

# OPENING NEW BRANCHES OF BANKS: RATIONALITY AND REALITY

**Md. Mohiuddin Siddique**

*Professor, BIBM*

**Atul Chandra Pandit**

*Associate Professor, BIBM*

**Md. Mahabbat Hossain, Ph.D.**

*Assistant Professor, BIBM*

**Md. Shahriar Siddiqui**

*Deputy General Manager, Bangladesh Bank*



**Bangladesh Institute of Bank Management (BIBM)**  
**Section No. 2, Mirpur, Dhaka-1216**

# Opening New Branches of Banks: Rationality and Reality

**Md. Mohiuddin Siddique**

*Professor, BIBM*

**Atul Chandra Pandit**

*Associate Professor, BIBM*

**Md. Mahabbat Hossain, Ph.D.**

*Assistant Professor, BIBM*

**Md. Shahriar Siddiqui**

*Deputy General Manager, Bangladesh Bank*



**BANGLADESH INSTITUTE OF BANK MANAGEMENT**

Mirpur, Dhaka

# Opening New Branches of Banks: Rationality and Reality

Md. Mohiuddin Siddique  
Atul Chandra Pandit  
Md. Mahabbat Hossain, *Ph.D.*  
Md. Shahriar Siddiqui

## Editors

**Md. Akhtaruzzaman, *Ph.D.***

*Director General, BIBM*

**Ashraf Al Mamun, *Ph.D.***

*Associate Professor & Director (Research, Development & Consultancy), BIBM*

## Support Team

**Md. Al-Mamun Khan, *Publications-cum-Public Relations Officer, BIBM***

**Md. Golam Kabir, *Assistant Officer (PPR), BIBM***

**Papon Tabassum, *Research Officer, BIBM***

**Sk. Md. Azizur Rahman, *Research Assistant, BIBM***

**Md. Awalad Hossain, *Computer Operator, BIBM***

**Md. Morshadur Rahman, *Proof Reader, BIBM***

## Design & Illustration

**Papon Tabassum, *Research Officer, BIBM***

**Md. Awalad Hossain, *Computer Operator, BIBM***

## Published in

July, 2021

**Published by** Bangladesh Institute of Bank Management (BIBM)

Plot No. 4, Main Road No. 1 (South), Section No. 2

Mirpur, Dhaka-1216, Bangladesh.

PABX : 48032091-4, 48032096-7

Fax : 88-02-48033495

E-mail : [bibmresearch@bibm.org.bd](mailto:bibmresearch@bibm.org.bd)

Web : [www.bibm.org.bd](http://www.bibm.org.bd)

**Printed by .....**

---

---

**Copyright © BIBM 2021, All Rights Reserved**

No part of this report may be reproduced or utilized in any form or by any means, electronic or mechanical, including photocopying, recording or by any information storage and retrieval system, without the permission of the publisher.

## Foreword

---

**A**s part of the ongoing dissemination of BIBM research outputs, the present research monograph contains the findings of the research project titled “Opening New Branches of Banks: Rationality and Reality”. The study was conducted in 2018 and the paper was presented in a seminar held in 24 September, 2019.

The number of bank branches is increasing steadily in the banking sector of Bangladesh and is expected to be continued in the near future. In this backdrop, quality of the branch opening decision and operation will matter much more than the number of branch in the future. The study identifies some gap between the best practice and reality in case of branch opening. The study also discovered some potential areas of improvement in taking a prudent branch opening decision. Banks’ understanding about the depositors’ and borrowers’ preference is vital for smooth growth of the business of a branch.

It gives me immense pleasure, on behalf of BIBM, to offer this important resource of academic inputs to the practitioners of the banks and financial institutions, regulatory agencies, policy makers as well as to the academics and common readers. I hope, this monograph will be a valuable resource especially for the policy makers to understand the pros and cons of opening new bank branch in Bangladesh.

We do encourage feedback from our esteemed readers on this issue which certainly would help us improve upon our research activities in the years ahead.

**Md. Akhtaruzzaman, Ph.D.**  
Director General, BIBM

## Acknowledgement

---

This research project titled **“Opening New Branches of Banks: Rationality and Reality”** has been completed with immense support from numerous individuals and organizations.

The research team is deeply indebted to Dr. Md. Akhtaruzzaman, honorable Director General of BIBM for his valuable comments and guidance in finalizing the paper. Opinion and suggestions of the CEOs of different banks and branch managers are greatly acknowledged by the team. We are thankful to the chief guest, panelists and participants of the seminar for their valuable comments that immensely helped us to improve the quality of the paper.

Finally, we are thankful to Professor Dr. Prashanta Kumar Banerjee, Former Director (R.D.&C.) of BIBM for his continuous supervision and mentoring in different stages of the work. Dr. Ashraf Al Mamun, Associate Professor and Director (R.D.&C.) has also extended continuous support to complete the work in a befitting way.

Md. Mohiuddin Siddique

Atul Chandra Pandit

Md. Mahabbat Hossain, *Ph.D.*

Md. Shahriar Siddiqui

# RESEARCH MONOGRAPH 50



## **Opening New Branches of Banks: Rationality and Reality**



## Contents

---

Foreword	iii
Acknowledgement	iv
Abbreviations	x
Executive Summary	xi
1. Introduction	1
1.1 Methodology	4
1.2 Organization of the Report	5
2. Regulatory Framework for Opening New Bank Branch	5
2.1 Regulations and Policies	5
2.2 Branch Licensing Policy	5
2.2.1 Application Process	6
2.2.2 Size of Branch	7
2.2.3 Urban and Rural Branches	7
2.2.4 SME/Agricultural Branches	7
2.2.5 Agent Banking and Banking Booth	8
2.2.6 Islamic Banking Branch/Islamic Banking Window	8
2.2.7 Business Development Centers	8
2.2.8 Shifting or Closing/Merging of Branches	9
3. Opening of New Bank-Branch: Internal Process	9
4. Growth, Pattern and Performance of Bank-Branches in Bangladesh	10
5. Survey Findings and Discussion Outcome	16
5.1 Bank-Branch Opening Practices in Bangladesh	16
5.1.1 Availability of Written Policy for Branch Opening in Banks	16
5.1.2 Frequency of Policy Revision	17
5.1.3 Motivating Factors for Opening New Branch	17
5.1.4 Branch Opening Decision and Cost of Establishing Branch	18
5.1.5 New Branch Location Decision	18
5.1.6 Status of Alternative Delivery Channels (ADC) in Banks	18
5.1.7 Closure or Relocation of Branches	19
5.1.8 Support Facilities Given by Head Office to a Newly Opened Branch	20
5.1.9 Branch Concentration	21
5.1.10 Departments Engaged in Opening New Branch	22
5.1.11 Challenges in Opening New Branch	23
5.2 Summary of Discussion Outcome	23
5.2.1 Executives of Bangladesh Bank	23
5.2.2 Top Executives of Scheduled Banks	24
5.2.3 Bank Executives Working in BPMD, GSD, R&D and ICCD	25



