

Consumer Credit Services in Bangladesh: Trends, Problems and Prospects

Dr. Ataur Rahman*

***Abstract:** The study provides an overview of the developments in the consumer credit services in Bangladesh. The purpose of the study is to describe the trends, problems and prospects of consumer credit services in Bangladesh. Both the qualitative and the quantitative research have been conducted for this study. 500 customers and 76 bankers were selected as sample for interviewing. The increasing rate of disbursement of consumer credit scheme in the majority banks in Bangladesh indicates that consumer credit has huge demand in this country. The consumer credit schemes of different banks are not equally well fitted for the expectation of the customers. Interest rate, fees, charge, procedures, proof of income, documentations, quotation, delay response from bank employees, cordial behavior, small frame of time, insufficient financial support, negative attitude towards low income group, clumsy application form, critical procedure, guarantor are problems of this scheme. The study highlights that bankers should take extra care to improve the quality of the consumer credit scheme. Rules, regulation & policy of the consumer credit scheme should be set to meet consumers' expectation. Interest rate, processing fees, late payment fees, and hidden charge of the scheme should be reduced for increasing the demand of the consumer credit. Most of the branches of banks should be offered this loan to consumers for ensuring the availability of the credit.*

***Keywords:** Consumer, Credit, Services, Trends, Problems, Prospects, Recommendations*

1.0: Introduction

Bangladesh is a developing country. The economy of Bangladesh is characterized by widespread poverty. More than 45% of the total population of over 147 million live below the poverty line (CIA, 2006). The present configuration of poverty has been caused by lack of access of the majority of the population to resources and development benefit (Shams, 2006). Lack of access to adequate financial services prevents the poor households in developing countries to seek self employment as well as to undertake productive employment generating activities. Providing credit seems to be a way to generate self employment opportunities for the poor (Rahman, 1999). Access to micro credit enables people to derive benefits from income as well as employment (Khandakar,

* Associate Professor, Department of Marketing, University of Dhaka

1998). Right to use consumer credit facilitates people to buy their household products to upgrade their lifestyle (Rahman A., 2009). Consumer credit played an important role to increase the standard of living of the customer (Cole, 1998; Beckman and Foster, 1969; Garman & Fogue, 1991; Amling & Dromes, 1982). Consumer credit consists of loans to individuals for personal households or family consumption (Fraser et al., 2001). It helps limited income people to buy required household goods for their necessity. It persuades saving habit. It plays the active role in the socio-economic development of a country (Bilgin & Yavas, 1995; Alam & Bhuiamali, 2007). However, much is known about the consumer credit services in different countries of the world. Yet, very little is published on this topic in the context of Bangladesh.

The banking sector as a whole plays an important role in the economy of a country irrespective of its level of development. The commercial banks of Bangladesh have greater responsibility both in the areas of product growth and in the performance of individual and social obligations. By lending money with the consumer credit scheme, commercial banks of Bangladesh have played an important role for individuals and society from 1993 (Islami Bank, 1993, Raman, A. 2009). The demand for consumer credit has been rising significantly over last fifteen years. The demand for consumer credit is increasing but still lack behind other countries of the world (Raman, A. 2009). Whether they borrowers consumer loan might face the different kinds of problems for playing their role as consumers or they might face the various kinds of problems when they got loan are the vital questions. Therefore, this study attempts to analyze the trends of consumer credit in Bangladesh, identify the problems of this scheme and suggest the way to solve the problems if any.

2.0: Literature Review

There has been a growing interest of consumer credit throughout the world, in the industrialized west as well as in developing countries of the third world (Cole, 1998; Fraser et al., 2001; Eichergreen & Mitchener, 2003; Lachance et al., 2006; Muhmin, 2008). Consumer credit/consumer credit institutions were first introduced at Chicago in 1878. The installment method of operation was introduced in New York as early as 1807 (Cole, 1998). The small loan business had its origin in Chicago about 1870. In the piano business, the installment plan has been used since about 1875 (Beckman & Foster, 1969). Installment business similarly gained importance in Australia in the 1920s (Eichergreen & Mitchener, 2003). After 1952, attitudes towards consumer credit changed dramatically (Cole, 1998). After 1968, began to introduce consumer credit (Suneja, 1994).

In the years leading up to the financial crisis, household debt soared in most rich countries (Figure 2.0). There were a couple of notable exceptions: Germany and Japan,

neither of which experienced a housing boom that caused debt to accumulate. The ratio of debt to disposable income rose by an average of 30 percentage points, to 130%, in OECD countries between pre-boom 2000 and pre-crisis 2007. Since then debt levels have fallen in America, Britain and Germany, but they have continued to rise in countries such as France, Italy and the Netherlands, where property prices are still declining. In 2012, household debt in the Netherlands was a whopping 285% of disposable income.

In Bangladesh, the credit comes in different form in different time. Rural credit markets in Bangladesh are still dominated by informal credit with high interest rate especially for the poor. The usual system known as 'Bandhak' involves borrowing against land mortgage. The creditor enjoys the fruits of the land for a stipulated time period, sometimes up to ten years (Rahman, 2009). Another prevailing aspect of the informal credit market is the system of 'Dadan'. Dadan represents the interlocking of the credit and the product markets. Poor peasants normally borrow against standing crops, under the stipulation that repayment will be in kind. In the case of paddy, peasants borrow during the lean period on the assurance that at harvest time they will pay back in the form of paddy (Ahmed, 1993).

In response to credit scarcity, and high interests' rates in informal credit in rural area in Bangladesh, the government of Bangladesh has tried to make formal credit available at low interest rate. The first significant attempts at institutional interventions in the rural credit market of Bangladesh occurred in the 1960s. During the 1970s, various program sought to reduce poverty in Bangladesh by intermittently providing the poor with needed goods and services. By 1971, the extent of credit disbursed by the agriculture development bank and the cooperative amounted only 153 million taka, incoming to 467 million taka in 1976. Then in 1977, a special agricultural credit program was initiated that allowed a major income in the role of formal credit in agriculture (Hossain & Afsar, 1989). Another form of credit is micro credit. Micro credit is considered essential for helping to reduce poverty by increasing productivity of the poor. Targeted micro credit programs were introduced in Bangladesh in 1980. Grameen Bank was transformed into a specialized bank in 1983, focused on providing credit to poor people, particularly poor rural women so that they become self-employed (Shams, 2006).

