

# Financial System of Bangladesh: Regulatory Structure, Institutions and Basic Services

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## Abstract

*The financial system of Bangladesh is relatively under developed, and the majority of the market rely on money market compared to the capital market. Besides, the structure of the financial system of Bangladesh is very complex, and sometimes difficult to correlate with the standard one. The lack of regulation, corruption, bureaucracy, and political unsuitability is the main hinder for the actual growth of this sector. However, since independence its progress has emerged as exemplar for the world by reducing poverty and increasing the purchasing power of the people. Based on the study, the development of the capital market of a country is the prime indicator for the long-term sustainability. Reshaping the regulatory structure, reviewing and introducing new policies, enforcing more institutional control, introducing diversified products, and providing better services could help this sector to grow far better.*

**Keywords:** Bangladesh, Financial System, Financial Institutions, Financial Markets, Regulatory Structure, Bangladesh Bank.

## 1. Introduction

The financial system is a system that to channels funds from lenders to borrowers, to create liquidity and money, to provide a payments mechanism, to provide financial services, such as, insurance and pensions, and to offers portfolio adjustment facilities. In finance, the financial system is the system that allows the transfer of money between savers and borrowers. It comprises a set of complex and closely interconnected financial institutions, financial markets, financial instruments, financial services, practices and transactions [1]. The financial markets facilitate the flow of funds from those who have excess of it (surplus units) to those who need of it (deficit units). This flow of funds are organized and managed by various financial institutions, and the funds may come from governments, corporations, and individuals. Whereas, various financial instruments are used as transaction tools to perform this job, and thus how, the financial services and products are offered to the public [2].

In any extend, to understand the necessity and and affiliation of a financial system in an economy on a county, a remark of the then British prime minister, William Ewart Gladstone, carries a significance important. He stated in 1858, “Finance is, as it were, the stomach of the country, from which all the other organs take their tone”. However, it is undeniable that the inter-relation between the economy and financial system, and the necessity of various sectors of the financial system for the development of economy were illustrated differently by the economists in different aspects. The structure of the financial sector and the partnership of its various organs of this system varies from country to country, and based on the indicator of the economic development countries can be ranged from underdeveloped to the developed [3].

After the independence in 1971, the financial system of Bangladesh has been passed more than five decades. During this time, the current development of the financial system is a paradigm shift for the economy. However, the system is highly diverse, and Bangladesh Bank is the key player in the financial sector of Bangladesh, as well as for the economy [4]. It formulates and implements monetary policy, manages foreign exchange reserve, and it is the supreme authority to supervise and regulate other banks and non-bank financial institutions. In the past two decades, the financial sector of Bangladesh has gone through a lot of reforms, and the central bank reform was a key element of the reform agenda. Specially, the financial inclusion of a large population through agriculture and SME (small and medium enterprise), technology-based, eco-friendly and sustainable financial system, and preventing anti-money laundering and financing in terrorism was exemplar for the world [5].

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## 2. Financial System of Bangladesh

Based on the financial institutions, financial instruments, and financial markets, the structure of the financial system of Bangladesh can be classified as the following:

