained unbanked and out of the scope of financial inclusion. This has given birth to the idea of agent banking, where banks may appoint agents in the remote areas to give banking service to the people who do not have access to a bank branch far away from their respective localities.

Brazil is considered the pioneer of agent banking in the world. Other developing countries including Columbia, Peru, Malaysia, Kenya, India, Pakistan, and the Philippines brought a revolution in the financial system through agent banking. After the launch of Bangladesh’s two leading MFS operators, ‘Rocket’ and ‘bKash’, in 2011, many people started to be included in financial services. But a lot of people still remained unserved by formal banking services. To serve that unbanked population, Bangladesh Bank (BB) issued an initial guideline for agent banking in 2013.

The saliant features of agent banking guidelines are quoted below:

A. The following services will be covered under Agent Banking:

I. Collection of small value cash deposits and cash withdrawals (ceiling should be determined by BB from time to time);
II. Inward foreign remittance disbursement;
III. Facilitating small value loan disbursement and recovery of loans, installments;
IV. Facilitating utility bill payment ;
V. Cash payment under social safety net programme of the Government ;
VI. Facilitating fund transfer(ceiling should be determined by BB from time to time);
VII. Balance inquiry;
VIII. Collection and processing of forms/documents in relation to account opening, loan application, credit and debit card application from public;,
IX. Post sanction monitoring of loans and advances and follow up of loan recovery.
X. Receiving of clearing cheque.
XI. Other functions like collection of insurance premium including micro- insurance etc

B. Agents are not allowed to provide the following services on behalf of the banks:

I. Giving final approval of opening of bank accounts and issuance of bank cards/ cheques;
II. Dealing with loan/ financial appraisal
III. Encashment of cheques and
IV. Dealing in Foreign currency

Eligible Entities

The Banks may engage the following persons/ entities as their Agent:

I. NGO-MFI’s regulated by Micro credit Regulatory Authority of Bangladesh;
II. Other registered NGOs;
III. Cooperative Societies formed and controlled/ supervised under Cooperative Society Act,2001;
IV. Post Offices;
V. Courier and Mailing Service Companies registered under Ministry of Posts &Telecommunications ;
VI. Companies registered under ‘The Companies Act, 1994’;

VII. Agents of Mobile Network Operators;

VIII. Offices of rural and urban local Government institutions;

IX. Union Information and Service Centre (UISC);

X. Educated Individuals capable to handle IT based financial services, agents of insurance companies, owners of pharmacies, chain shops and petrol pumps/ gas stations.

Agent Banking Model

I. An agent can act as agent of more than one bank at a time but at the customer end point a retail outlet or sub agent of an agent shall represent and offer banking services of only for a single bank. The written agreement between bank and the agent should be carefully defined and legally vetted. The agreement should also contain clauses related to confidentiality/ safety/ soundness and accuracy of all the transactions as well. Full financial disclosure, transparency and accountability of the agent must be ensured.

II. The bank shall assign one of its branches/offices to be responsible for the agent operating in the designated area of the branch.

III. The agents are to be equipped with IT device like point of sale (POS) with biometric features capturing and reading facilities, card reader, mobile phone, barcode scanner to scan bills for bill payment transactions, Personal Identification Number (PIN) pads and may have Personal Computers (PCs) that are to be connected with their bank's server using a personal dialup or other data connections. Clients may use magnetic stripe bank card or mobile phone to access their bank account.

IV. Identification of customers shall be done through a PIN/ biometrics.

V. In the customer end the transaction should be operating through ICT devices that are continuously and uninterruptedly integrated to the systems developed by banks. The figures of the transactions must be reflected in ‘Core Banking Solution’ (CBS) of the bank. The transactions should be executed on real time basis. No transactions can be performed in case of communication failure. At the end point the customer will get instant confirmation of their transaction through visual basis (screen based like SMS) and paper based (debit or credit slip) also.The bank shall brand agent banking

business in such a clear manner so that the customer can realize that the agent is providing services on behalf of the bank.

VI. The agent of the concerned bank should deposit a fixed amount of money or should have a credit limit with the bank and upto that level the agent can make transactions with the clients. If any transaction is tried beyond that level, system will automatically stop the transaction.

Agent Selection Criteria

Banks willing to launch Agent Banking Business shall formulate an agent banking policy addressing the following issues:

i) Policies related to agent selection, management, monitoring, operations, compliance, conduct and service quality;

ii) Customer protection measures, including awareness and education strategies;

iii) Infrastructure to support agent banking including system and technology requirements;

iv) Controls and monitoring to ensure compliance with relevant legislation and regulatory requirements;

v) Business Continuity Plan (BCP) and contingency arrangements to ensure continuity of agent banking services in the event of disruption. The policy should be approved by the Board of Directors under which it can appoint agents. The banks should apply due diligence to select and appoint agents.

Issues to be taken into consideration for selecting agents:

1. Competence to implement and support the proposed activities;
2. Financial soundness and cash handling capability;
3. Ability to meet commitments under adverse conditions;
4. Business reputation;
5. Ability to offer technology based financial services;
6. Security and internal control, audit coverage, reporting and monitoring capacity .
7. Loan defaulter or the convicted person can not apply for agencyship.

Customer Protection

I. The banks shall offer products and services approved by their Board keeping conformity with the guidelines. The agents should not introduce any financial product or service at their discretion.

II. There should be clear identification/logo and name of the bank with contact address/telephone number displayed in a visible manner on the premises of the retail agents/ agent's service premises.

III. The bank shall take necessary steps to ensure that the agents/retail agents/sub agents are known to the public in a specific area. The local branch manager may introduce the agent/retail agent or sub agent to the public, their activities and limitations in a clear manner.

IV. The fees/charges for offering the services shall be published in the form of a brochure and be available in the outlets of the agents/ retailers or sub agents for client's use and information.

V. The bank shall take necessary steps for creating awareness among the customers (in local language) on agent banking which may contain the rights of the customers and safety measures to make transactions with agents.

VI. The bank shall have a business continuity plan to ensure uninterrupted services to the customers in case of failure or termination of agents.

VII. When a contract between bank and agent is terminated, bank shall issue a notice of the termination to be published within the locality where the agent was operating its business.

VIII. If any agent works on behalf of more than one bank, it shall ensure that there are no amalgamations/overlapping/intermixing in the database of customers of different banks.

IX. Customers may lodge complaints regarding agent banking to Customers' Interests Protection Centre (CIPC) of Bangladesh Bank.

Module G
Stakeholder Governance

Relationship with Regulators

Each business, no matter what the industry, must decide what strategy it is going to pursue with regulators. The strategy should be of constructive engagement with the regulator. A common tendency is most of the cases are found to avoid even opposing the regulator. But the strategies of avoidance and opposition are misguided while constructive engagement is the only viable choice for a business seeking an effective relationship with its regulator.

Norm Champ of Harvard Law School who is the former Director of the Division of Investment Management at the U.S. Securities & Exchange Commission suggests that

depending on how regulated an industry is, each firm must have more or less contact with its regulators. He proposes that the relationships with regulators should in four categories:

1. relationships in ordinary periods where no proposed regulation is being considered and no examination is underway,
2. relationships when a rule is proposed or likely to be proposed by the regulator;
3. relationships when the company is being examined by the regulator, and
4. relationships when the regulator is investigating the firm or individuals associated with the firm. It is critical for the success of a business and the success of the regulator that interaction with the regulator in a constructive way in each of these circumstances.

Champ thinks that there are wrongdoers in every industry who do not devote any time to build and keep relationships with regulators because they are actively evading regulation and enforcement. But that is a limited group in any industry. The vast majority of people are trying to do the right things and meet the regulations that apply to their industry. He argues that engaging often and well with the regulators is the best path to complying with regulatory burdens while running a profitable business.

Champ suggests there are four phases of desired relationship with regulators: (a) when things are quiet, (b) when industry wide regulatory change is possible or proposed, (c)when the firm is being examined and (d) when the firm has drawn the attention of civil or criminal authorities.

When Things are Quiet

The most important time to build a relationship with the regulators is when there is no current issues with them. For everyone in this technology fueled age, we all feel like they are in fact no quiet times because it feels like there's always too much work to do and not enough people to do it. But the best time to develop relationship with the regulator is when the firm is not engaged with the regulators about a rule making, examination or an investigation is going on.

During a Rulemaking

When the regulators turn to an action like a proposed rule making that will impact the industry, there comes another opportunity to build an effective relationship with the regulators. If the firm is already engaged with the regulators and communicating regularly, it will have a distinct advantage in engaging on a rulemaking. If not already engaged with the regulators by that time, it must be done.

During an Examination

If a firm is subject to an inspection by the regulators, another opportunity comes to build relationship with the regulators. An inspection can be a source of concern that examiners may find something that might have been overlooked. Nonetheless, an examination involves a sustained interaction with the regulator. In that examination an opportunity comes to present the firm in the best light and to address any questions the examiners may have.

During an Investigation

If for some reason a firm comes under investigation from the regulators, it should not be presumed that necessity to maintain a relationship with them is gone. We should remember that not all investigations end with charges against the firm involved. If an organization comes under investigation, it is recommended that a spirit of cooperation should be maintained and scope of giving convincing explanations of the facts circumstances that invited the investigation.

From the above maintenance of relationship with the regulators can be strengthened in the following way:

- Regular meetings
- By creating workgroups to keep rapport with Bangadesh Bank on regulatory guidelines, new legislations, laws and other matters

- Written communication
- Proper submission of regulatory returns

Local Government Agencies

Although banks are regulated primarily by Bangladesh Bank, they need to maintain relationship with BSEC, Ministry of Finance, Ministry of Commerce, Labour Directorate, RJSC etc. As all the banks are geographically scattered all over the country, the banks and its' branches must also maintain a cordial relationship with the local government agencies, which may start from the Union Parishad up to district administration, police administration and such. Maintenance of such relationship not only help for various issue, it can resolve the governance issues too.

Relationship with Sharholders

Relationship with the shareholders is a cornerstone for the life of a bank. Each bank's objective is to create and distribute value to shareholders in a sustainable manner, with attention to the expectations of institutional and private parties, while always guaranteeing the utmost transparency and correctness in the management of relationships.