5.2.4 Executives Charged with New Branches	25
5.3 Opening New Bank-Branch: Few Cases	26
6. Observations and Recommendation	30
6.1 Branch Concentration and Competition	30
6.2 Decision about Location	31
6.3 Finding Suitable Premises	31
6.4 Maintaining Ratio between Urban and Rural Branch	31
6.5 Setting Business Target	32
6.6 Pre-operation Planning and the Quality of Human Resource	32
6.7 Strong R&D Division	32
References	33
Appendix	35

## Tables

Table 5.1: Availability of Written Policy for Branch Opening	16
Table 5.2: Frequency of Policy Revision	17
Table 5.3: Motivating Factors for Opening New Branch	17
Table 5.4: Cost of Establishing Branch as a Decision Factor in Opening a Branch	18
Table 5.5: New Branch Location Decision	18
Table 5.6: Status of Alternative Delivery Channels (ADC) in Banks	19
Table 5.7: Closure or Relocation of Branches	20
Table 5.8: Branch Concentration	21

## Figures

Figure 3.1: A Typical Branch Opening Process of a Bank in Bangladesh	10
Figure 4.1: Number of Bank Branch by Category of Banks (No.)	11
Figure 4.2: Share of Bank Branch among Category of Banks (%)	11
Figure 4.3: Establishment of New Bank Branches in Urban and Rural Areas	12
Figure 4.4: Trend of Urban, Rural and Total Bank-Branch	12
Figure 4.5: Division-wise Distribution of Branch (%)	13
Figure 4.6: Trend of Deposit and Loan & Advance Per Branch (BDT Billion)	13
Figure 4.7: Trend of Deposit, Loan & Advance and Number of Branch	14
Figure 4.8: Per Branch Deposit by Category of Banks (BDT Billion)	14
Figure 4.9: Per Branch Loan & Advance by Category of Banks (BDT Billion)	15
Figure 4.10: Per Branch Deposit and Loan & Advance by Rural-Urban (BDT Billion)	15
Figure 4.11: Per Branch NPAT and NPL (BDT Billion)	16
Figure 5.1: Challenges in Branch Opening	23

## Boxes

Box 5.1: Support Facilities Given by Head Office to a Newly Opened Branch	20
Box 5.2: Departments Engaged in Opening New Branch	22

## Abbreviations

---

AB	Agent Banking
AD	Authorized Dealer
ADC	Alternative Delivery Channel
ATM	Automated Teller Machine
BB	Bangladesh Bank
BDT	Bangladeshi Taka
BIBM	Bangladesh Institute of Bank Management
BoD	Board of Directors
BOD	Branch Operation Department
BPMD	Business Promotion and Marketing Department
BRPD	Banking Regulation and Policy Department
CAGR	Compound Annual Growth Rate
CAMELS	Capital, Asset, Management, Earnings, Liquidity, and Sensitivity to market risk
CDM	Cash Deposit Machine
CEO	Chief Executive Officer
CRR	Cash Reserve Ratio
CSR	Corporate Social Responsibility
FCB	Foreign Commercial Bank
FDR	Fixed Deposit Receipt
FSI	Financial Soundness Indicator
GDP	Gross Domestic Product
GRD	Geographic Risk Diversification
GSD	General Services Department
HHI	Herfindahl-Hirschman Index
ICCD	Internal Control and Compliance Department
IT	Information Technology
LSD	Logistic Support Division
MFI	Micro Finance Institute
NPAT	Net Profit after Tax
NPL	Non-Performing Loan
PCB	Private Commercial Bank
R&D	Research and Development
SB	Specialized Bank
SBS	Scheduled Banks Statistics
SCB	State Owned Commercial Bank
SLR	Statutory Liquidity Ratio
SME	Small and Medium Enterprise
SMT	Senior Management Team
TIN	Tax Identification Number
USA	United States of America

## Executive Summary

---

Banks, by its very nature, always strives for expanding their business volume and increasing their customer base. This can be done in different ways – by increasing the number of clients and bringing the new varieties of products in an existing branch, establishing a new branch in a location to attract new set of customers or in the present days by enhancing the coverage of banking services through the application of e-banking tools. Alternative distribution channels, such as Automated Teller Machines (ATMs), internet banking and electronic delivery, are now widespread in the banking industry. Use of these alternative channels has increased substantially. These Alternative Distribution Channels (ADC) might suggest a lower demand for branch offices. However, the theoretical expectation of negative impact of ADC on physical bank branch is yet to be empirically supported. In spite of the rise of the e-banking, branching is still the most important tool for the banks to attract deposits.

Branches depend on local customers for their deposits and loans, which have significant idiosyncratic risk. In a banking system having the branches located in geographically non-diversified areas, adverse local shocks can have severe consequences on bank liquidity levels and may even lead to bank failures. By establishing branches in multiple local markets with idiosyncratic risks that are not perfectly correlated, a bank can reduce the deposit and credit risk associated with its branch portfolio. It is tested the effects of geographic and economic diversity and find that economic diversity reduces bank risk and branching reduce bank risk as well. Apart from the number of branches, selection of location is one of the most important decisions for a bank. If done correctly, it provides access to the best possible clients and the greatest market potential. In contrast, wrong location choices are costly and difficult to reverse.

As the branch opening environment has not, so far, been critically examined in the context of Bangladesh, a study on banks' internal policy, procedure and regulatory approach could be useful to enrich our understanding and find the gap between the desirable and actual practice for opening a new bank branch in the banking sector of Bangladesh. The objectives of the study are – to understand the nature of growth of bank branches in Bangladesh; to examine the new branch opening and approval procedures; and to identify the gap between rationality and reality in bank-branch opening environment. The study has utilized both primary and secondary data. Secondary data have been collected from the Bangladesh Bank publications such as Annual Report, BB Quarterly, Scheduled Bank Statistics, Monthly Economic Indicators. A questionnaire relating to branch opening practices was sent to banks out of which responses from 25 banks mostly from PCB group have been collected.

It can be concluded that bank branch concentration is a reality across the country. In some areas, one building accommodates few branches, which leads to branch concentration. When branch concentration leads to unhealthy competition costly branch relocation becomes the only alternative. Therefore, site selection is the most impatient decision. Ideally, a bank's decision to open a branch should be based on finding a profitable business area. So, the availability of the suitable location should determine the number of new branch for a bank. But, the study found the other way round i.e. 'number first then the location' principle guided the branch opening environment. In this context, finding a suitable premise is becoming increasingly difficult, particularly in the rural areas because of electricity load capacity of the buildings, security, house rent, and the amount paid in advance.