Stokes & Arlt (1955) explained that consumer credit refers to loans made or credit given to individual consumers to finance purchases of consumer goods and services. Prather (1969) agreed with stokes (1955) and he emphasized for personal consumption or to refinance debts originally incurred for such purposes. Bexiley (1987) described consumer loan as secured or unsecured loan but Garman & Fogue (1991) pointed out that consumer credit is non-business debt used by consumers for purposes other than home mortgages. While Suneja (1994) has described that consumer loans are loans granted by

banks to individuals who may feel inclined to purchase consumer durables to improve their standard of living. However, consumer credits are loans granted by bank to individuals for personal households or family consumption who may feel inclined to purchase consumer durables to improve their lifestyle (Rahman A., 2009).

With the prevailing economic scenario in a developing country like Bangladesh, we can safely say that a sizeable portion of our population is coming up as a consumer class every year. Because of huge population base, this class is quite large. Precisely, middle class and fixed income group belongs to this and they are in continuous race to elevate the standard of their living and quality of life. In doing so, it cannot afford to possess necessities of life by paying the price at a time out of their savings (National Bank Bangladesh Ltd., 2010). Because of limited income, middle class and lower middle class people especially the salaried professionals of our country usually cannot afford to buy essential household durables (like TV, fridge, furniture, sofa-set etc.) to enhance the lifestyle of the people after fulfillment of their basic needs. In this situation, credit is necessary for them to buy household goods. However, their financial positions do not allow them to get micro credit; because micro credit is for poverty alleviation. They have no ability to get mortgage loan. But they need credit to buy household goods for upgrading their lifestyle. To materialize their cherished goal of becoming the owners of the durable goods, at first Islami Bank Bangladesh Ltd. offered an attractive opportunity of installment buying through a consumer credit scheme named 'Household Durable Scheme' in 1993 in Bangladesh (Islami Bank Bangladesh Ltd, 1994). It was followed by Prime Bank Ltd. and Social Investment Bank Ltd., all of which started their services in 1995. Soon several other banks joined and today 19 of the 48 commercial banks offer consumer credit services (Bangladesh Banks, 2006).

Consumer credit scheme might play a significant role by providing financial assistance. It helps limited income people to buy required household items or any article for their necessity. Consumer credit is considered as loan to maintain standard of living in this group (Jamuna Bank, 2004). It is also considered as lifestyle loan of this group (HSBC Bank, 2007). The broad objectives of this scheme, among others, are to help service holders by providing consumer credit at a reasonable rate of interest. It encourages saving habit as well as facilitates increasing standard of living and thus play the active role in the socio-economic development of Bangladesh (Alam & Bhuiamali, 2007). It upgrades the lifestyle of people of the consumer credit customers of Bangladesh (Rahman A., 2009).

There is a dearth of academic research into consumer credit in Bangladesh because researchers usually work with micro credit, mortgage loan and credit card. Indeed, there has not been a single study on trends, problems and prospect of consumer credit services in Bangladesh. Therefore, trend, problem and prospects of consumer credit in Bangladesh

may be a vital issue for investigation. This paper provides an overview relating to trends, problems and prospects of consumer credit in Bangladesh. Main contention of the study is to identify the trends, problems and prospects of consumer credit in Bangladesh, the aspects which have not been covered in most previous studies on consumer credit. The present study addresses the following issues concerning the consumer credit services in Bangladesh:

- (i) the trends of consumer credit of the different banks of Bangladesh;
- (ii) the problems of consumer credit services in Bangladesh; and
- (iii) the ways for improving the consumer credit schemes to make them more attractive to the consumers.

3. The Objectives of the Research

The objective of this research is to contribute to greater understanding of the trends, problems and prospects of consumer credit in Bangladesh and accordingly, the objectives include:

- (i) providing an overview relating to trends of consumer credit in Bangladesh;
- (ii) identification of the problems of consumer credit services in Bangladesh; and
- (ii) suggesting ways for improving the credit schemes to make them more attractive to the consumers.

4. Research Methods

The strategy adopted for this study is the personal interview survey. Considering the nature of the present study, a combination of structured and unstructured interview schedules was used in order to explore both quantitative and qualitative information. Especially focus group and expert interview were taken for guess idea about the problem of consumer credit from the customers and bankers. It also helped to draw concept for recommendation to overcome the problem.

Two sets of questionnaires were used to collect information about the problems of consumer credit. Dhaka-the capital city of Bangladesh was chosen as study area for this study. Addresses and phone numbers of borrowers (respondents) were collected from office file of the sample branches by the employees of the banks for interview. Sample size determination formula is used for identifying total number of samples.

Sample size determination method:

$$N = \left\{ \frac{p(1-p) z^2}{d^2} \right\} * deft$$

N=size of the sample

P=the proportion to be estimated=0.5

Z=value of standard normal variate=95% level of significance=1.96

D =the amount of tolerated margin of error=0.05

Deft=design effect=1.5

$$\text{Number of sample} = \left[\frac{0.5(1-0.5) (1.96)^2}{(0.05)^2} \right] * 1.5 = 576$$

500 customers and 76 bankers were selected as sample for interviewing. At first target population is divided into mutually exclusive and collectively exhaustive subpopulation or cluster. That means 301 clusters (branch as cluster). Random sample of cluster (branch as cluster) is selected based on probability sampling technique. Here, 30(branches as cluster) clusters are selected as sample by using probability proportionate to size sampling method from 301 branches. All borrowers in each selected branch (cluster) could not be included in the sample because of time and cost constraints. For this reason, probability proportionate to size sampling of two stage cluster sampling method is used for selecting number of borrowers from each branch. Each borrower is selected by using systematic manners of simple random sampling method.