Without open and transparent communication, shareholders have no way of knowing if a bank is fulfilling the promises it's management made to them when they first invested in the company. Keeping the lines of communication open is an important part of honoring shareholders' commitment to the company and vision, and it cements the relationships that will help to sustain growth. Many executives find themselves caught up in a swirl of planning and activity surrounding production, development, marketing, hiring, and other facets of building a business. But adding shareholder communications to this list of duties helps pave the way to a successful future.

The Value of Communicating with Shareholders

Keeping the shareholders in the loop as in key issues is invaluable to grow. Strengthening this bond creates tangible and intangible benefits that include stronger relationships, the ability to attract more funding and opportunities to network with people in positions of influence. The following are among the most important benefits a bank or company can reap from keeping open lines of communication with their shareholders.

Using Communication to Boost Shareholder Trust

Transparency reduces risk. When communications with the shareholders are frequent, honest, and clear, they feel confident that they aren't going to be caught by surprise by unexpected bad news. Effective communication regarding the business strategies and results helps shareholders understand the value of their investment in a company. If they are not communicated properly, they may consider that their ROI isn't worth the perceived risk.

Without frequent communication, the shareholders don't have many ways to see what is going on in the company. They can question the directors or they can take activist positions, including going to the press, to make their views known. By opening and maintaining the lines of communication, the management can stave off unpleasant situations, since the shareholders have a venue for venting out their thoughts.

The 6 Principles of Shareholder Communication

When the management communicate clearly with the shareholders, it help direct their focus. Regular disclosures and communication keep shareholders from obsessing about the short term, questioning whether the management know what they are doing, and raising concerns about oversight. The following guidelines and principles should govern the shareholder communications.

1. Focus on Business Strategy

The shareholders want to feel confident that the management have a plan in place for whatever happens. When the business strategy is spelt out in shareholder communications, they can relax with their investment. They know their present and investments are safe because the bank has strategic plans to meet business goals and keep growing.

2. Provide Timely and Relevant Updates

Information the shareholders need to know should be sent timely and relevantly. If too many information or other communications are sent, they may come to view those as irrelevant. So only the relevant information to be communicated, such as:

- Comprehensive analyses regarding performance
- Business strategies
- Company's position in relation to your competitors
- Company's outlook for the next quarter or year
- Trends of the industry

3. Plan on Full Disclosure

It's tempting to offer the shareholders the most colourful outlooks of the company, but this strategy can backfire if the hopes are revealed to be wishful thinking. It is difficult to share negative news, but it must be acknowledged, if happens so. Management should take the opportunity to show how the required plan is formulated by the management to overcome the moments of adversity and get the company back on a positive path. The shareholders are likely to respond with renewed trust when they see commitment to transparency.

4. Updates of Company Performance

One way to make sure that the shareholder communications remain relevant is to focus on company and performance religiously. Management needs to demonstrate to the shareholders how business strategies and goals are resulting up to their aspiration, and to explain how the management expects to hold the company accountable for reaching goals. Providing measurable realistic and clear data is of paramount importance. Shareholder communications should regularly include:

- Comprehensive, clear performance summaries of the most recent period
- News of any new product launches or existing product enhancements
- Updates on any key personnel changes, including those planned for the immediate future
- Discussion of all milestones achieved and of pending milestones
- Any action items in which shareholder input or assistance is required
- Runway information and other pertinent financials
- KPIs to demonstrate how the company is meeting it's objectives, as well as the business decisions surrounding them

5. Build Shareholder Relationships

Shareholder communications are a crucial way to build relationships with people who have a vital interest in the business. This task becomes easier and less time-consuming when shareholders according to volume and type, as well as their specific relationship to the company (employees, investors, etc.) are segmented. It allows management to prioritize different groups as needed and makes it easy to send out customized updates to shareholders with specific interests.

6. Crisis Communication Plan

A business can unexpectedly be rocked by all sorts of events over which management has little or no control. Whether there is a dramatic shift in the market, unfortunate personnel issues, or a disruption to the global economy, a plan is needed.

There might already exists a crisis plan in place to respond to negative events — but crisis communication plan is needed. This plan allows executives and officers of the bank to speak publicly and to shareholders with the same voice, conveying the same message. The crisis communication plan squelches negative speculation.

Relationship with Competitors and Market Conduct

Competitors of banks in many cases can be collaborators, and that is very important especially for the banks. When a bank share a market segment, it not only share customers and business, it also shares the same difficulties, laws and regulations and many common issues. If there were no competitor bank in the industry, wherefrom or to a bank would borrow or place money in call market and many such issues. Banks, although are operating amid a tough competition, collaboration among them are vital for all in the industry. For this reason, the relationship among the competitors must be close and cordial and it's often said that banks should be grateful to their competitors. The competitors can help in various ways as under:

1. They force to make improvement.

Banks sometimes fail to evaluate their organizational vulnerabilities, which leaves those blind spots exposed to opportunistic exploitation from a strong competitor. Competitors identify and strike at other organizations' weaknesses. That is a valuable wake-up call, courtesy of a business antagonist, that compels any organization to recognize those problem areas and take appropriate action employ resources to fix them.

1. They make the others focused

There are lots of examples of groups and organizations that successfully achieved a vision but ultimately fall into obscurity and irrelevancy because they lost sight of what was necessary to protect their success.

None can deny that the fear of losing something is a greater motivator than the desire to gain something. Competitors sharpen focus of the others and thus help indirectly to survive and prosper.

3. Difficult to sustain success without competitors

Entrepreneurs and high achievers in general, want to compete and beat the best. And the only the best can win in any competition. The value of the victory is heightened by the abilities, skills and parity of the competitors. Like any competiton in any other fields, the ambition also applies in business, because a victory doesn't mean anything if there's nothing at stake due to inferior competitors. Economic theory finds that virtually every type of monopoly is short-lived because competitors will ultimately recognize the opportunity and pursue a share of the market.

4. The competitor can eventually acquire the others

If the competitors are very large and strong while some others fell far behind them, the strong one can acquire the weaker ones. So, for survival every organization need to be strong enough not to be acquired, learn from the strong competititors and keep in good business relationship with them.

3. Sharing information can be mutually beneficial.

While the successful business organizations run everything very well, there always reamin some areas of weakness where a competitor can step in and help. If they exchange information that a competitor needs for some of its own industry secrets, there often are plenty of good reasons the company will receive something in return. In the end, both businesses could benefit from that give-and-take.

4. It's good for the industry as a whole.

Trade organizations exist to help businesses work together to ensure that their collective industry is well-represented and positively regarded by the public. Sharing information with the competitors in the same industry can help ensure that everyone is working toward similar business goals. If the entire industry thrive, individual company or bank will also achieve growth.

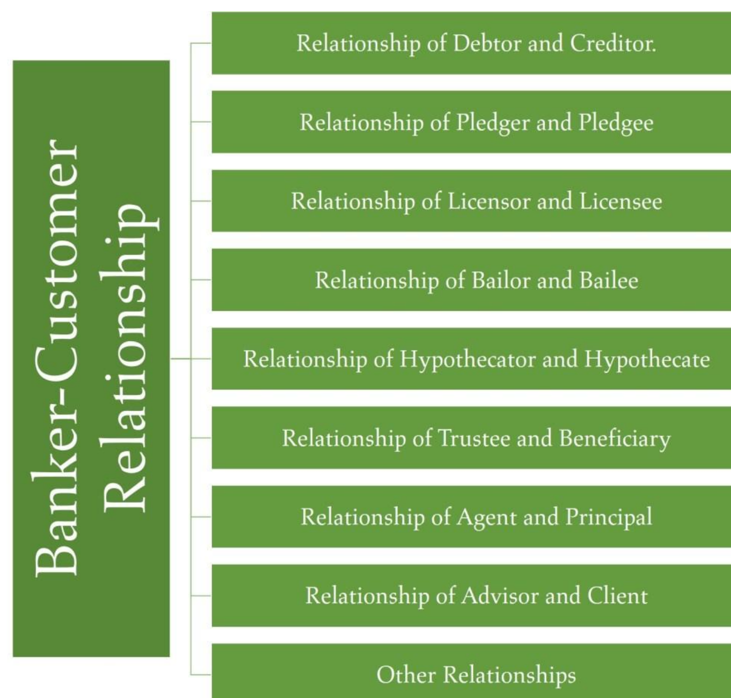
5. Teaching accomplishes more than withholding does.

Teaching the peers accomplishes more than holding back knowledge. On one hand, it is important to be prudent and not give away any secrets that truly separate one from any competitor. Yet if an organization can help the others in a way that does not compromise business, the world and the marketplace generally will be better off from that interaction.

Relationship with Customers

Developing and managing quality relationships with the customers represents one of the essential conditions for the growth and benefit of a Bank.The relationship between a banker and a customer depends on the type of transaction. In this banker and customer relationship, both parties have some obligations and rights. The relationship between banker and customer is not only that of a debtor and creditor, they have other relationships too.

A person who has a bank account in his name and the banker undertakes to provide the facilities as a banker is considered a customer.



To constitute a customer, the following requirements must be fulfilled;

1. The bank account may be savings, current or fixed deposit must be operated in his name by making a necessary deposit of money.
2. The dealing between the banker and customer must be of the nature of the banking business. The general relationship between banker and customer:

The relationship between banker and Customer are categorized into three;

1. Relationship as debtor and creditor.
2. Banker as a trustee.
3. Banker as an agent.
4. Other special relationships with the customer.

Relationship as Debtor and Creditor

On the opening of an account, the banker assumes the position of a debtor. A depositor remains a creditor of his banker so long as his account carries a credit balance. The relationship with the customer is reserved as soon as the customer account is overdrawn or the customer takes a loan. The banker then becomes a creditor of the customer.

Banker as a Trustee

Ordinally a banker is a debtor of his customer in the report of the deposit made by the letter, but in certain circumstances, he acts as trustee also. A trustee holds money or asset and performs certain functions to benefit some other person called the beneficiary. If the customer deposits securities or other values with the banker for safe custody, the letter acts as a trustee of his customer.

