

2.0 Banking Sector in Bangladesh

 **Trust Bank**

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Chapter 2:

Banking Sector in Bangladesh

2.1 Definition of Bank:

Generally speaking bank is referred to an organization that deals in money. The definition of bank can be as follows.

Provided by Famous Encyclopedia:

- ❑ A commercial banker is a dealer in money in substitutes for money, such as check or bill of exchange.
– *New Encyclopedia Britannica*
- ❑ Establishment for custody of money, which it pays out on customers order.
– *The New Oxford Encyclopedia Dictionary*

Provided by and Ordinances:

- ❑ Banker includes a body of person whether incorporated or not, who carry on the business of banking.
– *English Bills of Exchange Act - 1882*
- ❑ A bank is a person or corporation carrying on bonafide banking business.
– *English Finance Act*

Provided by Banking Institutes:

- ❑ A bank performs an essentially distributive task, service or acts as an intermediary between borrowers & lenders. In broader sense, however, a bank can be considered the heart of a complex financial structure.
– *American Institute of Banking*
- ❑ Stated very simply, banks deal in money and in that connection offer certain related financial services.
– *Harold Wallgren for American Bankers Association*

The above-mentioned characteristics sketched to outline the definition of a “**bank**” are nowadays shared by a lot of different types of financial institution. Therefore, because banking activities now overlap many diverse businesses, we will consider a variety of modern financial institutions

– including commercial banks but also savings-and-loan associations, brokerage firms, and mutual funds – as “banks”.

2.2 Objectives of a Bank:

The objectives of a bank can be looked at from three different perspectives of the three key parties to the banking activities: the bank owner, the Government, and the bank clients.

From the bank owners’ perspective:

i) Earning Profit:

Just like any owner(s) of a commercial institution, a bank owner’s main objective is to earn profit, which is achieved mainly through monetary exchanges.

ii) Rendering Service:

Banks provide different types of services to the government and people of the country.

iii) Good Will:

In order to earn profit through rendering services, banks need to have a lot of good will, maybe a bit more than other commercial institutions.

iv) Raising Efficiency:

To earn maximum profit, banks need to provide efficient service, for which they require expert workforce.

From the Government’s perspective:

i) Issue of Notes & Currencies:

Since civilizations have moved along from the barter system, it has been the objective of the Government of different countries to provide its economy with a proper exchange media through issuance of notes & currencies through banks, which also take upon the duty of maintaining the system.

ii) Capital Formation:

The government wants that bank assist in the macroeconomic objective of capital formation by encouraging people to participate in savings.

iii) Capital Investment & Industrialization:

The government, as a part of their secondary macroeconomic objective, wants the bank to assist in capital investment & industrialization by lending out their accumulated capital.

iv) Money Market Control:

Government tries to stabilize the money market through banks.

v) Employment:

As part of their primary macroeconomic objectives, they expect banks to provide employment for its people.

vi) Advice on Financial Matters:

Since banks hire a lot of financial experts and advisors, it often seeks advice from banks to help them develop policies.

From the Bank Clients' perspective:

i) Deposit:

One of the banks' main objectives is to accept its clients' deposits.

ii) Safety:

Providing safekeeping of its clients' monetary possessions and valuables is another one of banks' essential objectives.

iii) Advisors & Consultants:

Banks provide its clients with advisors and consultants to help them chalk out an appropriate savings plan.

iv) Representatives or Trustees:

Both the clients and government rely on the bank to act as their representatives or trustees of monetary exchange activities.

v) Raising living standard:

By providing interests against their deposits, banks help their clients to improve their living standards.

2.3 Historical background of the banking institutions in Bangladesh:

The territories which now constitute Bangladesh were integral part of Mughal Empire and thereafter British-India and then Pakistan. Hence we have the common historical background of banking and banking institutions as that of Pakistan and India. For the beginning of banking in the territory now comprised Bangladesh, we must go back to the Calcutta Agency Houses. These trading firms started their banking operations for the welfare of their constituents. The important among those Houses were Messers. Alexander & Co., Messers. Fergusson & Co.; both the firms started the business of banking with other business, and both were the predecessors of the early Joint Stock Banks in the then India. The Bank of Hindustan was the earliest bank started under the direction of the British rule in British-India.

