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The Necessity of New Commercial Banks in Bangladesh: An Exploratory Study for Evaluating the Need Assessment

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Abstract: *The issue of granting licenses to new banks caused many to raise their eyebrows in last few years. Questions were being asked by authentic experts, bankers and people about the wisdom of allowing more banks, a sector that had been struggling hard to cope with the versatile problems over the years. The impact of inclusion of more new commercial banks on banking sector has been the focus of considerable scholarly effort during the last few years. Only a few studies have approached the impact of structure on bank performance directly by investigating the question: what has happened to bank performance in communities where the structure of the market has been altered? This paper examines the necessity of the entry of new private commercial banks .To achieve this objective, researchers systematically looked at the sector's current state and future premises through industry analysis. The results indicate that allowing more banks would distort the market, which is already saturated with more than 50 banks in operation.*

Keywords: *Private Commercial Banks (PCBs), Nationalized Commercial Banks (NCBs), Bangladesh Bank (BB), Economic Development, Bangladesh.*

JEL Code: G210

Introduction

After independence of Bangladesh, all banks and financial institutions were nationalized. To ensure smooth competition, to provide better quality services, to make finances available to the individual entrepreneurs as well as to businessmen, and thus to accelerate the growth of national economy as whole, government allowed the establishment of the banks in private sector from 1983. Therefore, we see many new banks in private sector in the late 1980 and 1990s. Now, many of foreign banks and private commercial banks share a remarkable portion of banking sector.

Recently, the central bank has approved nine more banks in addition to existing 47 commercial banks in Bangladesh. Three new NRB commercial banks, sponsored by non-resident Bangladeshis (NRBs), and six private commercial banks (PCBs), have been

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approved aiming to help boost the inflow of foreign exchange and strengthen the ongoing financial inclusion programs through bringing unbaked people under the banking network respectively.

The Central Bank stated, the economic context and rationale behind issuing licenses in favour of new banks. The economy has grown and the banking system has become more competitive but there are still a large number of under-banked people in Bangladesh.

Recent estimates from a survey conducted by Institute of Microfinance (IoF) found that only 45 percent of the nearly 9000 households surveyed do have access to banks and micro-finance institutions (MFIs) for loans. The population per branch of the formal financial sector in Bangladesh is lower than that India (14485 and 124 respectively) and Pakistan (20340 population per branch and 47 loan accounts per 1000), according to the statement of IoF.

Bangladesh Bank assumes that new banks will help increase the quality of banking services by increasing competition in banking sector. They will also be able to meet the unfulfilled demand for credit by the private sector which needs have grown in line with fast expanding economy. The central bank noted that, for new banks the ratio of opening rural and urban branch will be 1:1which will help increase bank branches in rural and improve financial inclusion. But the home truth is that no bank can expand in rural areas before concentrating and making business in urban areas.

Actually, In the face of pressure from the government high-ups, Bangladesh Bank has approved new private banks against its will. When the issue came up in 2012, the Central Bank, the sole authority to approve new banks, was against the move. It said there was no need for more banks with 47 specialized, public, private and foreign banks already in operation in the country in that time.

Bangladesh Bank (BB) was eventually under political pressure and received 37 applications for new banks till November 30, 201l. BB board then unofficially decided not to approve more than three banks. With time came more pressure, forcing BB to make a big list. As per rules, BB holds the ultimate power to approve new banks. But in reality, it is now allowing banks by those enjoying blessings of the government high-ups. The central bank had faced tremendous pressure from the government high-ups to quickly approve those banks even before it could properly scrutinize the applications. Eventually, The Central Bank gave licenses to nine new private commercial banks, allowing them to commence operations.

The International Monetary Fund and leading economists in the country oppose setting up of new banks at the moment. They argue that more banks in the already saturated market will set off an ill competition and worsen the current liquidity crisis. But the government says it still sees scopes for more banks given the size of the economy and growth in the export-import business. BB under political pressure approves the new PCBs in every government period. Government has further intention to approve new more commercial banks as time progresses.

In such situation, the study seeks to evaluate why the decision will not be logical to allow more commercial banks? Does really new banks works positively to banking sector in Bangladesh? The study intends to examine foresaid questions.

Literature Review

Banking system has become an integral part for operating economic activities in every country. The economic condition of a country depends on the soundness of its banking system (Teker, et al. 2011). The economic development of a country is very much related to the development of banking sector of the country (Nazim & Yousuf, 2003).

There is a consensus regarding the positive role played by the financial sector in promoting economic development (Gerschenkron, 1962; Patrik, 1966; Galbis, 1977).

A comprehensive study on 119 developed and developing countries over the 1960-1989 period by King & Rose (1992) provides impressive evidence that economic growth is dramatically dependent on the size of financial sector, private sector banks, credit to private enterprise and interest rates.

Banking sector is actually fueling the engine of development of a country. Thus any disturbance to this banking sector will surely have a severe impact on the country's economic growth (Aspal and Malhotra, 2013).