Banker as an Agent

A banker acts as an agent of his customer and performs a number of agency functions for the convenience of his customer. For example, he buys or sells securities on behalf of his customer, collects checks/cheques, and pays various customer dues.

Special relationship with customer/obligation of a banker:

The primary relationship between a banker and his customer is a debtor and a creditor or vice versa. The special features of this relationship, as a note above, impose the following additional obligations on the banker.

The obligation to honor the Check/Cheques

The deposit accepted by a banker is his liabilities repayable on demand or otherwise. Therefore, the banker is under a statutory obligation to honor his customer's check/cheque in the usual course.

According to section 31 of the negotiable instruments. Act 1881, the banker is bound to honor his customer's check/cheque provided by following conditions are fulfilled:

- Availability of sufficient funds of the customer.
- The correctness of the check/cheque.
- Proper presentation of the check/cheque.
- A reasonable time for collection.
- Proper drawing of the check/cheque.

The obligation to maintain the secrecy of the customer accounts

The banker is obligated to take the utmost care in keeping secrecy about his customer's account. By keeping secrecy is that the account books of the bank will not be thrown open to the public or government officials if the following reasonable situation does not occur,

1. Discloser of information required by law.
2. Discloser permitted by bankers' practice and wages. The practice and wages are customary amongst bankers to permit disclosure of certain information and the following circumstances.
    - With express or implied consent of the customer.
    - Banker reference.
    - Duty to the public to disclose.

To build deeper relationships with customers

As technological advances and digitalisation continue to reshape the banking services, banks need to meet the new expectations of today's consumers. So, banking institutions are looking at inventing tools to drive transformation that delivers differentiated, superior services. Here are different ways to connect with modern banking customers to build long lasting customer relationships.

Offer the right service at the right time

Today's customers are always on the move, so why should we expect that a customer will always have the same loyalty? A large number of contry's adult population are using mobile banking services, reach of which are increasing gradually. Such services are expected to be quick, efficient, and automated. The best financial service apps allow seamless transactions and a smooth user interface without switching channels. Essentially, a successful mobile app needs to be about the customer experience first. The app should have a minimalistic, clear, and intuitive design for convenience and ease of use whenever the user interacts.

Remove unnecessary friction

Regulatory changes and new laws are reshaping the way financial institutions are dealing with privacy, data, and wealth. But laws can be complex, and the small details can be very subtle. Banks have an opportunity and responsibility to guide customers through those changes and reduce unnecessary friction or hassle. It is importany to make it easy for

customers to understand how changes may affect their financial life through multiple channels.

Treat customers like an individual

Good brands are like good friends—they understand and value the customers, and make it known to them. A bank knowing as much as possible about individual customers is essential to provide better service. Banks that can create 360-degree assessments to track individual preferences, including how a customer responds to marketing messages and behaves at different points in the customer journey, are sure to win.

Enhance customer experience

A personal touch always goes a long way. A Bank branch can employ an employee to provide relevant and more personal service to visitors even before reaching the counter. In the financial industry there is a need for empathy in an increasingly automated world. Research shows that less than half of customers' primary banks "wow" them with the quality of their product or service. To build customer empathy is to help build strong relationships. Some institutions are beginning to use emotion analytics to understand how customers are feeling about the brand and their interactions. They use this information to make proactive changes and expand what elicits positive emotion in individual customers.

Build customer trust

Although trust is the main capital of a bank, which can be can be fleeting. That's why more organizations are continuously upgrading their technology and fraud prevention techniques to improve customer trust, in addition to providing educational content on safe financial practices to go the extra mile for their customer's security.

There is no magic button to create an amazing customer experience for an organization. Customers are fickle, always on the move, and looking out for the next best thing. Bank's mission is to help customers achieve their goals and projects and overcome their difficulties.

Complaint Management

Financial institutions that enable and ensure effective compliance and complaints management programs will in virtually every case be rewarded with increases in revenue, closer customer relationships and positive differentiation from competitors.

We can derive the basic rules for consumer complaints received by banks, such as:

- **Handle consumer complaints promptly.** Establish procedures to capture and address complaints and designate individuals or departments responsible for handling them. Ensure that the complaint process is clearly communicated across the entire enterprise.
- **Be prepared to discuss how complaints are identified and defined,** areas with increased risk of consumer harm and regulatory compliance concerns, and how the risk is addressed.
- **Ensure the customer service manager is aware of the complaints** received and their timely resolution, the underlying causes of the complaints and the action taken to improve or correct the bank's practices.
- **Monitor complaints to third parties** providing services on behalf of the bank and complaints made to the bank about those service providers.
- **Ensure the bank fully documents the process** to demonstrate timeliness and complete files. This includes the initial complaint, supporting documentation and all communication and correspondence with the complainant or other parties.

Bagladesh Bank has issued detailed guidelines for complaint management for the banks, which are quoted below:

Complaint management

Safeguarding the interest of depositors and other customers is a fundamental requirement in the financial system. The bank-customer relationship is disrupted and complaints are raised when interests of the customers are neglected. Unresolved complaints may cause losses for the customers, or Banks/FIs. The publication of complaints through the media may also damage the reputation of Banks/FIs in the public eye and can erode public confidence in the financial system if complaints are not handled promptly with proper procedures. Therefore, with a view to safeguarding the interests of bank customers as well as fostering public confidence to the banking sector the Banks/FIs must have an effective complaint management System for addressing complaints of their customers with specific emphasis on resolving such complaints fairly and expeditiously. The complaint management is a series of activities such as facilitating complaint lodgment, developing complaint recording system, complaint resolution process, root cause analysis of the complaints raised and necessary policy formulation. These are illustrated below:

Complaint lodgment procedure:

a) Banks/FIs may facilitate the customers to lodge complaints by any available means (for example, letter, telephone, facsimile, email, or in person) and the banks/FIs shall not insist that complaints be necessarily made only in writing.

b) Electronic complaints lodgment system can be produced in the web portal of the bank.

c) Banks/FIs may facilitate the customers to lodge their complaints at any branch of the bank regardless the branch at which the customer opened an account or branch at which the customer conducted a financial activity or transaction.

d) Banks/FIs shall accept complaints lodged by customers, or authorized representative of the customers.

e) A description of the complaints handling system, or bank's/FI's prescribed form (Annexure-C) for submitting complaints should be accessible/available to customers, via the banks/FIs website, or through pamphlets and posters.

Complaint recording

a) Banks/FIs must maintain Complaints Registers (Annexure-B) and records of complaints received. The registers should include, but not be limited to the followings:

- Date of complaints received;
- Name and contact details of the complainants or authorized customer representatives;
- Brief description of the complaints;
- Name and designation of the official, handled the complaints;
- Resolution status;
- Settlement date;

b) Banks/FIs are required to retain the detailed records of handling and resolution of complaints.

Prioritization of complaints:

Banks/FIs must prioritize the complaints on the basis of the gravity and sensitivity of the matter involved. For this purpose, complaints received at any level of the banks/FIs, shall be classified into the following categories and shall be marked as H.S. for Highly Sensitive, S for Sensitive or G for General category on the complaints:

Complaint recording

a) Banks/FIs must maintain Complaints Registers (Annexure-B) and records of complaints received. The registers should include, but not be limited to the followings:

- Date of complaints received;
- Name and contact details of the complainants or authorized customer representatives;
- Brief description of the complaints;
- Name and designation of the official, handled the complaints;
- Resolution status;
- Settlement date;

b) Banks/FIs are required to retain the detailed records of handling and resolution of complaints.

Prioritization of complaints:

Banks/FIs must prioritize the complaints on the basis of the gravity and sensitivity of the matter involved. For this purpose, complaints received at any level of the banks/FIs, shall be classified into the following categories and shall be marked as H.S. for Highly Sensitive, S for Sensitive or G for General category on the complaints:

Nature of complaint	Category
- Allegations of fraud forgery - Allegations that require prompt action in the failure of which it may cause great loss to the complainant. - References from Ministries of Govt./ Bangladesh Bank/ BAB/VIPs	Highly Sensitive **(HS)**
- Allegations of rude behavior, bribery - Allegation related to foreign remittance, non-payment of overdue foreign bills. - Allegations related to the different prioritized products of the bank - Allegations related to the Govt. prioritized products (Agricultural Credit, subsidies to the farmers etc.), loans under Government's Poverty Alleviation Programs, Social Security Products (old age allowances, widow allowances etc.)	Sensitive **(S)**
Other kinds of complaints	General **(G)**

Banks/FIs shall take necessary action on the basis of priority of the complaints.

Complaint resolution process:

Complaint handling is one of the important functions in an organization for their institutional reputation and existence. The Complaint Management Team should follow a systematic procedure to settle the complaints against Banks and FIs. The Complaint Resolution process requires at least the following five stages:-

a) Acknowledgment,

b) Screening of complaints

c) Departmental actions for resolution.

d) Appeal and review

e) Response and closure

Relationship with Media

Media relations is the relationship between journalists and an organization which can be initiated from either side. The purpose is to facilitate widespread coverage in a timely and favorable manner and as such is considered as a strong and powerful tool. This is used by companies to campaign their story or any message to the public part of which is their prospactive customers.

There is a difference between public relations and media relations. The former involves the way that a company presents it to everyone (the general public) while media relations concentrate on company interactions with a very specific audience: the media.

In the past, it was easier to define media relations. The number of outlets that had public exposure was limited. Radio, television and newspaper was the main media to reach the target audiance. Now, with the initiation of digital world, media relations include everything from interactions from social media, online portals and blogs.

As well as publishing news stories on companies website, media relations campaign also mean to share that message:

- On industry forums.
- On specific news websites.
- Through television shows and radio shows.
- In magazines and print media.
- On social media.

The better the media relationship becomes, the easier it will be to ensure reaching a wide and engaged audience every time.

Here are some of the biggest benefits of media relations:

- **Trust development:** Potential customers are more influenced by the people that they trust, mainly the journalists, than brands. A company can tell a client that it’s reliable

and valuable for decades, and that message still won’t hit home until another, credible media confirms it. Stories published through reputable platforms give you an instant boost in credibility.

