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The BICM Financial Market Review provides analytical insights about the performance of the financial market in Bangladesh on a monthly basis.



Exchange rate devaluation should be occupied by adjusted alike positive slope of export rate accretion keeping other variables constant, but incongruent export nature is resulting into inflation as a byproduct of devaluation of exchange rate and continuous decrease of foreign reserve.



Gourav Roy, Lecturer, BICM



Economy of Bangladesh

Key indicators at a glance

Countries	Nominal GDP (USD in billion)	Real GDP Growth (yearly % Change)	Inflation Point to point (as of Jun, '23)	Currency Appreciation/Depreciation against USD	Reserve (Billion USD)	Currency Exchange Rates (per USD)
Bangladesh	426.85	6.03%	9.69%	-2.75%	23.37	109.92
Emerging Economies						
India	3,750.00	7.20%	7.44%	-0.33%	601.4	82.73
China	19,373.00	4.50%	-0.30%	1.05%	3204	7.27
Developed Economies						
USA	23,618.00	2.90%	3.16%	0%	245	1
UK	3,080.00	1.90%	6.80%	1.09%	121.8	0.79

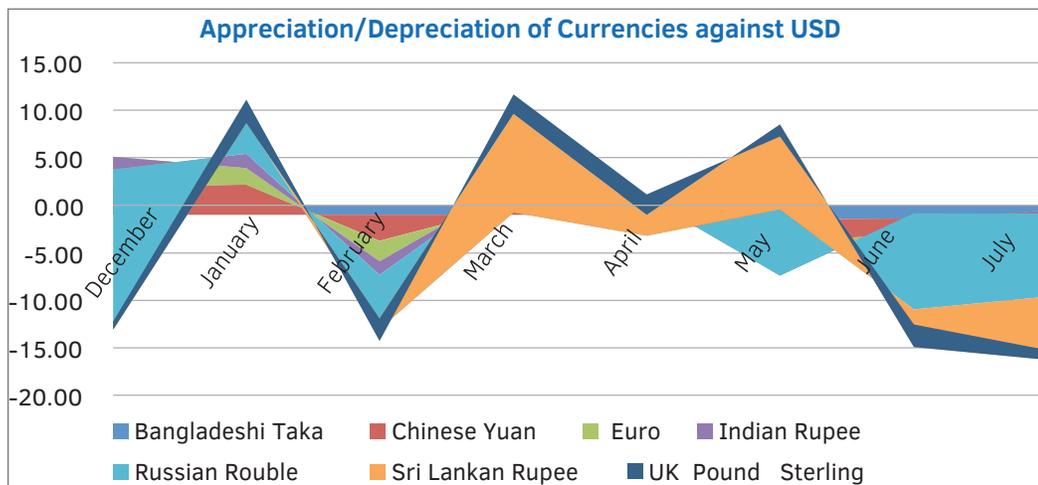


Figure 1: Appreciation or Depreciation of Different Currencies against USD

A visual tour of the key statistics

Import-Export Delta (Percentage Change upto June, 2023)

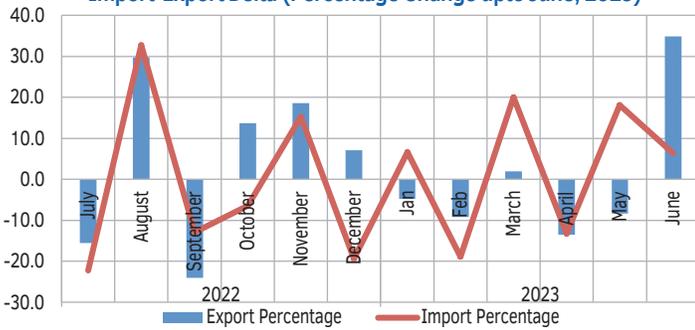


Figure 2: Import-Export Delta (Percentage Change up to June, 2023)

Foreign Remittance Growth of FY 2022-23



Figure 3: Foreign Remittance Growth of FY 2022-23 (In Percentage)

Percent Change of Foreign Reserve of Bangladesh

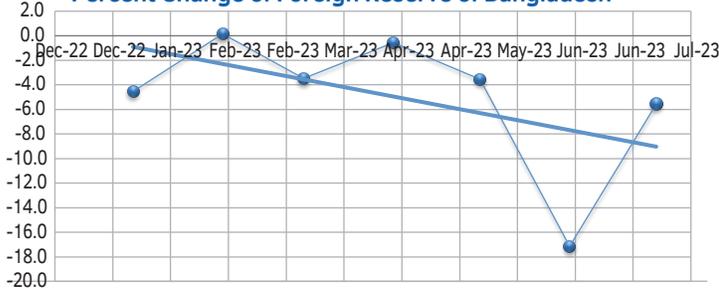


Figure 4: Percent Change of Foreign Reserve

Period Average Exchange Rate

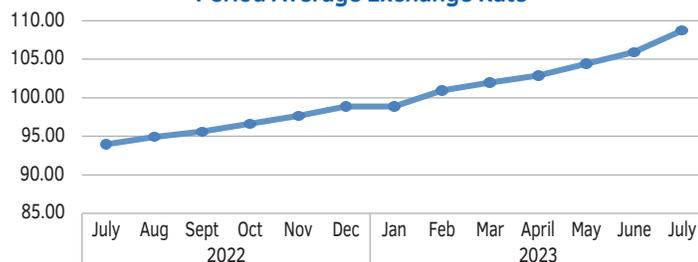


Figure 5: Period Average Exchange Rate of Bangladesh

Country-wise Workers' Remittance (In Crore of BDT)