Data were collected on relevant variables from primary and secondary sources. Primary sources included borrowers who bought household goods by consumer credit from the banks and the bankers. Secondary data have been collected from the published contents of the annual reports, relevant brochures, sales figures, and prior research reports of the listed banks internal sources and suppliers, different kinds of Journal.

5.0: Trends of Consumer Credit in Bangladesh

In a developing country like Bangladesh, people of middle and lower middle class, especially service holders with limited income find it difficult to purchase articles like refrigerator, television, furniture, pressure cooker, sewing machine etc., which are parts of modern and decent living. They cannot enhance the standard and quality of life to the desired level due to the collected constraint of their limited income. Therefore, they need credit. Considering the demand, popularity and profitability of the consumer credit scheme, and to diversify the area of investment as well as to play beneficial role for the increased number of people of the country, the management of Islami Bank Bangladesh Ltd. and other banks have introduced household durables scheme(Table-5.1). It has

already created great enthusiasm among the people and received tremendous response from them (figure-5.0). Now about two Multinational Banks and nineteen private banks offer this household durable loan. Discussion about the trends of consumer credit of some selected banks is required to guess an idea about the past and present condition of consumer credit in Bangladesh.

Following discussions help to interpret the trends of consumer credit in some selected banks.

5.1: Trends of Consumer Credit Growth in Different Banks in Bangladesh

Trends of Consumer credit growth in different banks of Bangladesh are discussed in subsections- 5.1.1 – 5.1.9.

5.1.1: Trend of Consumer Credit Growth in Islami Bank Bangladesh Ltd.

Consumer credit policy taken by Islami Bank Bangladesh Ltd. was immediately visible and proved as discouraging demand (shown in figure-5.1.1). During the period of 2001; about 893 million taka were disbursed to the consumer. The figure rose to 915 million and 944 million taka in 2002 and 2003 respectively. It continuously decreased to 909; 810; 723; 743; 639 million taka respectively in 2004, 2005, 2006, 2007, 2008 and at last rose 686 in 2009. From the discussion with the officers and clients, the researcher learned some reasons about the decreasing trend. High competition in consumer credit may be termed as one of the reasons. Employees of this bank are assigned to take care of the consumer credit customer and they are busy also to do their regular table work. For this reason, they do not have enough time to take extra care of the consumer credit customers. They also do not have extra employee whose only duty is to do the field works to recover the consumer credit loan and collect the new customers. But competitor banks do this.

5.1.2: Trend of Consumer Credit Growth in Prime Bank Ltd.

As one of the strongest and leading private sector banks operating in Bangladesh, Prime Bank Ltd. also, offer a wider range of banking facilities for its valued customers. Prime Bank Ltd. introduced consumer credit scheme as the beneficiaries' services of the customers in 1995. The CCS program of the bank aiming to help the fixed income group in raising their standard of living has been widely appreciated. Consumer credit policy taken by Prime Bank Ltd. was immediately visible and proved as encouraging demand (shown in figure-5.1.1). During the period of 2001; 299.53 million taka were disbursed to the consumers. The figure rose to 473.57 taka in 2002. It also continuously increased to

519.47; 676.44; 983.80; 1,355.75; 2,747.44; 4,513.51; 6,629.67; 9,990.65 respectively in 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010. The sales amount of consumer credit of Prime Bank Ltd. is increasing on a regular basis. This increased rate indicates that consumer credit is a very demanding product in the credit market in Bangladesh.

5.1.3: Trend of Consumer Credit Growth in Pubali Bank Ltd.

As one of the oldest private sector banks operating in Bangladesh, Pubali Bank Ltd. also offer a wider range of banking facilities for its valued customers. This bank introduced consumer credit scheme as the beneficiaries' services of the customers in 1996. Consumer credit policy taken by Pubali Bank Ltd. was immediately visible and proved as encouraging demand (shown in figure-5.1.1). During the period of 2001; about 1923 million taka were disbursed to the consumers. The figure rose to 4035 and 4593 million takas in 2002 and 2003 respectively. But it continuously decreased to 3722; 2261; 1183 respectively in 2004, 2005, 2006. It was also rose 1203.44; 3565.72; 6605.90; 9701.5 respectfully in 2007, 2008, 2009, 2010.

5.1.4: Trend of Consumer Credit Growth in The City Bank Ltd.

As one of the modern private sector banks operating in Bangladesh, The City Bank Ltd. also offers a wider range of banking facilities for its valued customers. The City Bank Ltd. introduced consumer credit scheme as the beneficiaries' services of the customers in 1999. Consumer credit policy taken by The City Bank Ltd. was instantly visible and proved as an encouraging demand (shown in figure-5.1.1). During the period of 2001; about 6 million taka were disbursed to the consumer. However, in 2002, it was declining. The figure rose to 17 million taka in 2003. It also continuously increased to 39 million; 44 million; 52 million taka respectively in 2004, 2005, 2006. This increased rate indicates that consumer credit is a very demanding product in the market.

5.1.5: Trend of Consumer (Personal) Credit Growth in Dhaka Bank Ltd.

Dhaka Bank Ltd., a pioneer of the modern bank, also offers a wider range of banking facilities for its valued customers. Dhaka Bank Ltd. introduced consumer credit scheme as the beneficiaries' services of the customers in 2003. Consumer credit policy taken by Dhaka Bank Ltd. is immediately visible and proved as an encouraging demand (shown in figure-5.1.1). It introduced consumer credit scheme in 2002 and disbursed 107 million taka. It also continuously increased to 247; 444; 865 million taka respectively in 2004, 2005, 2006. The sales amount of consumer credit of Dhaka Bank Ltd. is increasing on a regular basis.

5.1.6: Trend of Consumer Credit Growth in One Bank Ltd.