1. Financial Institutions	2. Financial Instruments
<ul style="list-style-type: none"> <li>a) Banking Financial Institutions               <ul style="list-style-type: none"> <li>i. Commercial Banks                   <ul style="list-style-type: none"> <li>1. State-Owned Commercial Banks (SCBs)</li> <li>2. Specialized Banks (SBs)</li> <li>3. Private Commercial Banks (PCBs)</li> <li>4. Foreign Commercial Banks (FCBs)</li> </ul> </li> <li>ii. Specialized Banks                   <ul style="list-style-type: none"> <li>1. Bangladesh Krishi Bank (BKB)</li> <li>2. Rajshahi Krishi Unnayan Bank (RAKUB)</li> <li>3. Prabashi Kallyan Bank (PKB)</li> </ul> </li> </ul> </li> <li>b) Non-Banking Financial Institutions (NBFIs)               <ul style="list-style-type: none"> <li>i. Leasing Companies</li> <li>ii. Investment/Merchant Banks</li> <li>iii. Housing Finance Companies</li> <li>iv. Insurance Companies</li> <li>v. Finance Companies</li> <li>vi. Stock Exchanges</li> <li>vii. Micro Finance Institutions (MFIs)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>a) Primary/Direct Financial Instruments               <ul style="list-style-type: none"> <li>i. Loans and Advances</li> <li>ii. Shares/Stocks</li> <li>iii. Debentures</li> </ul> </li> <li>b) Secondary/Indirect Financial Instruments               <ul style="list-style-type: none"> <li>i. Deposit</li> <li>ii. Mutual Funds</li> <li>iii. Unit Certificates</li> <li>iv. Cash On Delivery (COD)</li> </ul> </li> <li>c) Money Market Financial Instruments               <ul style="list-style-type: none"> <li>i. Treasury Bills (T-Bills)</li> <li>ii. Negotiable Certificate of Deposits (NCDs)</li> <li>iii. Commercial Papers</li> <li>iv. Banker's Acceptances</li> <li>v. Repurchase Agreements (Repo/Reverse Repo)</li> </ul> </li> <li>d) Capital Market Financial Instruments               <ul style="list-style-type: none"> <li>i. Bonds (Corporate/Government/Sukuk)</li> <li>ii. Share (Preference Share)</li> <li>iii. Equity Securities/Stocks</li> <li>iv. Mortgages</li> </ul> </li> </ul>
<b>3. Financial Markets</b>	
<ul style="list-style-type: none"> <li>a) Money Market</li> <li>b) Capital Market               <ul style="list-style-type: none"> <li>i. Stock Exchanges</li> <li>ii. Stock Dealer/Stock Broaker</li> <li>iii. Investment Corporation of Bangladesh (ICB)</li> <li>iv. Asset Management Companies (AMCs)</li> <li>v. Credit Rating Companies (CRCs)</li> <li>vi. Merchant Banker and Portfolio Manager</li> <li>vii. Central Depository</li> <li>viii. Trustees/Custodians</li> </ul> </li> <li>c) Foreign Exchange Market</li> <li>d) Taka Treasury Bond Market               <ul style="list-style-type: none"> <li>i. Primary Issues of Treasury Bonds</li> <li>ii. Secondary Issues of Treasury Bonds</li> </ul> </li> <li>e) Security Market               <ul style="list-style-type: none"> <li>i. Primary/New Issue Market</li> <li>ii. Secondary Market                   <ul style="list-style-type: none"> <li>1. Organized Stock Exchange Market</li> <li>2. Over The Counter (OTC) Market</li> </ul> </li> </ul> </li> <li>f) Non-Security Market               <ul style="list-style-type: none"> <li>i. Banking</li> <li>ii. Non-Banking</li> </ul> </li> </ul>	

Here is the statistics of various banking institutions based on the number of banks and their branches, total assets, and their current deposits:

Nature of Banks	No. of Banks	No. of Branches	Total * Assets	Share in %	Total * Deposits	Share in %
SCBs	6	3,836	5,600.7	24.2	4,324.6	25.4
SBs	3	1,523	539.1	2.3	467.8	2.8
PCBs	43	5,666	15,688.3	67.8	11,385.7	67.1
FCBs	9	63	1,314.7	5.7	802.9	4.7
<b>Total</b>	<b>61</b>	<b>11,088</b>	<b>23,142.8</b>	<b>100</b>	<b>16,981.2</b>	<b>100</b>

\* in billion BDT

Fig: Structure of Banking System, Bank Types, No. of Banks, Assets, and Deposit Shares [6]

### 3. Financial Institutions in Bangladesh

In broader sense, the financial institutions in Bangladesh can be classified as, formal, semi-formal, and informal sectors [7]. The formal sector may be further classified as the money market, capital market, security market, non-security market, foreign exchange market, insurance companies, and non-governmental organization affairs bureau.

Money market is a market for dealing with financial assets and securities which have a maturity period of up to one year. In other words, it's a market for purely short term funds. In money market there are banks, non-bank institutions (35 institutions), and micro-finance institutions (682 institutions), where banks are two types - scheduled banks and non-scheduled banks. There are 119 scheduled and 5 scheduled banks in Bangladesh who operate under full control and supervision of Bangladesh Bank which is empowered to do so through Bangladesh Bank Order, 1972 and Bank Company Act, 1991.

