

Operation of commercial banks in bangladesh

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Term Paper On Operation of Commercial Banks in Bangladesh Term Paper
 On Operations of Commercial Banks in Bangladesh Financial Institutions &
 Markets (FIN 335) Summer 2012 Submitted To Md Lutfur Rahman Assistant
 Professor Department of Business Administration East West University
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 18, 2012 Letter of Transmittal

April18, 2012 Md Lutfur Rahman Assistant Professor Department of Business
 Administration East West University Subject: Submission of Assignment. Dear
 Sir: We are very pleased to submit this term paper on “ Operations of Bank
 management in Bangladesh. ” as you have authorized us to in this semester.
 We are honored to prepare this term paper under your guidance since it
 gave us the opportunity to know the operations of different commercial bank
 in Bangladesh and also know the product and service offered by that bank.

And we explore which bank provides unique product and service for their
 customers and which way they provide. We analyze its offered product
 comparative scenario in respective to the other type of commercial bank. We
 tried our level best to accumulate the information for you as comprehensive
 as possible. We will be obliged to provide further clarification on this report
 whenever necessary. Sincerely Yours, Srabonty Mzumder [2009-2-10-021]

_____ Md. Saddam Hossen [2009-3-10-031]_____ Md.

Mehedi Hasan [2009-3-10-076]_____ Md. Nazmul Hasan Bhuyan
 [2009-3-10-022]_____ Sanjana Ahmed [2008-3-10-
 101]_____ Acknowledgement We would like to express our

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gratitude and indebtedness to our honorable faculty Md Lutfur Rahman, Assistant Professor, Department of Business Administration, East West University (EWU). With his inexhaustible guidance, valuable advice, continuous inspiration, constructive criticism and generosity she helped us to carry out this report successfully.

We would also like to express our gratitude to the website that helped us to gather all the necessary information. Finally, we would like to thank to all group members that directly or indirectly helped us to provide and accumulate all the necessary information for the accomplishment of this assignment. Table of Content Executive Summary 1. Introduction: There are different kind commercial bank that are operating their business in Bangladesh like state owned commercial bank, private owned commercial bank, some multinational bank, Islamic bank etc. ach type of bank offer different kind of product and service for their client. These commercial offer different types of deposits service and also offer different types of credit service. So we analyze the comparative situation in one bank offered product and service with another bank. 2. 1. Origin of the report: This report originates to fulfill the requirement of studying Financial Institutions & Markets, which is the course of BBA Program of East West University. The topic of the report is “ Operation of Commercial Banks in Bangladesh” 2. 2.

Objective: The purpose of the report is to know the comparative situation among the commercial bank and also to elaborate our knowledge about financial market by analyzing its comparative situation. 2. 3. Scope of the report: There are huge scopes to prepare the term paper to collecting information, analyze the information and also implement the information. 2.

4. Limitations: To prepare this report we have faced a lot of problems such as unavailability of lab, electricity problem, unavailability of related books unavailability of information in net etc. 2. 5.

Methodology: At first we collect the basic information from internet like related bank websites, and then analyzes the information on the basis of available information. So for the purpose of the report completion collect information from secondary sources. Public and Private commercial Banks in Bangladesh Public Banks: The banking system of Bangladesh is dominated by the 4 Nationalized Commercial Banks In which 3 are totally controlled by government and 1 (Rupali Bank) bank is controlled by both government and private sector. Nationalized Commercial Bank of Bangladesh: * Sonali Bank Agrani Bank * Rupali Bank * Janata Bank For Our Comparison we select Agrani Bank and Sonali Bank Private Banks: Private Banks are the highest growth sector due to the dismal performances of government banks (above). They tend to offer better service and products. Now 39 private commercial banks are operating in Bangladesh. Among them we select Dutch Bangla Bank Ltd and BRAC Bank Ltd for our comparison. Comparison between Public and Private Banks: 1. Personal Banking: As public Bank Agrani Bank and Sonali Bank offer Personal banking products for their current and potential customers.

