



Comparative Study of Personal Installment Loan Services between Local and Foreign Bank in Bangladesh

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ABSTRACT

The study aims to investigate of Personal installment loan services between a local and foreign commercial bank over a period of 1999 to 2003. The study revealed that personal installment loan services have been popularizing among the customers of medium-low income levels in the society. It is demonstrated that the foreign sample bank is providing prompt services as compare to local sample bank as regards personal installment loan facilities, terms and conditions, fees, target market and customized products. But foreign banks are charging more charges than the local bank. It is observed that foreign commercial banks are more dynamic, more technological oriented and aggressive customer service than the local commercial bank. Moreover, foreign bank is more technological than the local bank in the context of designing the personal loan features. Finally, the study highlights the major components of personal installment loan system in the shed light of total disbursed amount, total outstanding amount, total customer achieved, etc.

Keywords: Personal Installment Loan, Local Bank, Foreign Bank, Bangladesh

INTRODUCTION

Lending to the personal loan customers for non-commercial purposes to enable them to buy goods and services costing beyond their means has a long tradition in the Western banking world. In fact, the emergence of mass markets for consumer goods and the attainment of high standards of living by Western consumers are often attributed to the widespread availability of personal loan. Much is known about the marketing of personal loan services in Western countries. Yet, undoubtedly owing to its recent introduction into the retail-banking scene, not too much studies are available on this topic in the context of developing countries (Beares, 1987). Credit to the private sector is defined as lending to households and private businesses to carry out transactions in the private sector of the economy. Credit to the household sector includes personal loan and mortgage credit. Personal loan is made up of loans granted for a specific purpose and credit granted for a general use (Balaguy, 1996).

Literature review shows that there is no significant literature on Bangladeshi personal loan scheme in the banking sector especially in private banking sector. Lots of research conducted based on financial performance of different banks and Bangladesh bank. Nevertheless, after 1990s researcher was interested to conduct their research on customer service, relationship marketing, call centre etc. still there is lapse of intension to do research on personal instalment loan services. However, personal loan is a new policy that has been taken by various banks to lending their money right and safest way to their customers so that risk can be minimized. Personal loan is incepted by Islami bank in Bangladesh but it widen out very quickly towards other banks to adopted themselves as a personal loan scheme provider to the public. So this is a diminutive attempt by the researcher to find out some ins and outs of personal loan scheme between a foreign and a local bank in Bangladesh.

A personal installment loan service is one of the loan facilities among the consumer credit scheme of different banks. It is also a modern loan systems, which preferred by the banks' management and customers' for the sake of convenience. From the bank's perspective, it appears to be a small loan and it has low delinquency rate. Because of the above factors the banks dealing with this scheme have a wide market for their retail operation. Again, in the perspective of customer, it is easy to get, payment through installment, no cash collateral or security, relaxed terms and conditions are the key points. There are some differences when they provide small credit services towards personal

loan scheme customers. In Bangladesh, lots of private and foreign commercial banks are working on personal loan scheme and make people's lifestyle easy. Till now, no plethora research work has been done on these issues. Therefore, the researcher has been made an attempt to analyze between foreign and local commercial banks on some concerned issues. In fact, lots of factors are arising in providing personal installment loan services to satisfy its customers' and banks' management. At this point the researcher has tried to find out the personal loan facilities in the sample banks, outstanding and disbursement conditions of personal loan.

OBJECTIVES OF THE STUDY

The main objectives of the study are to analyze the personal installment loan services within the local and foreign commercial banks from the different points of view of bank customers. In particular the study aims to explore following objectives:

- a. To compare demographical information of local and foreign banks customers in the light of age, occupation and income
- b. To examine different features of the personal installment loan services between the foreign and local sample banks;
- c. To evaluate comparative position of the disbursement and outstanding status of personal installment loan services between the foreign and local sample banks;

METHODOLOGY OF THE STUDY

Sources of Data

This study is based on both primary and secondary data due to shortage of relevant research effort regarding personal installment loan services based on Bangladesh in particular. At this juncture, the researcher emphasized on observational information to explore related issues on personal installment loan services. Here the researcher has selected a local and a Foreign Bank to compare with each other regarding personal installment loan services. The objectives of this study are to explore the real condition of personal installment loan services of the local private banks and Foreign Banks. There are more than thirty PCBs and ten FCBs operating their business in Bangladesh. Within these local and foreign banks, the researcher selected the most experienced and profitable banks in terms of personal loan scheme. Most dynamic foreign Banks regarding personal loan is HSBC and Prime Bank Limited are the important local private bank carrying on their personal loan scheme successfully since 1999 and 1996 respectively.

