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Foreign Exchange Operation of Private Commercial Banks in Bangladesh: A Case Study on AB Bank Limited

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***Abstract*—Bank is an economic institution whose main aim is to earn profit through exchange of money & credit instruments. It is a service oriented as well as profit oriented organization. The banking sector of Bangladesh is passing through a tremendous reform under the economic deregulation and opening up the economy. Currently this sector is becoming extremely competitive with the arrival of multinational banks as well as emerging and technological infrastructure, effective credit management, higher performance level and utmost customer satisfaction. Foreign Exchange the topmost section for international trade-moves the wheel of economy moving. This research paper shows that AB Bank Limited is providing different sorts L/C services like L/C opening, lodgment, BLC and facilitating Import in the country. However this some timely initiative will ensure better, smarter and faster banking boom for the AB Bank Ltd. The way AB Bank is moving up to also mind blowing and auspicious. Now it's time to take off to unlimited prospect.**

Keywords— Foreign Exchange, Private Commercial Bank, L/C.

JEL Classification Code— E51, E52, E58, F31

I. Introduction

Foreign Exchange Market allows currencies to be exchanged to facilitate international trade and financial transactions. Evolution of the market in Bangladesh is closely linked with the exchange rate regime of the country. It had virtually no foreign exchange market up to 1993. Bangladesh Bank, as agent of the government, was the sole purveyor of foreign currency among users. It tried to equilibrate the demand for and supply of foreign exchange at an officially determined exchange rate, which, however, ceased to exist with introduction of current account convertibility. Immediately after liberation, the Bangladesh currency taka was pegged with pound sterling but was brought at par with the Indian rupee. Within a short time, the value of taka experienced a rapid decline against foreign currencies and in May 1975, it was substantially devalued. In 1976, Bangladesh adopted a regime of managed float, which continued up to August 1979, when a currency-weighted basket method of exchange rate was introduced.

The exchange rate management policy was again replaced in 1983 by the trade-weighted basket method and US dollar was chosen as intervention currency. By this time a secondary exchange market (SEM) was allowed to grow parallel to the official exchange rate. At present, the system of exchange rate management in Bangladesh is to monitor the movement of the exchange rate of taka against a basket of currencies through a mechanism of Real Effective Exchange Rate (REER) intended to be kept close to the equilibrium rate. The players in the foreign exchange market of Bangladesh are the Bangladesh Bank, authorized dealers, and customers. The Bangladesh Bank is empowered by the Foreign Exchange Regulation Act of 1947 to regulate the foreign exchange regime. It, however, does not operate directly and instead, regularly watches activities in the market and intervenes, if necessary, through commercial banks. From time to time it issues guidelines for market participants in the light of the country's monetary policy stance, Foreign Exchange Reserve position, Balance of payments and overall macro-economic situation. Guidelines are issued through a regularly updated Exchange Control Manual published by the Bangladesh Bank.

The foreign exchange market of the country is confined to the city of Dhaka. The scheduled banks operating as authorized dealers in the inter-bank foreign exchange market are not permitted to run a position beyond certain limits. In the event of speculation on an appreciation of the value, an authorized dealer may buy more foreign currencies than it needs, but at the end of the day it must maintain its limit by selling excess currencies either in the inter-bank market or to customers. Authorized dealers maintain clearing accounts with the Bangladesh Bank in dollar, pound sterling, mark and yen to settle their mutual claims. If there any excess foreign exchange holdings exist after these transactions, it is obligatory for them to sell it to the Bangladesh Bank. In case of shortfall of the limit, authorized dealers have to cover it either through purchase from the market or from the Bangladesh Bank.

Before deregulation of foreign exchange market the volume of inter-bank transaction was low. The assured access to funds from Bangladesh Bank at known cost as well as the assured buy-sell margins and transaction fees contained in the pre-determined exchange rate provided little inducement for authorized dealers to engage in inter-bank transactions. However, the situation has been changing and the reliance of authorized dealers on the Bangladesh Bank is gradually declining.