On the other hand private bank also provide different types of personal banking service for their current and potential customer. Deposit and loan services are- Product type| Public Bank| Private Bank| Deposit services| Savings bank account, Fixed deposit receipt, Pension schemeSonali Deposit Scheme (SDS)EducationDeposit Scheme (EDS)Medicare Deposit Scheme

(MDS)Monthly Earning Scheme (MES)Marriage Savings Scheme (MSS)Rural Deposit Scheme (RDS) andDouble Benefit Scheme (DBS)Credit Schemes| Convertible Taka Account.

Current Deposit AccountCurrent Deposit Account BankExporter's FC DepositForeign Current AccountNon- convertible Taka Account Saving deposit AccountShort Term Deposit AccountShort Term Deposit Bank Account| Loan Services| Home loan, Consumer loan, Advance against salaryConsumer Credit Special Small Credit ITFinanceLoan forDiagnosticCenter Loan scheme for Employment Abroad | Auto Line Care LineDreamscomes true LineEducation LineFestival LineFull Secured Line General LineHome Line: Marriage Line Professional LineTravel line| 2. Business support And Industry Development Products :

With a view to building up a fund of Tk. 500 crore for financing industrial projects, Agrani Bank introduced Agrani Bank Shilpa Unnayan Bond in 1999. There are two types of bonds - 5 and 7 years. The lowest denomination is Tk. 50, 000 and highest one is of Tk. 500, 000. Interest rate is good enough to attract people. Major credit Schemes for business people are Industrial Credit, Trade Finance, Import Finance and Export Finance. If you are a deserving candidate for any of them, or you need any documentary support from Agrani Bank, you may visit to any branch of Agrani Bank.

For industrialdevelopment of the countrySonali Bank provides long term loan against new industries and BMRE program of existing industries. Under different schemes it addresses thrust sector, Garments, Tourism, Hospital, Pharmaceutical, Power Plant and many more. Compare to Public banks with private bank : Also offer different type of loan facilities that's interest rate is

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generally floated interest rate. 3. Agri & Rural Banking product : Now bottom line farmers may have a bank account depositing Tk. 10 only. Agrani Bank provides this service to rural areas in Bangladesh.

Young generation intending to go abroad for jobs may have loan for their air tickets and other expenses against nominal securities. Other rural economical activities are also supported by Agrani Bank credit programs. The areas addressed are Cultivation (flower and others), Fisheries, and Poultry, Purchasing Agriculture and irrigation machinery and ploughing animals. So it can be said that Agrani Bank that public bank is working to promote economic growth of Bangladesh from the very grass root level which is 80% of national economy. 5% of our population lives in rural areas of Bangladesh and 75% earn their living from agriculture. So without boost up of agriculture our economy won't grow. Also Sonali Bank as a public bank very correctly addresses it through the Rural Credit Scheme. The scheme provides loan under the following criteria: * Crop Loan * Special Investment Program * Farming & Off Farming program * Krishi Khamar Rin Karmasuchi * Pond Fisheries Credit Program * Fertilizer Dealers Credit Program * Sugarcane Production Loan Program * Social Forestation Program

All these credit programs are very much suitable for our rural people and society and in the mean time these efforts have started to give result. The results are very encouraging. On the other hand private banks Such as Bank Asia and Dutch Bangla bank as private bank, normally focus on the urban people. They don't have any specific products on the rural or Agricultural sector. Bank Asia has a product " KIOSH" for the farmer but it is not so

popular or useful for the farmer. 4. Microcredit product: For Bangladesh perspective microcredit is necessary.

To think about the poor people of Bangladesh Sonali Bank offer Microcredit. Sonali Bank being committed for people and society has been participating in the field actively since 2003. About 20 projects under the scheme are in progress. On the other Hand in Private Banks: Such as Bank Asia and Dutch Bangla bank have no specific microcredit product for the lower middle class people of Bangladesh. Their every product is basically for upper class and middle class people. 5. SME Banking product: Small and medium enterprise of the country is one of the deserving sectors for financial support.