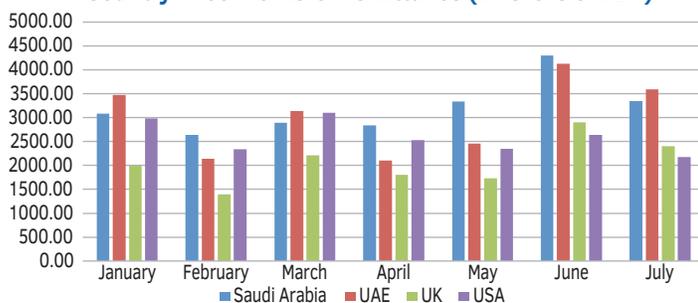


Figure 6: Country-wise Workers' Remittance

Total Domestic Credit M3 (In Crore of BDT)

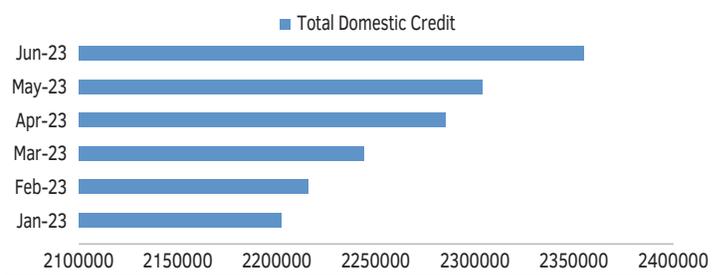


Figure 7: Total Domestic Credit

12- Month Average Inflation (In Percentage)

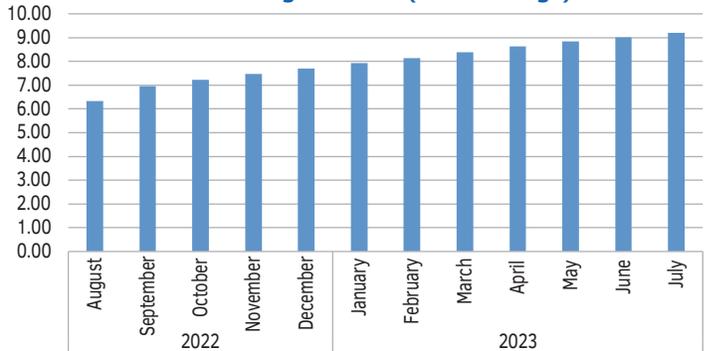


Figure 8: 12- Month Average Inflation (In Percentage)

Numbers to Note

1. BDT was found to be depreciating by 2.75% per USD while other big South Asian economies had mixed effect against USD in this month.
2. Export increased very drastically while import increased higher in volume but lower in percentage indicating a big deficit of trade in volume.
3. Foreign remittance growth decreased by 10.3% in July, 2023 which is a very negative economic event for this month.
4. The reserve is now 23.37 billion US Dollar that was 24.75 billion US Dollar in the last month.
5. The average monthly exchange rate is now 108.74 Taka per US Dollar that represents continuous depreciation over the last few months.
6. The Debt to GDP percentage in 2023 is 38% which was 37.5% in the previous year.
7. The 12-month average inflation is 9.20% that was 9.02% in the last month.

Economic Challenges Ahead

1. Though Bangladesh makes progress in IMF's suggested reforms implementation, the continuous falling reserve may make foreign direct investment less lucrative.
2. Universal Pension Scheme is a very positive effort of the Government of Bangladesh. It is a challenge to keep this fund investable in different horizon and profitable at the same time.
3. FOREX trading should be controlled by Bangladesh Bank and legal structure for controlling and monitoring mechanism should be introduced.
4. Bangladesh's export will be sustainably increased if production can be monetized without pressure from syndicates for what the campaign is a challenge here to control the price level.
5. The rising inflation and increasing cost of commodities may turn on the switch of the economic depression in Bangladesh unless tackled properly.
6. Inflation and devaluation of Taka may slowdown manufacturing growth at a rapid rate.

Capital Market Orchestrated Downward Movement Losing 39 Points in August



Capital Market

The market demonstrated a 0.62% decrease in the DSEX index compared to the previous month of July. The prices of the majority of issues remained unchanged

It is glaringly apparent by analyzing the capital market snapshot of August 2023 that the DSE market indices demonstrated a downward movement along with a positive trend in the last week of the month. The prices of the majority of issues decreased compared to the previous month. Other indices have also decreased compared to those of July except a positive return of 0.18% in high cap index. During August, on an average, only 72 issues advanced, 89 issues declined and the remaining 231 issues closed unchanged. The AD ratio compares the number of stocks that increased in value to the number of stocks that decreased in value. By shedding light on the AD ratio of this month, it is evident that the 22-trading day denoted a somewhat volatile trend in the market throughout the month with an increase in the third and fourth week of the month.