Jahan & Nail (2003) examines the difficulties hampering efficient functioning of the banking system in promoting economic and industrial development in Bangladesh. The findings includes a) Legal environment in which banks function is relatively poor, b) Despite financial sector reform programs of the government there is a lack of credit discipline, c) Loan sanctioning is mostly dictated by political decisions, d) Loan taking entrepreneurs are not genuine is serious in utilizing the loan for the purposes for which these are granted and e) A chasm exists between banks and entrepreneurs.

Another study conducted by Kamal (2006) found many problems prevailing in banking sector as undeveloped business environment, lack of sufficient capital, liquidity crisis, loan default, inefficient field of investment and loan, problem in sufficient collection of deposits, corruption & nepotism and limitation of modern information technology etc.

Determining how well an organization is doing is simply its performance evaluation. In other words, setting some standards for performance measurement, comparing the performance of an organization in a certain period of time with respect to some established standards- internal or industry wise and determining how well it has confirmed to those standards along with the reasons for that performance is broadly called performance evaluation. A well guided performance evaluation can bring out the strengths and weaknesses of the organization and it also provides a guideline for future improvements. For being the performance evaluation system efficient, it must cover all aspects of the organization (Almazari, 2011).

As results of liberalization financial markets became progressively integrated, and plenty of transnational banks have expanded their presence considerably in many growing market economies. In spite of the actual fact that world banks principally improve the potency, stability and competition within the banking sector, such entry might have some harmful facet effects (Veljanoska, 2011)

Banking system has significant role in the economic development, historically (Cameron, 1972). On one hand, banks give the security of savings of the general people; on the other hand, lend money to the entrepreneurs to start a news business or expand an existing business, which ultimately create velocity of money and generation of employment within an economic territory. Modern banking system is involved in numerous financial services activities starting from lending money to exchange money nowadays (Woelfel, 1993).

Guru and Bala (1999) classified the internal determinants into two sub-categories - Financial Statement variables and Non-Financial Statements variables. The Financial statement variables are related to the decisions that directly affect the items of a balance sheet and profit & loss accounts where the nonfinancial statement variables are those factors that do not have a direct impact on the financial statements.

The size of a bank is considered as an internal determinant on the assumption that management of the bank is responsible for expanding their organization by acquiring additional assets and liabilities. Boyd and Runkle (1993) showed that size of a bank is also associated with the concept of economies of scale. Athanasoglou et al. (2006) indicated that as a result of gaining market share, a bank would increase its earnings which would increase its profitability. It is usually assumed that large banks enjoy economies of scale, so they are able to produce their outputs or services more cheaply and efficiently than smaller banks. As a result, larger banks will earn higher rates of profit if entry is restricted.

Edwards (1977) showed that the banking industry is among the most heavily regulated industries in the world. Regulations on the banking system as a whole include regulation on the condition of entry, establishment of new branches, ventures, mergers and acquisitions. Direct regulations on bank management cover the lending policy, deposit policy, interest rates, and liquidity requirements.

Shamsuddoha (2008) argued that currently in Bangladesh, banking industry is mature to a greater extent than in the earlier period. Rahman (2010) argued that Bangladesh Bank has achieved a historic milestone in the trade and business arena, departing from conventional banking with the introduction of e-commerce recently; a giant stride towards digital Bangladesh.

Banks operate with old and outdated banking procedures, lack of coordination between proper manpower planning and bank schemes, lack of market research for customer psychology analysis, inefficient banking services, and lack of long term planning , to name a few, are creating bottlenecks preventing local banks from attaining international standards (Ali, 2005)

Financial institution managers, bank managers in particular, in this country do not properly assess risks as well as the costs of various types of bank sources of fund. While managing their financial assets, they were cautious about handling funds with utmost care. Lack of ethics in banking sector is a part of wider and long lasting socio-economic and political problems in Bangladesh literature. (Ahmed et al. 2006, Ali 2003, Mian et al. 2005, and Mujeri et al. 2008). Ali (2010) argued that, although online banking has bright prospects, it involves some serious financial risks.

Bangladesh Bank cannot guide commercial banks as evidenced by the fact that commercial banks are charging higher interest rates, even cross the limit margin requirement, taking high spread between buying and selling rate of exchange and devaluation of Bangladesh Taka against US Dollar has been going on. As such inflation rate is rising and purchasing power of the people has been declining. Moreover, Investment opportunities of huge number of banks are becoming limited. Due to pressure of making profit and competition, banks are tending to invest in different risky sectors. Eventually, Commercial banks are investing in the share market to gain short term gain since 2005 making depositors deposit risky as in Bangladesh if any bank fails there is no reinsurance system from which depositors get their money back. (Edi & Etu, 2012)

From the aforesaid literature review, it is evident that the banking sector is already saturated with existing commercial banks. Studies indicated that the new entry of more banks will trigger further deteriorations of the stringent situation already prevailing in the banking sector. These problems cannot be corrected without the infrastructure of the more modernized banking sector and proper staffing, correcting prevailing problems in banking sector.