As per the current regulatory framework, banks are required to open one urban branch against a rural one. As many Upazilla headquarters located far from the city are defined as urban areas banks establish a branch in remote rural areas to maintain the rural-urban mix. Thus, banking services are not reaching at the Upazilla headquarters to the reasonable degree. This may lead to a situation in which significant banking need of people living in Upazilla headquarters remain unaddressed while the insignificant banking need of the villages are being attempted to be addressed. In addition, economic activities of the village areas are still insufficient to support a branch of a traditional bank. It is understandable that the banks will set a business target for the new branch. Observation shows that banks generally set their deposit, loan, and profit target without any underlying objective and quantitative analysis by taking into account the local business potentials, presence of other branches, future growth prospects, cultural and social traits of the location, and capacity of the bank.

Information and understanding about the people, business, and opinion of the competing bank branches are vital for the success of the new branch at least in the initial period. Branch management also needs to visit the businesses and meet the potential customers to attain the business target. The study finds from the discussion with the new branch management that people care about the attitude of the branch official towards them in providing services. So, apart from the pricing of the product that remains beyond the control of the branch, skill and behavior of the employee turns out to be the significant success factor for a new branch.

# Opening New Branches of Banks: Rationality and Reality

## 1. Introduction

In a branch banking system, banks mainly provide their banking services to the people through the branches established at different locations. A branch remains the basic contact point between the bank and its client. Banks, by its very nature, always strives for expanding their business volume and increasing their customer base. This can be done in different ways – by increasing the number of clients and bringing the new varieties of products in an existing branch, establishing a new branch in a location to attract new set of customers or in the present days by enhancing the coverage of banking services through the application of e-banking tools. The creation and processing of information that allows banks to run and expand their business is facilitated by the opening of new branches. By inaugurating branches in a certain geographical area, banks can gain better borrower-specific local/regional information, and thus ensure the quality of their loan portfolio (Kim & Vale, 2000). Jayaratne and Strahan (1996) found relaxation of the US branching regulation as an important factor behind the increase in the rate of real per capita income.

Alternative distribution channels, such as Automated Teller Machines (ATMs), internet banking and electronic delivery, are now widespread in the banking industry. Use of these alternative channels has increased substantially. These alternative distribution channels (ADC) might suggest a lower demand for branch offices. However, the theoretical expectation of negative impact of ADC on physical bank branch is yet to be empirically supported (Nam & Ellinger, 2008). In spite of the rise of the e-banking, branching is still the most important tool for the banks to attract deposits (Aguirregabiria *et al.*, 2016). To increase its share of deposits, a bank needs to expand its branch network. As in other retail networks, economies of scale, economies of density, and reallocation costs play important roles in the size, spatial configuration, and evolution of branch networks. For retail banking, an additional factor that is often mentioned as important in determining the optimal configuration of branch networks is Geographic Risk Diversification (GRD). Branches depend on local customers for their deposits and loans, which have significant idiosyncratic risk. In a banking system having the branches located in geographically non-diversified areas, adverse local shocks can have severe consequences on bank liquidity levels and may even lead to bank failures (Calomiris, 2000). By establishing branches in multiple local markets with idiosyncratic risks that are not perfectly correlated, a bank can reduce the deposit and credit risk associated with its branch portfolio (Aguirregabiria *et al.*, 2016). Shiers (2002) and Demsetz and Strahan (1997) test the effects of geographic and

economic diversity and find that economic diversity reduces bank risk and branching reduce bank risk as well.

There remains strategic interdependence among the banks that determine the outcome of the banking industry. The empirical research relating to the dimensions of the competition was traditionally dominated by the price or quantity aspects of business (Nathan and Neave, 1989; Shaffer, 1993; Berg and Kim, 1994, 1998). However, non-price (the branch network) competition and its effects on banking markets gradually attracted the attention in the theoretical studies (Degryse, 1996; and Matutes & Padilla, 1994). In fact, non-price competition may turn out to be the most significant tool by which firms differentiate themselves and extract market power in oligopolistic or oligopolistically-competitive markets (Kim & Vale, 2001). One related issue is the connectivity or role of the non-price strategic variable such as branch in the creation of informational externality. If external informational spillovers exist among banks due to branch network proliferation then there will have a market size effect (Cerasi, 1995), and in the absence of that, it will only have a market share/distributional effect (Salop, 1979). Kim & Vale (2000) conducted a study using a panel data in the context of Norway and found that banks act strategically in their branching decisions, taking into consideration the future response from rival banks. They also found that a bank specific branch-network does not produce externality for other banks. As a result branch network impacts only market shares but not market size.

Several empirical studies examined the decision concerning banks' optimal branch-network. Few of those studies consider branch as a strategic variable in the market for deposits in order to assess the impact of deregulation in some European countries (Cabral & Majure, 1994; and Cerasi *et al.*, 1997). Barros (1995) studies the growth of bank-branches following a partial equilibrium approach assuming bank branching as independent decisions. In another study, Barros (1999) studied pricing decisions separately and investigated aspects of product differentiation induced by exogenous branch location in local markets. These studies were limited only to the deposit market. Kim & Vale (2000) considered the role of the branch-network in the provision of loans by estimating a model of branching decision in an environment where banks explicitly take account of both their own existing network and their expectation of probable rival's choices.

Apart from the number of branches, selection of location is one of the most important decisions for a bank. If done correctly, it provides access to the best possible clients and the greatest market potential. In contrast, wrong location choices are costly and difficult to reverse (Cabello, 2017). There are several studies in the literature about finding the optimum place for bank branches. Boufounou (1995) used regression analysis to show that total population in terms of gender and age, average household size, population growth rate, domestic per capita income, number of firms in terms of sector, position of competitor

banks were important criteria about the bank branch performance in Greece. Zhao *et al.* (2004) emphasized that financial indicators, demographic characteristics, customer segmentation, position of competitor banks and means of access of the potential points had to be considered for bank branches locations. Cinar (2009) has identified five main criteria as demographic, socioeconomic, banking indicators, recruitment in accordance, and trade potential, which include 21 sub criteria. Cabello (2017) identified a number of factors to be considered for selecting a new branch site such as number of potential customers, socio-economic situation, commercial potential, competition, financial situation and growth potential.

The banking sector of Bangladesh experienced a steady and smooth growth since its independence in 1971. Starting with a relatively simple structure with a number of nationalized commercial banks, the structure of the banking industry gradually took a matured shape with a number of major reforms taking place in different time periods. A major change took place in the early 1980s through the privatization of the banking sector to cater to the requirements of a growing economy with an underlying objective of making the banking sector a reasonably competitive one. From then on, Bangladesh consistently followed a privatization policy for the banking sector by allowing new private commercial banks at different times. The industry now comprises 59 scheduled banks<sup>1</sup> categorized into 4 types<sup>2</sup> depending on the nature of ownership and types of priority areas of financing. The wave of increase in the number of private commercial banks since the early 80's took place mainly at four different time periods popularly characterized by different generations of banks. As a result, private commercial banks (PCB) as a group surpassed the state-owned commercial banks (SCB) not only by numbers but also in terms of share of deposit and advance in the banking industry in 2004 and that trend continued up to now with a 65.91 percent and 67.17 percent of the industry share in both deposit and advance respectively. However, SCBs still hold 36.42 percent of total branches as compared to that of 49.19 percent belonging to PCBs (BB Annual Report, 2017-18).

