



# Foreign Exchange Practices of ICB Islamic Bank Ltd: A Survey Based Approach

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### ABSTRACT

ICB Islamic bank plays a crucial role in strengthening the growth prospect of international trade and comers. The bank facilities a lot of exporters and contribute to economic growth. The paper is a survey-based approach to determine foreign exchange practices and problems in Bangladesh's export sector. Knit, Woven, and other segment manufacturers participated in the survey. It provided some valuable insight that can help the bank and policymaker reshuffle the policies and initiate a dispute resolution center. The bank should also equip with modern technology and capital investment to enhance the export financing scheme and generate more revenue.

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Keywords: Exports, Foreign Exchange, ICB Islamic Bank

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### 1. Introduction

International transactions across the boundaries are known as foreign trade, which is crucial for a country's economic growth. Several parties are involved in the foreign trades, such as importer, exporter, bank, government, etc. International trade can benefit both parties through exchanging surplus and deficit. International trade accounts for a huge amount of national domestic income, and in Bangladesh, it is around 25%. International transactions and trade & commerce generally follow the principles of comparative advantage. This implies that if one country is better at producing any product or has a specialization, it should produce more of that commodity and import commodities with less expertise or comparative advantage. Specialization can occur in agriculture, manufacturing, industry, or any goods and services. Trade among different nations usually increases the cooperation among the countries and enhances growth and prosperity. Banks are a crucial part of international trade and transactions as they play a major role. Banks collects and sends payment to necessary parties and provide financing to the importer. Banks facilitate the opening of a letter of credit (L/C) through which most operations are done.

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### 2. International Trade Frequency

In Bangladesh, the majority of export goods are ready-made garments or RMG. The RMG manufacturers produce various goods such as Knit garments, sweater garments, woven garments, etc. Woven garments include shirts, pants, trousers, etc., and knit garments include t-shirts, underwear, etc. In this paper, the author surveyed 60% of exporters involved in the knit garments and 40% of exporters who are directly involved in exporting woven garments. Bangladesh mainly sends products to United States, Canada, United Kingdom, and European Union. The highest source of export is the United States. Exporters usually come to the advising bank to open back-to-back LC, allowing them to buy fabrics and other accessories from domestic and international sources. These materials are very much crucial for fulfilling the export orders. Around 50% of respondents said that foreign sources are the best for buying accessories and fabrics. Usually, exporters use Export Retention Quota by Bangladesh Bank. They can spend 85% of export earnings in that account

which can be used for the back-to-back LC. 35% of the respondent said that they prefer the local market to buy accessories and fabrics. The rest of the respondents 10% uses both domestic and foreign market to buy the ingredients.

The cancellation of LC is a key issue. 25% of respondents said that they face cancellation for unknown reasons. The rest, 75%, found a specific reason for cancellation. As the export is very much important for our economy nation cancellation of LC, it can hurt the producers' exporters and the nation. If we analyze the last five years exports, we can see that the maximum number of LC was canceled in 2006. before that year, the cancellation was very low. We can see the highest number of exports in 2008, 2018 and 2019. Late shipment, poor quality goods and lack of communication are mentioned by 75% of the buyers. The political condition and the clash between the two parties create an uncertain environment for the exports. this often makes it impossible to deliver goods on time. (Chowdhury, Uddin, & Islam, 2014).

Cancellation of exports can be costly for both buyers and sellers. As there a lot of complicated issues involved in international trade, the cancellation of exports can also create a hassle. The canceled product cannot be exported to other parties rather sold in the domestic market, which is cheap and inexpensive. the reputation of the exporters also degrades and buyer from other countries also don't trust them. (Islam, Alam & Al-Amin, 2015).

Even after completing the exports, there are many issues involved. one of the major problems is liquidating the securities that exporters provide to the bank. Banks face many challenges to verify the securities and encash them. Political influence also creates problems in the liquidation of the securities. They usually threaten and impose sanctions so that banks refrain from encashing the securities. A strong presence of a court is required to solve all these issues.