The average monthly transactions of foreign exchange in the inter-bank market accounted for $23.46 million in 1991-92 and crossed the $1 billion mark in 1998-99. The average monthly turnover for the six months between July and December 2000 was $1.5 billion. The phenomenal growth of inter-bank transactions was due mainly to relaxation of exchange control regulations and expansion of the activities of the Bangladesh Foreign Exchange Dealers Association (BAFEDA) formed on 12 August 1993.

II. Objectives Of The Research

The main objectives of the research are to evaluate the performance of the foreign trade of AB Bank Ltd. and to have an overall idea on how it operates and what functions it does, and prepare a research on it.

- To find out the Current Export-Import scenario of the Bank.
- To find out the Foreign Remittance and the procedures of the Bank.
- To find out the Customer Perception about Foreign Exchange of the Bank.

III. E Scope Of The Research

This research was done with the AB Bank Ltd., North South Road Branch. This survey and the information collection were limited within this branch. This research has done an overall deal with the activities, policies, and business procedures of the foreign exchange sector of this branch.

IV. Research Methodology

This research focuses on the foreign exchange operation of the commercial bank. The objectives of the research are to see how foreign exchange departments of the bank are working. In order to fulfill the objective data have been collected from deferent sources specially focuses on the major broad area like foreign exchange. The details of the work plan are furnished below:

A. *Data collection method*

Relevant data for this research has been collected primarily by direct investigations of different records, papers, documents etc. operational process and different concerned personnel. The interviews were administered by formal and informal discussion. No structured questionnaire has been used. Information regarding office activities of the bank has been collected through consulting bank records and discussion with office personnel.

B. *Source of Information*

This study has been conducted with the help of analytical methods. All the data has been collected by both primary and secondary sources.

C. *Data Processing*

Data collected from secondary sources have been processed manually and qualitative approach has been used throughout the study.

D. *Data analysis and interpretation*

Qualitative approach has been adopted for data analysis and interpretation taking the processed data as the base. So the research relies primarily on an analytical judgment and critical reasoning.

V. Literature Review

There has been not any significant work done on Foreign Exchange Risk Management in Commercial Banks in Pakistan before. There is also not any sufficient literature available on this specific topic. Different work has been done at different times regarding various topics included in the research objective of this study. An overview of the existing literature is given here. The importance of foreign exchange risk management cannot be neglected for any firm or banking organization. Banks face foreign exchange risk management due to dealing in foreign currencies result of the operations in foreign countries or dealing with foreign exchange for their own account or for customers account. Exchange Rate Risk is an integral part of every firm’s decision regarding foreign currency exposure (Allayannis, Ihrig, & Weston). Currency risk hedging strategies involve eradicating or reducing currency risk, and need understanding of both the ways that the exchange rate risk can impact the operations of economic agents and techniques to deal with the resulting risk implications (Barton, Shenkir, & Walker, 2002).

Foreign Currency Risk is an important source of risk for the banking industry and different studies have been done in different parts of the world. (Papaioannou M. G., 2006) Foreign currency exposure and risk management is very important for the firm to avoid any vulnerability from exchange rates fluctuation which can affect the profits and assets values in a negative way. Different traditional types of foreign exchange risk i.e. translational, transactional and economic risks were reviewed. Also different ways and strategies for managing foreign currency risk were analyzed along with advantages and disadvantages of each strategy and technique. Additionally, best practices widely spread were outlined along with data on financial derivatives and hedging practices by US firms.

Sources of risks for banking sector have been investigated by many researchers in different economies. (Daugaard & Valentine, 1993) worked out different sources of risks and they found out that stock prices of banks have relationship with different variables like interest rates, exchange rates, banks profitability and market risk factor. According to them during the period from 1983 to 1991, share prices of banks responded with the appreciation of the Australian Dollar. (Irio & Faff, 2000) Studied foreign exchange risk in industries in Australia including the banking sector. According to them, banking industry as a whole do effective foreign exchange risk management and therefore, this type of risk is insignificant in pricing banking companies stocks.