Bangladesh achieved a fair level of banking stability without facing any significant episode of bank failure/crisis during its banking history. The acute problems of different banks were resolved through bail-out policy (Recapitalization) and forbearance policy rather than merger/acquisition at the bank level or the branch level. As a result, the network of branches kept on expanding continuously mainly through the increase of number of private sector banks' branches. A moderate GDP growth rate consistently in the range of 5-7.5 percent for last two decades coupled with the emergence of a competitive banking sector. Strengthened prudential regulation and supervision by the Bangladesh Bank (BB) made it possible to ensure a strong presence of the banking sector in the economy. The number of

---

<sup>1</sup> By September 2019

<sup>2</sup> SCB, SB, PCB and FCB



bank branches increased almost uninterruptedly from a level of 6119 since 2000 to 10286 at the end of 2018 (BB, 2018). The considerable increase in the number of branches reflects the banks' desire to enlarge the business volume by opening new branches as well as the willingness of the regulatory body to allow new business locations to promote financial deepening/financial inclusion in the country. The opening of new branch is regulated by the Bangladesh Bank in different ways that include getting written permission before opening a new bank branch, maintaining a specified ratio between rural and urban branch, and permitting the number of new branch based on certain criteria. Banks also certainly require a thorough quantitative and qualitative analysis such as projection of the future, competitiveness in the area in which a branch is going to be set up, understanding the internal capacity of the bank to run a new branch and analysis of the past performance of the recently established branches. The adoption and progress of e-banking, mobile financial service, banking booth and agent banking are also expected to have some impact on branch banking in the industry. As the branch opening environment has not, so far, been critically examined in the context of our country, a study on banks' internal policy, procedure and regulatory approach could be useful to enrich our understanding and find the gap between the desirable and actual practice for opening a new bank branch in the banking sector of Bangladesh. The objectives are thereby set as follows:

- a) to capture the nature of growth of bank branch in the banking sector of Bangladesh;
- b) to examine the new branch opening and approval procedures; and
- c) to identify the gap between rationality and reality in bank-branch opening environment.

### **1.1 Methodology of the Study**

The study has utilized both primary and secondary data. Secondary data have been collected from the Bangladesh Bank publications such as Annual Report, BB Quarterly, Scheduled Bank Statistics, Monthly Economic Indicators. In few cases, Annual Reports of the commercial banks have been studied to capture the individual bank's position. A questionnaire targeting to know the branch opening practices was sent to all BIBM member banks (Appendix-I). The findings derived from that questionnaire incorporated the responses of 25 banks mostly from PCB group. It should be mentioned here that the study mainly focused on the private commercial banks. Besides, members of the review team have discussed with some senior executives of BB, Chief Executive Officers (CEO), Head of the concerned departments of the banks, and Branch Managers for getting in-depth picture regarding different aspects of new bank branch. Various tables/figures have been used to present the findings of the study. A key-note paper was presented in a seminar participated by senior bank executives and a panel of discussants. The current report has

been finalized by incorporating valuable comments and opinions derived from the seminar proceedings.

## **1.2 Organization of the Report**

The research paper has been structured as follows: the first section covers the introduction including background, objective and methodology of the paper; while Section 2 presents the regulatory framework for opening new bank branch. Section 3 depicts the bank's internal process for opening new branch. A profile of bank branch showing the trend and pattern of growth along with various dimensions is placed in Section 4. The next section presents the questionnaire based survey findings and discussion outcome along with some cases of new bank-branches. The paper finishes with observations and recommendations.

## **2. Regulatory Framework for Opening New Bank Branch**

### **2.1 Regulations and Policies**

The opening of new branches and shifting of the existing branches of banks are governed by the provisions of Section 32 of the Banking Companies Act, 1991. According to these provisions, no banking company, without the prior written approval of the Bangladesh Bank (BB), is allowed to open a new place of business in any part of Bangladesh or change the location of an existing place of business. This section also prohibits banking companies incorporated in Bangladesh to open a new place of business outside Bangladesh or change the location of an existing place of business outside Bangladesh. However, this regulation shall not apply to the opening of new places of business for a period not exceeding one month e.g., on the occasion of exhibitions, trade fairs, conferences or other like occasions, provided that information of such opening is given to the Bangladesh Bank within one week of the date of opening. Moreover, regulations draw under Section 32(1) of the Banking Companies Act, 1991 lays down that the Bangladesh Bank may, before permitting branches to any banking company, require to be satisfied by an inspection under Section 44 or otherwise as to the financial condition and history of the banking company, the general character of its management, the adequacy of its capital structure and earning prospects and that public interest will be served by the opening or, as the case may be, a change of location of the existing place of business. Banking Regulation and Policy Department (BRPD) of Bangladesh Bank solely issues branch licenses as well as approves shifting of existing locations of the branches. Indeed, the concerned department of banks should approach to the BRPD in this regard with the information in the formats as prescribed by BB vide BRPD circular no. 18 of 29 November 2012.

### **2.2 Branch Licensing Policy**

There is a need to step up branches in unbanked rural centers to meet the objectives of increasing banking penetration and financial inclusion rapidly. BB started paying attention

onto the desired combination of urban and rural branch from 1999 when the banks were instructed to open a rural branch against every 4 urban branches (4:1). This rural-urban regulatory proportion continued till 2011 and then it was changed to 1:1 in 2012. So, it is now mandatory for a bank (other than foreign commercial bank) to open one rural branch against every new urban branch.

Bangladesh Bank considers capital adequacy, asset quality, loan loss provision maintenance, loan status of directors, bank's internal control system, and inspection reports of BB among others of the applicant bank before allowing branch license to private banks. Along with these indicators, overall CAMELS rating plays a vital role in sanctioning branch licenses. At present, banks having CAMELS rating 1 in the last reporting period generally become eligible for getting a maximum number of 12 new branches in a year. Banks rated as 2 or 3 are permitted up to 10 and 8 new branches in a year respectively. No opening of a branch is allowed to the banks if the CAMELS rating stands at 4 or 5. This rule is applied only for the private commercial banks as no new licenses are allowed for the state-owned commercial banks other than special requirements. Any branch of state owned banks facing loss for 5 consecutive years is merged with other branch. Indeed, BB does not permit new branch to the banks having capital shortfall. Relatively few numbers of new branches are permitted for those banks having a major adverse report in BB's special inspection, high NPL, failure in maintaining CRR and SLR at the regulatory level, poor profitability, maintaining spread at higher than 5%, failing to open new approved branches in concerned year. Banks engaged in large volume of CSR activities get positive marks in getting a branch license.