After the partition of British-India into Pakistan and India, the territories now form- Bangladesh became integral part of Pakistan and was called East Pakistan. Immediately after partition, as aforesaid, in 1947, an Expert Committee was appointed to study the issue of banking in the then Pakistan. On the recommendation of the Expert Committee the Reserve Bank of India continued its function in Pakistan up to 30th September, 1948 and thereafter the State Bank of Pakistan, having been established on the 1st July, 1948 started functioning and assumed full control of banking and currency.

2.4 Beginning of Banking in Bangladesh:

After independence the Government of Peoples Republic of Bangladesh was formally to cover the charge of the administration of the territory now constitute Bangladesh. In an attempt to rehabilitate the war-devastated banking of Bangladesh, the government promulgated a law called Bangladesh Bank (temporary) Order, 1971 (Acting President's Order No.2 of 1971). By this Order, the State Bank of Pakistan was declared to be deemed as Bangladesh Bank and offices, branches and assets of said State Bank was declared to be deemed as offices, branches and assets of Bangladesh Bank. On that date there existed 14 scheduled banks with about 3042 branches all over the country.

On the 16th December, 1971, there existed the following 12 banks in Bangladesh, namely:-

1. National Bank of Pakistan
2. Bank Bahawalpur Ltd.
3. Premier Bank Ltd.
4. Habib Bank Ltd.
5. Commerce Bank Ltd.
6. United Bank Ltd.
7. Union Bank Ltd.
8. Muslim Commercial Bank Ltd.
9. Standard Bank Ltd.
10. Australasia Bank Ltd.
11. Eastern Mercantile Bank Ltd.
12. Eastern Banking Corporation Ltd.

2.5 Nationalization of Banks in Bangladesh:

Immediately after the Government of Bangladesh consolidated its authority, it decided to adopt socialist pattern of society as its goal. Hence in order to implement the above mentioned state policy; the Government of Bangladesh decides to nationalize all the banks of the country accordingly on the 26th March, 1972, Bangladesh Banks (Nationalization) Order, 1972(President Order No. 26 of 1972) was promulgated.

The undertakings of existing banks specified in the 1st column of the table below stands transferred to and vested in, the new banks mentioned in the 2nd column of the said table:-

Table 2.1: Nationalization of Banks

Existing Bank	New Bank
1. National Bank. 2. Bank of Bahawalpur Ltd 3. Premier Bank Ltd.	Sonali Bank.
4. Habib Bank Ltd. 5. Commerce Bank Ltd	Agrani Bank.
6. United Bank Ltd. 7. Union Bank Ltd.	Janata Bank
8. Muslim Commercial Bank Ltd. 9. Standard Bank Ltd. 10. Australasia Bank Ltd.	Rupali Bank.
11. Eastern Mercantile Bank Ltd.	Pubali Bank.
12 Eastern Banking Corporation Ltd.	Uttara Bank.

2.6 Privatization of Banks in Bangladesh:

Until the early 1980's the Government owned, controlled, and directed Bangladesh's financial systems with the objective of allocating funds to priority sectors. In 1983 the Government began to reform the financial sector interest rates on deposits were raised to provide a positive real return in deposits. Private Banks were allowed to enter, two NCBs were denationalized and another nationalized bank was converted into a limited liability company and partially privatized

After the amendment in the nationalizing law, the Pubali Bank, the Uttara Bank and the Rupali Bank have been transferred to the private sector. These banks have now been re-designated respectively as Pupali Bank Ltd, Uttara Bank Ltd and the Rubali Bank Ltd. Further in order to accommodate private sector share in Bangladesh Shilpa Bank, suitable amendments have been made in the Bangladesh Shilpa Bank Order 1972 (Presidents Order No. 129 of 1972). It is expected that the bank will formally get listed in the private sector in the near future.

Recognizing the need to reform the financial sector, the Bangladesh Government appointed a National Commission on Money, Banking and credit to undertake a major study of the financial sector in late 1984. The Commission made its recommendations for financial sector reform in 1986.

2.7 Banking Operation in Bangladesh:

The development process of a country largely depends upon its economic activities. Banking is a powerful medium among other spheres of modern socio-economic activities for bringing about socio-economic changes in a developing country like Bangladesh. Three different sectors like Agriculture, commerce, and industry provide the bulk of a country's wealth. The nourishment of these three is only possible through an adequate banking facility. The banking service facilitates these three to be integrated in a concerted way. For a rapid economic growth a fully-developed banking system can provide the necessary boost. The whole economy of a country is linked up with its banking system.