- **Brand reach:** Posting a news story about a new product on company's website is great. This will reach the only people who already know about the company. On the other hand, if a story is published through a media outlet, the brand can reach everyone and can influence at least some of them. The right media relationship can expand sales opportunities and help to reach new possible clients like never before.
- **Authority:** One of the biggest benefits of media relations, is that it can help a company to become more of an authority in respective space. Most media outlets have very strict guidelines on what they’ll report on. This gives the customers a confidence to trust the news.
- **Talent attraction and retention:** Employees of the company may feel a sense of pride when their employer is mentioned in the news. Prospective employees and vendors want to work with companies that exhibit strength, credibility, and other important qualities in public media.

Media relations strategy

A media relations strategy is the plan that is created to deploy media and use it to the best of ability for telling the brand story. Some of the elements that you might consider when you’re building your media relations strategy are:

- **Target audience:** Defining the target audience will give a better insight into who a company is trying to connect with via media relationships. For instance, if the target audience are younger people, then it might make more sense to use social media as a media outlet than newspapers or television.
- **Location of audience:** If most of the target customers are online, then digital forms of media. This may include blogs, and even dedicated industry forums.
- **People having influence over customers:** It is important to ensure to build relationships with the media experts that can really drive a message home. That is to assess as to who is more likely to appeal to the target customers, social media, or a journalist?

Relationship with the Civil Society

According to the World Bank: “Civil society ... refers to a wide array of organizations: community groups, NGOs, labour unions, indigenous groups, charitable organizations, faith-based organizations, professional associations, and foundations.” The term became popular in political and economic discussions in the 1980s, when it started to be identified with non-state movements that were defying authoritarian regimes. It's understood that it comprises organizations that are not associated with government—including schools and universities, advocacy groups, professional associations and cultural institutions.

Klaus Schwab, founder and executive chairman of the World Economic Forum, wrote “NGOs, labour leaders, faith-based organizations, religious leaders and other civil society representatives play a critical and diverse set of roles in societal development. In the last two decades these roles have shifted as the external environment for civil society has changed.”

It lists of some of the activities civil society organizations are involved in, to demonstrate why governments frequently seem to pamper them in one breath and vilify in another.

Such activities include: holding institutions to account and promoting transparency; raising awareness of societal issues; delivering services to meet education, health, food and security needs; implementing disaster management, preparedness and emergency response; bringing expert knowledge and experience to shape policy and strategy; giving power to the marginalized; and encouraging citizen engagement etc. Sometimes they also act as the conscience of the nation.

But beyond the current crisis, civil society is an essential building block of development and national cohesion. In a fragile and conflict-ridden country, it plays an important role of providing services normally the responsibility of the state and business and can lay the foundation for reconciliation. Even in a peaceful country, civil society fills the space untouched by government and the private sector.

Civil society organizations play multiple roles. They are an important source of information for both citizens and government. They monitor government policies and actions and hold government accountable. They engage in advocacy and offer alternative policies for government, the private sector, and other institutions. They deliver services, especially to the poor and underserved. They defend citizen rights and work to change and uphold social norms and behaviors.

The role of the civil society elaborated above throws light on its' desired relationship with FIs. As the civil society aims at bringing good governance, transparency and accountability in every sector of the country, especially in the financial sector, the FIs most close associate shall the civil society. An organization can achieve sustainability if good govenance can be assured. The Global Alliance for Banking on Values along with Mission 2020 and other forums outlined a relationship of the civil society with financial sector through some recommendations, which reveal the nature of this relationship.

The recommendations include:

- Sustainability assessments for bank assets
- Banks to formulate their purpose in public and in line with the SDGs.
- Capital requirements with sustainability weightings
- Guarantees, subsidies and technical assistance to stimulate investment in the sustainable economy
- Tools to increase the diversity of business models within the financial sector
- Training for finance workers on sustainability issues
- Reporting of sustainability metrics for FIs
- Loyalty shares to encourage longer term outlook in corporate governance

From the above recommendations this becomes evident that FIs should maintain a stakeholding relationship with civil society that will contribute to the values, image and acceptability of the organization.

Relationship with the Community and CSR

Any business organization, be it an FI or any other, it must develop a relationship with the community in which it operates for success. It is an excellent means of attracting new customers and growing business. For a desired result, the relationship must be beneficial for all parties involved. In today’s world, customer relations is an essential part of marketing, so choosing a cause that’s appropriate for customer’s needs is crucial.

We know **community** is a group of people with a common characteristic or interest living together within a larger society. A group of people can be considered two or more and commonalities can be anything that those individuals share with one another. Some examples include occupational communities, religious communities, cultural communities, etc. As such

this is clear that sometimes community extends beyond geographical location of a group of people.

A relationship begins when some type of connection or interactin is made. Community relationships may be long-term or short-term and are often formed because of some type of commonality built within the community. Relationships often begin as acquaintances; while some stay at that level, other relationships go more in-depth and move towards some kind of partnership.

By community relations, a business organization takes an active interest in the community/communities it operates. This can be achieved, for example by a business attending grand openings or milestone events for local businesses or through sponsorship/promotional partnerships. It builds relationship with the local communities providing positive visibility to an organization and to its' brand. By focusing on these local communities, a company can greatly impact a vital local market and develop lasting long ties.

Importance of Community Relations

Community relations is considered a two-way benefit to its society. It positions businesses as civically and ethically responsible in their local communities, fosters goodwill among the locals–i.e., the potential customers, and helps the community thrive as a whole.

- Businesses that participate in community relations benefit by being able to give back to their communities. The beneficiaries in that community prosper from donations and other services.
- Community relations builds credibility which is essential for all businesses. A solid strategy helps boost company's credibility and create a personal connection with the customers.
- Community relations strategy, when coupled with public relations, can work wonders in generating attraction to a business. The news coverage fosters positive sentiment of a business in the eyes of locals, leading more people to it.
- If sufficient time is alloted to do community relations, a company's network will grow exponentially. It'll be easier to retain employees, connect with fellow local business owners for future partnerships, and thus credibility ratings will go up as new customers will treat the company as reliable, trustworthy, and honest.

Community relation and CSR

CSR refers to strategies business organizations adopt to run their business in a way that is ethical and society friendly. CSR can involve a range of activities such as working in partnership with local communities, socially sensitive investment, developing relationships with employees, customers and their families, and involving in activities for environmental conservation and sustainability.

From the above meaning of CSR, it is undeniable that CSR has implications on community and it's development. Survey report reveals that CSR activities and reputation of an organization are the most important driver of employee engagement.

The common roles of CSR in CD are as follows:

- CSR can lead an organization beyond its' perceived position of a profit generating machine and palce at much higher standing in branding and value proposition.
- Organizations with a reputation for CSR can take advantage of increasing their image and strengthen their appeal as an attractive employer.
- It is also found that when employees view their organization's commitment to socially responsible behavior more favorably, they also tend to have more positive attitudes in other areas that correlate with better performance.
- Closer ties with community help in transfer of technology between MNCs that give concerns on CSR and communities in the host countries which has been proved in Bangladesh in many occasions.
- CSR helps to protect environment through various campaign and programs organised by the large business houses. Some of the large companies have made a highly visible commitment to CSR through tree plantation and such other activitios.
- The close link between a big corporation and community is another aspect of CSR role in community development because in long run it creates sustainable development.
- Some other contributions of CSR to the community can be as under:
  - Community Education
  - Community Health Care
  - Humanitarian and Disaster Relief
  - Cultural Welfare
  - Infrastructure Development
  - Income generating activities

Disclosure and Trasparency

Disclosure is a document that makes information known. In the banking industry, it's a statement provided by a financial institution—either to a consumer or customer—that outlines all pertinent information. Disclosures are most commonly provided to customers during the establishment of a new account or loan. Banks need to make public disclosure of information for keeping their stakeholders informed about different aspects of banking operation, operating performance, financial position and many other issues of interest. Greater disclosure of banking problems can reduce the costs of banking crises, even if transparency is not a panacea for preventing banking crises. Such transparency and disclosure of the banking activities is not enough to prevent future banking crises unless appropriate monetary, fiscal and regulatory policies are also put in place.

Over the past years, a number of initiatives have sought to increase the transparency of financial institutions. Among those initiatives, a push toward more disclosure of information in published accounts has been prominent. In particular, policy proposals have introduced a number of disclosure requirements that aim to improve the market's ability to assess a bank's risk and value.

Boards of the banks need to be encouraged to discuss and disclose what they consider their risks to be as well as their approach to monitoring and managing those risks. The central banks also need to be dedicatedly involved in promoting such disclosure and observing risk perceptions held by boards that would be helpful in early awareness of systemic risks.

Banks in Bangladesh are required to comply with a lot of laws and regulations because of its nature and systemic importance in the national economy. Such laws and regulations require a lot of disclosures in different forms. Besides, disclosure is the only instrument of Market Discipline under Basel-II as adopted in Bangladesh.

It is agreed and stressed by the banking experts that enhanced accounting disclosure leads to better transparency and stronger market discipline and as an important ingredient of banking sector stability.

BIS Principles on disclosure

Bank for International Settlements (BIS) has announced the guiding principles for banks' Pillar 3 disclosures and given the nzture and requirements for the same, which aims to promote market discipline by providing meaningful regulatory information to investors and other stakeholders on a consistent and comparable basis. The principles aim to provide a

strong foundation for achieving transparent and high-quality risk disclosures that will enable users to better understand and compare a bank's business and its risks.

The principles are as follows:

Principle 1: Disclosures should be clear

Disclosures should be presented in a form that is understandable to key stakeholders and communicated through an accessible medium. Important messages should be highlighted and easy to find. Complex issues should be explained in simple language with important terms defined. Related risk information should be presented together.

Principle 2: Disclosures should be comprehensive

Disclosures should describe a bank's main activities and all significant risks, supported by relevant underlying data and information. Significant changes in risk exposures between reporting periods should be described, together with the appropriate response by management.