### ***2.2.1 Application Process***

Banks submit their annual plan of opening new branches for the coming year by November of the current year along with the decision of the board of directors. The boards of directors of banks are required to formulate the policy and strategy for setting up new branches/offices taking into account the yearly business plan, potential for business and profitability of the proposed branch, efficacy of the internal control system, redeployment of staff where surplus manpower has been identified, extension of prompt and cost-effective customer service to the clientele. BB then permits a number of new branches out of the submitted plan by evaluating the overall financial position of the bank, the quality of its management, efficacy of the internal control system, financial soundness indicators (FSIs) and other relevant factors.

A bank needs to apply for branch/branches in a prescribed format by November of the concerned year out of the approved branches by BB. Earlier<sup>3</sup> application was required to

---

<sup>3</sup> Vide BRPD circular no. 07 of 18 March 2003.

be submitted within first two months of the concerned year. Indeed, banks need to obtain prior approval of their boards of directors before applying for the opening of new branches or shifting of the old branches. Banks also need to obtain prior approval of BB for opening new branches in urban and rural areas as per the ratio fixed by BB. BB examines the purpose of opening the branch and the business prospect of the same before permitting the branch. Applications of branches are considered on a very selective basis on the merits of each case. However, the permission will be void if the bank fails to open new branches by November of the concerned year.

### **2.2.2 Size of Branch**

For establishing a new branch or shifting of a branch<sup>4</sup>, maximum size is allowed up to 6000 square feet for an urban branch and 3000 square feet for a rural branch depending on the prospective business areas, number of customers, increase of bank staffs and officials. Before July 2016, the maximum size was allowed up to 5000 square feet for an urban branch and 2000 square feet for a rural branch<sup>5</sup>. Banks are allowed to rent or lease a building or floor space maximum of 20 years<sup>6</sup>, which was earlier a maximum of 10 years<sup>7</sup>.

### **2.2.3 Urban and Rural Branches**

The branch licensing policy covers the opening of branches in all over the country. The two-tier classification is based on locations, e.g., urban branches and rural branches. Tier 1 comprises branches at Metropolitan area/City Corporation/Powrashava as urban branches and Tier 2 comprises branches at Union Parishad as rural branches. However, one-fourth of the rural branch open at Powrashava<sup>8</sup> of Ga category will be treated as a rural branch. Later on<sup>9</sup>, branch established in the Metropolitan area, the city corporation and the Powrashava of Ka category are recognized as urban branch and branch established in the Powrashava of Kha and Ga category and the Union Parishad are recognized as rural branch. It is not obligatory for a foreign bank to open a branch in rural areas.

### **2.2.4 SME/Agricultural Branches**

Branches planned to be established outside the divisional town out of the list of branches approved by BB would be permitted as SME/Agricultural branches if those are applied in specified format. SME/Agricultural branches are allowed to perform all banking functions other than foreign exchange transactions. However, 50 percent of the funds raised by those

---

<sup>4</sup> Vide BRPD circular letter no. 09 of 26 July 2016.

<sup>5</sup> Vide BRPD circular letter no. 12 of 2 June 2014. (revoked)

<sup>6</sup> Vide BRPD circular letter no. 09 of 26 June 2016.

<sup>7</sup> Vide BRPD circular letter no. 09 of 30 July 2012.

<sup>8</sup> Powrashava are categorized higher to lower status as Ka, Kha and Ga by the Government gazette notification.

<sup>9</sup> Vide BRPD circular letter no. 09 of 26 July 2016.

branches have to be invested in SME and agricultural activities. Moreover, SME/Agricultural branches would be aided with the solar energy system.

### ***2.2.5 Agent Banking and Banking Booth***

Agent Banking (AB) has become one major tool to augment the financial inclusion drive of the central bank. Agent outlets provide relatively a small set of banking to the underserved or unserved population. The owner of the outlet conducts banking transactions on behalf of a bank. Through establishing the agent outlets banks can easily extend their service coverage to geographically dispersed locations. Bangladesh Bank issued a guideline<sup>10</sup> on agent banking in 2017 that covers the responsibility of the bank, operations of agents, customer protection and other related areas of operations. BB has allowed the banks to establish banking booth to offer the banking services to the underserved people and to expand financial services at reasonable cost operated under the full control of a nearby branch<sup>11</sup>.

### ***2.2.6 Islamic Banking Branch/Islamic Banking Window***

Bangladesh Bank allowed conventional banks to obtain license for opening Islamic Banking branch<sup>12</sup> based on the financial strength of the bank as evident from its capital base (net capital free of actual and potential losses), adequacy of its capital structure, record of earning capabilities, liquidity position, track record of bank's adherence to prudential regulations, credit discipline, quality of customer services, the convenience and the needs of the population of the area to be served by the proposed branch. Besides, banks must have CAMELS rating of 1 or 2 in the last on-Site inspection report of Bangladesh Bank and no major adverse inspection findings against the bank. Banks need to submit a proposal to BB for opening Islamic branch specifying the number of branches to operate in line with Islamic Shariah and the names of the proposed towns/districts along with a statement of services and products to be offered (regarding deposits, investments, financing) by the Islamic banking branch. The bank must be committed to keep the funds and accounts of Islamic banking branches completely separate from those of the conventional ones.

### ***2.2.7 Business Development Centers***

Banks may establish business development center/customer service center/financial kiosk/call center/unit office/regional office to administer or coordinate the financial services of the bank.

---

<sup>10</sup> Prudential Guidelines for Agent Banking Operations in Bangladesh, September 2017

<sup>11</sup> BRPD Circular Letter No. 28, Dated December 27, 2018

<sup>12</sup> Guidelines for conducting Islamic banking issued by Bangladesh Bank in 2009.