Agrani Bank justifiably provides credit to them under different schemes. Agrani Bank launched a joint venture program named Small Enterprise Development Program (SEDP) with NORAD, a Norwegian agency in 1995. This program was implemented in greater Mymensingh and Faridpur districts. The target fields were rice mill, oil mill, and nursery, repairing shops, fishery, weaving and many more. The bank is presenting micro credit and other supports to land less day labor for alleviation of poverty by generating employment. Agrani Bank had designed some programs in collaboration with other agencies.

One such program is Employment Generation Project for Rural Poor (EGPRP). This program was launched in 1995. All these programs are very much favorable to the micro enterprises and the poor. Terms and conditions are also customer friendly and easy to follow. On the other Hand in Private Banks Private Bank such as Bank Asia and Dutch Bangla Bank has SME banking for the Small and middle enterprise. Bank Asia have 10 SME service branches all

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over the Bangladesh. They have different 9 SME products that interest rate start from 10-17%. Dutch bangle bank have 3 SME branches.

From the branches small and meddle enterprise can borrow from 100000 to 5000000 tk. Floating Interest rate is 17% and collateral 16%. As an entrepreneur must have experience at least 2 (Two) years. 6. Nonresident Bangladeshis customers products : Nonresident Bangladeshis now get banking facility through Agrani Bank. They may have an account in taka, they may invest in Dollar Bonds. They are also allowed to have an F/C account. To compare with Private Bank Such as Bank Asia and Dutch Bangla Bank gives the account facilities and F/C account for the NRBs . NRBs can also invest in Euro Dollar bonds. . Islamic Banking product: Among the nationalized banks Agrani was the first to introduce Islamic Banking service. Agrani Bank provides completely interest free Shariah based banking for their clients. Deposit services offer interest free profit in compliance with Shariah. Agrani Bank, as per its slogan, is always beside the people in their struggle to come up with sustainable economic growth for themselves and for the nation. On the Other Hand Private bank Such as Bank Asia have Islamic banking services in 6 braches such as 3 in Dhaka, 1 in Chittagong and 1 in Sylhet.

They provide completely interest free Shariah based banking to the clients. Deposit services offer interest free profit in compliance with Shariah. Now a day most of the private banks start Islamic Banking Service to attract the all types of people. 8. Internet Banking : Agrani bank and Sonali bank don't have internet banking services. On the Other Hand Private bank All private banks branches under online banking system will be able to do banking

practices using a common server (which is centralized) from where only the branches will be able to enter using a common password.

Dutch Bangla Bank and Bank Asia give the below internet banking services for their customers. Internet Banking Services * Check account balance * Take print out of account statement for a particular period * Transfer fund within your own account * Make payment of mobile phone bill * Recharge your mobile phone as well as others from your account * Enquire foreign exchange rate * Enquire currency exchange rates. * Acquire information on all our products. * Every transaction report will be sent to clients through e-mail account. * Can change the password, pin code and respective mobile number (For All Mobile Operator's).

1. ATM Booth product : Now a day public bank doesn't offer any ATM facilities for their Clients. On the Other hand With more than 1000 of ATM booths all over the country, DBBL's has the largest ATM networks in Bangladesh. DBBL offering free access to its ATM network for its subscriber. This network helped DBBL gaining more popularity and confidence among subscriber and expanding banking opportunity to mass people. This entire network is being maintained by its own IT staff without any 3rd party dependency Brac Bank also has huge ATM booths facilities for their clients. 12.

Credit / Debit Cards Product : Public bank offer credit / debit card facilities in a smaller range such as Sonali Bank Limited are one of the member banks of Q-Cash Consortium. Card holder of Sonali Bank Limited can use ATMs of consortium member banks, Dutch-Bangla bank and BRAC bank limited. Member Banks of Q-Cash Consortium. Agrani bank also give their clients debit card facilities but it not so popular. On the Other Hand Private bank

such as Brac Bank offer Credit Card such as 1. Platinam card 2. Universal Card 3. Schedule of charge 4. Payment of Credit Card Bill Debit Card: Visa / Master Card

Prepaid Card: 1. Hajj Card 2. Travel Card 3. Schedule of Charge Dutch Bangla Bank also offer different types of Debit, Credit, Prepaid Card and different types of offer & discounts. On the above comparison we see that public bank work with grass root level and more concentrate Last of all previous time Public commercial banks have fewer facilities than private commercial banks but now a day they try to increase their product and service. Private Banks gives a lot of services to their clients. For existence of the market private banks are increasing their products and services.