Scheduled Banks are classified into following types:

- State Owned Commercial Banks (SOCBs): There are 6 SOCBs which are fully or majority owned by the Government of Bangladesh.
- Private Commercial Banks (PCBs): There are 43 private commercial banks which are majorly owned by the private entities. PCBs can be categorized into two groups:
  1. Conventional PCBs: 33 conventional PCBs are now operating in the industry. They perform the banking functions in conventional fashion, i.e., interest based operations.
  2. Islami Shariah based PCBs:
    - a) There are 10 Islami Shariah based PCBs in Bangladesh and they execute banking activities according to Islami Shariah based principles, i.e., Profit-Loss Sharing (PLS) mode.
    - b) There are 7 PCBs, who has branches to offers Islami banking services.
    - c) 9 PCBs have Islami window for Islami Banking products and services.
- Specialized Banks (SDBs): 3 specialized banks are now operating which were established for specific objectives like agricultural development. These banks are also fully or majorly owned by the Government of Bangladesh.
- Foreign Commercial Banks (FCBs): 9 FCBs are operating in Bangladesh as the branches of the banks which are incorporated in abroad [8].

After the independence, banking industry in Bangladesh started its journey with 6 Nationalized Commercialized Banks, 2 State Owned Specialized Banks and 3 Foreign Banks. After the liberation of Bangladesh, Government of Bangladesh nationalized all the banks of the country. The object of nationalization was to expand the branch network all over the country to reach the banking service to mass people for the overall economic development of the country.

The banks which are established for special and definite objectives and operate under the acts that are enacted for meeting up those objectives are termed as non-scheduled banks. There are 5 non-scheduled banks, and these banks can not perform all functions of scheduled banks.

A capital market is a market for financial assets which have a long or indefinite maturity. Generally it deals with long term securities which have a maturity period of above one year. The capital market of Bangladesh can be classified as investment banks (there are 63 banks), stock exchanges (2 exchanges), stock dealers and brokers (12 brokerages), asset management companies (64 companies), and credit rating agencies (8 agencies). The security market can be a new issue market and a secondary market. Our foreign exchange market consists of 24 authorized dealers [9].

There are 62 insurance companies in our financial system. Among them, 18 are life insurance companies, and 44 are non-life insurance companies. Besides these, there are 2,505 non-governmental organization affairs bureaus in Bangladesh.

The semi-formal sector consists of 5 specialized banks - House Building Finance Corporation, Palli Karma Sahayak Foundation, Samabay/Co-operative Bank, Grameen Bank, and other Non-Government Organizations (NGOs). However, in informal sectors, there are money launders and private intermediaries.

## 4. Regulators and their Regulations

Here are the list of regulators along with their regulations and policies, who are currently actively monitoring the financial system of Bangladesh:

### 1. Regulatory Authorities

- a) **Company Registration:**  
Registrar of Joint Stock Companies and Firms (RJSC)
  - *Companies Act, 1994*
  - *Contract Act, 1872*
  - *Negotiable Instrument Act, 1881*
  - *Transfer Property Act, 1882*
  - *BBE Act*
  - *MLC Act*
- b) **Central Bank:** Bangladesh Bank (BB)
  - i. For Banking Institutions
    - *Bank Company Act, 1991*
    - *BB BRPD Circulars*
    - *Banking Regulation Act, 1949*
    - *Bank Deposit Insurance Act, 2000*
  - ii. For Non-Bank Financial Institutions - NBFIs
    - *Financial Institutions Act, 1993*
    - *BB DFIM Circulars*
- b) **Regulator of Capital Market Intermediaries:**  
Bangladesh Securities and Exchange Commission (BSEC)
  - *Securities and Exchange Ordinance, 1969*
  - *Securities and Exchange Rules, 1987*
  - *Security Exchange Commission Act, 1993*
- c) **Regulator of Micro Finance Institutions:**  
Micro-credit Regulatory Authority (MRA)
  - *Micro-credit Regulatory Authority Act, 2006*
  - *Micro-credit Regulatory Authority Rules, 2010*
- d) **Insurance Authority:**  
Insurance Development and Regulatory Authority (IDRA)
  - *Insurance Act, 2010*
- e) **Finance Auditing Authority:**
  - i. Institute of Chartered Accounts of Bangladesh (ICAB)
    - *Bangladesh Accounting Standard (till 2015)*
    - *Bangladesh Financial Reporting Standard (after 2015)*
  - ii. Financial Reporting Council (FRC)
    - *Financial Reporting Council Notification, 16 March 2020*