Objectives of the Study

The main objective of this study is to identify and investigate whether we really need more commercial banks in Bangladesh. As supplement to the achievement of the objective of this research paper, the following specific objectives are being pursued spontaneously:

1. To understand the current state of banking sector of Bangladesh;
2. To understand opportunities and problems of new banks;
3. To visualize Non-Government Organizations (NGOs) and other microfinance institution’s services like banks and their operations in rural area all of which are considered supportive to attain the primary objective;
4. To understand the structure and problems associated with banking sector;
5. To suggest some recommendations on the basis of findings.

Methodology of the Study

The present study has been carried out to evaluate the necessity of need assessment for establishing new private commercial banks. To achieve this objective of the study, researchers mainly have used secondary sources. Apart from secondary sources, Researchers used FGD, In- depth interview and telephone interview with some experts of the banking sector as primary sources. Secondary data collected from various publications and annual reports of Bangladesh Bank, annual reports of different commercial banks and statements submitted to Bangladesh Bank, the daily newspapers, relevant articles ,websites and other publications by different leading NGOs (i.e. BRAC, ASA, Proshika etc.) and developing agencies (i.e. IMF), Bangladesh Economic Survey, Pressure group's report (i.e. CPD). Paper has carefully covered the present situation & performance of existing banking sector to lead the analysis more meaningful and logical conclusion. However, the secondary data have been carefully scanned prior to using them in this study. Finally, data were analyzed, sorted and represented through SWOT, PESTEL analysis, and Confrontation matrix model to represent findings and arrive at a logical conclusion. However, the study is largely qualitative and explorative.

Current Situation in Banking

It is found from the annual report of Bangladesh Bank (BB) that NCBs of Bangladesh perform most of the financial activities of the banking sector. 56 Scheduled banks are operating in the country of which 4 are public (PCBs), 4 Specialized banks (SDBs), 39 private commercial banks (PCBs) of which 31 Conventional & 9 Islami shariah based PCBs and 9 are foreign commercial banks (FCBs). The lion's share (approximately 65 percent) of the aggregate bank activities (deposits and loans or advances) of Bangladesh is held by the PCBs followed by NCBs (approximately 25 percent) and FCBs (approximately 6 percent). The four NCBs have the largest coverage with extensive branch offices in the country and play an important role in the Banking system. The following Table shows the current (September, 2012) banking structure in Bangladesh.

Table-01: Banking structure in Bangladesh

Bank Types	Number of Banks	Number of Branches	% of Branches	Deposits (Crore Tk.)	% of Deposits	Advances (Crore Tk.)	% of Advances
NCBs	4	3455	43.09%	131,089.02	26.01%	83,538.79	20.97%
SCBs	4	1425	17.68%	24,238.62	4.81%	26,304.57	6.60%
PCBs	39	3175	38.45%	316,734.14	62.84%	267,054.70	67.03%
FCBs	9	63	0.79%	31,979.26	6.34%	21,541.08	5.40%
Total	56	8118	100.00%	504,041.04	100.00%	398,439.14	100.00%

Source: Bangladesh Bank Review

Historically, the NCBs were used to offer credit through direct lending programs to certain economic sectors directed by the Government and Bangladesh Bank. However, the NCBs financial performances had run into steep losses with large amount of money still unrealized and many classified loans. These losses were due to poor supervision, unionism, inadequate banking knowledge, not conducive legal environment, governmental bureaucracy and red tapism in administration, etc. A massive booking of poor quality assets still dominate the mix of classified assets and have resulted in continued heavy losses.

All such banks operating in Bangladesh with different paid-up capital and reserves having a minimum of an aggregate value of Tk. 50 lacs and conducting their affairs to the satisfaction of the Bangladesh Bank have been declared as scheduled banks in terms of section 37(2) of Bangladesh Bank Order 1972. In terms of section 13 of Bank Company

Act, 1991, the minimum aggregate value was Tk. 20 crores. From 30th March' 2003 it was Tk 100 crores. From 8th October' 2007 it was Tk. 200 crores . From 11th August' 2011, it has been raised at the minimum of Tk. 400 crores (Source: Bangladesh Bank).

Recent Banking Sector Performance

Total deposit liabilities (excluding interbank items) of the scheduled banks increased by Tk.17633.83 crores or 3.63% to Tk. 504041.04 crores during the quarter July-September,2012 as compared to increases of Tk. 27712.36 crores or 6.04% in the previous quarter (April-June,2012). Banks's advances were increased by Tk.12506.00 crores or 3.24% to Tk. 398439.14 crores during the quarter July-September, 2012 as compared to increases of Tk.19825.80 crores or 5.42% during the preceding quarter (April-June, 2012). Weighted average rates of interest on deposits and advances were 8.33% & 13.68% respectively at the end of the quarter July-September, 2012 as compared to 8.08% & 13.88% in April-June, 2012.
The following Table shows the recent (September, 2012) banking sector performance in Bangladesh.