Principle 3: Disclosures should be meaningful to users

Disclosures should highlight a bank's most significant current and emerging risks and how those risks are managed, including information that is likely to receive market attention. Furthermore, information which is no longer meaningful or relevant to users should be removed.

Principle 4: Disclosures should be consistent over time

Disclosures should be consistent over time to enable key stakeholders to identify trends in a bank's risk profile across all significant aspects of its business. Additions, deletions and other important changes in disclosures from previous reports, including those arising from a bank's specific, regulatory or market developments, should be highlighted and explained.

Principle 5: Disclosures should be comparable across banks

The level of detail and the format of presentation of disclosures should enable key stakeholders to perform meaningful comparisons of business activities, prudential metrics, risks and risk management between banks and across jurisdictions.

Importance of Disclosures

The importance of full disclosure in the corporate and financial world is essential.

1. Ensures transparency

Increased transparency in the banks' operations and management makes it easier for all the stakeholders to make informed decisions. It also cuts down on the possibility of manipulation or misuse of depositors' funds.

2. Avoids financial and economic crises

Severe financial and economic crises can be avoided with increased transparency. The 2008 Global Financial Crisis is an excellent example of a financial/economic crisis that was largely, if not entirely, the product of the lack of transparency and accountability in the market. It led to the mishandling of investors' funds by corporations and financial organizations.

3. Eliminates insider trading and window dressing

Full disclosure prevents agents with "inside information" in the market from misusing it for personal gain and profit. It also prevents the chance of window dressing and manipulation of accounts, thereby further increasing transparency in the market.

4. Allows depositors to make informed decisions

Full disclosure of relevant information by banks helps depositors to make informed decisions. It decreases the sentiment of mistrust and speculation and increases customers confidence as they feel fully prepared to make decisions with transparency in information at hand.

5. Reduces uncertainty in the market

Full disclosure also reduces uncertainty to a great extent in the market. Uncertainty is one of the most prominent reasons for market volatility. When there is full disclosure by banks in the market, there is an increased level of overall certainty in the market, thereby decreasing volatility levels and bringing in stability.

6. Appreciates stock value

The stock of a banking company with transparancy having full disclosure will most likely rise due to investors having more confidence in the it's ability to do well financially, leading to a more robust position with strong image.

7. Less likely legal problems

For a company with transparancy it is also a safe to do business because full disclosure of information can prevent legal roblems. Thus, it can save time and money because legal battles cost lots of both, whereas full disclosure will prevent those from happening as often.

8. Easier to rectify mistakes

Finally, it is more easy to correct any mistakes or errors in the financial statements if those are fully disclosed on the front end. Rectification process becomes very difficult for an undisclosed transaction or information.

There are of course some disadvantages of full disclosure like

- chances that the competitors can use the information disclosed against the company,
- disclosing so much information could be time consuming and may require hiring of an expert incurring a handsome amount of cost,
- too much information may sometimes make the readers to lose their interest as nobody has the time and interest to read a lot these days.

In spite of all sorts of disadvantages there is no scope to avoid disclosure practices which are not only beneficial for the banks but also mandatory as per regulations under central bank and Securities and Exchange Commission.

Module H
Future Looking Organizations

A future looking company is one that can evolve and thrive in any situation – which is based on standardization, agility, resilience, and leveraging partnerships to develop solutions that predict the market and consumer needs. Customers in all industries, especially in banking sector, want companies to take a digital approach that has revolutionized the business and life.

Howard Yu and the others, in a well researched study (Harvard Business Review) on the top companies of different sector have identified few important features for the future looking companies. They have studied financial fundamentals, investor's expectations for future growth, employee diversity, openness to new ideas, early results of innovation, business productivity, cash and debts of the top companies of the main sectors and given valuable insight as to what should be the strategy of a future looking organization.

Partnering with the competitors

Instead of trying to outrun competitors, it is of more importance to partner with the rivals, to the benefit of all involved. Partnering helps exchange information with one another and share technology among all. The major insight here, is that a product's best feature may not be invented in-house which might have invented by third parties, who are closer to their customers. It is better to compete sometimes and cooperate the rest of the time.

Explore Early-to-Exploit Know-How Sooner

It is better to explore new areas while exploiting existing opportunities instead of focusing largely on short-term exploitation. In the later case is is more likely to get trapped in legacy business model, trying to get customers to spend more and stay loyal.

In the pursuit of a new business model, the opportunity to learn is slips away. Once the competitors explore enough, they will continue to exploit that new knowledge base to their advantage. So, it is a must to maintain a large portion of activities dedicated to exploring the new.

Digitalization of the entire process

For a good brand, digitalization is not merely about the front-end, online experience — there are a lot to be done to master behind the scenes. Customers today want to personalize their services online for all the products. So, instead of partial digitalization, an organization must digitalize its entire chain of product or services, which will ensure economies of scale too.

Clear with decision to move quickly

Knowing how to make decisions quickly is essential to surviving in a fast-running industry in the digital world. To do so, identification of the reversible decisions is important, so that a company can back out later if the desired result is not visible. In such case faster speed can be achieved. In the bigger organizations managers tend to use a heavy-handed approach to scrutinize every decision and slow down the company.

Further guidelines

Other experts have also suggested various features of future looking organizations addressing the challenges of the present-day business. In today's highly competitive marketplace, stagnation is simply no longer an option.

Customers expect their interaction with banks and other organization to be digitized, fast, efficient, and highly personalized. Excuses do not satisfy of convince them. So, companies need to be prepared to pivot at a moment's notice. The best way to do that is to consider the future now, before it's here and forcing change immediately.

Only the most forward-looking organizations will earn customers' loyalty by meeting and exceeding their expectations. Companies who remain stagnant will fold, while those looking to the future will thrive.

The consumer experience should be prioritized

Building a customer-centric technology strategy will assist companies in anticipating future digital needs. Customers must be prioritized, and this necessitates a change in the company's focus. Instead of concentrating only on product growth, the organization needs to understand what the consumer aims to achieve through interactions with them. Organizations can look for areas where customers are having difficulty and then design a product, business plan, and business model around them.

Building digital workforce

While attracting and retaining top talent can be challenging, a company's workforce is critical to its long-term success. Businesses must optimize the current systems. Also, find talent that can be up skilled, can be automated wherever possible, and continue to recruit core tech talent to fill any gaps. When recruiting new employees becomes burdensome for the company, executives should consider renting instead. Before committing to hire someone full-time, it's a good idea to outsource wherever possible.

Reconsidering outdated procedures

Legacy systems will stifle growth and deter a company from achieving its future-ready goals. Processes designed to scale are ideal if businesses choose to maximize production and services while minimizing variants and costs.

Updating technology

Tech implementation that is future-looking not only aims for the latest innovation, it also fits with the business strategy and encourages forward-thinking on business needs. Data is everything, but revealing it to take steps in order to achieve the desired market result requires strategic assistance, such as moving to the cloud or developing new digital platforms.

Market positioning

Market Positioning refers to the ability to influence consumer perception about a brand or product in relation to other competitors. The objective of market positioning is to establish the image or identity of a brand or product so that consumers perceive it in a certain way. The following examples may clear the concept.

- A bank may position itself as a class bank for the affluent segment of the society limiting network only to selected areas.
- A handbag manufacturer may position itself as a luxury status symbol, such as Louis Vuitton.
- A TV maker may position its TV as the most innovative than the others
- A fast-food restaurant chain may position itself as the provider of cheap meals

For creating an effective market positioning strategy, the followings have been proved to be most effective:

1. Determine company uniqueness by comparing to competitors

Compare and contrast differences between a company and its' competitors to identify opportunities. Focus to be put on strengths and the ways how they can exploit these opportunities.

2. Identify current market position

Identifying existing market position and assessing how the new positioning will be beneficial in setting the company apart from competitors.

3. Competitor positioning analysis

Identifying the conditions of the marketplace and the amount of influence each competitor can have on each other.

4. Develop a positioning strategy

Through the preceding steps, an understanding can be achieved about the strength of the company, how it is different from the competitors, the conditions of the industry, opportunities in the market, and how the company can position itself.

Market Repositioning

Market repositioning is when a company changes its existing brand or product status in the marketplace. Repositioning is usually done due to declining performance or major shifts in the environment. Many companies, instead of repositioning, choose to launch a new product or brand because of the high cost and effort required to successfully reposition a brand or product.

New Business Initiatives

Even if the term 'New' is not considered, Business Initiatives are typically internal or external campaigns that seek to improve an organization’s work environment, company culture or overall business strategy. By adding the term New we can describe business initiative as the approach organizations use to frame their objectives based on deep analysis of their current state and where they expect their ideal desired position to be in the future.

Therefore, 'new' or 'revolutionary' business initiative can be defined as an innovative business technique, strategy or technology, that is purported to increase corporate success. During this period there has been a constantly expanding list of these new business initiatives, that claim to increase business success. All initiatives broadly advocate a change in the business paradigm through continuous improvement and increased personnel involvement, but each accomplishes continuous improvement differently.

Since the eighties of the last century, rapid changes have occurred in the business environment. Researchers have identified some of the changes in the way companies were organizing their production and delivery of their goods and services. These changes were driven by trends in customer demand and expectations. They include smaller lot sizes, shorter product life cycles, and a demand for higher quality. Rapis digitalization of the fourth Industrial Revolution has added momentum to this trend. To meet these demands, business organizations of different sectors are implementing a variety of specific strategic practices aimed at promoting agility and enriching the customer. The strategies include both internal and external initiatives.

Such new business initiatives have found rapid and wide acceptance, nevertheless the profit-maximizing organizations would not implement them if they did not expect a financial benefit from their use.

At the most basic level, the goal of every business is to achieve success. Whether that success comes in the form of inventing a new product, providing a new service, or any of another innumerable options depends on the business, but one thing remains a constant: change.

Although implementing new business initiatives can help SME businesses adapt to changing economies, only a fraction of these organizations manage to implement their new initiatives without struggle. But with the right plan, entrepreneurs can empower their business to do more than just make a change. For achieving this they need to follow the undermentioed steps:

Step 1: Diagnose business's requirements

The first step in successfully implementing a new initiative they need to ascertain what they actually want to achieve. Answers to the following questions can help discover the desired action for change:

- What is not working?
- Why not working?
- Is this a people problem or technical?
- What else need improvement?
- What tools are available ar disposal?

