

The Hallmark Corruption: Supervisory Lapses of the Banking System in Bangladesh

¹Munshi Samaduzzaman, ²Fazluz Zaman

¹Adjunct lecturer, Central Queensland University, Australia

²Adjunct lecturer, University of New South Wales, Australia

Abstract: *The implications of the efficient bank supervisory and strong regulatory implementation strategies in Bangladesh Bank will be needed in order to overcome the continued crisis in the banking system. This should be a wakeup call to everyone in the banking industry in the country to further develop and strengthen the strict monitoring of the banking mechanism strategies. At the same time, in order to investigate the numerous misalignments in the supervision of both banking institutions and Central Bank of Bangladesh as well as to integrate the appropriate linkages between proper implementation of the bank regulatory and supervisory structures. The result of this study suggests that there is a strong need for focusing on the dual banking system, as well as a need to increase the efficiency in the technical areas, as well as a tooth for a tooth law in order for the Central Bank of Bangladesh to beat numerous fraud activities in the banking sector. Proper growth and profitability and transparency in the entire banking sector will be achieved through a strict implementation of banking policies and regulations with a strong emphasis on the firm litigation to reduce the unlawful acts of those individuals.*

I. Introduction

The banking sector has received most intense condemnation and examination over the years due to lack of proper regulations and supervisory structures which led the banking sector into severe financial depression. With the banking conditions now of Sonali Bank Limited & Bangladesh Bank (Central Bank) with all those issues that have been thrown into them due to the deregulation in the banking sector in the country. According to Alam (2012), if there is a proper implementation of banking regulations and supervision structures, definitely, banking efficiency and profitability would follow.

The efficient and effective banking regulations serve as a unified power to control the creation, operation and liquidation of the banking sector as well as a proper control in the stability of the economy of the country. Hence, BB as the Central Bank of the country should put into appropriate places all the specialized banking supervisory regulations and policies that can protect the depositors from higher risks of losing their deposited money in the banks.

The core objective of the banking sector is to provide total protection to the investors with their money and funds. Both businesses and individuals have the rights to be ensured with certainty and safety about their funds in the banks. A smooth and acceptable public confidence and trust should be sustained and continually developed into more trusted banking system environment that can provide a high level of banking services all throughout the economy. In addition, to attain total efficiency and competitiveness that can project a positive impact on the entire banking sector in the Bangladesh.

II. Purpose

The purpose of this paper is to engage in a critical examination of the banking regulatory framework in Bangladesh. Second, to assess the operational efficacy of banking regulations and supervisory mechanisms. Third, to provide an in-depth legal analysis of the role of the Bangladesh Bank (BB) as the country's central bank and the principal supervisory authority.

III. Design And Methodology Approach

This research has used comparative case study analysis through various scholarly written articles from academic journals, and other related articles from the online publications and news reports about the topic. This helped a lot in order to explore the legal examination of the supervisory lapses, fraud on the preparation of the Letter of Credit (LC) of the customers, and the rest of the deregulations inside the Central Bank of Bangladesh.

Additionally, the comparative case study has chosen by the researcher in order to find the most appropriate recommendations of the previous researches about the most efficient and effective ways to prevent many companies or individuals from fraud activities of transacting Letter of Credit (LC) with Banks in Bangladesh. .

IV. Letter Of Credit (LC) Fraud And Benefits

Any company can purchase a Letter of Credit with complete required documents. However, if the bankers are not keen in distinguishing original from fake documents, that is the chance of these fraudulent clients to take advantage of the situation. Plus, if the scammers have acquired the help of the insiders. It is very easy to manipulate fake documents if the higher officials in the organization have the power to control the ordinary employees.

Like what happened in the Hallmark Group of Bangladesh. The group purchased an LC with forged documents with the help of some banking official in Sonali Bank Ltd. Based on the investigation; most of the scammed loans were paid out to the illegal recipients started from December 2011 until March 2012. It was very suspicious that this particular loan did not even pass through the management and the bank's board of trustees. Ahad (2012).

The loans that Sonali gave Hall-Mark were not within the power of the management. It is very unusual that the bank's board did not know it. The most surprising part of this case, the audit team seems had not practiced their vested power of asking the higher level of management about the abnormalities of those transactions.

V. Findings

5.1 Banking Regulatory Framework In Bangladesh

An article entitled "Regulators of the Financial System" (n. d.) has reported that Bangladesh Bank has served as the Central Bank of Bangladesh since its introduction in 1972 by the virtue of the enactment of BB Order 1972. President's Order No. 127 of 1972 which eventually amended in 2003. The banking structure of the business of BB has been entrusted to a 9 members' Board of Directors headed by the Governor which is also the Chief Executive Officer of the Bank of Bangladesh.

BB has 40 departments with 9 branches. Incorporated in the strategic plan of BB for 2010 to 2014 is the vision "to develop continually as a forward looking central bank with competent and committed professionals of high ethical standards, conducting monetary management and financial sector supervision to maintain price stability and financial system robustness, supporting rapid broad based inclusive economic growth, employment generation and poverty eradication in Bangladesh."