Table-02: Performance of banks in Bangladesh (Taka in Crores)

At the end of Quarter	Total Deposits	Total Advances	Total Credits	Total invest-ments	Borrow-ings from BB	Gross NPL to total loans	Rates of interest on deposits	Rates of interest on Advances
Apr.-Jun.	486407.2	385933.3	414699.0	98651.9	21664.7	7.17%	8.08%	13.88%
Jul.-Sep.	504041.0	398439.1	424913.3	99662.8	15290.8	8.75%	8.33%	13.68%
Incr. (Decr.)	3.63%	3.24%	2.46%	1.02%	(29.42%)	22.04%	3.09%	(1.44%)

Source: Bangladesh Bank Review (September, 2012)

Total credit of the Scheduled banks was increased by Tk 10214.24 crores or 2.46% to Tk. 424913.33 crores during the quarter July-September, 2012 as compared to increases of Tk. 19738.27 crores or 5.00% during the preceding quarter (April-June,2012). The Scheduled banks' investment increased by Tk. 1010.96 crores or 1.02% to Tk. 99662.87 crores at the end of the quarter July-September, 2012 as compared to increases of Tk. 5493.95 crores or 5.90% during the preceding quarter (April-June, 2012). The Scheduled Banks' borrowings from the Bangladesh Bank at the end of the quarter July-September, 2012 decreased by Tk. 6373.93 crores or 29.42% to Tk. 15290.81 crores as compared to an increase of Tk. 2572.74 crores or 13.48% during the preceding quarter (April-June, 2012).
Specifically, Risk management comprises capital adequacy, asset quality, non-performing loan, expenditure- income ratio and return on Asset (ROA), return on Equity (ROE) and non-performing loan (NPL) which indicates the lack of presence of prudential surveillance on the financial sector and profitability of bank. Here, ROA is the ratio of

net earnings of a year to average whole assets of a business in a financial year while ROE means the measurement of the rate of return on the ownership interest of the common stock owners and the term NPL refers to the loan that is in default.

High percentage of non-performing loans in the banks generally causes 'credit crunch' i.e. shrinkage in credit flow from the supply side of the bank. At the same time, comparatively poor administration, lack of transparency, week regulations, weak monitoring cell, interest rate spread and rent seeking behaviour of the politician are also noticeable causes for increasing NPLs. NPLs reduce banks' profitability, as banks cannot take interest income from their classified loans. It also reduces loan able funds by preventing recycling.

Now we assess these indicators by recent data produced by Bangladesh Bank. Increasing of NPLs means the increasing of risk on investment. The new MPS might increase the NPLs and subsequently might be acute for the new banks.

Table 3: Gross NPLs to Total Loans Ratios by Types of Banks (in %)

Year	SCBs	DFIs	PCBs	FCBs	Total
2007	29.87	28.58	5.01	1.43	13.23
2008	25.44	25.45	4.44	1.9	10.79
2009	21.38	25.91	3.92	2.27	9.21
2010	15.66	24.15	3.15	2.99	7.27
2011	11.27	24.55	2.95	2.96	6.12
2012	23.87	26.77	4.58	3.53	10.03

Source: Bangladesh Bank, 2013.

Capital adequacy is determined by Capital to Risk Weighted Assets (CRAR) which is most important. Currently, a banking company is to maintain 10 percent of Risk Weighted Assets (RWA) or Tk. 200 crore whichever is higher as its minimum required capital.

Table 4: Capital to Risk Weighted Assets Ratio (CRAR) by Types of Banks (in %)

Types of Banks	2007	2008	2009	2010	2011	2012
SCBs	7.12	6.93	9.02	8.92	11.68	8.13
DFIs	10.36	-5.29	0.36	-7.25	-4.49	-7.78
PCBs	10.63	11.43	12.12	10.08	11.49	11.38
FCBs	22.73	23.81	28.13	15.63	20.97	20.56
Total	7.37	10.05	11.67	9.31	11.35	10.46

Source: Bangladesh Bank, 2013.

Table: 4 shows that DFIs and SCBs are unable to meet the required capital over the period except SCBs in 2011 and DFIs in 2007. Most of the time SCBs possessed negative capital adequacy due to provision of shortfall, over burden expenditure and write off. The 4 SCBs also fails to meet the capital adequacy requirement. On the other hand, FCBs acquired 20.56 percent capital to its risk weighted assets in the year of 2012 which is the highest among all. This indicates that state owned commercial banks are in vulnerable situation compared to private and foreign commercial banks.

Return on Assets (ROA) indicates the productivity of the assets i.e. how much income is earned from per unit of assets. According to Basel-accord I, ROA should be more than 1 percent. On the other hand, return on Equity (ROE) is another important measure of earning and profitability determination which indicates net income after tax to total equity. State owned commercial banks (SCBs) have achieved nearly zero percent of ROA over the period of 2007 to 2012. The scenario is much worst in case of Development Financial Institutions (DFIs) while most of the time ROA was less than 1 percent in 2010 to 2012. In 2012, overall ROA in the banking sector was 0.60 percent where as it was 1.3 percent in 2011. It these trends continue then overall ROA in the banking sector might decrease to 0.55 percent in 2013. Insignificant profit during this period has occurred due to the worst ratio of ROA scenario in SCBs and DFIs. The position of foreign commercial banks (FCBs) was strong enough over the whole period. The DFIs' situation is not found better due to the operating loss incurred by Bangladesh Krishi Bank (BKB) and Rajshahi Krishi Unnayan Bank (RAKUB).