A study conducted on 48 largest US commercial banks (Choi, Elyasiani, & Kopecky, 1992) for the period 1975-1987 showed that effects of exchange rate depend on the Net position of the bank in foreign currencies. According to them,when banks had positive net position, depreciation of foreign currencies negatively affected the stock prices of banks before year 1979 and after 1979 banks stock returns responded positively with the depreciation of foreign currencies as banks had changed from positive to negative net open positions. In a similar study on Canadian banks (Atindehou & Gueyie, 2001), it is found out for the Canadian Banks that stock prices responded positively with depreciation of foreign currencies.

Foreign Exchange Risk is also found out to be one of the major sources of risks in African Region. (Walter & Tewodros, 2004) investigated the foreign currency exchange rate exposure of the major commercial banks in South Africa with the help of augmented market model. According to this study, all the major four banks in South Africa exhibit the foreign exchange risk and the Net Asset position in foreign currencies is a weak predictor of foreign exchange risk. (Shamsuddin, 2009) mentioned that adoption of flexible exchange rate regime in 1983 along with financial system globalization have exposed Australian Banks to new risks along with new opportunities.

According to him small banks are immune to changes in interest and exchange rate. Choosing the suitable hedging strategy is often a difficult task due to the difficulties involved in measuring precisely current risk exposure and deciding on the suitable degree of risk exposure that ought to be shielded. The need for foreign exchange risk management began to arise after the fall of the Bretton Woods system and at the end of the United States dollar peg to gold in 1973(Papaioannou M., 2001) The issue of foreign exchange risk management for firms in non-financial sector is independent from their principal business and is usually independently handled with by their corporate treasuries. In most of the firms there are independent committees who function to oversee the treasury's strategy in managing the foreign exchange risk (and interest rate risk) (Lam, 2003). It clearly shows the importance of the fact that firms give a significant attention to risk management issues and techniques. Contrariwise, international investors usually use their underlying assets and liabilities to manage foreign exchange risk. Since the currency exposure of international investor is majorly related to translation risks on assets and liabilities held in foreign currencies, they tend to consider foreign currencies as a separate asset class, totally separate from other assets, requiring a currency overlay mandate (Allen, 2003). Banks use Derivatives to manage foreign currency risk. A review of literature on usage of derivatives and banks' foreign exchange risk is given here. There is much of literature which shows that foreign currency management tools significantly reduce foreign currency exposure. One of such study conducted on it (Allayannis, George, Ofek, & Eli, 2001), using S & P 500 non-financial firms with the help of multivariate analysis suggested that with the use of foreign currency derivatives, foreign exchange risk is significantly reduced. (Hue Hawa Au Yong, Faff, & Chalmers, 2006) Investigated derivative activities in banks in the Asia Pacific region and tried to discover that level of derivative usage is linked with the perceptions of market about interest rate and exchange rates. They did not find any significant relationship between derivative activities of banks and exposures. Hedging allows the commercial banks to manage foreign exchange risk but hedging itself poses additional risk to bank.

(Gandhi G. S., 2006) in the paper for "The Chartered Accountant" for Instt. Of Chartered Accountants of India is mentioned that currency derivatives like currency futures, currency forwards, currency swaps and currency options help in hedging foreign exchange risk of firms and other ways of hedging including off-setting positions against the underlying assets and money markets are themselves risky. Hedging and hedging right are two different things. If the hedging is not done properly in the right way, it itself can become a serious source of risk and have potential to pose a serious financial loss to the firm. Fluctuations in the foreign exchange rate force the changes in the portfolio returns as uncertain future exchange rates translate the returns on investments denominated in foreign currencies into US dollar returns. Foreign exchange risk can be managed if the diversification of portfolio is done across the assets in different currencies. Cash flows of a portfolio can be affected or changed by the usage of derivative securities. The usage of currency derivatives additionally reduces the risk of whole diversified portfolio (Abken & Shrikhande, 1997).