The market rode along the downward curve for the first week of the month but on later weeks of the month gained some points. Investment in the market decreased as total traded value decreased by 43.64% over the month whereas average trade volume decreased by 57.54%. This month was quite chaotic for the country's capital market as political tension among the mass surged due to several political events around the country. Country's foreign exchange reserves (gross) plummeted to \$29.7 billion. Lots of factors contributed to lower investment in the market including higher inflationary pressure, lower remittance flow during the month, and higher energy price. Moreover, institutional and eligible investors were tethered to increase or decrease their exposure to many stocks due to the imposed rule of floor price. The falling trade deficit, along with the increase in export earnings from sales of garments products might work as an optimistic way forward. Overall 17 IPOs are in the pipeline to penetrate the market waiting for the approval from the BSEC. Asiatic Laboratories Limited has got their approval from BSEC to come to the IPO. Analyzing the returns of the world's major indices it is apparent that major indexes of India, USA, Japan, UK and Bangladesh showed a negative return in August compared to the previous month. In terms of global commodity future markets, except gold every major commodity futures showed a positive trend. Natural gas gained a maximum value of 9.02% whereas soybean and sugar prices have increased by more than 4.35% and 2.83% respectively in the month of July.

The market P/E ratio of the Dhaka Stock Exchange Limited this month was 17.54 on an average. FUWANGFOOD was in the top position based on turnover; MIRACLEIND was the top gainer in terms of price with 38.51% increase over the month whereas IMUMBUTTON was the top loser. In terms of sector return, tannery sector, cement sector, food and allied sector, textile sector, and pharmaceutical sector performed well in this month. Aggregately, the average trade volume decreased by 57.54% whereas the average trade value decreased by 43.64% along with a 1.22% decrease in the average market capitalization compared to the previous month. A piece of positive news this month for the economy of Bangladesh is that export growth increased by around 3.8%. Inauguration of different infrastructural development are paving new ways of economic growth through job creation and efficient transportation mobility.

BSEC and BB already have taken several actions to improve the market performance. Economic Development Board of Mauritius and the Bangladesh Securities and Exchange Commission signed a memorandum of understanding on 28th August to expand the business and investment in both the countries. A summit titled 'The Rise of Bengal Tiger: Potentials of trade, business and investment' was also held there. This kind of initiatives from the policy makers will cater towards developing a vibrant capital market in the upcoming days.

DSE Market Indices

Index Name	1-Aug-23	31-Aug-23	Change	% Change
DSEX	6,338.77	6,299.50	-39.27	-0.62%
DSES	1,373.89	1,372.52	-1.37	-0.10%
DS30	2,160.67	2,141.61	-19.06	-0.88%
CDSSET	1,209.93	1,212.08	2.15	0.18%
DSMEX	1,327.96	1,296.88	-31.08	-2.34%
Scripts Movement	Advance		Decline	Unchanged
	72		89	231

Table 1: DSE Market Indices

Market Aggregates

	31 Aug 2023	31 Jul 2023	Change	% Change
Average Market Capital (TK Million)	7,760,420.79	7,666,588.06	93,832.73	1.22%
Average Traded Value (TK Million)	4,387.47	7,785.27	-3,397.80	-43.64%
Average Number of Trades	111,024.82	175,445.09	-64,420.27	-36.72%
Average Trade Volume	88,675,923.91	208,863,884.27	-120,187,960.36	-57.54%