One bank Ltd., another modern private bank, also offers a wider range of banking facilities for its valued customers. One Bank Ltd. introduced consumer credit scheme as the beneficiaries' services of the customers in 1999. Trend of consumer credit growth in One Bank Ltd. is given below:

Consumer credit policy taken by One Bank Ltd. is instantly visible and proved as an encouraging demand (shown in figure-5.1.1). During the period of 2001; about 21 million taka were disbursed to the consumer. The figure declined to 20 million & 12 million taka respectively in 2002 & 2003. It continuously increased to 54 million; 194 million; 416 million; 472.41 million; 953.35 million; 1470.37 million; 1907.07 million respectively in 2004, 2005, 2006, 2007, 2008, 2009, 2010. The sales amount of consumer credit of One Bank Ltd. is decreasing on a regular basis from 2001 to 2003. But from 2003 to 2010 consumer credit growth rate was very much pleasing. This increased rate indicates that consumer credit is very demandable product in the market.

5.1.7: Trends of Consumer Credit Growth of IFIC bank Ltd.

IFIC Bank Ltd., a pioneer of the modern bank, also offers a wider range of banking facilities for its valued customers. IFIC Bank Ltd. introduced consumer credit scheme as the beneficiaries' services of the customers in 1999. Consumer credit policy taken by IFIC Bank Ltd. is immediately visible and proved as an encouraging demand (shown in figure-5.1.1). In 2005, it disbursed 265.90 million taka. But in 2006, it decreased and the amount was 120.70 million. It also continuously increased to 1112.90 million; 2415 million; 3278 million taka respectively in 2007, 2008, 2009.

5.1.8 Trend of Consumer Credit Growth in the Southeast Bank Ltd.

Southeast Bank Ltd., a pioneer of the modern bank, also offers a wider range of banking facilities for its valued customers. Consumer credit policy taken by Southeast Bank Ltd. is immediately visible and proved both encouraging and discouraging demand (shown in figure-5.1.1). In 2006, it disbursed 203.66 million taka. It disbursed 175.86 million in 2007. It also continuously increased to 205.88; 205.21; 221.56 million taka respectively in 2008, 2009, 2010. The sales amount of consumer credit of Southeast Bank Ltd. is not increasing on a regular basis.

5.1.9: Trend of Retail Loan Growth in HSBC Bank Ltd.

The HSBC Bank Ltd., pioneer of the modern foreign bank, also offers a wider range of banking facilities for its valued customers. Trend of retail loan growth in HSBC Bank Ltd. is given below:

The retail loan package has become a popular deal in the market and it is proved to be increasing in demand (shown in appendix, figure-5.1.1). During the period of 2003; about 3386 million taka were disbursed to the customers. But in 2004, it reduced to 3276 million taka. The figure then had a dramatic rise 7003 million taka in 2005 and still to 7305 million taka in 2006. The sales amount of retail loan of HSBC Ltd. is increasing on a regular basis (except for 2004). In 2005 and 2006, the retail loan growth rate was satisfactory. This increased rate indicates that retail loan is a very demanding product in the market.

6.0 Problems of Consumer Credit Scheme

In the modern age, consumer credit has already become a highly competitive business. It is most crucial earning sectors of various banks. Bankers faced different kinds of problems to sell this product. Customers also face different kinds of problems to get this loan.

6.1: Problems Identified by the Customers

The table-6.1 (Appendix) shows the problems relating consumer credit scheme, which is identified by the consumer credit customers. These problems are

- a. High Interest Rate: The interest rate of the consumer credit scheme charged by the different banks is not so convenience such as HSBC charged 18.5% (HSBC, 2006). 69% consumers agree with the statement.
- b. High Processing Fees: 78% consumers mention that processing fees are high. The consumer credit processing fees is high such as HSBC charges more than 1% for personal unsecured loan and 2.5% for the new account holders those who have not experienced over three months as an account holder. These high processing fees are one of the main obstructions for the consumer credit scheme customers.
- c. Lengthy Procedures: 60% consumers opine that procedures are lengthy. The procedure of consumer credit is always clumsy and lengthy such as HSBC accept the application from the customers and forward it to the credit department in the concerned head office. So that it will take at least 3-7 days to disburse the consumer credit to the customer's account.
- d. Difficult to Prove Actual Income: 79% consumers identify that probing actual incomes are difficult. Most of the customers are not able to prove their actual income through legal papers. Then it is always difficult for a bank to readjust or carry on this particular loan application without having a proof of income. For example, HSBC demand tax

identification number (TIN) from the consumer credit customers which is absent in the most of the cases.

e. Huge Documentations: 70% consumers consent that huge documentation is another problem of consumer credit. If a customer wants to get consumer credit then he has to submit his photograph, passport copy, TIN certificate copy, bank statement, salary statement, employer's certificate, any other income proof, income tax return, guarantor certificate, quotation etc. to the bank. It is always difficult to collect various documents for this purpose.

f. Delay Response from Bank Employee: 50% consumers agree with the statement. Sometimes, bank employees are not responding properly to the customers. In the local bank, they provide consumer credit loan to the reference people that means those who have strong affiliation and connection or relation with existing reputed customers. However, in the foreign bank, they do not bother about the relation, they rather emphasis on proper documentation whatever or whoever is applying for the consumer credit.

g. Quotation Providing Problems: 59% consumers opine that they have to submit quotation for getting consumer credit from the bank. It is another problem faced by the consumer credit customers. Except The Hong Kong Shanghai Banking Corporation, most of the sample banks demands the quotation of required goods from the customers.

h. Lack of Cordial Behavior: 34% consumers agree with the statement. Occasionally, banks employees do not show pleasant behavior towards the consumer credit customers. Most of the time, they are busy for their general banking activities. The workload of the bank employees is the main reason of doing misbehavior with the consumer credit customers.

i. Short time frame: 59% consumers notify that it is difficult for consumer credit customers to repay all the amount of money within 12-36 installments to the banks. Because the most customers of consumer credit scheme is a lower middle class and middle class people.

j. High Hidden Charges: 56% consumers inform that hidden charges of consumer credit scheme is very high such as renewal charges, extra processing fees, stamp charges, application form charges, overdraft charges, unauthorized overdraft charges etc.