Currency Derivatives are not only helpful in hedging the foreign exchange risk of the firms and institutes, however, due to information efficiency resultant of usage of currency derivatives makes the currency markets more efficient and exchange rates less forecast able (Liu, 2007) "Foreign Currency options" are the derivative instruments that give the buyer of that option the right but not the obligation to exercise a specific transaction in the currency pair underlying the respective derivative contract. It entitles the buyer of the option the flexibility of exercising settlement of that option or not. The article focused on the dynamics of hedging foreign exchange risk with the usage currency options applications. Indeed, the foreign currency options are one of the best tools available for hedging foreign exchange exposures in different foreign exchange market conditions, like volatile market conditions, stagnant, bullish or bearish. (Gandhi G. S., 2006).

VI. Foreign Exchange Operation Of Ab Bank Ltd

AB bank is a high-class bank in terms of their client services, social responsibilities and other types of activities.

- They have strong financial capability to serve their clients.
- AB bank North South Road Branch is working at Bangshal for 19 years. The service of the bank has been established for certain time and the clientele are satisfied with their conduct.
- The branch is situated on the main road, which makes their clients more secured to do transactions with this branch.
- They have 74 branches throughout the country, which is very helpful for both the branch and their clients to make transactions with different areas through these branches.

- At Bangshal there is an easy transportation system with other areas that makes their clients more comfortable to do transactions with the branch.
- AB bank, North South Road Branch is working as AD branch since 1990. Now they are much experienced in foreign exchange transactions and have a strong relationship with the foreign banks.
- In this bank the rate of interest and different types of charges are comparatively less than the other banks.
- There are lots of clients who are doing export – import transactions for a long time with this branch, which created a strong trustworthy relationship between the clients and the management.
- They have efficient management, to retain its existing clients and attract the new clients.
- Depending on the long-term relationship with the clients, bank decreases some charges and gives different types of benefits to them.
- They always give more importance to its clients rather than anything.
- The clients of this branch are very much satisfied with the behavior of the employees.
- AB bank has Online banking facilities, different types of software system for providing more improved services to their clients.

All the clients are very satisfied with the maintenance of secrecy by the management and employees of the branch.

VII. Clients Perception About Foreign Exchange Of The Bank

The most important part of any business institution is its customers/ clients. So it is very much obligatory to know about the client perception about that organization. AB Bank Ltd. is the first private Bank of Bangladesh. It has passed glorious 27 years. Today the Bank has a great number of clients, with whom the Bank has a strong relationship. AB Bank, North South Road Branch is sustaining since 1998 for 11 years along with a huge number of royal clients in Foreign Exchange sector.

Percentage of Existing and New Clients.

- Existing Clients (4 – 9 years)
- New Clients (less than 4 years)

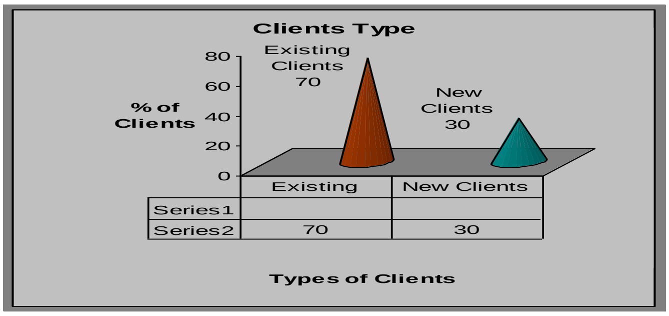

Fig. 1. Export.