Table 2: Market Aggregates

Sector wise Contribution

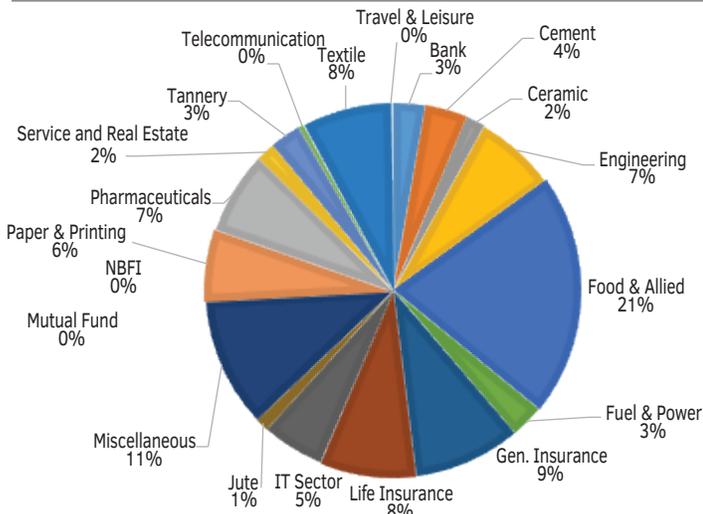


Figure 9: Sector wise Contribution

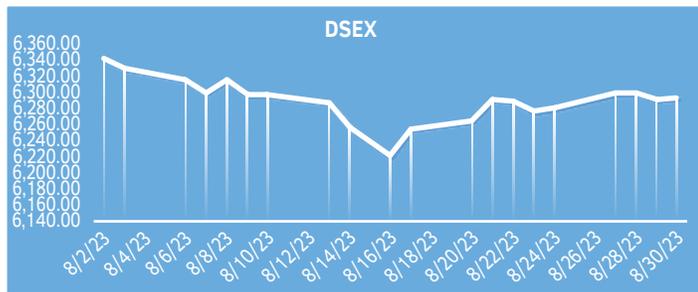


Figure 10: DSEX Index



Figure 11: DSES

Sectoral PE Ratio

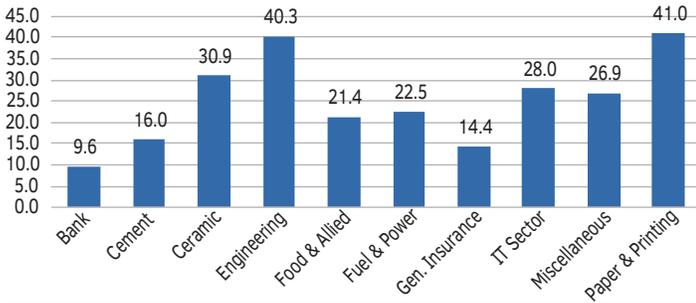


Figure 12: Market PE Ratio

AD ratio

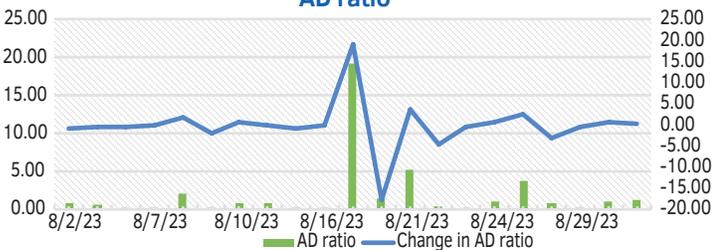


Figure 13: AD Ratio

SECTOR RETURN



Figure 14: Sector Return

Top Gainer and Loser

Turnover		Gainer		Loser					
Sl	Stock	Turnover	Total (%)	Sl	Stock	Return(%)	Sl	Stock	Return(%)
1	FUWANGFOOD	731.64	22.71%	1	MIRACLEIND	38.51%	1	IMAMBUTTON	-18.03%
2	SEAPEARL	323.67	-16.01%	2	AMBEEPHA	25.35%	2	DESHBANDHU	-16.93%
3	SONALIPAPER	308.19	9.88%	3	FUWANGFOOD	22.71%	3	SEAPEARL	-16.01%
4	RUPALILIFE	301.04	-2.73%	4	DAFODILCOM	18.43%	4	PRIMELIFE	-14.92%
5	KBPPWBIL	269.98	-12.34%	5	EHL	15.20%	5	METROSPIN	-14.86%

Table 3: Top Gainer and Loser

Performance comparison of World's Major Index

Country	Index Name	Return
India	BSESENSEX	-2.45%
USA	DOWJONES	-2.01%
Japan	Nikkei 225	-2.56%
UK	FTSE 250	-2.41%
Bangladesh	DSEX	-0.62%

Table 4: World's Major Indices

Performance comparison of commodity futures

Commodity name	Return
SUGAR	2.83%
NATURAL GAS	9.02%
COTTON	2.20%
SOYBEAN	4.35%
GOLD	-0.67%
CRUDEOIL	1.92%

Table 5: Major Commodity Prices

The impressive growth of various transaction gateways shows how the traditional brick-and-mortar banking system is being rapidly replaced by the modern banking system



As of June 2023, demand deposits and time deposits both increased by 5.53 and 8.82 percent respectively, adding up to total deposit growth of about 8.40 percent annually.

The overall number of bank credits has grown by 8.65% annually. Bank investments decreased by 1.11 percent year over year, but bank advances and bills both climbed by 11.15 and 14.89 percentage points. [Table-06]

Scheduled Banks' Deposits and Credits

Deposits held in DMBs			(Taka in Millions)		
Items	Jun'23	May'23	Jun'22	Percentage Changes	
				Jun'23 vs May '23	Jun'23 vs Jun'22
Demand Deposits	1,993,047	1,843,475	1,888,594	8.11	5.53
Time Deposits	13,952,858	13,791,522	12,822,175	1.17	8.82
Total Deposits	15,945,905	15,634,997	14,710,769	1.99	8.4

Banks' Credit			(Taka in Millions)		
Items	Jun'23	May'23	Jun'22	Percentage Changes	
				Jun'23 vs May '23	Jun'23 vs Jun'22
Advances	14,726,117	14,478,281	13,249,421	1.71	11.15
Bills (Import & Inland)	392,609	394,726	341,725	-0.54	14.89
Investments	3,565,905	3,513,655	3,605,921	1.49	-1.11
Total Credits	18,684,631	18,386,662	17,197,067	1.62	8.65

Table 06: Deposits held in DMBs and Bank Credit

Notes: 1. Deposits exclude Interbank Deposits and Government Deposits, 2. Advances include Loans & Advance, Money at Call, Balances & R. Repo with NBFIs's & Accrued Interest, 3. Investments include Treasury Bills, Treasury Bonds, Share & Securities with accrued interest.