k. Insufficient Financial Support: 73% consumers inform that the financial support got from the consumer loan is insufficient. The maximum amount offered by the foreign banks is seven lac.

l. Negative Attitude towards Low Income Group: 85% consumers are agree with the statement. The average target customer of sample banks are middle and higher income group of the society. That is the problems of lower income group of people in the society. Average upper middle and upper class people has lot of money to buy house appliances by spending their own money. The main problem of lower income group is that they are not included into the target group of mentioned banks.

m. High Late Payment Fees: 22% consumers tell that payment fees of the consumer credit customers are so high. Local banks are accepted some delay of repayments but the foreign banks never accept this delay. They charge from first day like 500 taka per delay payment. It is so high in the context of small consumer credit loan.

n. Clumsy Application Form: 37% consumers agree with the statement. Application form of consumer credit is so lengthy and clumsy and it is always difficult to fill it up without having assistance of banker. The clumsiness of an application form of consumer credit consists of demand promissory note, hypothecation letter, guarantor information, terms and conditions, list of incomes, expenditure ration and debt burden ration.

o. Critical Procedure: 36% consumers' consent with the statement. The procedure is so critical to understand by the applicant of consumer credit scheme. It is also mentioned by the sample customers that it is also time consuming to fill up the application form.

p. Guarantor Problems: 45% consumers agree with this statement. It is always challenging for banks and the customers to accept guarantor. Banks are often confused regarding the provided guarantor(s) by the consumer credit customers because whenever they will not pay the borrowed money, banks has to charge their guarantor. On the other hand, HSBC is not demanding any guarantor from the consumer credit customers. They just want some crossed cheque from the customers.

q. Employees of different banks who are involved to take care of the consumer credit customer are not so available and not more careful to help the customers.

6.2. Problems Identified by the Selected Bank Officials

The various problems regarding consumer credit of the sample banks are as follows (table-6.2):

a. Difficult to Make Customers Understand: 77% officers agree with this statement. The procedure, system and method is not as easier as banks says to the consumer credit customers. That is why it is always a bit difficult to make the customers understand the credit scheme.

b. Lack of Promotional Activities: 62% officers consent with this statement. Most people do not have enough idea regarding the consumer credit product. It is the duties for concerned bank to let the customers know all the things through promotional work. There is lack of promotional practice in the sample banks especially in the local banks. A foreign bank like HSBC is more dynamic rather than other sample banks. They just work hard on their promotional activities such as advertising, sponsoring to the different event like drama, cinema, seminar, conference, donate to the flood and acid victims etc. People let know the things that they are providing such a loan facilities after introducing themselves first through promotional works. On the other hand, local banks never care to spend their money for promotional purpose.

c. Lengthy Procedures: 43% officers opine that the consumer credit process is lengthy in respects of gathering consumer credit information, collect application form, collect all necessary papers, and collect IT certificate and returns.

d. Lack of Proper Documentations: 31% officers inform that most of the clients do not provide proper or complete documentations. As per banks requirements, customers could not be able to submit proper documents such as TIN certificate, IT returns etc. to the applied banks. Bankers find that lack of documentations is the only reason to reject loans in most of the cases.

e. Threats of False Documentations: 43% officers agree with this statement. Sometimes, customers are providing several fake/false things or documents to the banks such as false identity status (Passport copy, nationality copy etc.), false TIN certificate copy, fake tax returns accounts, false quotation etc. It is always difficult for a bank to justify the things to proof that it is false or authentic because it cost money and time at an instance.

f. Delayed Response from the Consumer Credit Customers: 49% officers agree with this statement. Sometimes, banks have been requested by the consumer credit customers to provide some other documents to make the application authentic but customers are not serious to provide corrected documents to the banks.

g. False Quotations: 77% officers concur with this statement. Sometimes customers submit false quotation to the bank while they process consumer credit application. Therefore, banks credit department make query to the particular quotation provider organization regarding its authenticity.

h. High Competition: 26% officers opine that consumers' credit customers are too vulnerable to high competition among the different consumer credit providing banks.

Different banks are giving special facilities to the customers so that they feel attraction to switch one bank to another bank easily.

i. Lack of Coordination with Credit Department: 53% officers consent with this statement. Sometimes, genuine person do not manage a consumer credit loan due to lack of coordination between customer service and credit department. The thing is that, customer service knows regarding the authenticity of a customer because they directly deal with the applicants. Nevertheless, credit department never try to understand this relation moreover, they always think this relation as a bias relationship between customer and customer service.

j. Lack of Efficient Credit Officer to Assess Consumer Credit Scheme: 32% officers agree with this statement. In local banks' credit officer has no training to evaluate a consumer credit application; they just learn the consumer credit evaluation process from the senior people of credit department or as they guide them how to do, they just implement the command of the senior.

From the discussion with the officers and customers, the researcher learned some reasons about the decreasing trend. High competition in consumer credit may be termed as one of the reason. They could not retain and attract the customers because of lacking of the specialized employees. Most of the employees are busy in doing their normal and regular table works. They cannot allocate time separately for the consumer credit customers. They have no field officers to recover the loan and to obtain the new customers. Besides this, they disburse the loan by the help of agency. The employees of the agency could not inspire the client to borrow consumer credit. Rules and regulation for lending and recovering this loan were also not suitable. The amount of down payment was also high.