### ***2.2.8 Shifting or Closing/Merging of Branches***

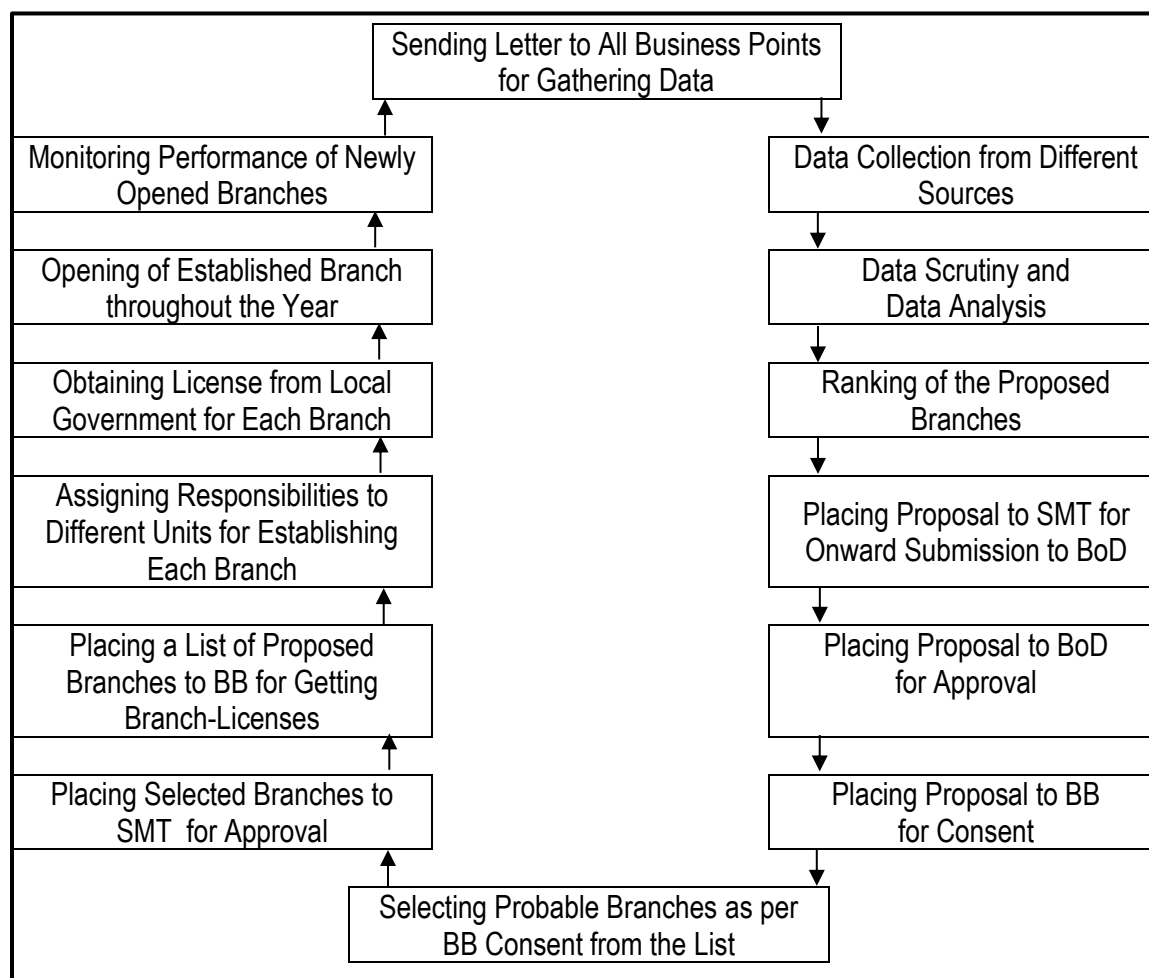
Decision of the board of directors along with prior approval of Bangladesh Bank is mandatory for shifting any branch. Permission of the shifting will be automatically canceled if the branch is not shifted within 6 months of the permission. No prior permission of BB was required for shifting of branches within the same union or city corporation/Powrashava before 2003. Prior approval of BB is needed to close any branch. However, any branch may be closed or merged with the nearest branch with prior approval of BB if that branch incurs loss for several years.

### **3. Opening of New Branch: Bank's Internal Process**

Generally, banks open branches for widening their business network. Specific objective of opening new branch depends on different factors like business module, operational strategies, and stage in life-cycle. Considering scope, size, operation and purpose, a business unit of a bank may have different levels like Zonal Office, Corporate Branch, Principal Branch, Local Office, Branch, Authorized Dealer Branch, Woman Branch, SME Service Center, SME and Agri Branch, Islamic Banking Branch, Islamic Banking Window, Foreign Branch, Off-shore Banking Unit, Banking Booth, and Agent Banking Point. A typical branch opening process of a bank is illustrated in Figure- 3.1.

A bank may have a 'Business Promotion and Marketing Department (BPMD)' along with a research department. Research department may conduct survey and analysis of different aspects of the banks along with feasibility study on branch opening. The BPMD may send letter to all business units for inviting proposal and information related with prospected branches. After collecting and compiling data from different sources, data scrutiny and analysis may be conducted by the department. The BPMD may get help and input from the research department in this regard. A list of proposed branches with assigned score considering demographic and macroeconomic aspects, business potentials, infrastructure facilities, security aspects, and geographical distribution of bank-branches is prepared by the bank. The proposed list is placed before Senior Management Team (SMT) for onward submission to the Board of Directors (BoD). Accompanied by the board resolution regarding branch opening, an application is placed to the Banking Regulation and Policy Department (BRPD) of BB for getting consent about number of branches to be opened in the coming year. Taking into account the CAMELS (Capital Adequacy, Asset Quality, Management, Earning, Liquidity and Sensitivity to Market Risk) rating of the banks and other aspects, BB issues a letter of consent indicating the number of new bank-branches. Accordingly, the BPMD select probable top-scored branches mentioning name and location from the list approved by the BoD. Subsequently, SMT and BoD approved the list of branches to be opened. Attaching justification, an application is placed before BRPD for issuing license for branches.

**Figure 3.1: A Typical Branch Opening Process of a Bank in Bangladesh**



**Source:** Based on Interview

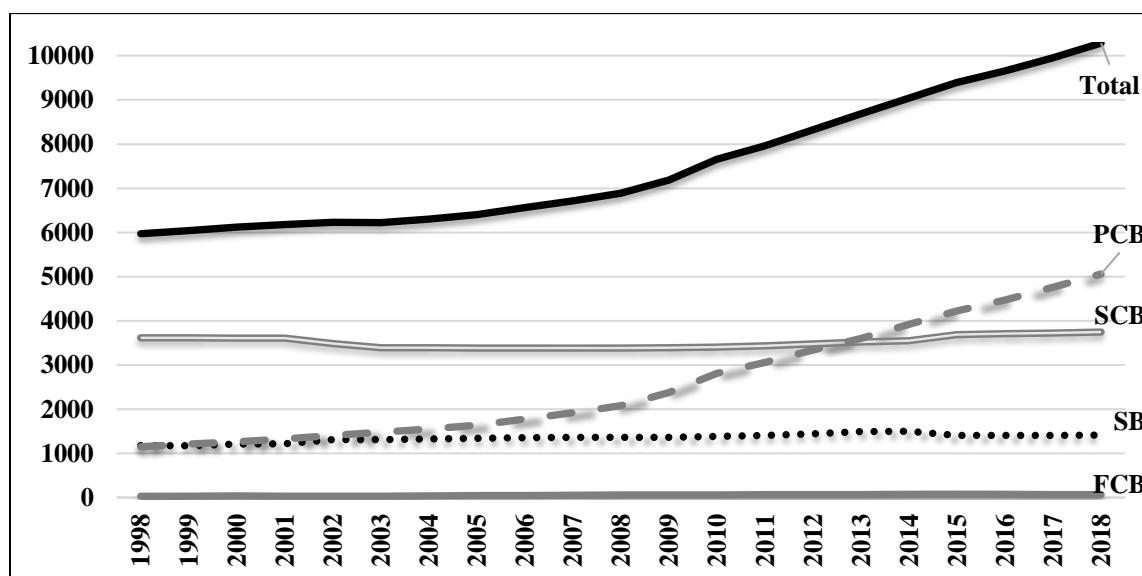
In line with the BB approval, the bank management assigns responsibilities to different units associated with branch-establishment. Along with civil works, it is required to obtain trade license for the branch from local government. After completing all preparation, the new branch starts its business operations. Bank management provides required assistance for smooth take-off and monitors the performance of newly opened branches.