### **3. Descriptive Analysis (opinions)**

The respondents' point of view is that securities are important for collateral for export financing with a mean of the opinion is 0.95 and a Standard deviation is 0.002. The descriptive results support the theoretical opinion. Considering the nature of securities like FDR, building, flat, share against the export financing can be quite risky and complicated. In the bankers' survey, around 75% of the bankers agreed that back-to-back LC is very much risky but accelerates business. The mean of that opinion is 2.55 and the standard deviation is 1.19. Higher standard deviation made the situation complex as there is a chance of error. The bankers also agreed that an Export Letter of Credit is risker for the bank. The mean of that opinion is 2.15 and the standard deviation is .74. Exporters have not agreed in a point that 75% back-to-back LC is not reasonable and doesn't fulfill the requirement. The mean of that opinion is 1.90 and the standard deviation is 1.51. The respondent answer is asymmetrically distributed. In the question about forced loan, exporters agreed that banks forced loan creation method is harmful for them. The mean of that factor is 1.65 and the standard deviation is .93. Regarding the complexity of the liquidating securities, exporters have a disagreement. The mean here is 3.80 and the standard deviation is 1.19. The variance is not normally distributed.

### **4. Descriptive Analysis (Factors)**

Numerous factors affect the cancellation of exports and international trade. The quality of goods is a crucial factor in the LC cancellation. If the product quality is good, then there is less chance of LC cancellation. The mean of that factor is 2.90 and the standard deviation is 1.68. Lots of exporters disagree with the opinion so the standard deviation is higher. In the question that impact is low, the standard deviation is 1.23 and the mean is 2.05. This means respondents are very much dispersed and don't follow a normal distribution. Different goods rather than the required goods can also create hurt the exports. The standard deviation is 0.89 and the mean is 2.23 here, which is a very response answer. In Bangladesh, the impact of electricity in the cancellation of export L/C is high. The mean of that factor is 4.20 and the standard deviation is .89. If electricity does not work well during production, it will be quite impossible to deliver goods on time. So the exporters have to use the generator to deliver the goods on time. But per-unit cost will be increased for using the generator. The mean is 3.20 and the standard deviation is 1.50.

### **5. Results and Discussions**

The CAMEL rating indicates that ICB Islamic Bank is categorized as Problem Bank, although it is very functional and facilitates exports. There is a lack of corporate governance, incompetent management, higher non-performing loans and provision deficit makes the situation worse. The bank constantly fails to accommodate new technology and ideas, enabling it to become a 4th generation bank. The investment window is very much shrinking for the bank and maintains a balance between idle money and existing bad loans. (Rahman, & Hoque, 2015).

In the survey, the author found Knit producers and exporters participated, and respondent well compares to other segment exporters. The number is around 65% which is quite substantial. As most of the exports are very much concentrated to certain countries, the cost of switching countries is very high. The bank must maintain good relation with the corresponding banks of those countries. The government is trying to provide export subsidy which can also facilitate exports. The bank is playing a crucial role in export facilitation and import intermediation. The survey also finds the possibility of bank growth opportunities in this sector.

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## **6. Policy Implementation**

The export sector of the country is filled with many problems. Exports and importers had to face lot of barriers to participate in international trade, which is very much frustrating for them. ICB Islamic bank is not capable enough of handling all the problems and providing solutions to the exporters. The commercial banking industry plays a crucial role in facilitating international trade but the bank is lagging. The bank's marketing policies are not helping and big share of classified loans are dragging funds out of the system. Most of the respondents want to have a smooth banking system which can ease their problems and deliver efficient results. The bank should increase its domestic and foreign network by opening more branches in Bangladesh and abroad.

ICB should invest their deposit in proper portfolio and in different sectors to increase annual profit scale. Banks should also try to minimize over investment and disbursement in loans & advances to avoid liquidity risks. (Ahamed, 2021). The bank should invest more in the technological sector and deliver features like ATM services, Internet banking services, and agent banking services. The exporters are very much willing to avail all their services to continue their international trade without any obstruction. Bangladesh government was also willing to provide policy support and the community facilities pro banking channel. The bank should adopt internal policies to strengthening the relationship with their customers and depositors. Efficient banking can increase the deposit of the bank and also contribute to enhancing profitability. The bank management should also try to collect funds from foreign sources as the fund's cost is lower

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## **7. Conclusion**

ICB Islamic Bank has the chance to be a leader in the export and import financing sector. The management should formulate and implement policies that can erase all the problems and facilitate the manufacturers. As the export industry grows exponentially, the bank should try to grab the market share, leading them to profitability. In this paper, most of the respondents are very much unsatisfied with the performance of the bank. The bank should handle international trade more efficiently and work effectively. The bank should also focus on developing the qualifications of exiting officers and experts as the strong financial system can support the daily operational activities of the bank. Although there are many scopes to work on this issue, the author will try to expand the paper based on the microscopic scale survey.

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