Call money rates increased considerably month over month in August, rising to a monthly average of 6.28 percentage points. [Figure-15]. Loan and deposit interest rates were nominally 7.31 percent and 4.38 percent respectively. [Figure-16]

Call Money Rate of Aug'23 (%)

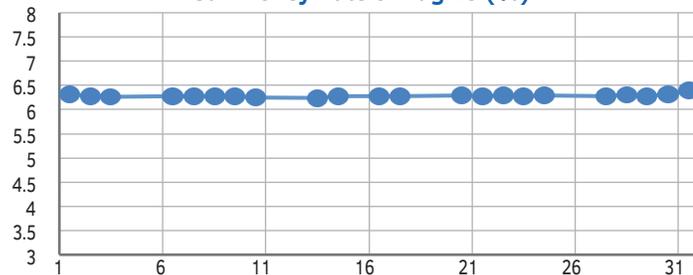


Figure 15: Call Money Rate of Aug'23

Nominal Interest Rates (%)

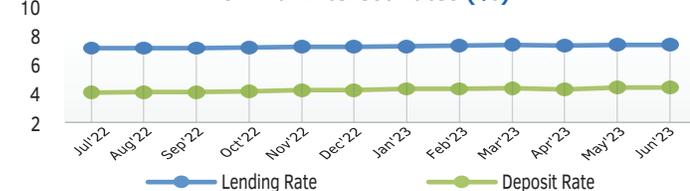


Figure 16: Nominal Interest Rates

Cost of funds and adjusted cost of funds were both still high, coming up at 7.11 and 8.11 percentage points respectively. [Figure-17]. Government borrowing from banking sector stood at 1,24,122 crores in FY23. Target sets for FY24 is around 1,32,395 crores. [Figure-18]

Cost of Funds of NBFIs (%)

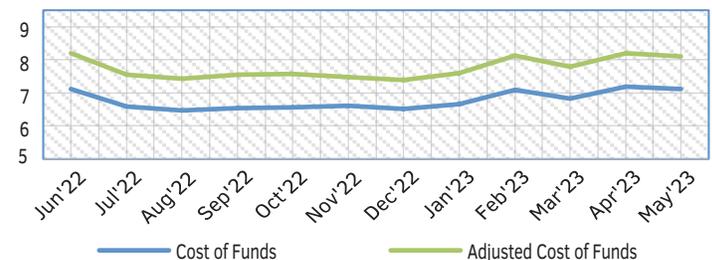


Figure 17: Cost of Funds of NBFIs

Govt. Borrowing from Banking Sector (In Crore)



Figure 18: Govt. Borrowing

As of June 2023, private sector loan growth was still sluggish and stood at 10.57 percent. [Figure-19]. Compared to previous month, yield on T-Bills rose to 7.3, 7.45 and 8.05 percentage for 91, 182 and 364 days respectively. The yields on the 2, 5, 10, 15 and 20 year T-Bonds hit 9.0, 9.0, 9.2, 8.68 and 8.83 percent respectively. [Figure-20].

Private Sector Credit Growth (%)

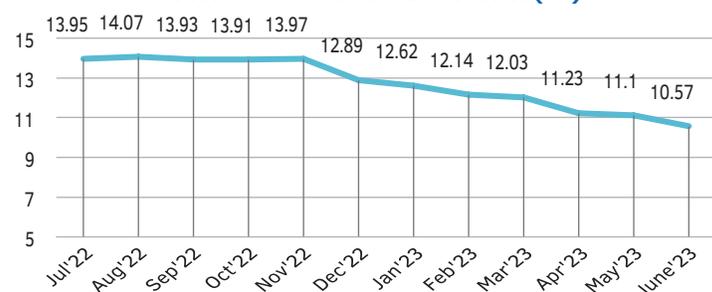


Figure 19: Private Sector Credit Growth

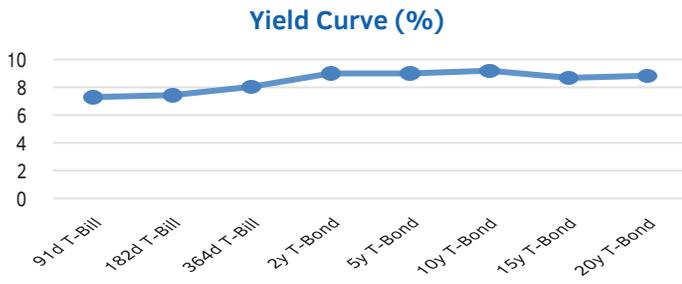


Figure 20: Yield Curve

Trends in Financial Inclusion and Digital Finance Statistics

There were around 7.23 million internet banking users as of June 2023, an increase of about 32 percent YoY. [Figure-21]. As of April 2023, there were around 207.27 million MFS users, representing a 14.43% YoY increase. [Figure-22].