#### **4. Growth, Pattern and Performance of Bank-Branches in Bangladesh**

The trend of bank-branch expansion from the year 1998 to 2018 is depicted in Figure-4.1. It is evidenced from the graph that the total number of bank branch is growing with a Compound Annual Growth Rate (CAGR) of 2.76 percent. After 2007, the pace of growth took a huge leap, especially in Private Commercial Banks (CAGR 7.69%). Meanwhile, State Owned Commercial Banks (CAGR 0.18%), Specialized Banks (CAGR 0.92%) and Foreign Commercial Banks (CAGR 4.35%) groups maintained a steady state growth in the branch expansion. In 1998, there were 3617, 1175, 1150 and 29 branches of SCB, SB,

PCB and FCB respectively. Whereas, at the end of 2018, SCB, SB, PCB and FCB have 3746, 1412, 5,060 and 68 bank-branches in Bangladesh.

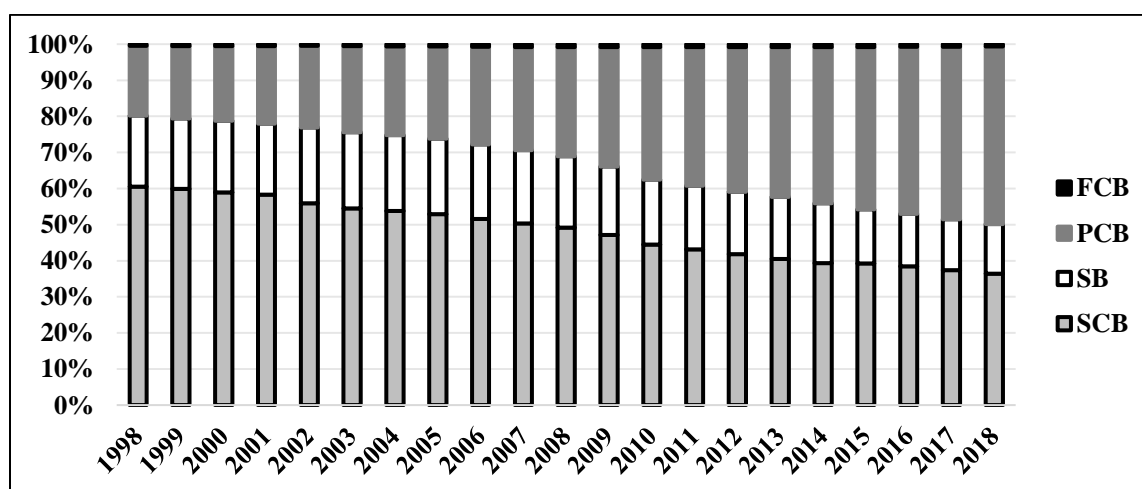
**Figure 4.1: Number of Bank Branch by Category of Banks**



Source: Scheduled Bank Statistics, Bangladesh Bank

From 1998 to 2007 SCB was in the leading position in terms of total branches (more than 50%) which is shown in the Figure-4.2. With the growth of private sector in banking sector, PCB (49.19% in 2018) gradually took the position over SCB (36.42% in 2018). In 1998 share of SCB branch to total bank branches was 60.58 percent, whereas share of SB, PCB and FCB were 19.68 percent, 19.26 percent and 0.49 percent respectively. In 2018, share of SB branch was dropped to 13.73 percent whereas FCB maintained a steady state share of 0.66 percent.

**Figure 4.2: Share of Bank Branch among Category of Banks (%)**

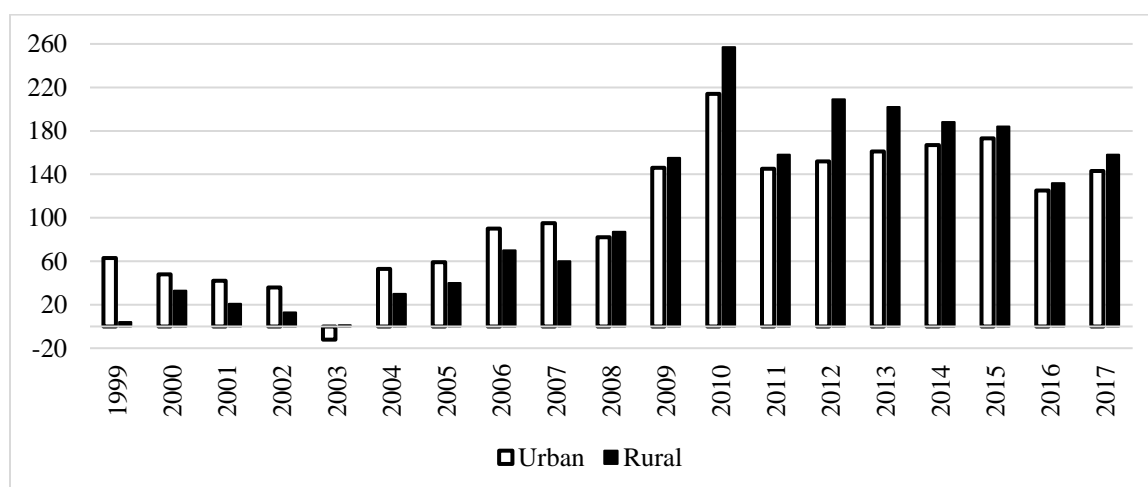


Source: Scheduled Bank Statistics, Bangladesh Bank



Figure-4.3 portrays establishment of new branches in urban and rural areas during 1999 to 2017. The banking sector experienced the highest amount of new branches setup in the year 2010. Out of 471 new branches, 214 new branches were opened in the urban area against 257 branches in rural areas in 2010.