The report further discusses about the BB functions as formulating and implementing monetary policy, intervening policies in the foreign exchange market. At the same time, it is giving advice to the Bangladesh government on the interaction of monetary policy with fiscal and exchange rate policy. This is about the impact of various policy measures on the economy.

Similarly, BB proposes legislative measures in attaining its objectives and performs its important functions. First, BB is holding and managing the official foreign reserves of the country. Second, it promotes, regulates and ensures an efficient and secured payment system that includes the issuance of bank notes. Lastly, BB also regulates and supervises banking firms and financial establishments. The major objectives of the BB monetary polices include the price stability of basic commodities, sustainability, growth, & development, high employment rate in the country. Efficient utilization of economic resources, and stability of the financial system of Bangladesh.

5.2 Hallmark Group Bangladesh Case

Manik, J. A. (2012) in his August 30 issue in The Daily Star recounts that the Anti-Corruption Commission (ACC) has informed the adviser to the prime minister of Bangladesh, Syed Modasser Ali, has allegedly something to do with the controversial illegal Hallmark Group's loan in Sonali Bank at the Ruposhi Bangla Hotel branch. It was allegedly reported that the Prime Minister's adviser has influenced Sonali Bank's higher officials in granting a huge amount of loan to the Hallmark Group with a total amount of Tk 3,547 crore. Ahad, A. (2012)

The Hallmark Group alone had availed Tk 2,686.14 crore alone. While T and Brothers Tk took 609.69 crore, Paragon Group got Tk 146.60 crore, Nakshi Knit acquired Tk 66.36 crore, DN Sports Tk received 33.25 crore and Khanjahan Ali obtained Tk 4.96 crore. Bangladesh Bank has found out that the Hallmark Group along with five other companies was able to apply and eventually has able to get the approval for their loans with forged documents with the Sonali Bank.

Further report says that ACC received information that Modasser Ali has been trying to stop the Bangladesh Bank together with an audit team to conduct an investigation on the loan scam. Based on the Bangladesh Bank's probe team, there are 32 Sonali Bank officials who are responsible for the loan scam and still under interrogation.

5.3 Comparative Case Study: The Ketan Parekh Fraud and Supervisory Lapses of the Reserve Bank of India (RBI)

If there is another case which is similar to what happened to Sonali Bank Limited, it is no other than the most controversial case of the Ketan Parekh supervisory lapses in the RBI. Moreover, Ghosh & Bagheri (2006) have recommended that a critical examination of the banking regulatory framework should be done in India. The overall assessment of the operational effectiveness of the banking regulations and supervision should require a deep legal scrutiny in order to determine the causes of the lapses within the financial institution.

Ghosh (2006) has agreed that the Ketan Parekh fraud has the most controversial series of banking fraud issues in the Indian banking industry in the latter part of 1990s. The series of fraud activities happened in the banking system of India only presented the gradual deterioration of the several cooperative banks as well as the largest mutual fund establishments in India. The involvement of Harshard Mehta in 1991 that exposed the large capital market fraud that obviously crossing the boundaries of the law and regulations in the banking sector.

Another thing, the Reserve Bank of India also showed laxity and numerous lapses in their supervision and bank regulations and bank policy implementation for a high-level of banking system and services that can be provided to the clients. As a result, it had impacted on the entire domestic banking system of the country and even led to the total bankruptcy of the Indian banking system because the foreign investors have started to doubt the integrity and credibility of the local banks as well as the entire economy due to the negative issues in the banking sector.

VI. Recommendations

Jahangir and Ali (2010) reveal that the long-term competitive advantage and superior employees' performance in the banking sector can be achieved by being equipped with a broad knowledge to assume banking responsibilities and accountabilities, as well as the transparency that these banking personnel owe to the public.

In order to manage and control effectively the workforce, the bank managers should have full competence of using their power through showing integrity, honesty and equal treatment of their subordinates. A country like Bangladesh needs a developing framework for bank management strategies which could be strictly followed by the stakeholders in order to undertake a practical course of action regarding the proper banking norms and regulations.

The nature of the fraud committed by the Hallmark Group was paralleled to the abuse of the banking system in Bangladesh. The illegal channeling control of money in the stock market has helped those culprits to acquire a huge amount of funds over a long period of time through Letter of Credit and other bank transactions with both enterprises and private individuals.

Consequently, if the bank corporate bodies, higher bank officials down to the bankers, as well as the sales team, auditors, so as the stock brokers were just being vigilant and diligent enough in doing each task strictly, every bank transaction would be monitored and every irregularity would be identified immediately by the employees. Unless, there was a strong command from the higher level of the organization to let that illegal loan transaction of Hallmark Group to be approved by the concerned banking officials. The ordinary bank employees would have been out of control over the situation.