With the passage of time the functions of the bank has got a multi-dimensional configuration. Of all the functions of a modern bank, lending is by far the most important. They provide both short-term and long-term credit. The customers come from all walks of life, from a small business a multi-national corporation having its business activities all around the world. The banks have to

satisfy the requirements of different customers belonging to different social groups. The banking business has, therefore, become complex and requires specialized skills. They function as catalytic agent for bringing about economic, industrial and agricultural growth and prosperity of the country. The banking can, therefore, be conceived as “a sector of Economy on the one hand and as a lubricant for the whole economy on the other”. As a result different types of banks have come into existence to suit the specific requirements.

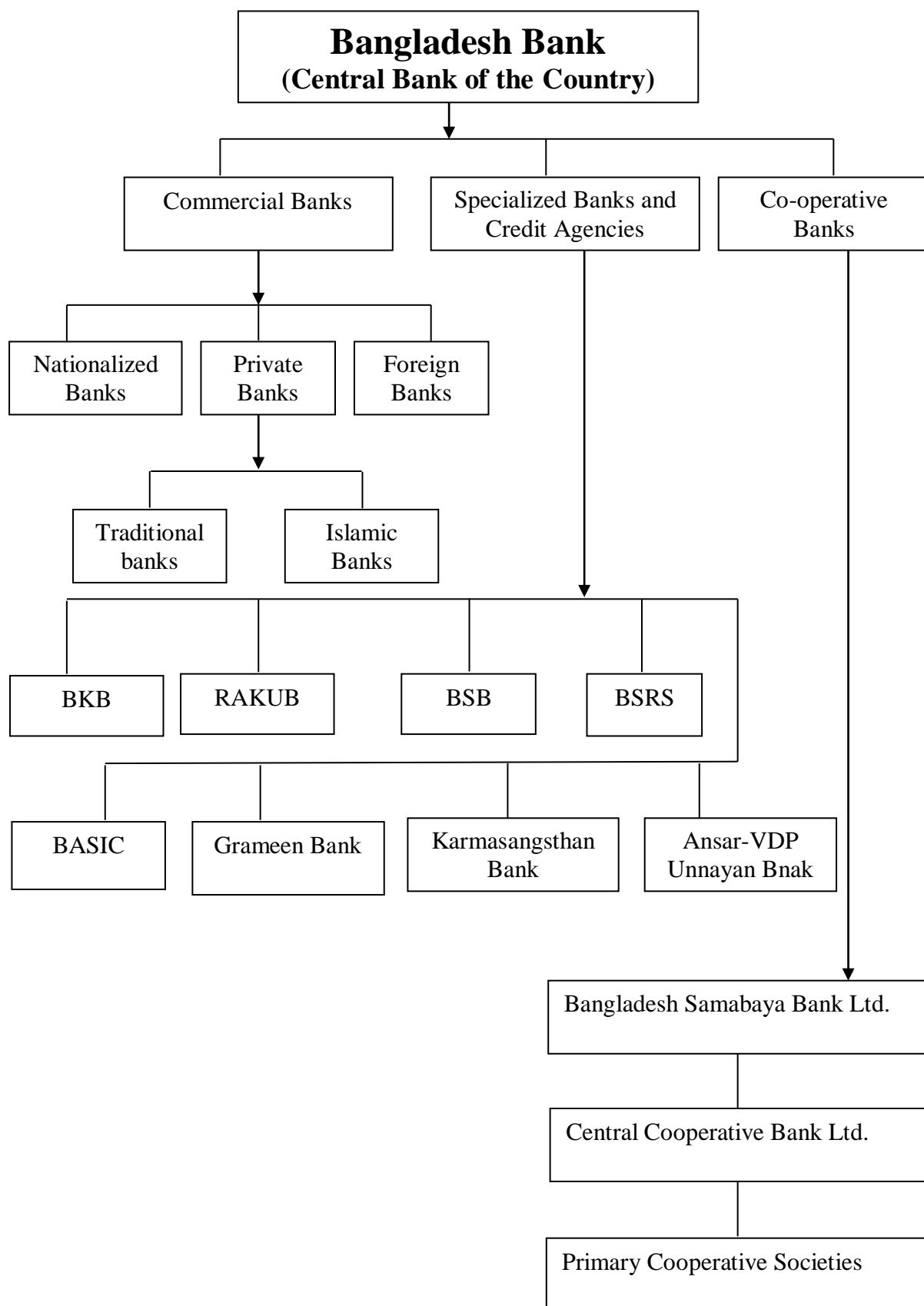
Irregardless of the numbers of banks and nature of their functions and activities, a central bank exists to regulate the activities of other banks. All the commercial private and/or nationalized, and specialized banks perform service related activities within the jurisdiction of the central bank. In our country, Bangladesh the role of the central bank is entitled to be executed by Bangladesh Bank.