Once the answers are gathered together, a destination can be figured out.

Step 2: Determine how best to meet those requirements

Once you know what you'd like to get done, you'll need to figure out how to get it done. Let's check out an example:

The following are the key questions to answer during this stage of the implementation process:

- Which key performance indicators (KPIs) will be targeted?
- What benchmarks should be used to monitor success throughout the implementation process?
- Which employees are the right people for the team?

Putting the right people on the right job at the right time can be a challenge for even the most experienced business owner. So, this should be done prudently.

Step 3: Design the initiative's scope and plan for implementation

Step three of the process of building a successful new initiative is to design the initiative's scope and formulate a step-by-step plan for its implementation. In order to successfully implement a change that makes a difference for the organization, effectiveness of these changes should be assessed

Step 4: Get into implementatin

This step involves taking the strategic plan that is outlined in step three and putting it into action. Once the setup is complete, the actual work begins. Be sure not to lose sight of the goals, KPIs, and benchmarks you decided on in the earlier steps of this process.

Step 5: Schedule performance reviews to evaluate the initiative's impact

It is important to remember that no initiative is ever "complete." Although the work may be done, the circumstances in which the business operates are ever-changing.

Scheduling routine performance reviews to evaluate whether an initiative is as successful as it might at first appear to highlight the difference between the illusion of success and the achievement of success and help guide any adjustments that may become necessary at a later date.

Digital Agenda

By Digital Agenda we understand to describe all the measures required and planned for a systematic approach for making the digital transformation of a particular system. This is used generally and particularly with regard to the announced political action of a government and/or the executive bodies of an organization to shape digital change. In addition, all the measures planned by individual companies and institutions as part of their efforts to achieve digitalisation and digital transformation are also referred to as the "digital agenda".

The term differs from the common terms used to characterize the changes caused by the spread of digital technologies in particular by emphasizing the aspect of active design. An agenda, as a summary of future action in a catalogue of well specified measures, requires analysis, planning and decision-making. Therefore, "digital agenda" differs from the concept of "digital change", which looks at the phenomenon of change without taking the element of deliberate action into account.

Thus, the digital agenda includes the following

- **Customer relationships:** By providing mobile or online services that help customers to get more data and insights, achieve their business goals, or finalize their transactions faster, easier or cheaper which improve customer intimacy.
- **Omnichannel experiences:** By providing seamless and delightful omnichannel experiences that combine offline, online, mobile and other relevant channels.
- **Processes:** By improving core business processes applying harmonization and digital tooling that eliminate unnecessary steps or interdependencies.
- **Marketing:** By taking full advantage of digital marketing channels aligning digital marketing, communications, content, sales funnels and customer journeys so that they delight, inspire the customers.
- **Commercial:** By selling digital offerings, through digital channels, by using digital tools.

- **Technology:** By exploring explore new digital opportunities on a global scale and identifying emerging trends, competitors' new offerings and valuable academic contributions, as well as developing applicable technologies for our digital assets.

If we think about digital agenda of a business enterprise or a bank, the objectives of digitalization come to the forefront. Those are the followings:

- **Revenues:** The digital products, services, channels and concepts of new revenue sources help to grow the current business. Digital offerings can complement the traditional ones. Digital services can deliver better customer experiences and improved customer-centricity which will lead to tangible revenues later on.
- **Transformation:** Use of digital system can transform or re-position the existing business. Re-positioning can help to attract more digital talent and can provide with access new industries or business segments.
- **Competitiveness:** It improves competitiveness by implementing digital products, services, channels or concepts providing higher quality, faster delivery times or less harmful environmental impact.
- **Costs:** Digital products, services, channels and concepts gives opportunity to reduce costs by reducing daily manual work, optimizing the product or service delivery.

So, this is clear that digital initiatives serve multiple purposes. New digital products or services help companies not only re-position themselves in the marketplace, but generate more revenues and improve overall competitiveness, too. Digital service channels may not only reduce the costs of manual customer service work, but also provide fundamentally better customer experiences or better capital use. A proper digital agenda often caters to various purposes and produces a variety of complementary business benefits.

Systems and infrastructural capabilities

Infrastructure is the foundation or framework that supports a system or organization. In computing, IT infrastructure is composed of physical and virtual resources that support the flow, storage, processing and analysis of data. Infrastructure may be centralized within a data center or be decentralized and spread across several data centers that are either controlled by the organization or by a third party.

Infrastructure components

Data center infrastructure often includes the power, cooling and building elements necessary to support data center hardware. The data center hardware infrastructure usually involves servers; storage subsystems; networking devices, like switches, routers and physical cabling; and dedicated network appliances, such as network firewalls.

A data center infrastructure also requires careful consideration of IT infrastructure security. This can include physical security for the building, such as electronic key entry, constant video and human surveillance of the premises, carefully controlled access to the server and storage spaces, and so on. This ensures only authorized personnel can access the data center hardware infrastructure and reduces the potential for malicious damage or data theft.

Outside of the data center is an internet infrastructure, which includes transmission media, such as fiber optic cables, antennas, routers, aggregators, repeaters, load balancers and other network components that control transmission paths.

How infrastructures are created

To create a traditional data center infrastructure, organizations typically follow a formalized process that starts by analyzing and accessing business goals, making architectural and design decisions, building and implementing the design, and then optimizing and maintaining the infrastructure. The process usually involves detailed expertise, including data center building design, subsystem and component selection, and quality construction techniques.

However, the way IT infrastructures are created is continually changing. Traditional heterogeneous infrastructure development is a highly manual process that requires enormous integration, optimization and systems management efforts - especially when integrating servers, storage, network and other components from diverse vendors.

Infrastructure management

Regardless of how it is created, an IT infrastructure must provide a suitable platform for all the necessary IT applications and functions an organization or individual requires. This means the design and implementation of any IT infrastructure must also support efficient infrastructure management. Software tools must allow IT administrators to view the infrastructure as a single entity, as well as access and configure granular operating details of any device in the infrastructure. Solid management also allows admins to optimize resources

for different workloads, and to more readily understand and handle the impact of any changes on interrelated resources.

Infrastructure management is often divided into multiple categories. Systems management includes the wide range of tool sets an IT team uses to configure and manage servers, storage and network devices. Increasingly, systems management tools are extending to support remote data centers, along with private and public cloud resources. Management tools are also making extensive use of automation and orchestration to improve efficiency, reduce errors and comply with established best practices or business objectives.

People Plan

People plan is a document that spells out how an organization will manage and develop its workforce. It includes policies and procedures for hiring, firing, training, and compensating employees. A good people plan should be tailored to the organization's specific needs, taking into account things like its size, culture, and business goals.

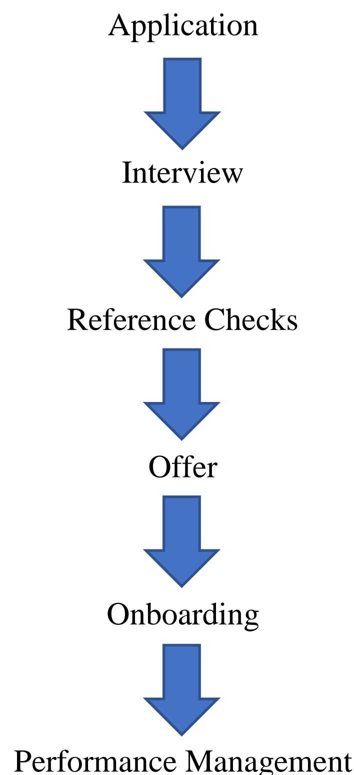
One of the primary purposes of a people strategy is to help an organization attract and retain top talent. Therefore, the plan should include strategies for developing positive workplace culture and offering competitive benefits and compensation packages. It should also outline the organization's expectations for employee behavior and performance.

Another essential purpose of a people plan is to ensure that employees get treated fairly and per the law. Therefore, the plan should include policies and procedures for managing discrimination, harassment, and retaliation.

Finally, a good people strategy allows for employee empowerment, increasing productivity and engagement. When employees feel like they have a voice in the organizational decision-making process, they are more likely to be motivated to do their best work and contribute to the organization's success.

There are a variety of strategies businesses can use to attract and retain employees. The most effective approach will vary depending on the needs of the organization. For example, smaller organizations may benefit from offering a competitive salary and benefits package, while larger organizations may need to focus on providing a positive work environment and developmental opportunities.

No matter what an organization's size or needs, there are a few key people strategies it should incorporate in its people plan for attracting employees:



Succession Plan

Succession planning refers to a business strategy companies use to pass leadership roles down to another employee or group of employees. Succession planning ensures that businesses continue to run smoothly and without interruption, after important people move on to new opportunities, retire, or pass away. This is a process by which individuals are scanned to pass on the leadership role within a company. The process ensures that business continues to operate efficiently without the presence of people who were holding key positions as they must have retired, resigned, etc.

Succession Planning the Management Succession Planning, involves coaching and development of prospective successors or people within a company or from outside to take up key positions in an organization through an organized process of assessment and training.

It ensures a smooth transition of power in key leadership roles. If the successor is chosen within the organization, it will help motivate the employees, and also save on cost and extra time which the management would have spent in scanning candidates from other firms.

As succession planning is a contingency plan, it is not a one-time event. Rather, it should be reevaluated and updated each year or as changes dictate within the company. As such, it evaluates each leader's skills, identifying potential replacements within and outside the company and, in the case of internal replacements, training those employees so they're prepared to assume control.