7.0. Prospects and Recommendations

In spite of different problem identified by the customers and bankers, consumer credit has good prospects. It has good futures if the problems can be reduced. Efficient consumer credit scheme management minimizes the probability of bad debt or bad loan in the sample banks in Bangladesh. The bank management needs to measure the existing consumer credit positions in respect of its growth, disbursement, bad debt recovery and new entrants. In this section certain recommendations have been suggested by customers and bankers to overcome the problems.

a. Consumer credit customers have to know all the relevant information relating consumer credit. After that, they have to analyze whether it be feasible to apply for such loan. The main things to understand relating consumer credit are its procedures, terms of

conditions, liability of guarantor, calculation of consumer credit interest, hidden charges and processing fees.

b. Customers should avoid submitting the false documents. They have to update their identity, salary or income source statements, tax identity no. tax return statements etc. for the sake of getting loan.

c. Whatever the things having doubts in consumer credit customers mind, they should ask to the concerned banks for the solution or the way to solve the problems.

d. Customers should use the modern technology for the sake of paying consumer credit repayment in smooth way to the concerned bank. They can pay their installment by using ATM, SMS service or internet so that they will not be treating as a defaulter.

e. Consumer credit customers should cooperate with employees of the consumer credit providing banks regarding consumer credit application and documents.

f. Before deciding to apply for a consumer credit loan to a bank, customers should assess the debt burden ration and the total ability to repay the installment against the loan amounts.

g. Customers of consumer credit scheme should be aware about the various hidden charges like unauthorized over draft, late payment fees, hidden interest charges like risk fund fees etc.

h. The main problem of consumer credit scheme is insufficient financial support. Customers should bargain with their own demand by showing their financial capabilities through legal and authentic papers so that bank credit appraisal will go in their favor.

i. Customers of consumer credit scheme should be aware about the late payment fees. Sometimes, bank is charging Taka 500 or Taka 300 as a late payment fees. In this connection, local banks are more flexible than foreign banks such as PBL and ABBL do not charges anything for late payment.

j. Customer should understand the application form. They should go through the application form whatever the requirement, and they should realize it by themselves.

k. Sometimes, there is a problem in finding a person willing to be a guarantor of particular consumer credit. In this case, customers should search capable guarantor who can bear the money if he will become defaulter of this particular consumer credit.

l. Customers should not show anything fake so that it is beyond their capacity to prove it. Therefore, they should show original income, which has strong papers to proof to the banks.

m. It is also important for a customer to evaluate interest rate such as impact of interest rate, burden of interest rate, total interest amount etc. otherwise it will be burden for them.

n. Proper credit planning is necessary. Banks should have a target relating consumer credit for each year. They have to calculate how much money they will provide to the customers as consumer credit. So that it will be easier for a bank to decide how will be progress to fulfill the target.

o. Good infrastructure is necessary to attract customer. The psychology of average customer is that bank has to maintain good infrastructure regarding fund, decoration, cordial behavior of employees, promptness of various services etc., otherwise they never feel intention to go there.

p. The bank should spread out all the consumer credit related information to the customers through newspaper, TV, Internet, and different media so that people can rush whenever they want to get such information.

q. There are so many banks who are not maintaining and ensuring satisfactory level of quality customers. PBL is charging 2% risk fund fees from new consumer credit scheme customers due to their previous bad debt in the consumer credit market. Again, HSBC is reducing their risk by charging 2.5 % from the new consumer credit customers. All the banks should work on to get quality customers so that delinquency rate is under control.

r. Consumer credit providing banks should cooperate with the consumer regarding consumer credit application and documents so that they can fill it up properly.

s. The advantage of this loan is low investment and quick return with high interest for the banks. There is lot of opportunity to do better profit for a bank by investing extra fund to the consumer credit sector. On the other hand, lots of people are anxiously waiting to get this consumer credit from different banks.

t. This is the right time to open a different consumer credit cell for the consumer credit customers for the sake of providing better consumer credit service to the customers. Again, customers will be delighted to enter consumer credit cell to ask whatever they have in their own mind regarding consumer credit.

u. The procedure of consumer credit should be made as simple as possible so that people can get this loan in easiest way.

v. Bank has to reduce the unwanted documentations from the consumer credit customers so that customers can easily collect their required document to get consumer credit loan. The documentation of consumer credit should be easier.

8: Conclusion

The study reveals that the amounts of disbursement of consumer credit of some Banks (like Prime Banks Ltd., The City Bank, Dhaka Banks Ltd., One Bank Ltd., IFIC bank ltd., and HSBC Banks Ltd.) were increased from starting 2001 to 2010. The increasing rate of disbursement of consumer credit indicates that consumer credit has huge demand in this country. Some banks (like Southeast Bank Ltd., Pubali Bank Ltd.) disbursed amount was increasing in some of the year and also decreasing some of the year. The amounts of the disbursement of the consumer credit of some Banks (like Islami Bank Bangladesh Ltd., NCC Bank Ltd.) were decreasing from 2001 to 2010. The decreasing rate of disbursement of consumer credit scheme indicates that consumer credit operating in different banks in this country has limitations.

Therefore, it can be said that some operating banks are facing Problems. The consumer credit schemes of different banks are not equally well fitted for the expectation of the customers. Interest rate, processing fees, hidden charges, late payment fees and early prepayment fees are high in this scheme. Lengthy procedures, difficult to proof actual income, huge documentations, delay response from bank employee, quotation providing problems, lack of cordial behavior, small frame of time, insufficient financial support, negative attitude towards low income group, clumsy application form, critical procedure, guarantor are also problems of this scheme.

From the discussion with the officials and the clients, the ways to improve the operations the banks should take some measures. Bankers should take extra care to improve the quality of the consumer credit scheme. They should try to speed up marketing activities, especially deliver their loan to the consumers as soon as possible. Rules, regulation & policy of the consumer credit scheme should be set to meet consumers' expectation. Interest rate, processing fees, late payment fees, and hidden charge of the scheme should be reduced for increasing the demand of the consumer credit. Most of the branches of banks should be offered this loan to consumers for ensuring the availability of the credit. Service marketing mix is not arranged sufficiently for creating demand of this scheme.