Number of Internet Banking Users (in Million)

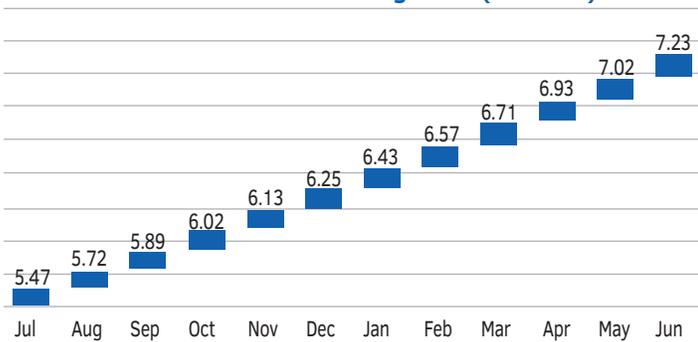


Figure 21: Number of Internet Banking Users

Number of MFS Account (In Million)

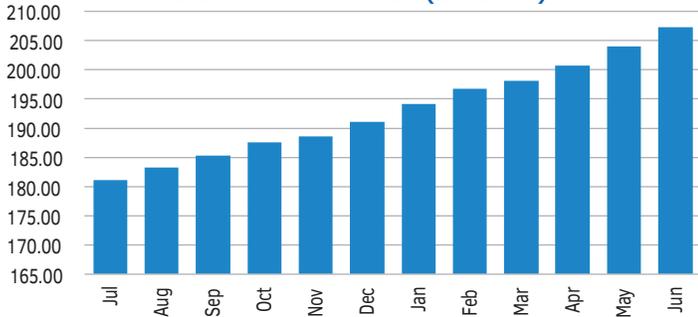


Figure 22: Number of MFS Accounts

The types of transactions conducted through agent banking - deposit, loan disbursement and inward foreign remittances payments grew yearly by 17.89, 27.36 and 33.28 percentage respectively. However, utility bill payments declined by 24.60 percent. [Figure-23]. Interaction with different gateways by internet banking users shows that the use of ATM, POS, CRM, and E-commerce grew annually by 19.04%, 34.74%, 71.35% and 38.73% respectively. [Figure-24]

YoY Growth (June'23)

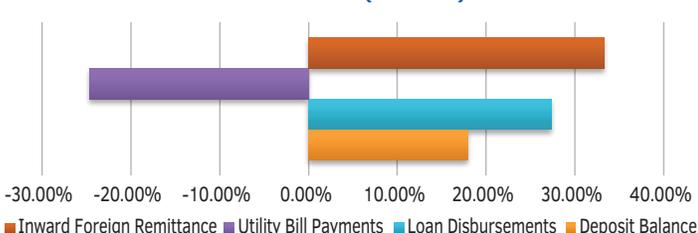


Figure 23: Types of Transactions through Agent Banking

YoY Growth of Gateways (June'23)

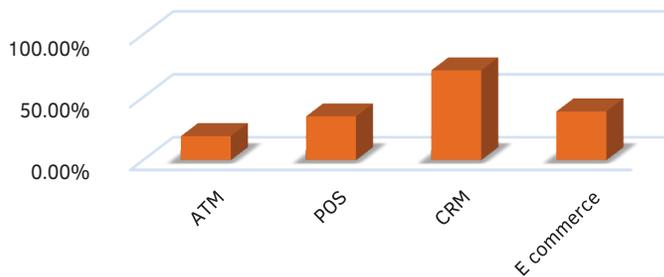


Figure 24: Transactions through Gateways

Key Takeaways

- > Deposits in the banking industry continue to rise despite escalating inflation. The lifting of the deposit floor and the restoration of public confidence in the banking industry are regarded as the main drivers of this development. But for the past few years, lending growth has been declining, primarily because fewer import letters of credit are being opened.
- > Due to tighter liquidity brought on by the protracted foreign currency crisis and lackluster loan recovery, the majority of banks are having trouble carrying out their routine banking operations. This has resulted in higher call money rates.
- > The implementation of a new method for calculating the lending rate will cause the rate to increase. The higher deposit rates are also a result of the tight liquidity situation.
- > In recent quarters, the non-bank financial institution (NBFI) sector in Bangladesh has been confronted with a significant increase in non-performing loans, a liquidity crisis, and a severe strain on the NBFIs' net interest margin. Besides, banks are offering higher rates than before which makes it difficult for NBFIs to attract deposits. This has further increased the cost of funds for them.
- > Heavy government borrowing from the banking system indicates weak revenue generation and challenges in finding alternate sources of funding. Such borrowing has the potential to cause financial instability, inflation, and the displacement of private sector borrowing.
- > A number of factors contribute to the decline in private sector credit growth. Bankers claim that the economy is currently facing a number of difficulties, including growing inflation, fluctuating currency exchange rates, a lack of dollars, and an energy problem, all of which have combinedly contributed to weaken economic activities.
- > Because of the growing number of internet users and the accessibility of smartphones, internet banking has been widely adopted. There are more MFS users as a result of the growing usefulness of digital payments and technological improvement, but experts think there is still opportunity for growth in this area.
- > The impressive growth of various transaction gateways shows how the traditional brick-and-mortar banking system is being replaced rapidly by the modern banking system.