Sample Size

It is very difficult to select sample respondents because the study is based on commercial capital Chittagong only. We have selected a local and foreign bank as sample of the study. First, the researcher collected as much as possible customers list from the selected relevant local and foreign Bank. By collecting the existing customer list, the random sampling table has been used to identify the targeted 100 sample customers from the large list of two different local and foreign banks. Several bank managers and young executives of the selected banks are the main facility for this works. Certain structural short query lists and open-ended questions are used as the instruments of the research.

Data Collection

For this study, the secondary data have been collected from relevant sample banks such as prospectus, brochures, bank's website, annual reports, reference journals, websites, books, periodicals, research articles and literature from the library of BIBM. Primary data has been collected from the sample local and foreign private banks' Branch office (Personal loan Cell) and different branches in Chittagong division, especially by means of interviewing the respondents through structured questionnaire. Two different sets of questionnaire have been prepared and used for collecting data from the personal loan customers and the personal loan providing sample bankers.

Data Processing and Analyzing

Data has been processed and analyzed by using statistical tools in various tables for presentation of data. The percentage, weighted average, Likert scale, mean, standard deviation and coefficient of variation has been used for analyzing and interpretation of data.

Comparison of demographical information of Personal loan Customers

The profile of the sample customers covers age structure, monthly, occupation and income. The following tables are showing the actual status of personal loan customers and bankers.

Age structure of the Sample Customer Respondents

The age structure of existing personal loan customers are categorizing into four categories such as those who are 20 to 30 years of age, 30 to 40 years of age, 40 to 50 years of age and 50 years above.

Table 1: Age Structure of Sample Customer Respondents

Bank Customer	Age of Personal Loan customer				Total	Mean	SD
	20-30	30-40	40-50	50+			
Foreign bank	11	28	10	1	50	35.20	6.99
Local bank	13	21	12	4	50	36.40	5.78
Total	24%	49%	22%	5%	100%		

Source: Field survey

It is appeared from the above table that 49% of sample customers (which is the highest) are within the age range of 30-40 years followed by 24% in age group of 20-30 years, 22% within the age of 40-50years and 5% in the age of 50+ years. The average mean age of the sample customers is 36.30 years. The minimum variability of the sample customer is in Local bank followed by foreign bank. The different calculations of percentages are showing the real picture of age structure of the sample customers. It is observed that young generation are visiting frequently for personal installment loan towards both the bank and foreign bank is little ahead of Local bank to attract young customers.

Occupation of Personal loan Customers

The occupation of existing personal installment loan services customers are categorizing into four parts such as business, government job, private job and rest of the occupation as others such as housewife, self-employed etc.

Table 2: Occupation of Personal loan Customers

Bank Customer	Occupation				Total
	Business	Government Job	Private Job	Others	
Foreign bank	27	3	20	0	50
Local bank	26	6	13	5	50
Total %	53%	9%	33%	5%	100%

Source: Field survey

The above table shows that the businessmen and private sector service holders are doing banking more frequently than other occupations. It is revealed from the above table that the highest percentages (53%) of sample customers are businessmen. Businessmen are banking more frequently than the other professions. Here, the pictures of local and foreign banks are almost same. It is also evident that some customers who are in government job and other sector (14% all together) but still they are interested to get the personal installment loan. It is observed that businessmen and private job holders are visiting frequently for personal installment loan towards foreign bank than the local bank.

Monthly Income of Sample Personal installment loan Customers

The monthly income of existing personal loan customers are categorizing into five parts such as those who are earning less than Taka 10,000, Taka 10,000 - 20,000, Taka 20,000 to 30,000, Taka 30,000 to 40,000 and Taka 40,000 above. The following table shows the monthly income of existing personal loan customers in the relevant sample banks.

Table 3: Monthly Income of Sample Personal loan Customers

Bank Customer	Monthly Income of Customers					Total	Mean
	Less than 10,000	10,000 -20,000	20,000 -30,000	30,000 -40,000	40,000+		
Foreign Bank	0	4	11	19	16	50	22,800
Local Bank	8	12	14	9	7	50	17,100

Source: Field survey

The above table shows that the customers of foreign bank have the highest income (Taka 22,800) among the sample Banks followed by local bank (Taka 17,100). Therefore in this respect the income level of personal loan customers of foreign bank is in the highest position followed by local bank. It is observed that high income people are visiting frequently for personal instalment loan towards foreign bank than the local bank.

Comparative analysis of Personal loan features between local and foreign bank

The focus of this specific objective is to compare the salient features of selected local and foreign bank in Bangladesh. The comparison has been made regarding personal installment loan services and its salient character, which are directly related, with the customers and bankers. Again, most of the aspects are related with the salient features of personal loan scheme in the relevant sample banks. The salient features of personal loan scheme in the sample banks are shown in the following table.