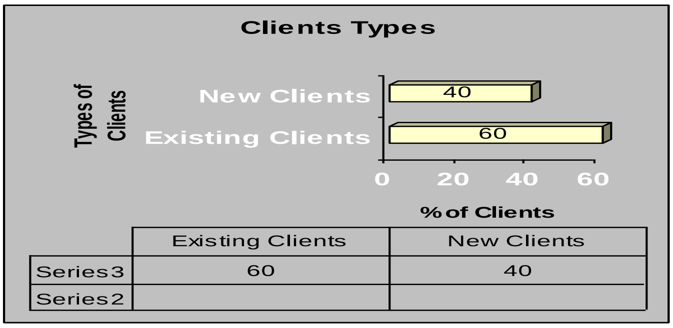

Fig. 2. Import.

Fig. 3. Export.

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Fig. 4. Client's Satisfactory level about Bank's services.

Satisfactory Level	% Of Clients
Completely Satisfied	85
Satisfied	10
Less Satisfied	5

TABLE I. Export Import Position of 2012 & 2013

Particulars	2012		2013	
	Budgeted	Actual	Budgeted	Actual
Export	12500	13824	17280	28400
Import	10400	10914	18198	12800

TABLE II. COMPARISON OF EXPORT IMPORT VOLUME AT THE BRANCH FROM 2008 – 2012

Particulars	2008		2009		2010		2011		2012	
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
Export Volume	13.50	35.85	30.30	40.11	15	62.11	70	93.33	125	138.24
Import Volume	40	24.42	46	28.13	55	52.04	70	100.57	104	109.14

A. *Documentary Requirements (Import LC)*

As the survey result shows, in case of the LC opened from the country, issuing banks ask for transport documents (bill of adding, airway bill, truck receipt etc.), commercial invoice and certificate of origin. In Bangladesh, insurance documents are rarely asked as according to the country's import policy, insurance is to be covered by domestic importers. Importing goods under CIF is subject to the permission of Bangladesh Bank. Submission of signed commercial invoice is another regulatory requirement. Under UCP 600, commercial invoice may not be signed if it is not asked for. However, according to BB guidelines, all LCs must ask for submission of signed invoices.

TABLE III. DOCUMENTARY REQUIREMENT IN LC ISSUED FROM BANGLADESH

Documents asked under LC	Frequency
Transport document	All
Insurance document	Very rarely
Commercial invoice	All
Certificate of origin	All
Bill of exchange	Very frequently
Packing list	Very frequently
Weight list	Less frequently
PSI certificate	Less frequently

[a] An evaluation of the operations of international trade payment methods in Bangladesh by Toufic & Habib, 2006

B. *Documentary Requirements (Export LC)*

The LCs received by the country's exporters asks for transport documents (bill of lading, airway bill, truck receipts etc.) and commercial invoice. Generally in LC operations, transport documents (title documents), commercial invoice (sellers bills), and insurance documents are regularly asked as conditions for making payment. It can be observed from survey data that insurance documents are less frequently asked in the LCs sent to Bangladeshi exporters.

TABLE IV. DOCUMENTARY REQUIREMENTS IN LC RECEIVED IN BANGLADESH

Documents asked under LC	Frequency
Transport document	All
Insurance document	Less frequently
Commercial invoice	All
Certificate of origin	Very frequently
Bill of exchange	Very frequently
Packing list	Very frequently
Weight list	Less frequently
PSI certificate	Less frequently

[b] An evaluation of the operations of international trade payment methods in Bangladesh by Toufic & Habib, 2006.