Benefits of Succession Planning

There are several advantages for both employers and employees to having a formalized succession plan in place:

- Employees know that there is a chance for advancement and possibly ownership, which can lead to more empowerment and higher job satisfaction.
- Knowing there is a plan for future opportunities reinforces employees' career development.
- Management's commitment to succession planning means that supervisors will mentor employees to transfer knowledge and expertise.
- Management keeps better track of the value of employees so positions can be filled internally when opportunities arise.
- Leadership and employees are better able to share company values and vision.
- A new generation of leaders is needed when there's a mass exodus of people from the workforce into retirement.
- Proper succession planning benefits shareholders of public companies, especially when the next candidate for CEO is involved in business operations and is well respected years before the current CEO retires. Also, if investors observe a well-communicated succession plan, they won't sell the company's stock when the CEO retires.

Succession Planning and Management Five-Step Process

Succession planning and management is an essential component of the broader human resources planning process. It involves an integrated, systematic approach for identifying, developing, and retaining capable and skilled employees in line with current and projected business objectives.

STEP 1. Identify Key Areas and Positions

Key areas and positions are those that are critical to the organization's operational activities and strategic objectives.

- Identify which positions, if left vacant, would make it very difficult to achieve current and future business goals
- Identify which positions, if left vacant, would be detrimental to the health, safety, or security of the Canadian public

STEP 2. Identify Capabilities for Key Areas and Positions

To establish selection criteria, focus employee development efforts, and set performance expectations, you need to determine the capabilities required for the key areas and positions identified in Step 1.

- Identify the relevant knowledge, skills (including language), abilities, and competencies needed to achievebusiness goals
- Use the Key Leadership Competencies profile
- Inform employees about key areas and positions and required capabilities

STEP 3. Identify Interested Employees and Assess Them Against Capabilities

Determine who is interested in and has the potential to fill key areas and positions.

- Discuss career plans and interests with employees
- Identify the key areas and positions that are vulnerable and the candidates who are ready to advance or whose skills and competencies could be developed within the required time frame
- Ensure that a sufficient number of bilingual candidates and members of designated groups are in feeder groups for key areas and positions

STEP 4. Develop and Implement Succession and Knowledge Transfer Plans

Incorporate strategies for learning, training, development, and the transfer of corporate knowledge into your succession planning and management.

- Define the learning, training, and development experiences that your organization requires for leadership positions and other key areas and positions

- Link employees' learning plans to the knowledge, skills (including language), and abilities required for current and future roles
- Discuss with employees how they can pass on their corporate knowledge

STEP 5. Evaluate Effectiveness

Evaluate and monitor your succession planning and management efforts to ensure the following:

- Succession plans for all key areas and positions are developed;
- Key positions are filled quickly;
- New employees in key positions perform effectively; and
- Members of designated groups are adequately represented in feeder groups for key areas and positions

7 Steps of Succession Planning Success

There are seven tips for a successful succession planning process of a company.

1. Be proactive with a plan

A planned retirement policy is a good strategy as it will be known well in advance when a hard-to-replace team member is going to leave the company. Otherwise, management will be caught off-guard by a sudden and potentially disorienting employee departure. That’s why a plan is needed well ahead.

2. Pinpoint succession candidates

Once it is understood that the departure of certain employee might cause disruption, one of the team members should be choosed who can potentially step into that position.

While the obvious successor to a role may be the person who is immediately next in line in the organizational chart, better not to discount other promising employees, especially people who display the skills necessary to thrive in higher positions, regardless of their current title.

3. Let them know

In private meetings, it is important to explain to each prospective aspirant that they are being singled out for positions of increasing importance. At the same time, it's required to establish

an understanding that there are no guarantees, and the situation can change due to circumstances encountered by either the company or the succession candidates themselves.

4. Step up professional development efforts

In an ideal investment is made in professional development of the prospective employees in the succession line. At certain point of time this process needs to be activated more. Job rotation is a good way to help the candidates gain additional knowledge and experience. The supervisors should help them possessing strong communication skills, as well as polished interpersonal abilities.

5. A trial run needed for the successsor

Better not to wait until there's a crisis to test whether an employee has the right stuff to assume a more advanced role. The potential successor should be assigned some responsibilities of a manager whenever he is absent or taking a vacation. The employee will gain valuable experience and appreciate the opportunity to shine. This will help assessing where that person might need some additional training and development.

6. Integrating succession plan into the hiring strategy

Once employees are identified as successors for critical roles in the organization, talent gaps they would leave behind to be considered. That can help to identify where to focus while making future recruiting efforts.

7. Thinking about own successor

When making a succession plan for the organization, the head or CEO should keep in mind that his own position will someday require a successor in case of his swithing over or retirement. So it's important to see, which employee could step into this crucial position one day and to help that person prepare for the transition.

As the employees of an organization are not fixed assets, changes in the team's lineup are inevitable. It is not always possible to predict a valued employee's departure from the firm. But through effective succession planning, a company can pave the way for the continuity and avoid any disruption.

Recruiting and upscaling employees of future

Hiring during this ever-changing economic climate is challenging and unpredictable. With constant attrition of skilled workforce for better opportunity elsewhere, figuring out how to hold the talent is becoming the top priority for employers. When hiring for the future, it's important to take into account not only the future of an organization as a whole but also the future of each individual employee thinking where will they be in a few years or how will they grow?

Select Candidates With Great Mindsets

More than anything else, the mindset of a potential hire makes the difference between a bad hire and a great employee. No matter the skills and experience of a candidate, it is important to make sure that their vision of the future fits the organization's culture. During the interview, asking questions and assessing about what they see for themselves can determine if they're the optimal candidate. Thier thoughts on career goals may indicate whether they want to settle on an entirely different career path, or only planning on taking the opening for a year or two. If the candidate's mindset matches the organization, they'll probably stick around for a long time. Hiring for the future isn't so simple as that, but it's certainly a start.

Transferrable Skills Make A Great Hire

Relevant skill sets are changing constantly in highly variable industries like digital banking, software engineering etc., especially in the wave of fourth industrial revolution. Abilities that are completely necessary now may be irrelevant in a few years. Hiring candidates with a variety of soft and/or transferable skills can be much more valuable in the long run than a more specialized candidate.

Employees with flexible soft skills like communication, project management, and critical thinking tend to be good candidates for advancement. They're model employees, those who can accept constructive criticism and get their work done in a timely manner. So, it is important to encourage the growth of these transferable skills.

Learn What Motivates Individuals

When hiring for the future, understanding exactly what makes each employee tick can solidify their relationship with the company. Throughout the hiring process and during interviews, ask the candidate about their priorities in life:

- Do they put salary/compensation, or work-life balance first?

    - If they are monetarily driven, tangible bonuses and advancements will drive them to work their hardest. If work-life takes priority, consider meaningfully increasing their paid time off as a reward for continuous hard work.
- Are they big participants in community events?
    - People who love social events tend to appreciate being in the know and enjoy working with others. They should be put in a team-focused environment. For those who prefer to keep to themselves, they should be assigned with tasks that capitalize on personal creativity.
- Do flexible hours or a solid schedule appeal more?
    - Flexible work hours have become more of a priority with the younger generations, so don't be surprised if flexibility is a top priority for candidates. If your organization is operating under hybrid workplace conditions, offering them more remote work could help ensure their satisfaction, and improve retention chances.

Hiring for the future means hiring with the intention to build and maintain a relationship with the employees. When there is a good understanding of the teams, it is avisible to hire candidates that have forward-thinking mindsets and want to start a career with the organization. Doing so will ensure retaining workers, and can focus on growth and expansion.

Upscaling employees

This is a great concern in the corporate world that employee turnover has become expensive in the present scenarioo. When organizations invest in employees, they are investing in much more than just their salaries. They need to invest in hiring, onboarding, and developing them. And this is where upskilling training can actually be cost-effective. Over time, these costs can add up and affect the corporate bottom line. Upskilling training can come in as an alternative to bringing in new staffers.

What does upskilling mean?

Smart organizations can alleviate some of these financial pains by investing in tenured employees to retain them in the organization. Employees with great morale and high

productivity are scarce and not always available, while organizations understand the benefits of finding ways to retain these individuals.

Fortunately, companies can invest in a process known as upskilling training to help retain current employees. Upskilling is the process of teaching current employees new skills. This will allow employees to move into bigger and better jobs in the organization. Investing in upskilling employees pays off in the long run, as the company saves money on hiring new associates and boosts the morale of tenured employees at the same time.

It may seem like a good idea to train people and help them move up the corporate ladder, but it's more than a noble concept. There are specific benefits which can be reaped will reap from designing and implementing an employee upskilling training program:

Employee retention

Employees who are challenged to develop are often the happiest ones at an organization. If a company works to retain employees, it will prove that they are making a solid investment in the people, which boosts morale and productivity. When there are challenge for the employees to grow outside their roles, they tend to get excited about what might be around the corner for them.

Customer satisfaction

If a company has happy employees, it is far more likely to have happy customers. Content employees are typically more invested in the company, they promote the corporate brand within the organization and to the customers. And, typically, happy customers tend to be loyal customers as well.

The bottom line

It's expensive to lose and replace experienced employees. The company is losing the investment they made in the current workforce, not just because of any talent development it paid for, but also because when employees leave, they take all their knowledge and experience with them.

Now the company have to pay not only to advertise the new role, for the recruitment process, the time it takes to interview candidates, any hiring bonuses that new individual may require,

and also the time it will take the new individual to ramp up into the new position. Therefore, losing one employee means to hit on the bottom line of the company.