Table 4: Comparative representation of the Personal loan Scheme

Product Features	Local Bank	Foreign Bank
Branches	24	4
Product name	Personal loan	My loan
Age Range	20 to 50 years	25 to 60 years
Minimum amount	Any amount	BDT 50,000
Maximum amount	BDT 200,000	BDT 10,00,000 or 10 times of salary whichever is lower
Tenure	24 months	Maximum 36/48 months
Ceiling for Car Loan	TK. 10 Lac	TK. 40 Lac
Interest Rate	16% + 2% Risk Fund flat fee	17-22.5%
Down payment	30%	0 %
Down Payment for Car Loan	20% to 40%	25% to 30%
Risk Fund	2%	Nil
Application Form fee	Tk.10	Nil
Loan Processing Fee	1% of the loan amount	1% of the loan or BDT1, 000 Whichever is higher, 2.5% for customers having relation less than 3 months
Late payment fee	N/A	@24% on UOD
Prepayment/ early settlement fee	Free	BDT1, 000 (at any time)
Partial Prepayment fee	Not allowed	At least 30% of the outstanding loan amount must be paid at a time
Partial Prepayment fee	N/A	BDT1, 000
Guarantee	2 Personal Guarantee	No Personal Guarantee Required
Reference	N/A	2 Reference

Source: Bank Officials and the web site of relevant banks

The table shows that local bank has number of branches (24) to provide personal loan facilities to its customers than the foreign bank (4). But the local bank is conservative enough than the foreign bank in terms of loan ceiling for personal and car loan, charging risk fund fee, down payment, guarantees, application form fee and loan tenure. On the other hand, foreign bank is much more offensive though they are charging high interest rate. It is observed that foreign banks are charging various fees as some of them are hidden such as late payment fees, early settlement fees, partial payment fees etc.

Amount of Disbursement

Amount of disbursement under this scheme is one of the vital factors to evaluate the strong position in personal installment loan services. Consequently, it is to find out the extent of a bank in the personal loan services should consider the amount of disbursement and rate of recovery of the selected banks for the last five years are given below:-

Table 5: Amount of Disbursement (Taka in Lac)

Year	1999	2000	2001	2002	2003	Mean	SD	CV
Local Bank	1792	2002	2506	2707	3034	2408.20	508.71	0.21
Foreign Bank	1263	2016	2653	3245	3567	2595.20	931.32	0.36

Source: Relevant bank officials

From the above table it is proved that the amount of disbursement is increasing step by step which denoting that the popularity of personal loan in getting priority day by day as well. The recovery rate is good among the banks. The recovery rate is high in the foreign bank. Foreign bank is the leading in the personal loan market in the context of disbursement. The above table shows that as regards the values of Coefficient of Variation there is the minimum variability (21 Percent) in the disbursed personal loan in the sample local bank followed by foreign bank (Coefficient of Variation equals to 36 Percent). Therefore, in this respect the performance of local bank has recorded better position than the foreign bank.

Amount of Outstanding

Outstanding amount depends on the period of loan, which means if the loan disbursed for personal installment loan period then the amount of outstanding will be high. Again if the rate of default accounts increases then the total amount of outstanding increases as well. Year wise outstanding of the selected banks for the last five years is as follows:-

Table 6: Amount of Outstanding (Figures in lac)

Year	1999	2000	2001	2002	2003	Mean	SD	CV
Local bank	1499	2288	2565	2855	3025	2446.40	599.67	0.25
Foreign bank	776	1503	2026	2144	2245	1738.80	609.40	0.35

Source: Relevant bank Officials

The values of Coefficient of Variation as shown in the above table reveal that there is the minimum variability (25 Percent) in the amount of outstanding within the sample customers in the sample local bank followed by foreign bank (Coefficient of Variation equals to 35 Percent). Therefore, in this respect the performance of local bank has recorded better position followed by foreign bank.

CONCLUSION

The above discussions unearth various factors, which are directly related with personal loan scheme of a bank. As regards most of the cases, Foreign Banks are well ahead rather than local bank. That is why; Foreign Banks are able to deliver better personal loan service towards the customers. Most of the statistical results indicate that Foreign Banks are imposing high interest charges and processing fees, but the environment of Foreign Banks is in favour of personal loan customers. Again, local banks are charging low interest rate and processing fees but they could not able to improve their services like customer service, courtesy, information flow, bank employees and the likes. Nevertheless, both the banks are trying to develop new idea, technology, product and service; so that they can serve their customer effectively and efficiently in respect of personal loan scheme.

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