Islamic Banking: The key difference is that Islamic Banking is based on Shariah foundation. Thus, all dealing, transaction, business approach, product feature, investment focus, responsibility are derived from the Shariah law, which lead to the significant difference in many part of the operations with as of the traditional. The foundation of Islamic bank is based on the Islamic faith and must stay within the limits of Islamic Law or the Shariah in all of its actions and deeds. Here, we take two banks for the comparison between Islamic Bank & Traditional bank: * Social Islamic Bank Limited (SIBL) * Shahjalal Islami Bank (SJIBL)

Amongst the governing principles of an Islamic bank are: * The absence of interest-based (riba) transactions; * The avoidance of economic activities involving oppression (zulm) * The avoidance of economic activities involving speculation (gharar); * The introduction of an Islamic tax, zakat; * The discouragement of the production of goods and services which contradict the

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Islamic value (haram) Traditional Banking: On the other hand, traditional banking is essentially based on the debtor-creditor relationship between the depositors and the bank on one hand, and between the borrowers and the bank on the other.

Interest is considered to be the price of credit, reflecting the opportunity cost of money. Among of many traditional banks we take two, those are: * National bank. * Brac Bank Comparison Between Islamic Banking And Traditional Banking: 1. Functions And Operating Modes: The functions and operating modes of SJIBL & SIBL banks are based on the principles of Islamic Shariah. On the other hand BRAC Bank & National Bank are based on man maid principles 2. Interest Rate: SJIBL & SIBL do not used to fixed up the interest rate for their offering asset & liability products as like as traditional banks deal with. t promotes risk sharing between provider of capital (investor) and the user of funds (entrepreneur). Besides, The investor is assured of a predetermined rate of interest. They have fixed rate of interest. Example: In BRAC bank, they have “ Prapti Current account” & their interest rate is given below: Amount of Balance| Specific Interest Rate| 0 - Below 5, 000| 0%| 5, 000 - Below 100, 000| 1%| 100, 000 - Below 250, 000| 2%| 250, 000 - Below 500, 000| 3%| 500, 000 & Above| 4%| | 3. Profit Maximization: Both of them SJIBL & SIBL aims at maximizing profit but subject to Shariah restrictions.

Besides they just shares profit & loss both. Example: They offer Al Wadiah Current Deposit Accounts. Where have No profit on Al Wadiah Current Deposit Account balances. Al-Wadiah current deposit account holder have no risk. In contrast, National bank ltd. & BRAC Bank has the aim of maximizing

profit without any restriction. In contrast, SIBL & SJIBL share their profit & loss with their clients that indicates they don't fixed up interest rate as aforementioned in traditional banking system. 4. Provided Loan Modes: Islamic law considers a loan to be given or taken, free of charge, to meet any contingency.

So, The SJIBL & SIBL have no provision to charge any extra money from the defaulters. Only small amount of compensation and these proceeds is given to charity. Rebates are given for early settlement at the Bank's discretion. Example: Al Wadiah Current Deposit Accounts Payment on Accounts demand Funds in the Al Wadiah Current Deposit shall be payable on demand and the Bank guarantees repayment of such funds in full, less the Bank charges Besides. Lending money and getting it back with compounding interest is the fundamental function for both of them.

They can charge additional money (penalty and compounded interest) in case of defaulters. 5. Since SJIBL ; amp; SIBL shares profit and loss, they pay greater attention to developing project appraisal and evaluations. Example: Al Wadiah Current Deposit Accounts. No profit on Al Wadiah Current Deposit Account balances shall be allowed and the Bank at its own discretion uses the funds of Al-Wadiah current deposit accounts without any risk to the account holder. 6. Projects Development: The SJIBL ; amp; SIBL gives greater emphasis on the viability of the projects.