TABLE V. RANGES OF CHARGES OF BANKS

Nature of Transaction	Charges (Ranges)
Import LC	
LC opening commission (cash)	0.30%-0.50% for first quarter 0.20%-.30% for subsequent quarter Minimum: Tk. 250-Tk. 1000
LC opening commission (Usance)	0.40%-0.80% for first quarter 0.30%-.60% for subsequent quarter Minimum: Tk. 300-Tk. 1000
LC opening commission (Back-to-Back)	0.50%-0.90% for first quarter 0.30%-0.60% for subsequent quarter Minimum: Tk. 300-Tk. 1000
LC Cancellation	Tk. 500-Tk. 1000+communication cost
Discrepancy fee	USD 50-USD 75
LC amendment	Tk. 100-Tk. 500
Export LC	
LC advising	Tk. 200-Tk.1000+postage
LC amendment advising	Tk. 100-Tk.500+postage
LC transfer/amendment	Tk. 1000-Tk.1500
Negotiation	0.20%-0.25% Minimum: Tk. 250-Tk. 500
Collection (Imports)	0.20%-0.35% Minimum: Tk.500-Tk. 1000
Collection (Exports)	
Collection Charges (processing, mailing etc.)	0.25%-0.125% Minimum: Tk.250-Tk. 500
Bill Purchase (without LC)	0.25%-0.30% Minimum: Tk.500
Bill Discount (without LC)	0.125%-0.50% Minimum: Tk.750-Tk. 1500
Others	
LC application	Tk.300-Tk. 500
LCA	Tk.100-Tk. 200
IMP	Tk.50-Tk. 100
Issuance of certificate	Tk.250-Tk. 500
Registration of LCA	Tk.300-Tk. 500
Copy of document certification	Tk.100-Tk. 500
Exp form certification	Tk.100-Tk. 500 per set
Attestation of export LC documents	Tk.0-Tk. 500
Communication Charges	
SWIFT, Courier, Airmail, Fax,	Some bank charge on

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Postage	actual basis and some charges fixed amount that vary among banks.

[c] An evaluation of the operations of international trade payment methods in Bangladesh by Toufic & Habib, 2006.

VIII. Findings Of The Research

- Like in many developing and least developed countries, documentary letter of credit is the most popular and widely used payment method for export and import transactions in Bangladesh. Though open account is widely used method in trades among developed countries, its use in Bangladesh is almost absent. Absence or insignificant cases of the use of cash in advance and open account might be attributed to the regulatory requirement of the country, relative bargaining power, reputation of the country's traders, and mutual trust and relationship of the domestic traders with the counterparts.
- Documentary letters of credit are frequently used payment devices on international trade deals, particularly for long distance exports involving developing countries.
- The classic explanation claims that letter if credit provides an effective assurance of payment from a financially responsible third party, however, sellers do not have right and banks do not have obligation to make payment if sellers do not submit documents that conform to the letter of credit.
- Interestingly, it has been observed that the proportions of discrepant cases are very high; however, applicants almost universally waive the discrepancies.
- The issuing banks' superior ability to verify information about the purchaser provides another compelling reason for widespread use of LC. In some developing countries that retain tight state controls on foreign trade operations, the documentary credit provides a useful additional weapon in the government's control and supervisory mechanism.
- Use of different forms of letter of credit depends upon trade structure, relative strength of trading parties, and regulatory requirements. All letters of credit issued and received in Bangladesh are irrevocable in nature, as the regulation of Bangladesh does not allow opening and receiving revocable letter of credit. In the import transactions through LC, back to back are widely used for importing raw materials in Bangladesh for meeting export requirements of garments sector.
- Banks generally prefer to select those banks as advising banks with which they correspondent relationships though some banks also try to accommodate exporters' choice.
- There is no significant difference in the documentary requirements of exports and import LCs in Bangladesh and among different categories of banks.
- In most cases the letter of credit issued from the country and received are freely negotiable and payments are designated on sight basis. Some banks (mainly foreign and a few domestic private sector banks) however prefer to restrict negotiation at the counter of certain banks having correspondent relationships. However, in most cases, foreign negotiating banks do not negotiate documents and simply forward documents to the counter of issuing banks or make payment only after receiving payment or ensuring receipt of payment whatever may be the status of documents. This is also true for Bangladeshi banks (negotiating/nominated banks) that hardly negotiate export documents and end the documents to the counter of the issuing banks and make payment only after assurance of reimbursement.
- While examining documents at the counter of issuing banks in Bangladesh, import documents are examined within two banking days in more than half of the cases.
- Of the nature of discrepancies observed by the banks, late shipment and late presentation are found to be very common both in export documents and import documents as observed by the bankers.
- In regard to the difficulties faced by the parties of international trade payments, bankers, importers and exporters identified different problems. As observed by the bankers, exporters are said to have lacking in expertise in the preparation of documents as per LC terms and thus submit discrepant documents frequently. Sometimes, EXP is required to be signed even without having complete satisfaction about the performance of the exporters. As bankers face, the importers are generally very reluctant to comply the regulations of trade payments. Some traders are said to have faced with the problems of delaying in observing formalities of getting approval from head office in relevant matters.
- No branch is found to have any arrangement of collecting and maintaining ICC and other legal documents that are required to be consulted time to time to deal with day to day difficulties.
- Bank charges commissions under documentary credit that are in practice in Bangladesh at different stages. In different stages of the documentary credit process, banks charges as issuing bank, confirming bank, negotiating bank, reimbursing bank, confirming bank etc