Higher value of ROE is an indication of high productivity of equity. Overall ROE in banking sector was 14.3 percent in 2011 which reduced by 6.5 percentage points in 2012. Projection says that if the current trend of ROE in the banking sector persists, then ROE might decrease to 6.80 in 2013. Reduction of ROE ratio in banking sector indicates that share holder profits are declining gradually. In 2010, the position of state owned commercial banks (SCBs) was the worst among the other types of banks and ROE of state owned commercial banks was -11.87 percent. The negative value means huge loss in the business of SCBs. Private commercial banks (PCBs) possessed a good progress of 10.17 percent in 2012. On the other hand, foreign commercial banks (FCBs) hold a consistent level of ROE which was 17.29 percent in 2012. DFIs were also in a worse situation in 2010, probably due to huge provision shortfall and net loss in that year. Higher value of ROE is an indication of high productivity of equity. Overall ROE in banking sector was 14.3 percent in 2011 which reduced by 6.5 percentage points in 2012. Projection says that if the current trend of ROE in the banking sector persists, then ROE might decrease to 6.80 in 2013. Reduction of ROE ratio in banking sector indicates that share holder profits are declining gradually. In 2010, the position of state owned commercial banks (SCBs) was the worst among the other types of banks and ROE of state owned commercial banks was -11.87 percent. The negative value means huge loss in the business of SCBs. Private commercial banks (PCBs) possessed a good progress of 10.17 percent in 2012. On the other hand, foreign commercial banks (FCBs) hold a consistent level of ROE which was 17.29 percent in 2012. DFIs were also in a worse situation in 2010, probably due to huge provision shortfall and net loss in that year.

Expenditures- incomes ratio (EIR) is the indicator of sound management of banking sector. This are explained below by different types of banks. The reason behind high EI ratio of DFI and SCBs are mainly because of loan loss provision, high administrative, overhead expenses, interest suspense for classified loan and the lack of presence of prudential surveillance of the banking sector. Internal control system and high-quality management contributes to lower the EIR in PCBs; on the other hand, FCBs business is mostly based on important cities and their operating cost is low for which they have low EIR.

Table 5: Expenditure-Income Ratio (EIR) by Type of Banks

Types of Banks	2007	2008	2009	2010	2011
SCBs	100	89.6	75.6	80.7	62.7
DFIs	107.7	103.7	112.1	87.8	88.6
PCBs	88.8	88.4	72.6	67.6	71.7
FCBs	72.9	75.8	59	64.7	47.3
Total	90.4	87.9	72.6	70.8	68.6

Source: Bangladesh Bank, 2013

The gap between required provision and the provision maintained has been experiencing a negative trend over the years since 2005, except in 2009 and 2011. In 2012, required provision was Tk.24239 crore against the provision maintained Tk. 18977 crore results in shortfall was Tk. 5262 crore whereas in 2011, there was surplus in case of loan loss provisioning. A business as usual projection says that in 2013, the shortfall of required provision and the provision maintained might increase which is an alarming situation for the bank's profitability. The sector has been facing several problems in terms of low profitability as Return on Asset (ROA), return on Equity (ROE) and non-performing loan (NPL) after 2010. In 2012 and 2013, the situation continues worsening and projection reveals that in 2014 it might further deteriorate. In addition to that, Loans that are not paid on time and are nominated as troubled assets by banks are classified loans. Classified loans are usually issued according to terms and regulations of the bank. The extent of default loans increased in the third quarter due to tightening the loan classification guideline, sluggish business activities during the political uncertainty and interruption in energy supplies.

The percentage share of classified loan to total outstanding loan has been increasing in every six year. At the end of September 2013, the percentage share of classified loan to total outstanding loan was 12.79 percent, whereas it was 11.91 percent at the end of June, 2013. If the trend remains as usual, the percentage share of classified loan to total outstanding might increase to 14.21 percent at the end of December 2013. The classified loans increased by Tk.4400 crore or 8 percent to Tk.56700 crore in the July-September quarter from Tk.52300 crore of the April-June quarter of this year, according to Bangladesh Bank data. The total classified loan was Tk.51000 crore in March this year, which was Tk.29000 crore in June, 2012. The classified loans increased due to tightening the guideline. Besides, sluggish business during the political uncertainty and lack of gas and electricity pushed the classified loans up. According to the Financial Stability Report (FSR)-2012 brought out by Bangladesh Bank, it seems that the classified loans in the state-owned banks are high due to the nature of their operations (lack of efficiency in fund management, extending obligatory financing towards social and economical priority sectors and politically motivated lending). The share of percentage of classified loan to total outstanding loan has been increasing in every six months. At the end of March 2014, the share of percentage of classified loan to total outstanding loan was 10.5 percent, whereas it was 8.9 percent at the end of December, 2013.

Recently, there is a revolutionary change in banking services for the introduction of mobile banking technology in our country. In order to ensure the access of unbanked people by taking advantage of countrywide mobile network coverage, Mobile Financial Services (MFS) have been introduced in Bangladesh. Only banks are allowed to lead the mobile financial services. This model offers an alternative to conventional branch-based banking to the customers through appointed agents being facilitated by the Mobile Network Operator (MNO)/Solution Providers instead of bank branches or through bank employees. In so doing, BB allows a customer's account, recognized as 'Mobile Account' to be attached with the bank and be accessible through the customer's mobile device. The mobile account should be a non-checking account classified separately from a standard banking account. BB has fixed the transaction limit for the account holders of MFS at a maximum of Tk. 10,000 daily and a total of Tk. 25,000 on monthly basis.