In the comparison of BRAC bank ; amp; NBL banks' income from the advances is fixed, it gives little importance to developing expertise in project appraisal and evaluations. 7. Deposits Accounts: Most importantly SJIBL ; amp; SIBL can only guarantee deposits for deposit account, which is based <https://assignbuster.com/operation-of-commercial-banks-in-bangladesh/>

on the principle of al-wadiah, thus the depositors are guaranteed repayment of their funds, however if the account is based on the mudarabah concept, client have to share in a loss position. * Al Wadiah Current Deposit Accounts * Mudaraba Savings Deposit Accounts Mudaraba Term Deposit Accounts * Mudaraba Short Notice Deposit Accounts In contrast, BRAC Bank have these types of deposits * Probashi Current Account * Probashi Savings Account * Probashi Fixed Deposit * Probashi DPS * Probashi Abiram In these accounts client don't have to share in a loss position. 8. Zakat collection: In the modern Islamic banking system, it has become one of the service-oriented functions of the SIBL ; amp; SIBL to be a Zakat Collection Centre and they also pay out their Zakat. They does not deal with “ Zakat,” as Islamic bank usually does. 9.

Islamic Mode of Investment: Participation in partnership business is the fundamental function for both of them. * Participation Of partnership business Example: SIBL provide “ Musharaka” service. It means means partnership business. Every partner has to provide more or less equity funds in this partnership business. Both the Bank and the investment client reserve the right to share in the management of the business. But the Bank may opt to permit the investment client to operate the whole business. In practice, the investment client normally conducts the business.

The profit is divided between the bank and the investment client at a predetermined ratio. Loss, if any, is to be borne by the bank and the investment client according to capital ratio. * The status of SIBL ; amp; SIBL in relation to its clients is that of partners, investors and trader, buyer and seller. Example: Bai-Muazzal. Bai-Muajjal is a contract between Buyer and

Seller under which the seller sells certain specific goods (permissible under Shariah and Law of the country), to the Buyer at an agreed fixed price payable at a certain fixed future date in lump sum or within a fixed period by fixed installments.

The seller may also sell the goods purchased by him as per order and specification of the Buyer. In Bank's perspective, Bai-Muajjal is treated as a contract between the Bank and the Client under which the bank sells to the Client certain specified goods, purchased as per order and specification of the Client at an agreed price payable within a fixed future date in lump sum or by fixed installments. | IN contrast, BRAC bank has * Probashi Wage Earners bond * US \$ premium & Investment Bond Probashi Biniyog Probashi Wage Earners' Bond| | Probashi Wage Earner Development Bond (WEDB) is a product designed by Bangladesh Central bank for Bangladeshi national living abroad. The objective of this product is to encourage the NRBs to invest their hard earned money to purchase WEDB on which the government guarantees a fixed interest rate. | | US Dollar Premium ; amp; Investment Bond| | US Dollar Premium Bond is a product designed by Bangladesh Central bank for Bangladeshi national living abroad.

The objective of this product is to encourage the NRBs to invest their hard earned money to purchase WEDB on which the government guarantees a fixed interest rate. | Probashi Biniyog| | BRAC Bank Limited offers 'Probashi Biniyog' a product that exclusively provides Non-Resident Bangladeshis (NRBs) the opportunity to invest in the Bangladeshi Capital Market through a Beneficiary Owner's (BO) account which will be funded by a Non Resident

Investor's Taka Account (NITA). Both BO account and NITA will be held with BRAC Bank Limited. | 9. Conclusions:

In the conclusion we have differentiated different types of products of private and public banks, Islamic and traditional bank and local and multinational bank in Bangladesh. Basically we try representing a clear picture among two banks products base on their deposit products, loan products, ATM, cards, Interest rate , branch , SME product , rural ; amp; agriculture products. To compare their products we have used company website, visited the banks and talked with the employees of the banks. That has enriched the differentiation among different banks. 10. Reference