References

Module A

1. Wells, Harwell: The Birth of Corporate Governance *Seattle University Law Review*, Vol. 33, No. 4, p. 1247, 2010
2. Braendle, Udo C. and Kostyuk, Alexander N.: *Developments in Corporate Governance*
3. Cheffins, Brian R. History of Corporate Governance, *Law Working Paper N°.184/2012*, European Corporate Governance Institute
4. Elst, Christoph Van der Corporate Governance and Banks: How justified is the match? *Law Working Paper N° 284/2015, February 2015* European Corporate Governance Institute
5. Arun, T.G. and Turner, J. D: *Corporate Governance of Banks in Developing Economies: Concepts and Issues*
6. Carrascosa Antonio: *Corporate governance is never out of style in banking*, Center for Corporate Governance
7. Basel Committee on Banking Supervision: *Guidelines*: *Corporate governance principles for banks*, July 2015
8. Croneberger, Jen: *Vision, Mission And Purpose: The Difference*, Forbes Coaches Council
9. Adobe Communications Team: *The 5 Building Blocks of an Effective Brand Promise*:, July 5, 2018
10. Valamis: *Code of Conduct*, April 8, 2022

Module B

1. Sonnefeld, Jeffrey: A What Makes Great Boards Great, *Herverd Business Review*, September 2002
2. Price, Nicholas J The Role of the Board of Directors in Corporate Governance, *Deligent*, 11 October, 2018
3. Boland Mike and Hofstrand Don: The Role of the Board of Directors
4. Ferrell, O. C., Fraedrich, John and Ferrell, Linda: *Business Ethics - Ethical Decision Making and Cases*, 2008, South-Western Cengage Learning
5. Millstein, Ira M., Gregory, Holly J. and Grapsas, Rebecca C.: Six Priorities for Boards in 2006, *The Law and Governance*, March 2006, Volume 10, Number 3
6. Basel Committee on Banking Supervision- *Guidelines: Corporate governance principles for banks*, July 2015
7. Grobler, M. M. & Dlamini, I. Z.: Managing digital evidence – the governance of digital forensics, *Journal of Contemporary Management*, Volume 7, 2010
8. Mcmenemy, Lauren: What Is A Governance Framework? *Deligent*, 4 September, 2019

9. Framing the future of Corporate Governance: Deloitte Governance Framework
10. Kuoppamäki, Miika: Concepts of Board Performance: Review of Performance Metrics in Boards Research, *Journal of Management and Strategy* Vol. 9, No. 3; July 22, 2018
11. Asahak, Shamiran, Albrecht, Simon, L., De Sanctis, Marcele and Barnett, Nicholas S.: Boards of Directors: Assessing Their Functioning and Validation of a Multi-Dimensional Measure, *Frontiers in Psychology*, 4 December, 2018
12. Likierman, Sir Andrew, Measuring the success of the board, An International Federation of Accountants publication
13. Basel Committee on Banking Supervision: *Guidelines*: *Corporate governance principles for banks*, July 2015
14. Pratt, Mary K. and Wigmore, Ivy: *Corporate culture,* TechTarget, August, 2020

Module C

1. Joshi, Sudhanshu: *Corporate Culture and Strategic Management,* School of Management, Doon University
2. *Guidelines On Internal Control & Compliance In Banks*, Bangladesh Bank, September, 2015 and 2016
3. Isenberg, Daniel: How Senior Managers Think, *Harvard Business Review*, November, 1984
4. Iancu, Simona: Nine Ways Organizational Culture Impacts Business Strategy, Academy to Innovate HR
5. Friedman, David - Culture by Design, second edition (2018), Culturewise
6. Coleman, Candace: Company Culture and Business Strategy: What's the Connection? *CultureWise*

Module D

1. Maisel, Sherman J. : *Risk and Capital Adequacy in Commercial Banks,* (1981) University of Chicago Press
2. Muttalib, Sekoni Abiola: *The Basic Concepts and Features of Bank Liquidity and its Risk*, (2015), Munich Personal RePEc Archive
3. Bangladesh Bank, *Guidelines on "Managing Core Risks in Banking"*, Banking Regulation and Policy Department Circular No. 04 Dated March 5, 2007
4. Elliott, Douglas J. : *Bank Liquidity Requirements: An Introduction and Overview*, The Brookings Institution, June 23, 2014
5. Bangladesh Bank, *Guidelines on Risk Based Capital* Adequacy, December 2014
6. European Central Bank: *Developments in Banks' Liquidity Profile and Management*, May 2002

7. Tian Yu: *Market Liquidity Risk and Market Risk Measurement*: Master's Thesis, Delft University of Technology, June, 2009
8. Backer, Philippe De and others, *Non-performing Loan Management*, Arther D Little, March 2021
9. Basel Committee on Banking Supervision, *Core Principles for Effective, Banking Supervision*, Bank for International Settlements, 2012

Module E

1. Moody Michael J., *Expert identifies five flaws preventing ERM from achieving its potential*, The Rough Notes Company Inc
2. Vaidyula, Seshagiri Rao and Kavala, Jayaprakash- *Enterprise Risk Management for Banks,* August 2011, Wipro Council for Industry Research.
3. Helbekkomo, Hans; Levy, Cindy and White, Olivia: *Creating the bank enterprise risk management function of the future*, March 2020, McKinsey and Company
4. Grose, Vernon L. *Five Weaknesses Of Enterprise Risk Management* Omega Systems Group Inc
5. Institute of Risk Management: *An introduction to emerging risks and how to identify them-*IRM Charities Special Interest Group Report
6. Jonkman, Stefanie and Diagne, M'Baye: Emerging Risk Framework for Banking Systems, Regulatory Response, *International Journal of Government Auditing*, Summer 2016
7. Bellens, Jan and Watson, Mark: *How resiliency in risk management is the new top priority for banks,* 22 Jun 2021
8. Innovation Special Interest Group, Institute of Risk Management: *Horizon Scanning: A Practitioner's Guide*,
9. Department of Off-site Supervision, Bangladesh Bank *Risk Management Guidelines for Banks* (October 2018)
10. *Guidance on Supervisory Interaction with Financial Institutions on Risk Culture*, 2014, Financial Stability Board
11. Calle, Juan pablo: *What does risk culture mean?* December 11, 2019
12. Levy Cindy, Lamarre Eric and Twining James, *Taking Control of Organizational Risk Culture* (2010), McKinsey Working Paper on Risk
13. The Institute of Internal Auditors: *The Three Lines of Defense in Effective Risk Management and Control*, Global Position paper 2017
14. The Institute of Internal Auditors, *The IIA's three lines model: An update of the Three Lines of Defense*
15. Kaminski Piotr and Robu Kate: *A best-practice model for bank compliance*, January, 2016, McKinsey and Company

Module F

1. Bangladesh Bank: Policy for Offshore Banking Operation of the Banks, BRPD Circular No: 02, 25 February 2019
2. Bangladesh Bank: PSD Circular No: 04, 15 February, 2022
3. Bangladesh Bank (BB): Prudential Guidelines for Agent Banking Operation in Bangladesh, 2017.

Module G

1. Champ, Norm: *Building Effective Relationships with Regulators*, Harvard Law School Forum on Corporate Governance, October 22, 2015
2. State of relations: financial institutions and regulators, *Financier Worldwide Magazine,* March 2017
3. Tuchman, Robert: *Entrepreneur*,April 27, 2015
4. Taterway, Sumita: *Banker Customer Relationship*, Banking Digest, April 15, 2020
5. Wright, Mary Thorson, *How your bank should handle consumer complaints*, Independent Banker, November 1, 2019
6. *Guidelines for customer services and complaint management*, Financial Integrity & Customer Services Department (Customer Services Division), Bangladesh Bank
7. Carter, Rebekah: *What is media relations, and why should your business care?* Fabrik Brands
8. Rao, PSV Balaji and Avinash, M A, Disclosure and transparency in banking, *Journal of Emerging Technologies and Innovative Research*, October 2018, Volume 5, Issue 10
9. Iverson, David: Strategic Risk Management: A Practical Guide to *Portfolio Risk Management*, Wiley 2013

Module H

1. Sutarwala, Umme: Top 5 Attributes of a Future-Ready Company, Enterprise Talk May 19, 2021
2. Demou, George: *7 Qualities of Forward-Thinking Organizations* Avtex, Jun 1, 2021
3. Yu, Howard; Shan, Jialu; Boutalikakis, Angelo; Lawrence Tempel and Balian, Zuriati: *What Makes a Company "Future Ready"*? Harvard Business Review, March 21, 2022
4. Hesselbein, Frances and Goldsmith, Marshall edited *The Organization of the Future*, Vol 2, Jossey-Bass 2009
5. Amato, Hunter: *5 Steps to Building a Successful Business Initiatives*, Capterra, May 30, 2022
6. Cagwin, Douglass: *New Business Initiatives And Financial Performance*, University of Arkansas, May 1999

7. Ruokonen, Mika: *The Why?, What? and How? of a digital agenda for a large enterprise*, The Futurice, 12 Apr 2017
8. Liebenberg, Jonathan: *What is a People Plan and How Do You Make One?* About Leaders
9. Kenton, Will: *Succession Planning*, Investopedia, April 10, 2022
10. Half , Robert: *What Is Succession Planning? 7 Steps to Success,* Robert Half Talent Solution, October 3, 2021

Model questions:

Module A

1. Define corporate governance with historical perspective.
2. Why good governance is so important especially in the financial institutions?
3. How good governance can be achieved in a business organization?
4. What are the benefits of good governance in the FIs?
5. What do we understand by vission and mission?
6. What is the importance of mission statement?

Module B

1. What are the responsibilities and authorities of the Board of Directors
2. What is governance framework and the importance of the same?
3. What is corporate culture? What is the importance of developing corporate culture?
4. Whan and how the Board of an FI can be desolved and observer is appointed?

Module C

1. In what ways organizational culture impacts business strategy?

Module D

1. Define CAR. What are the importance and implications of CAR
2. What assets a commercial bank maintain?
3. What do we understand by problem asset? How problem asset management works?

Module E

1. What are the components of ERM
2. Describe the benefits of maintaining effective ERM
3. What are the key requirements of ERM?

4. What is risk appetite? Describe the benefits of articulating risk appetite.
5. What are the material risks.

Module F

1. What do we understand by three lines of defense. Ellaborate the lines.
2. How the 2nd line functions can be strength?
3. What are the core priciples of regulatory compliance?

Module G

1. Describe the importance of MFS in digital agenda.
2. What is the core philosophy of agent banking? Why has it become so popular and preferred to traditional branch banking?
3. Why relationship with the competitors is so important?
4. How deeper relationship can be built with the customers?
5. What are the benefits of relationship with Media?
6. How Community Relations can be improved through CSR activities?

Module H

1. What is meant by market positioning and repositioning?
2. What are the steps to ensure effective market positioning?
3. What is meant by digital agenda? What are its' components?
4. What are the objectives of digitalization?
5. What are the benefits of succession planning?