Source: Bangladesh Bank Website

POS: Point of Sale
ATM: Automated Teller Machine
MFS: Mobile Financial Service

NBFI: Non-Bank Financial Institution
CRM: Cash Recycling Machine
YoY: Year on Year



Farhan Hasan

Digital Banking Accelerating Financial Inclusion and Bringing Comfort in Banking



The age of digitalization is upon us. Gone are the days where customers used to wait in line for making withdrawal requests or even to avail loans at banks' branches. With the advent of online banking, followed by mobile banking, customers have been able to make banking transactions from the comfort of their homes. This, along with Agent Banking and Mobile Financial Services (MFS), have helped to streamline financial inclusion efforts of all financial institutions. Additionally, the introduction of Payment System Operators (PSOs), Payment System Providers (PSPs) and the interoperable transaction platform 'Binimoy', facilitated the simplification of transfer and payment processes.

However, for further acceleration of financial inclusion and to bring about added comfort in banking, Bangladesh Bank has decided to promote 'Digital Banking' and prepared relevant guidelines. The central bank has invited applications for availing digital banking license and several conventional banks, MFS providers and telecommunication companies have applied. Some of the conventional banks are considering creating joint ventures and consortiums to acquire digital banking license and even some conglomerates are eyeing to acquire ownership stake in upcoming digital banks.

What is Digital Banking?

Digital banking refers to conducting banking transactions via a bank which operates online and has no branches. As a result, digital banking helps to digitalize the traditional banking processes, products and services and offer them to customers in an efficient way. Although we are availing some benefits of digital banking services in the form of online banking and mobile banking from brick-and-mortar banks, the concept of digital banking is more encompassing than this. Considering the revolutions of the Fourth Industrial Revolution (4IR), the prospects of digital banking is far more comprehensive.

Digital banking systems are very much sophisticated that will use advanced technologies of 4IR i.e. Artificial Intelligence (AI), Machine Learning, Blockchain etc. to efficiently provide innovative financial products and services to the customers.

Brief History of Digital Banking

The advent of digitalization of banking services began way back in the 1950s. At that time, banks had to employ huge amount of labor for processing cheques manually. However, due to the high usage of check transactions and high time consumption, Bank of America enlisted the help of the Stanford Research Institute to innovate and develop an electronic recording machine to handle and record cheque transactions electronically. This ultimately paved the way for digital banking in the future.

The next revolution in digital banking was the introduction of Automated Teller Machine (ATM) in London in the month of June 1967. This machine helped customers to cash in cheques and

withdraw funds outside of banking hours. Later it spread to America and the first American ATM opened in 1969. The 1980s saw the early development of at-home banking software created to allow customers to view their balances, pay bills and transfer money between accounts over telephone lines. In the 1990s, after the invention of the World Wide Web, Wells Fargo became the first bank to enable customers to check their balances and review their statements online in its website. By the year 2000, around 32% of national banks of the United States had transactional websites.

The decades between 2000 to 2019 saw various innovations which helped to cement the foundation of the fintech industry. With the advent and widespread adoption of the internet, personal computers, and smartphones, banks were able to utilize these innovations to offer online banking and mobile banking services to their customers. By 2018, 80% of Americans used online banking and 51% used mobile banking. Heading into 2020, there were customers who were still comfortable in conducting their banking transactions offline. However, the dawn of the COVID-19 pandemic forced such customers to adapt to digital banking. At present, customers are accustomed to banking digitally rather than physically waiting in line at bank branches. As a result, with the growth of online services, the location of a bank does not matter much to a customer. Therefore, with such habitual tendency and the disruptive technologies of 4IR, we can expect that Digital Banking will continue to thrive in the future.

Features of Digital Banking

Digital Banking features includes but is not limited to the following,

- **Online Account Opening:** Opening of bank accounts online, via. e-KYC forms and uploading of relevant documents.
- **Online Banking:** Conducting banking transactions via. bank's website.
- **Mobile Banking:** Conducting banking transactions via. bank's proprietary mobile application.
- **Digital Loans:** Availing loans straight from the digital banks' user interface subject to meeting certain conditions.
- **Financial Planning:** Providing several financial planning services to the bank's customers such as loan calculators, taxation tools etc.
- **Digital Wallet:** Providing payment services to the customers with the help of mobile devices.
- **Message Alerts:** Providing message alerts to customers regarding transactions, login attempts etc.
- **Online Customer Support:** Providing customer support online to help in dispute resolution.

