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**COVID-19: Accounting Challenges in the Banking Sector of Bangladesh**

**ACT201 – Introduction to Financial Accounting**

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**COVID-19: Accounting Challenges in the Banking Sector of Bangladesh**

The global outbreak of Covid-19 is nothing but salt in the wounds of the banking sector of Bangladesh. Even before the pandemic had begun, the situation of the banking sector was cumbersome. Skyrocketing Non-Performing Loans, deteriorations in various efficiency indicators, declining margins, declining demand for loanable funds and government directed restructuring of loans had already put the banking sector under severe stress. To put it into context, Bangladesh scored 38.3 out of 100 and ranked 130th out of 141 countries in the soundness of banks according to "Global Competitiveness Report 2019" (LankaBangla Asset Management Co. Ltd. 2020). Covid-19 resulted in the situation to go from bad to worse. The mandatory social distancing measures imposed by the government to curb the spread have forced every organization, including banks to conduct their activities remotely. As such, it is high time for the country's banking sector to develop and implement a truly digitized financial system, which would include a secured, contactless, and converged financial platform for transactions. Apart from this, measuring ECLs (Expected Credit Losses), identifying SICR (Significant Increase in Credit Risk), coping with modifications & forbearance, interim reporting under IAS (International Accounting Standard) 34 including other disclosure considerations, and recording government relief programs are some of the significant accounting challenges in the banking sector of Bangladesh.

While the uncertainties arising from COVID-19 are substantial and circumstances are sure to change, it will not preclude banks from estimating their expected credit losses. Estimating ECLs during a global pandemic is challenging but not impossible. To reflect an unbiased and probability-weighted ECL amount, significant judgment will need to be applied in assessing the range of possible outcomes. Besides, to correctly measure ECLs, banks will need to develop an estimate based on the best available data about past events, current conditions, and forecasts of future economic conditions. Since the impact of Covid-19 can't be reflected in an institution's models, post-model adjustments or overlays also will need to be considered. Moreover, the methodology used to estimate ECL will vary depending on local conditions, portfolio exposures, available data, and existing models.

Banks and non-banks are mostly operated by taking deposits from surplus units and offering loans to deficit units. Private firms, MNCs, SMEs Large businesses take loans from banks for their operation and growth. But this COVID-19 in 2020 has resulted in lockdowns and social distancing, which negatively impacted the operation of all sorts of businesses. Businesses were closed, and productions were down for a long time during lockdowns. That resulted in massive credit risk for the banking and non-banking sectors. COVID-19 resulted in a significant increase in credit risk (SICR) for all types of businesses and entities. By SICR, we mean the probability that any financial institution's assets and loans will decline in value and perhaps become worthless is known as credit risk (Olivia Labarre, 2020). The banks are expecting huge credit loss of their loans because of COVID-19. Banks have ALL (annual allocation for their credit losses), and their accounting department will have challenges assuming the credit loss of the bank loans. To mitigate these credit risks, banks will have to make plans. To help borrowers cope with financial losses, banks and governments have various challenges, so that no financial crisis happens like 2008 or so. Many governments, including Bangladesh, have identified certain classes of business, and to help them survive during COVID-19, they have lowered their interest rates to take loans from banks. Governments instructed banks to pay credits to those businesses at a lower rate than usual so that they can live (Bangladesh: Government and institution measures in response to COVID-19., n.d.).

All financial institutions make yearly income statements and balance sheets. The accounting department of a business is responsible for creating regular and annual statements for any business. COVID-19, the year 2020, will surely have a huge impact on the income statements businesses. For banking sectors estimating future income reports will be uncertain. Because there is a huge amount of credit risk and expected credit loss incoming from borrowers, and also banks have to pay their deposit interests. Banks have to make critical estimates of their proforma statements of 2021 and so on. They have to assume more credit losses now, and credit risk management for banks will be very likely to change. To manage these risks of credit, many governments, central banks, and other international agencies are making programs to provide economic support to the businesses and borrowers of banks. Work banks, IMF, Central banks are offering interest-free deposits to commercial banks and agencies so that companies can use funds (World Bank, 2020). Also, most of the organizations are promoting to work from home and paid holidays. Most of the employees are working from home through their internet-connected devices and providing funds for businesses.

What is stopping us from digitizing the service sector? At least in the banking sector of Bangladesh, all banking transactions are still heavily dependent on paper or documents. To open an account, one has to fill out pages of forms, submit copies of identity documents, photographs, TIN certificates, etc. in paper with a wet signature. To file taxes, the taxpayer needs to visit the bank to collect physical statements and various certificates that must be furnished to the tax authorities. To buy a car or piece of land, it becomes necessary to visit the branch to get a payment order issued. If a person receives remittance from overseas, supporting documents and forms must be submitted to the bank so that they can credit his account. If a factory owner needs to import raw material, the owner has to visit the branch to submit the LC application form. When shipments arrive, shipping documents must be collected from the bank and submitted to customs to release the goods. For almost everything related to banking, it is essential to visit the branch. Making necessary reforms and removing obstacles to enable widespread digitization can eliminate the dependency on physical branches. Some proposed reforms are essential to enable this in the Bangladesh bank sectors.

Electronic signature can be an alternative of wet-signature on hardcopy documents. In Bangladesh, it is mandatory to provide a physical-signature to prove authenticity. The ICT Act of 2006 provides the legal acceptability of electronic and digital signature in Bangladesh (Aziz, K. 2020). Adopting this can be a big step towards digitizing banking transactions. With the wet-signature made optional, then we can allow documents to be signed and exchanged electronically through email, host-to-host connectivity, API, and other digital channels. Two-factor authentication, encryption, blockchain technology, and other security protocols can be adopted to ensure authenticity, data confidentiality, and security of documents. With the drive towards automation, many of the manual processes have been computerized in recent years. What is missing is the real-time integration/connectivity between these systems. Banks and other organizations could easily fetch data from the EC database, eliminating the need for citizens to update the data with all their service providers. Yet, for many government payments, checks and pay orders continue to be the preferred instruments. We can mandate all government payments to be electronic. These initiatives don't require a vast technological investment. Most have to do with policy, legal, and business practice-related reforms.

COVID-19 has given rise to unprecedented challenges that have affected virtually every aspect of modern life. The post-COVID-19 world will not be the same again. Humanity is slowly but surely overcoming the Covid-19 challenge. The new normal may come up with a changed lifestyle, purchasing behavior, way of doing business, and interfaces. Post-pandemic solutions of unique problems we are facing in the COVID-19 pandemic may lay the foundation for many business ideas and can shape the future of our e-commerce industry in the coming years. The banking sector, an integral part of modern life, will need to set the pace in this transformational journey.

# References

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