Table-6 (In appendix) shows the MFS status as of March, 2014. As of March 2014, only 20 banks started offering the services. Consequently, the number of mobile accounts reached 1.5 crore and number of agents went up to 2, 40,000. In March of 2014, a total amount of Tk. 7,849 crore was transacted disclosing a high monthly growth in this sector. There are two leaders in the Bangladesh market: BRAC/bKash and DBBL. Banks offer mobile financial services and mobile wallets. bKash is a joint venture between BRAC Bank and Money In Motion LLC, USA. bKash is a leading MFS in Bangladesh, helping BRAC expand its reach beyond its ATM network and branches, and serving smaller rural villages.

Industry Analysis

The researchers attempted to evaluate the current state of the banking industry through SWOT, PESTLE analysis and Confrontation matrix by which researchers will investigate the logic regarding the setting up more new commercial banks in Bangladesh.

SWOT Analysis

The SWOT is a format to formalize observations and gathered data in a structured way. On top you find the results of an ‘internal assessment’ of the sector structured in Strengths & Weaknesses. The bottom part structures the ‘environmental scan’ data in Opportunities & Threats.

The external analysis: is a critical analysis of the evolutions happening around the organization. After analysis of all these factors, the ‘results’ are summarized under Opportunities & Threats. A popular tool (environmental scan tool) for identifying these external factors is the **PESTLE Analysis**, which can be used to help for considering Political, Economic, Social, Technological, Legal, and Environ-mental issues.

*P*olitical factors largely determine the health of financial market that is neither stable nor favorable in our country. *E*conomic factors comprise finance & credit conditions, capital market, baking sector itself etc. We can see the financial institutions and the economy is also vulnerable. *S*ocial issues cover here the ethics in banking which not so well in Bangladesh (Ali, 2005). *T*echnological aspects covers the network of banking coverage, sophistication in baking software, Security in financial transactions, money laundering, Unauthorized access to ATM, Malicious hacking to online banking etc. These are needed to be developed further. *L*egal aspects as employment is not secured enough, compliances are not strictly maintained yet, Regulatory body like Bangladesh Bank hasn't strong control over banking system, measures against fraudulent are not satisfactory. *E*nvironmental aspects are as usually ignorant side of Bangladeshi banking sector though some emerging terms are like Green banking hanging around.

The internal analysis: is looking at the different internal aspects of the sector. Here we can look at the new bank's strengths which give some hope to the new banks to operate. And, we look at weaknesses like high initial capital costs, high administrative costs, lower exposure etc.

We can now summarizes the internal and external analysis of the banking sector which concerned with the decisions for new banks approval further in Bangladesh.

Positive	**Negative**	
Strengths	**Weaknesses**	
1. Over 50 banks in operation 2. Most of the banks are trying to achieve competitive advantages 3. Sound compare to other countries after financial recession/shocks 4. Increase the extent of banking services 5. popularity of mobile & online banking	1. High capital costs to establish new banks 2. Problems of liquidity in the sector 3. Requires high staff resources but exists in few banks 4. High staff costs due to high levels of employee qualification 5.No material client deposits of new approved banks 6. Relatively lower exposure of banks to untapped areas 7.lack of fundamental institutional skill 8. Severely lacking in sales and marketing, service operations, risk management 9.Don't have the advantages of economies of scales 10. Lack of expertise in loan recovery	**Internal Analysis**

Opportunities	Threats	
1.Untapped rural market Banking sector 2.Several new initiatives have been introduced to increase the product range in order to generate more cross selling 3. Unregulated money lenders charge astronomical interest rates on their loans which reflect that there is scope for cheaper and more formal lending in the rural credit market. 4. Unique products & services 5. Emerging financial market	1.Threat security in financial transactions 2.Threat of the stability of the market 3. Limited investment opportunities 4. Lack of trust of customers 5. Lack of deposits of newly approved banks 6. Fraudulent activities 7. lack of funds new banks are failing to provide large industrial loans and corporate loans 8.Popularity of Non-governmental organizations (NGOs) and microfinance institutions 9. money laundering, Unauthorized access to ATM, Malicious hacking to online banking 10. Lack proper mechanism to control market 11. Political interference & pressure 12. instability of political & economic conditions 13. lack of effective legal regulations	**External Analysis**

Source: Authors' Compilation

The SWOT creates a ‘confrontation matrix’ between ‘the inside of the organization’ and the environment the organization operates in. That confrontation helps to create a strategic direction for the sector and brings out issues the sector can act upon.

Confrontation Matrix

The confrontation matrix analysis is looking at the ‘match & mismatch’ between the strengths / weaknesses on the one hand and the Opportunities / Threats on the other. The matrix (and certainly the discussion of the matrix with stakeholders) will give a number of possible ‘routes’ for action, which you will lead to strategic choices for the sector.