It is quite difficult to properly categorize the features of digital banking because the scope of services is fairly vast.

Digital Banking Vs. Brick-and-Mortar Banking

Area of Difference	Digital Banking	Brick-and-Mortar Banking
Cash Withdrawal	Possible through networks of ATMs of other conventional banks, as digital banks cannot have any ATMs of its own.	Possible through own ATM network.
Fees and Charges	Low as overhead expenses are low.	High as overhead expenses are high.
Yields and Costs	May provide High yields on deposits and low cost of loan products.	May provide Low yields on deposits and high cost of loan products.
Technological Advancement	High Focus on technological adaptation.	Can operate without much focus on technology.
Customer Service	Totally Online.	Both Offline and Online.

Global Scenario of Digital Banking

According to a research report titled, 'Digital Banking Report' published by The Financial Brand, a digital publication specialized on analysis in the retail banking sector, reported that around 75% of organizations worldwide cite digital banking transformation as top banking priority on 2020 and going into 2021. According to Bankrate, a print publisher for the banking industry, an article on digital banking trends in 2023 revealed that around 60% consumers in the US say that they are somewhat or very interested in using a digital bank in the next year. The Bankrate article also stated that as of 2022, 71% of US consumers used a mobile wallet to make payments within the last year. Data from FDIC National Survey of Unbanked and Underbanked Households 2021 revealed that the older generation, aged 65+ are much more likely to use in person banking services and on the flipside, the younger generation are much more comfortable in using digitalized banking services.

Research by Global Market Insights revealed that Digital Banking Market size has surpassed USD 9.4 trillion in 2022 with a projected CAGR of 3.6% from 2023 to 2032, amounting to an estimated value of USD 13 trillion in 2032. The research reported the growth drivers as changing consumer behavior, increasing investment in Fintech, supportive government policies, growth of e-commerce and increasing adoption of mobile payment solutions. According to Deloitte's Digital Banking Maturity Report 2022, those banks which provide a wide range of functionalities and a compelling user experience, enjoy a high share of fee income compared to other banks.

Merits and Demerits of Digital Banking

Merits

- 1. Ready Access:** There are no opening or closing timing of digital banks. As the services offered are totally online, customers can avail such services 24/7.
- 2. Personalized Offerings:** Digital banks can tailor their services according to customer segments, criteria and preference which can help customers to receive a more personalized service.
- 3. Unique features:** As digital banks rely on technology to deliver their services; they can offer unique services such as investing in capital markets directly through the bank's proprietary app.
- 4. Greater Transparency:** As all banking activities from opening accounts to making payments are done online, customers can have

greater transparency in maintaining their digital bank accounts.

- 5. Fees and Returns:** As digital banks have lower overhead expenses compared to brick-and-mortar banks, account maintenance fees are minimal and rates offered on deposits are quite lucrative.
- 6. Financial Inclusion:** As mobile devices are garnering popularity in rural areas, digital banks may facilitate financial inclusion of the unbanked population.
- 7. Better Usability:** According to reports, the millennials generation are quite interested in digital banking and they tend to shy away from handling intimidating banking documents physically. Through digital banking they can easily conduct their banking transactions.

Demerits

- 1. Access to Internet:** Access to internet is a primary prerequisite to the proper availability of digital banking services. Without an active internet access, it will not be able to access digital banking facilities.
- 2. Proper Fit:** Digital banking services involve using mobile and web applications to access banking services which may be quite intimidating for those who have low technical know-how.
- 3. ATM fees:** As digital banks cannot have any ATMs of their own, they may need to use the existing ATM network of other banks to give ATM services to its digital clients. This may result in higher ATM transaction costs.
- 4. Technical Slip-Ups:** As digital banks require high end technological setup to function, any misstep due to any forms of calamity can have drastic consequences.
- 5. Financial Security:** As digital banks store their customers' data electronically, cyberattacks may compromise the data security.

Policy Decisions taken in Bangladesh

In June 2023, Bangladesh Bank published guidelines on establishing digital banks. In the guidelines, Bangladesh Bank stipulated all relevant particulars of a digital bank including but not limited to company status, paid up capital requirement, sponsors capital contribution, constitution of board of directors, operational framework, ICT governance framework, customer due diligence, required documentation etc.

According to the guidelines, a digital bank shall have a registered head office which will serve as the main focal point of contact for stakeholders. It shall not have any branches nor any physical infrastructure such as ATMs, CDMs, CRMs etc. An automated Artificial Intelligence (AI) supported technology system will be used for active dispute resolution and other breakthrough technologies of 4IR will be used to offer low cost, efficient and innovative digital financial products and services. The digital banks are restricted to issue any form of physical instruments for transactions but can issue virtual cards, QR Code or any other advanced technology for payment facilitation.

Concluding Remarks

Although digital banks will usher in a new wave of financial inclusion efforts and revolution in augmenting banking transactions, data security and cyber security issues remain a big challenge for the digital banking industry, especially for Bangladesh.

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