A. *In terms of AB Bank Ltd*

AB bank, North South Road Branch is dealing with its clients for a long time successfully. Usually they do not face any serious types of problems, but sometimes they have to tolerate the followings:

- Regular and sudden changes of foreign exchange rules by the Central Bank.
- High expectations of the existing clients, which are restricted by the regulation.
- Incomplete submission of the documents.
- Lack of understanding and the time management (EXP forms)
- In terms of local export clients try to make purchase beyond their margin.

- Clients take much time than the conditions of the LC/ contract, in terms of payments.
- Both in export and import clients try to get immediate service from the bank, which do not give the opportunity to the employees to check the documents properly.
- The bank because of any mistakes in the LC/Contract faces discrepancies.
- This branch is not supported by the technology as per the requirement and the employees are not trained up to the required standard.
- They do not have enough human resources, technical and instrumental support.

B. In terms of the Client's of AB Bank Ltd

- Delay in procedure due to the handling and transportation holdup.
- Late payments by the foreign importers.
- Delayed Shipment of goods by the foreign exporter.
- Late processing in customs.

C. Difficulties / problems in handling exporters

- Many exporters cannot prepare documents as per the provisions of letter of credit;
- EXP is required to be signed even without being completely satisfied;
- Exporters submit discrepant documents most common of which are late shipment, late presentation, etc.
- Exporter asks for negotiation/purchase/discount against discrepant documents.
- Exporters do not prefer to ask for amendment though conditions appears to problematic;
- Big exporters bargain for better exchange rate.

D. Difficulties / problems in handling importers

- Importers are reluctant to comply the regulations;
- Importers do not waive discrepancies that can be ignored;
- Importers sometimes create pressure to reject documents;
- Importers bargain with the margin and other charges of banks.

E. Problems/difficulties in dealing with the banks faced by the traders

- Bankers make delay in formalities and approval from head office;
- Bankers do not agree to negotiate/purchase/discount even having minor discrepancies in documents;
- Compel to shift to the government bank due to shortage of foreign currency in PCBs;
- Bankers make delay in disbursing export credit;
- Bankers do not allow opening back-t- back against contract.

IX. RECOMMENDATIONS

General Suggestions for Foreign Exchange Operation.