	Strengths	Weaknesses	Results: S/W
Opportunities	Can we use these strengths to take the advantage of the opportunities?	Can we work on these weaknesses to prevent missing out on opportunities?	There are huge mismatch between strengths & weakness
Threats	Can we use these strengths to likelihood and the impact of threats?	Can we work on these weaknesses to prevent threats to become reality?	
Results: O/T	There are huge mismatch between opportunity & threats		The weight of Threats and weaknesses is much higher compared to strengths & opportunities which indicate that the banking sector is challenged and new bank approval will be luxurious decision.

Source: Authors' Compilation

From above confrontation matrix which is developed through SWOT analysis, we can see what is happening in that sector and what should we do. We can see the weight of Threats and weaknesses is much higher compared to strengths & opportunities.

Findings of the Analysis:

The authors, through a detailed content analysis, SWOT analysis, PESTLE analysis and Confrontation matrix have found the pieces of information that have been placed below which answers the research question, “Do we really need more commercial banks in Bangladesh?”

1. Currently Bangladesh has 65 banks which are operating on 8,118 branches (as on December 2014). The existing banks may easily increase their countrywide network much faster and are more likely to serve the unbaked areas of the country as most of the major urban or semi-urban areas have been covered by extensive networking of existing banks. (Appendix- Table: 7)
2. In Bangladesh there is strong rural financial system comprising of financial services of the postal department (with more than 10,000 branches), non-governmental organizations (NGOs) and microfinance institutions (over 20,000 branches). These institutions mainly cover the areas where traditional commercial banks have not been able to penetrate.
3. Extensive network of existing banks will always be better suited for the purpose.

4. Due to lack of such people and/or high staff costs for hiring such levels of employee qualification, they might be struggled.
5. The current Bangladesh Economic Update focuses that the present situation of banking sector has been deteriorating in terms of growth of credit and disbursement and risk management.
6. Growth in investment exerts impact on the growth in GDP. The decline in the growth in credit illustrates the poor condition of investment which might drag down the current growth in GDP. For example, the government requires investment rate to rise at 32.0 percent of GDP for achievement of 7.2 percent rate of growth in GDP in FY 2013-14. So, current banking sector is still challenging; in that context more banks installation will be luxurious decision.
7. Mobile banking (Viz: BRAC/bKash) has recently showed steady success. Consequently, new commercial banks are found to be redundant since current banks are rigorously seemed capable of serving current and potential customers efficiently.(Appendix- Table: 6)
8. Recent scams in banking industry of our country have proved loopholes which question the integrity and confidence of banking industry. It is substantively feared that more banks will aggravate the situation, bar efficiency of regulators and spawn more opportunists. (Appendix-Table: 8)
9. Through strong management team large-sized banks enjoy some economies of scale by reducing overhead cost and increased efficiency. Because of this reason, countries like Singapore deliberately adopted policies to reduce the number of banks to less than half through mergers and acquisitions. So, new banks will be heavily challenged with their existence.
10. The central bank noted that, for new banks the ratio of opening rural and urban branch will be 1:1 which help increase bank branches in rural areas and improve financial inclusion. But the home truth is that, no bank can expand in rural areas before concentrating and making business in urban areas.
11. There is evidence that in the rural areas, microfinance institutions and banks with concentration on small and medium enterprises' (SMEs') banking services are better suited compared to traditional private commercial banks. Second, no new bank will be willing to open its first five or ten branches to go for underserved rural areas.
12. The International Monetary Fund and leading economists in the country oppose setting up of new banks at the moment. They argue that more banks in the already saturated market will set off an ill competition and worsen the current liquidity crisis.
13. The World Bank (WB) is also concern about the present condition of banking sector of Bangladesh. They argued that, the financial sector has been stressed with deteriorating fundamentals of the banking sector exacerbated by rise in

default risk across the board due to losses inflicted by prolonged disruption in production and trade.

14. The state-owned banks were already negatively impacted by the earlier financial scams. The growing nonperforming loans of private commercial banks are also a matter of concern. In that situation, new entry of commercial banks cannot be welcome.

15. Lastly, the performance of recently approved new banks in the country is not so well, they are just professed. After starting out the license at 2013 all nine new banks cannot collect and lending money properly. (Appendix- Table: 9)

Conclusion & Recommendations

The current situation of banking sector is alarming with existing banks which is clear in our discussion/ analysis; if government allows more banks to operate, it will be simply injurious for this sector as well as our economy. So, Bangladesh really does not need new commercial banks and if we really have to have some, those should be economically strong and managed by technically qualified people with personal integrity. The recommendations of the study are:-

- To establish an internationally competitive, recognized and respected commercial banking system in Bangladesh, we need to have a consolidation of the banking sector with fewer but stronger banks. This should be the focal point of the government.

- One approach that the government may consider is to encourage economically weak and smaller banks with low capital base to accept new sponsors with strong financial backing and technical skills.

- Whether Bangladesh needs more banks or not, should be determined by objective criteria, instead of political preference.