### 2. Self-Regulatory Organizations

- a) Dhaka Stock Exchange (DSE)
  - *Listing Regulations of DSE, 2015*
- b) Chittagong Stock Exchange (CSE)
  - *Listing Regulations of CSE, 2015*

Bangladesh Bank acts as the Central Bank of Bangladesh as regulator and supervising authority of banks and FIs, and here are some core policies of the Central Bank [10]:

- Bank note issue
- Monetary and credit policy
- Reserve management strategy
- Interest rate policy
- Capital adequacy for bank and FIs
- Deposit insurance
- Banker to the government
- As banker's bank

## 5. Services they Provide

The financial institutions provide financial services tied to finance, encompasses a broad range of activities concerning financial management and consumer finance.

### ● **Banking services:**

A commercial bank, or simply known as a bank, primarily provides the following services:

- Keeping money safe and allowing withdrawals
- Issuance of chequebook, and honoring cheque to withdraw money

- Issuance of debit card as a substitute of cheque, or credit card with credits
- Financial transactions at branches/online/ATMs (Automated Teller Machines)
- Provide personal/commercial/mortgage loans to purchase a home/property/business
- Facilitate standing order, direct debit, overdraft, credit facilities, cheque guarantee, etc.
- **Investment banking services:**  
Services provided by the investment or merchant banks are as follows:
  - Underwriting debt and equity to raise capital
  - Advising and underwriting companies on mergers or takeovers
  - Develop intricate products for high-net-worth individuals and institutions
  - Management of assets to meet specific goals of clients
  - Brokerage services to buy and sell securities
  - Private banking services for high-net-worth individuals and institutions
- **Services of Micro Finance Institutions (MFIs)**
  - Provision to small loans to poor clients
  - Micro-insurance and payment system
  - Savings and checking accounts
  - Fund transfer and remittance
  - Non-financial services like training, counseling, etc.
- **Foreign exchange services:**  
Foreign exchange services provided by the banks and foreign exchange brokers are includes:
  - Currency exchange services
  - Receiving and sending remittance
  - Sending funds internationally through wire transfer
- **Insurance services:**  
In general, insurance companies offers the following services:
  - Life Insurance
  - General Insurance
  - Takaful/Islami Insurance
  - Micro-Insurance
  - Re-Insurance
- **Other financial services**
  - Credit and networking service
  - Debt resolution consumer services
  - Financial market utilities service
  - Payment recovery service

## 6. Discussion and Conclusion

Experiencing a surge in digitization and automation over the last decade, the financial sector of Bangladesh has undergone a huge modernization by bringing millions under the financial system. Along with other factors, the lack competition in the banking sector, and lack of discipline in the capital market are the main problem for our financial system. Compared to other developing countries, Bangladesh is still facing the challenges of social progress, industrialization, infrastructural development, political corruption, and lack of willingness.

Introducing a free market economy, the technological development, proactive and forward-visioning approach of Bangladesh bank, number of automation initiatives in financial sectors, like online L/C and export monitoring system, Bangladesh Automated Clearing House (BACH), Electronic Fund Transfer (EFT), Mobile Financial System (MFS), free floating exchange rate, SMART reference lending rate, information security awareness, recent permission for the digital banking, and other timely initiatives taken by the supervisor and regulatory body always showed the steady development of this sector [10].

However, more control over the capital market - especially the share market, dealing with manual market manipulation, proper financial awareness, training and literacy to the investors could make the market stronger. On the other hand, more regulated banking sector, financial inclusion of poor and rural population, proper distribution of resources, reducing poverty could lead to the stable growth of the money market. Finally, the author argue that a strong regulatory environment, financial reforms, and an efficient financial sector may lead the robust economical development of the country.

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10. ডিপার্টমেন্ট অব কমিউনিকেশন এন্ড পাবলিকেশন্স। মার্চ ২০১৯। *বাংলাদেশ ব্যাংকের ইতিহাস*। বাংলাদেশ ব্যাংক, ঢাকা, বাংলাদেশ।