As different banks are in the field to satisfy the customers of different requirement, we can classify the banks using a diagram which is replicated in the following page.

Some words used in abbreviated form in the following diagram require explanation.

1. BKB = Bangladesh Krishi Bank
2. RAKUB = Rajshahi Krishi Unnayan Bank
3. BSB = Bangladesh Shilpa Bank
4. BSRS = Bangladesh Shilpa Rin Shangstha
5. BASIC = Bank of Small Industries and Commerce, Bangladesh Ltd.

Figure 2.1: Banking Operation under BB



2.8 Banks in Bangladesh

The commercial banking system dominates Bangladesh's financial sector. Bangladesh Bank is the Central Bank of Bangladesh and the chief regulatory authority in the sector. The banking system consists of four nationalized commercial Banks, around forty private commercial banks, nine foreign multinational banks and some specialized banks. The Nobel-prize winning Grameen Bank is a specialized micro-finance institution, which revolutionized the concept of micro-credit and contributed greatly towards poverty reduction and the empowerment of women in Bangladesh.

Central Bank

Bangladesh Bank

Pursuant to Bangladesh Bank Order, 1972 the Government of Bangladesh reorganized the Dhaka branch of the State Bank of Pakistan as the central bank of the country, and named it Bangladesh Bank with retrospective effect from 16 December, 1971.

Nationalized Commercial Banks

The banking system of Bangladesh is dominated by the 4 Nationalized Commercial Banks , which together controlled more than 54% of deposits and operated 3388 branches (54% of the total) as of December 31, 2004. The nationalized commercial banks are:

1. Sonali Bank
2. Janata Bank
3. Agrani Bank
4. Rupali Bank

Private Commercial 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.

Table 2.2: list of bank in Bangladesh

1. AB Bank Limited	2. Al-Arafah Islami Bank Limited
3. BRAC Bank Limited	4. Social Islami Bank Limited
5. Eastern Bank Limited	6. Standard Bank Limited
7. Dutch Bangla Bank Limited	8. One Bank Limited
9. Dhaka Bank Limited	10. Exim Bank Limited
11. Islami Bank Bangladesh Ltd	12. Mercantile Bank Limited
13. Pubali Bank Limited	14. Bangladesh Commerce Bank Limited
15. Uttara Bank Limited	16. Mutual Trust Bank Limited
17. IFIC Bank Limited	18. First Security Bank Limited
19. National Bank Limited	20. The Premier Bank Limited
21. The City Bank Limited	22. Bank Asia Limited
23. United Commercial Bank Limited	24. Trust Bank Limited
25. NCC Bank Limited	26. Shahjalal Islami Bank Limited
27. Prime Bank Limited	28. Jamuna Bank Limited
29. Southeast Bank Limited	
Foreign Banks	
1. Citigroup	2. Habib Bank
3. HSBC	4. National Bank of Pakistan
5. Standard Chartered Bank	7. Woori Bank
6. Commercial Bank of Ceylon	8. Bank Alfalah
9. State Bank of India	10. ICB Islami Bank

Specialized Banks

Out of the specialized banks, two (Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank) were created to meet the credit needs of the agricultural sector while the other two (Bangladesh Shilpa Bank (BSB) & Bangladesh Shilpa Rin Sangtha (BSRS) are for extending term loans to the industrial sector. The Specialized banks are:

1. Grameen Bank
2. Bangladesh Krishi Bank
3. Bangladesh Shilpa Bank
4. Rajshahi Krishi Unnayan Bank
5. Bangladesh Shilpa Rin Sangstha
6. Basic Bank Ltd (Bank of Small Industries and Commerce)
7. Bangladesh Somobay Bank Limited(Cooperative Bank)
8. The Dhaka Mercantile Co-operative Bank Limited (DMCBL)