- To ensure that letters of credit are dealt with in a competent and professional manner it is important for companies to have an action plan or checklist when dealing with letter of credit trade. This should apply to both regular users and those who use letters of credit infrequently. Indeed it can be seen almost as more important for infrequent users to have these procedures in place due to their having less experience in dealing with these types of transactions. Many suggestions of how to deal with credits are given in "Demonstrated Best Practice" of this research.
- Whenever letters of credit and discrepancies are discussed the issue of training is nearly always raised. There is no getting away from the fact that in order to process letters of credit in a timely and accurate fashion staff must be adequately trained. In an ideal world this means both on the job training backed up by a formal training course or qualification.
- Those companies who are dealing with letters of credit on an infrequent basis (and in some instances perhaps others who deal more often with letters of credit) may feel that it is not appropriate to have the expertise to deal with letters of credit in-house. In this case use may be made of outside expertise and experience for example their freight forwarder. This should be seen as a positive step taken to help ensure that the letter of credit process runs smoothly. However, using outside expertise does not preclude taking steps during contract negotiations to ensure that the credit is set up appropriately.
- Some obligations of the bankers as the signatory of the EXP is beyond their control. A set of well-defined specific responsibilities of the bankers as the signatory would make bankers comfortable in dealing the cases of non-repatriation. However, any steps in regard to above should not be compromised with signing EXP for a bad customer irresponsibly.
- The deviations of some practices that arise mainly because of lack of knowledge on ICC publications should be addressed by regular effective trainings/workshops.
- For right interpretations of UCP, other than discussions with colleagues, bankers should have access to an expert group on ICC publications.

To smooth difficulty in handling exporters and importers, training may be arranged by their own associations. Bankers should also arrange informative training on trade payment related issues for their clients as well.

A. For AB Bank Ltd

1) Any change in Central bank rules should be available to the branches immediately, before their implementation.

a) Through the online system their Head Office should provide all the circulars to the branches immediately.

b) All the employees should check their mails regularly.

2) The management of the branch should make their clients understand that, branch cannot take any sort of risk, which may have negative affect both on the bank and their clients.

a) They should talk with the higher authority.

3) In terms of returning EXP forms.

a) The Management strategy is to submit a letter containing the reasons behind late return of EXP forms by their clients.

b) They should force their clients to do so.

4) Filling up the forms.

a) Branch employees should find out the reasons why the clients are not filling up the forms with proper details. If the clients have any problem then it can be solved by the discussion between them..

5) Crossing the margin.

a) Branch should not allow their clients to purchase beyond their margin.

b) In terms of loyal clients employees may have to do this but they should take the permission and authorized signature of the management.

6) In terms of late payments.

a) Branch should inform their clients at first.

b) If they do not care about it then they should send a letter to BAFEDA (Bangladesh Foreign Exchange Dealers Association) immediately.

7) Employees should not allow their clients for any sort of immediate service without proper checking of the documents and making clear confirmation, because the chance of doing fraudulent activities is more here.

8) Choosing new clients.

a) Management should choose their new clients very carefully, check all the documents properly.

b) They have the policy to visit the industries of new clients but it is not followed regularly. They should visit the industries, which will reduce branch risk.

9) To get the idea about Export – Import procedures of the bank.

a) Branch can provide a short guideline to their clients detailing about the procedures of export and import, which will save the time of both of them.

10) For more efficient service.

a) Branch management should implement the latest technologies as soon as possible.

b) They should arrange required training programs for their employees to make sure about proper use of new technologies.

c) They should use that sort of software, which makes their service easier, faster, and more secured.

d) The branch should arrange required technical, instrumental support and human resources to make their clients more satisfied and attract more new clients.

e) Bank should take proper care and control on documents sending process (Courier Service Co. – TNT, DHL etc.) so that their clients can get their papers in proper time.

11) In terms of late shipment and payment by the foreign importers and exporters.

a) Clients should directly contact with them, find out the reasons and then take necessary steps.

b) They should be very careful, because any serious mistakes by them or the bank will affect the foreign trade of the country.

12) The proper authority should control customs procedures strictly. They should not make unnecessary delay of shipment and other procedures.

Conclusion

Letters of credit are still important tool used in international trade. They provide security for both buyer and seller where conditions may be uncertain or there is little or no previous trading relationship between the parties. However, letters of credit only provide this security when they are used in a prudent manner - it is essential that exporters remember that documents must be in strict compliance with the credit to secure payment. Treating letters of credit in a casual manner will remove the very level of security the exporter is seeking when selecting them as a method of payment.

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