Apparently, the inefficiency and ineffectiveness of the banking personnel just reflects on the poor banking system integrated in the banking sector in Bangladesh. Any loan scam happens in the banking industry lies greatly on the large-scale manipulation of the higher level of the corporation. The violation of the banking code of ethics, business values, cultures, and banking norms would not have happened if those employees and banking officials concerned have become more responsible, transparent and have integrated a high sense of values, honesty and integrity of doing their jobs.

VII. Research Limitations/Implications

There are various researches on the same topic as a Hallmark fraud case that still on going. In a similar way, numerous cases are being filed and heard in the courts and even in the higher tribunals. Many similar cases happen today, but this particular case of corruption has been only read through collected interrelated data and information for the specified topic.

The implication of this research is to insinuate that corruption does not do any good to those committed it for a longer period of time. Instead, corruption disrupts the stability and productivity of any economy.

VIII. Originality/Value

The significance of this study immensely gives impact on the individuals who work in the financial and banking industry such as all bankers and auditors who can use this case study in order to identify and analyze if they experience the same issues and challenges within their organization. This paper could be a great help to awaken their minds to start realigning their banking structures in order to prevent total collapse of

the banking business.

For the lawyers, jurists, they could use this case as a pattern for any similar banking fraud cases that they will encounter in the near future in the court. The proper proceedings and in-depth investigation of the same case must be done with the utmost level of integrity and transparency. This paper will provide important insights about the significance of taking the right decision in order to preserve the integrity of every individual of doing right their professions in whatever field. So that they may continually insure the public that being in the law and banking and finance professions, they still deserve the trust and confidence of the clients because they are different from those professionals who have devastatingly disappointed the public for involving themselves in the several fraud and scam activities.

The law enforcement officials should learn from this study that they should do their tasks as the protector of the public's rights by strictly implementing the laws and regulations without no biases and irregularities. Above all, they should put in mind that they must be a role model of high-integrity and good values for the public to emulate and respect.

On the other hand, the future researchers could find this case study very helpful if they will undertake the same research topic. They could use this research as a basis for their comparative analysis of the same problem.

IX. Conclusion

The Hallmark Group corruption case in Bangladesh is being just an example of prevalent fraudulent cases that happen nowadays in the banking and finance industry in every part of the world due to supervisory lapses from the law enforcement and policy regulators inside and outside the organization. More often, those culprits have been encouraged by the concerned officials and employees in one organization to commit wrong doings because they know very well that there are certain individuals in the organization who can back them up with their fraud activities.

References:

- [1] Alam, N. (2012). 'The impact of regulatory and supervisory structures on bank risk and efficiency: evidence from Dual banking system.' *Asian Journal of Finance & Accounting*. Vol. 4, No, pp. 1- 29. 1. doi:10.5296/ajfa.v4i1.150. [Online] Available at: <http://www.macrothink.org/journal/index.php/ajfa/article/download/1507/1437> [Retrieved 29 October 2012]
- [2] Ahad, A. (2012). 'How to Rob a Government Controlled Bank– A Hall Mark Group Story.' *Bangla News*. [Online] Available at: <http://www.banglanews.com/2012/10/13/how-to-rob-a-a-government-controlled-bank-a-hallmark-group-story/>. [Retrieved 31 October 2012]
- [3] Regulators of the financial system. (n. d.). Bangladesh Bank. Central Bank of Bangladesh. [Online] Available at: <http://www.bangladesh-bank.org/fnansys/regulator.php>[Retrieved 30 October 2012]
- [4] Manik, J. A. (2012) Adviser's shadow in Hallmark scam. *The Daily Star*. [Online] Available at: <http://www.thedailystar.net/newDesign/news-details.php?nid=247643>[Retrieved 29 October 2012]
- [5] Ghosh, S. & Bagheri, M. (2006). 'The Ketan Parekh fraud and supervisory lapses of the Reserve Bank of India (RBI): a case study', *Journal of Financial Crime*, Vol. 13 Iss: 1, pp.107 – 124. DOI: 10.1108/13590790610641279. Emerald Group Publishing Limited. [Online] Available at: <http://www.emeraldinsight.com/journals.htm?articleid=1534008>[Retrieved 29 October 2012]
- [6] Ghosh, S. (2006). 'The Ketan Parekh fraud and supervisory lapses of the Reserve Bank of India (RBI): a case study.' Vol. 13, No.1. *Journal of Financial Crime*. [Online] Available at: <http://international.vlex.com/vid/ketan-parekh-supervisory-lapses-reserve-rbi-354513422>. [Retrieved 30 October 2012]
- [7] Jahangir, N, Dr. & Ali, M. M. (2010). 'Perceptions of power: a cognitive perspective of nationalised commercial banks of Bangladesh.' Book Review *African Journal of Business Management* Vol. 4, No. Centre for Social Studies, University of Science and Technology. [Online] Available at: <http://www.academicjournals.org/ajbm/pdf/pdf2010/Apr/Book%20review%202.pdf> [Retrieved 30 October 2012]