- The initiative taken by Bangladesh Bank regarding conditions for granting license for new banks, backed by its Board of Directors, is appropriate under the circumstances and needs to be strictly adhered to. In particular, a number of requirements are very important for strong and sound management of the new banks which include: a minimum paid up capital of Tk 4.0 billion; sponsors' contributions to the paid-up capital coming out of net worth declared to the tax authorities and not borrowed from other banks; and sponsor directors' competence, integrity and qualifications including qualifying the required criteria applicable for Bank Directors.

- Profitability depends on the size of banks. Total asset of a bank can be considered to measure its size. Large banks can provide services to their customers in cheaper rate than small ones. Through increasing its total assets, a bank can attain more competitive advantages that can help it to earn more profit. So PCBs should concentrate to increase its assets to be more competitive.

- In order to expand the business, it is necessary to increase number of branches also. Through increasing number of bank branches, a bank can expand its services more geographically. PCBs have to find out new avenues of businesses through selecting appropriate locations of new branches to expand the volume of customers.
- Online banking has huge potential to grow although it has some functional risks. So, to cover huge unbanked areas, this service should be more developed.
- Mobile Banking has got huge popularity already. It can be more improved, secured and technically sound.
- Bangladesh Bank (BB) should consider the exact situation of the sector rather than to consider political pressure.

Limitations and Future Research Direction

The major limitations of the study are resources constraints. The study depends on having access to the data of organizations, or documents and, for whatever reason, access was to some extent limited due to the confidentiality of the information. The study is data-driven, but the lack of available and/or updated data were part of limitation to this study. Moreover, lack of prior research studies on the topic was also a limitation as prior research studies construct the basis of literature review and helps to lay a foundation for understanding the research problem.

The present study is mainly secondary data driven. It will be better if any further study is conducted by using ample primary data as primary data has more credibility and reliability though it requires more time and effort.

Further research can be conducted by focusing the way to strengthen commercial banks in Bangladesh as the sector has enough opportunity & scope to do so. Furthermore, study had time and a resource constraint, the future research is expected to take necessary time. Moreover, all the sectors are not equally developed. So, another direction of research can be conducted to assess the need of more specialized banks in Bangladesh.

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Appendix:

Table 6: Overview of Mobile banking in Bangladesh

Issues/Time-Period	March 2012	April 2013	July 2013	November 2013	January 2014	March 2014
No. of Banks Permitted	10	27	27	27	28	28
Live Deployment	5	18	18	19	19	20
No. of Agents	9093	82638	107760	172265	200000	240000
No. of Customers (Crore)	0.04	0.53	0.72	1.15	1.32	1.5
No. of Transaction Per Month (Crore)	0.12	1.51	2.12	2.32	3.01	3.33
Volume of Transaction Per Month (Crore Tk.)	17.2	3634	5350	5533	6630	7849

Source: Bangladesh Bank, 2012-2014

Table: 7: Overview of Bank and related Financial institutions

Regulated Financial Institutions	**2009**	**2010**	**2011**	**2014**
Scheduled Banks	48	47	47	56
State Owned Commercial Banks	4	4	4	4
State Owned Development Financial Institutions	5	4	4	4
Foreign Commercial Banks	9	9	9	9
Private Commercial Banks	30	30	30	39
Non-Scheduled Banks	3	3	4	4
Non- Bank Financial Institutions				31
Branches	7,095	7,729	8,522	
State Owned Commercial Banks	3,387	3,447	4,148	
State Owned Development Financial Institutions	1,365	1,382	1,388	
Foreign Commercial Banks	58	72	74	
Private Commercial Banks	2,285	2,828	2,912	
Accounts		55 M		
Agents		50,000+		
ATMs		3,000		

Source: Bangladesh Bank, 2014

Table 8: Loan scrap in banking sector

Default company	Amount(Tk.)	Name of Branch & Bank
Hall Mark	2554 crore	Ruposhi Bangla branch of Sonali Bank
Bismillah Group	1100 crore	Four private banks(Prime Bank, Jamuna Bank, Shahjalal Islami Bank)
BASIC Bank Limited	1500 crore	By Dilkusha, Gulshan and Shantinagar Branch
Imran Group	101crore	Sholoshahar , Chittagong branch of Bangladesh Krishi Bank
Director of Shahjalal Islami Bank limited	140 crore	Shahjalal Islami bank
Ideal Cooperative society	1000 crore	Directly from 70000 clients
Destiny Group	3800 crore	Directly from clients
Paragon Group	146.60 crore	Sonali bank
T & Brothers	609.9 crore	Sonali bank

Source: The daily star, September, 2013.

Table: 9. Deposits collection by new approved banks

Bank Name	Total deposits (Taka)
Meghna Bank	669 crore & 60 lakh
Midland Bank	542 crore
Farmers Bank	707 crore
Modhumoti Bank	534 crore
NRB Global Bank	649 crore
NRB Bank (lower deposits among all of the new banks)	484 crore & 27 lakh
Union Bank (Higher deposits among all of the new banks)	2033 crore & 24 lakh
NRB commercial Bank	1321 crore
South Agriculture Commercial Bank	1113 crore

Source : *The Daily Prothom Alo, October,2014.*