References

- Ahmed, R. J. C.; Ahmed, A. U. & Ahmed, A. (1993). Poor Women's Participation in Income Generation Project and their Fertility Regulation in Rural Bangladesh. Survey Report, Institute of Urban Research, Morgan State University, Baltimore, USA, P-14.
- Alam, M.S. & Bhumali, A. (2007). Consumer Credit Programme of Commercial Banks in Bangladesh. Vedams e-Books (P) Ltd., New Delhi-110 034, India.
- Amling, F. and Droms, G. W. (1982). Personal Financial Management. Homewood, IL: Irwin Professional Publishing.
- Bangladesh Bank (2006). Scheduled Banks Statistics. Quarterly (October-December). Dhaka: Statistics Department, Bangladesh Bank.
- Beckman, T. N. and Foster (1969). Credit and Collections. New York: McGraw-Hill Book Company.
- Bexiley, B. J. (1987). Banking Management. New Delhi: Surjeet Publication.
- Bilgin & Yavas, U. (1995). Marketing of Consumer Credit Services in Developing Country: A Status Report. International Journal of Bank Marketing, 13(5), 31-36.
- Central Intelligence Agency (CIA, 2006). The World Fact Book, 2006. Last updated, 29, March, 2006(date accessed 10 April, 2006)
- Cole (1998). Consumer Credit Management. New York: McGraw-Hill Education.
- Eichengreen, B. and Mitchener, K. (2003). The Great Depression as A Credit Boom Gone Wrong. Berkeley: University of California.
- Fraser, Gup and Kolari (2001). Commercial Banking: The Management of Risk. South-Western: Thomson.
- Garman, E. T. and Fogue, R. E. (1991). Personal Finance. Third Edition. Boston: Houghton Mifflin Company.
- HSBC Banks Ltd. (2007). Brochure of HSBC Banks Ltd. Dhaka: Public Relation Department, HSBC Bank Ltd.
- Hossain, M. and R. Afsar (1989). Credit for Women's Involvement in Economic Activities in Rural Bangladesh. Research Report no. 105, Dhaka: Bangladesh
- Islami Bank Bangladesh Limited (1994). Brochure of Islami Bank Bangladesh Limited. Dhaka: Public Relations Department, Islami Bank Bangladesh Limited.
- Jamuna Bank Ltd. (2004), Instruction Circular Letter of Jamuna Bank Ltd. Dhaka: Public Relation Department, Jamuna Bank Ltd.
- Khandakar, S. R. (1998). Micro Credit Program Evaluation: A Critical Review. IDS Bulletin, 29(4), 11-20.
- Lachance, M. L; Beaudoin, P. and Robitaille, J. (2006). Quebec Young Adults' Use of and Knowledge of Credit. International Journal of Consumer Studies, 30(4), 347-359.

- Muhmin A. G. A. (2008). Consumer Attitudes towards Debt in an Islamic Country: Managing a Conflict between Religious Tradition and Modernity? *International Journal of Consumer Studies*, 32, 194–203.
- National Bank (2006). Brochure of National Bank Ltd., Dhaka: Public Relation Department of National Bank
- Prather, C. J. (1969). Money and Banking. Irwin, Proceedings of the National Consumer Credit Conference for 1951, Lehigh University, 1951.
- Rahman, A.(1999). Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays? *Journal of World Development*, Vol.- 27, Issu- 1, 67.
- Rahman, A. (2009). Consumer Credit a Banking Product to Upgrade the Lifestyle of People of Bangladesh. Ph.D. Thesis, Dhaka University.
- Shams M. N. A. (2006). Impact of Micro Credit on the Income and Employment Generation: Evidence from Rural Households. Master Thesis, Norwegian University of Life Science.
- Stokes, L. M. and Arlt, T. C. (1955). Money, Banking and Financial System. New York: Ronald Press.
- Suneja, H. R. (1994). Innovation in Banking Services. Annual Report in the Trend and Progress of Banking in India. R. B. I., 7.

Appendices

Table 5.1-Consumer Credit scheme and its starting date of different banks of Bangladesh

Name of the Bank	Name of the scheme	Date of starting
Islami Bank Ltd.	Household durable investment scheme	1993
Prime Bank Ltd.	Consumer Credit Scheme	1995
Social Investment Bank Ltd.	Household loan	1995
Pubali Bank Ltd.	Consumer Credit Scheme	1996
Uttara Bank Ltd.	Consumer Credit Scheme Uttaran	1996
ANZ Grindlays Bank Ltd.	Personal finance	1996
Arab Bangladesh Bank Ltd.	Consumer Credit Scheme	1997
Al Arafa Islami Bank Ltd.	Kangkhito Samagri Biniog Prokalpa	1997
Al Baraka Bank Ltd.	Al Baraka Consumers Credit Scheme	1997
Mercantile Bank Ltd.	Consumer Credit Scheme	1999
One Bank Ltd.	Consumer Credit Scheme	1999
IFIC Bank Ltd.	IFIC Consumers Credit Scheme	1999
The city Bank Ltd.	Consumer Credit Scheme	1999
Primier Bank Ltd.	Consumers Credit Schemer	1999
HSBC Bank Ltd.	My Loan	1999

Sources: Brochure of those mentioned Banks.

Figure 2.0: Households gross debt as % of disposable income of different counties of the world



Soure: file:///C:/Users/A/Desktop/21578669-household-debt.htm, Jun 1st 2013

Figure-5.0: Trend of Consumer Credit growth in composed by 9-private Bank Ltd. In Bangladesh from 2006 to 2009

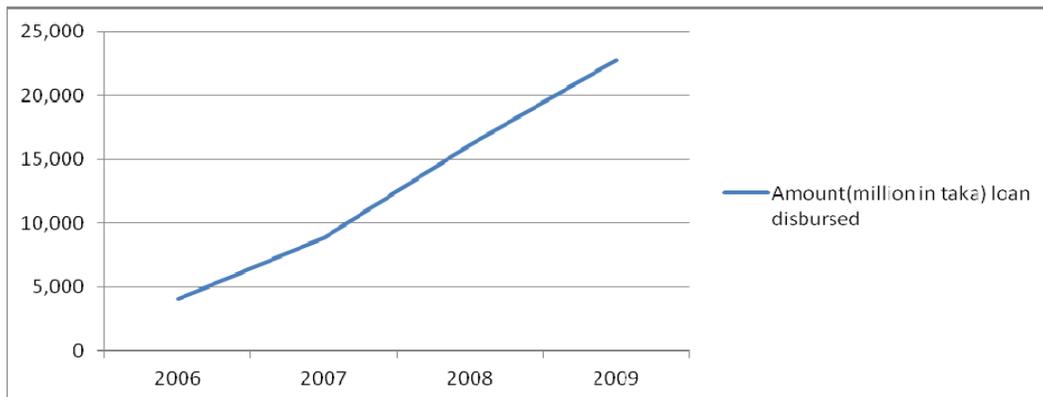


Figure-5.1.1: Trend of Consumer Credit (amount tk. in million) growth in the different Banks of Bangladesh Ltd. from the years 2001 to 2010

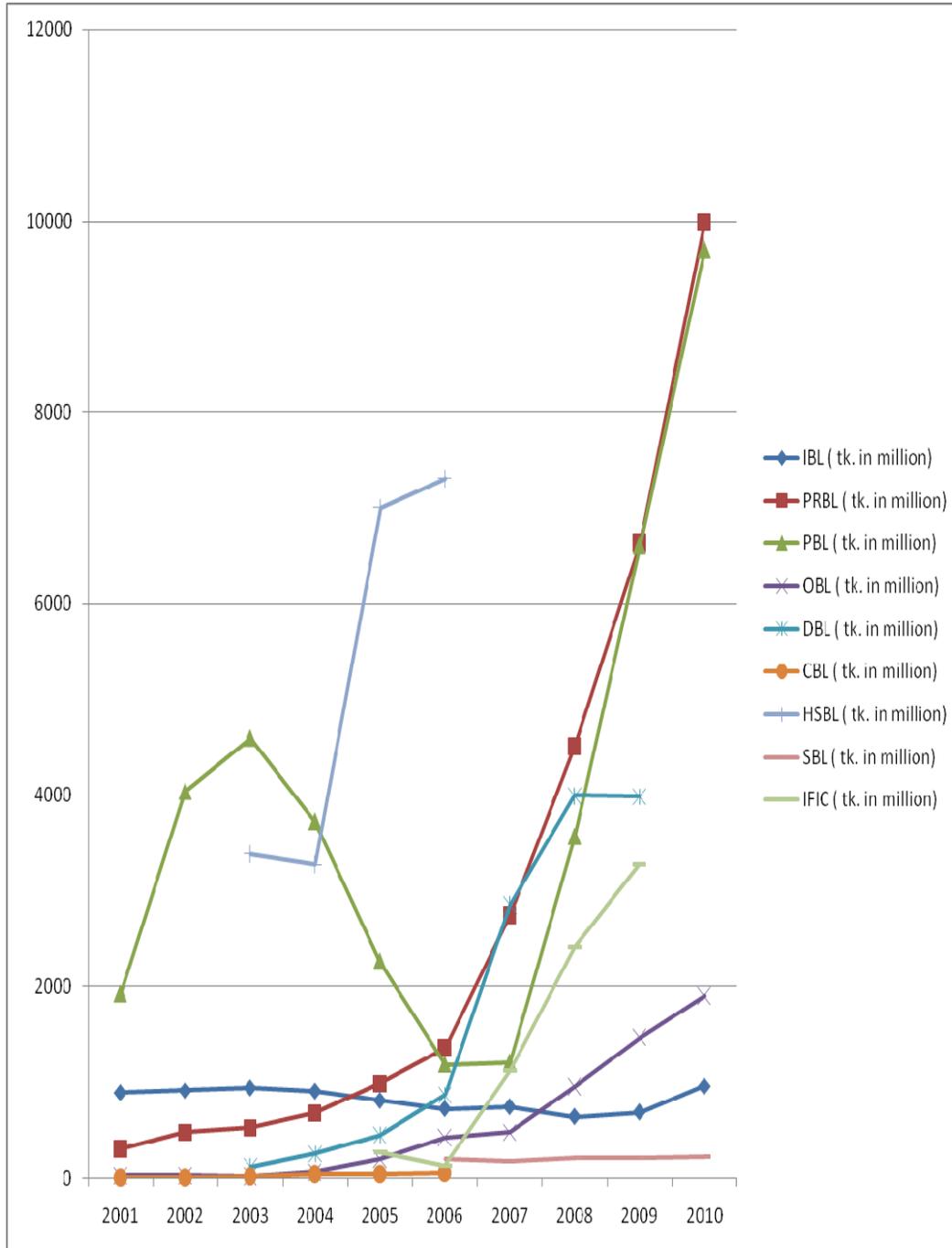


Table 6.1: Problems Identified by the Customers

SL No.	Particulars	Response by Customer			
		yes	%	no	%
1	Interest rate is too high	345	69	155	31
2	High processing fees	390	78	110	22
3	Lengthy procedures	300	60	200	40
4	Difficult to proof actual income	395	79	105	21
5	Huge documentations	350	70	150	30
6	Delay response from bank employee	250	50	250	50
7	Quotation providing problems	295	59	205	41
8	Lack of cordial behavior	170	34	330	66
9	Small frame of time	295	59	205	41
10	Hidden charges	280	56	220	44
11	Insufficient financial support	350	73	150	27
12	Negative attitude towards low income group	425	85	75	15
13	Late payment fees are so high	110	22	390	78
14	Early prepayment fees are too high	100	20	402	80
15	Clumsy application form	185	37	315	63
16	Critical procedure	180	36	320	64
17	Guarantor problems	225	45	275	55

Source: Field survey [Note: Respondents have chosen more than one problems at a time]

Table 6.2: Problems Identified by the Bankers

SL	Particulars	respondents			
		yes	%	no	%
1	Difficult to make customers understand	59	77	17	33
2	Lack of promotional activities	47	62	29	38
3	Lengthy procedures	33	43	43	57
4	Lack of proper documentations	24	31	52	9
5	Threats of false documentations	33	43	43	57
6	Delayed response from consumer credit customers	37	49	39	51
7	False quotations	59	77	17	23
8	High competition	20	26	56	74
9	Lack of coordination with credit department	40	53	36	47
10	Lack of efficient credit officer to assess consumer credit scheme	24	32	52	68

Source: Bank staff of the particular employees.