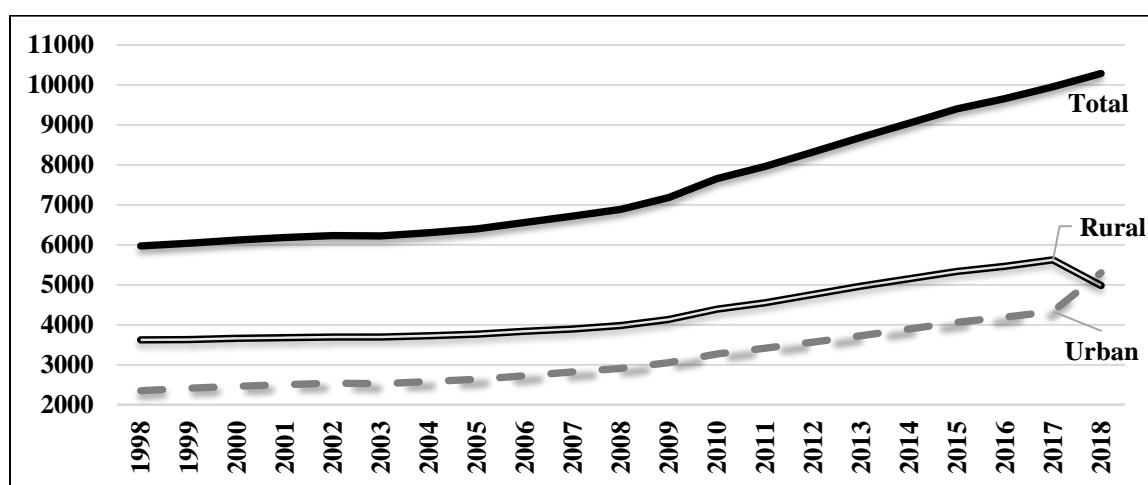
**Figure 4.3: Year- wise Establishment of New Bank Branches in Urban and Rural Areas**



Source: Scheduled Bank Statistics of BB

Figure-4.4 shows the picture of urban and rural composition of bank branch from 1998 to 2018. It is apparent that number of rural branches was dominant over the number of urban branches up to 2017. SCB and SB still maintain their precedence in rural composition of branch within their own bank category. In 1998 there were 2349 urban (39.34%) and 3622 rural (60.66%) branches in Bangladesh. There were a total number of 5971 branches in Bangladesh which reached to 10286 at the end of 2018.

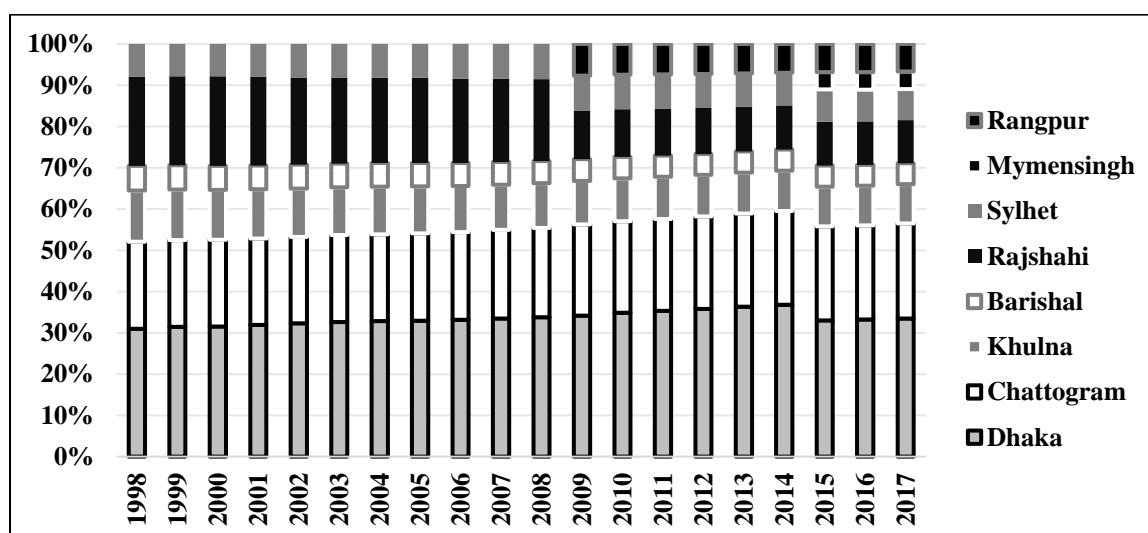
**Figure 4.4: Trend of Urban, Rural and Total Bank-Branch**



Source: Scheduled Bank Statistics, Bangladesh Bank

Figure-4.5 demonstrates that Dhaka division holds the highest percentage of total bank branch among all the divisions from 1998 to 2017. Chattogram and Rajshahi division has been holding the second and third position since 1998, even after Rajshahi division being divided into Rangpur. During the reported period the highest percentage share of branches under Dhaka division was 36.79% in year 2014.

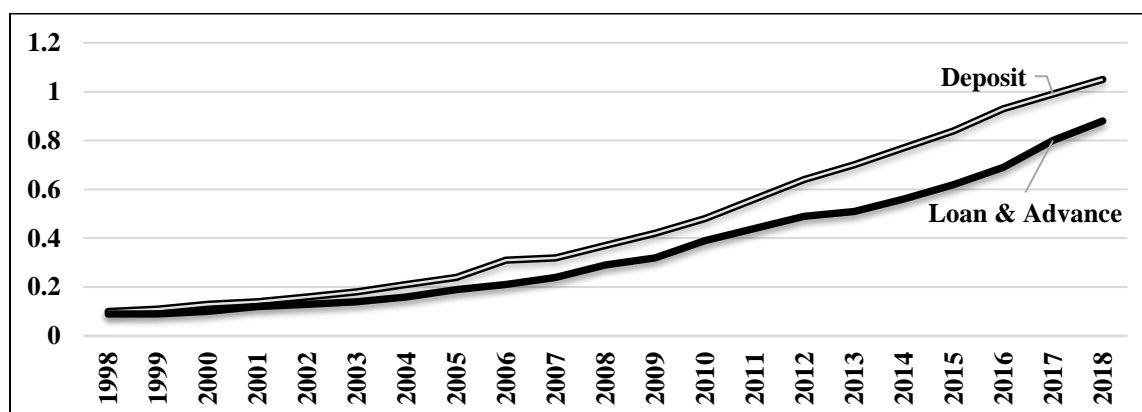
**Figure 4.5: Division-wise Distribution of Branch (%)**



Source: Scheduled Bank Statistics, Bangladesh Bank

Figure-4.6 portrays trend of deposit and loan per branch from 1998 to 2018. The gap between deposit and loan per branch was much steeper from 1998 to 2006 than that of 2006 and afterwards. In 2018, deposit per branch was BDT 1.05 billion against the loan & advance per branch of BDT 0.88 Billion.

**Figure 4.6: Trend of Deposit and Loan & Advance Per Branch (BDT billion)**

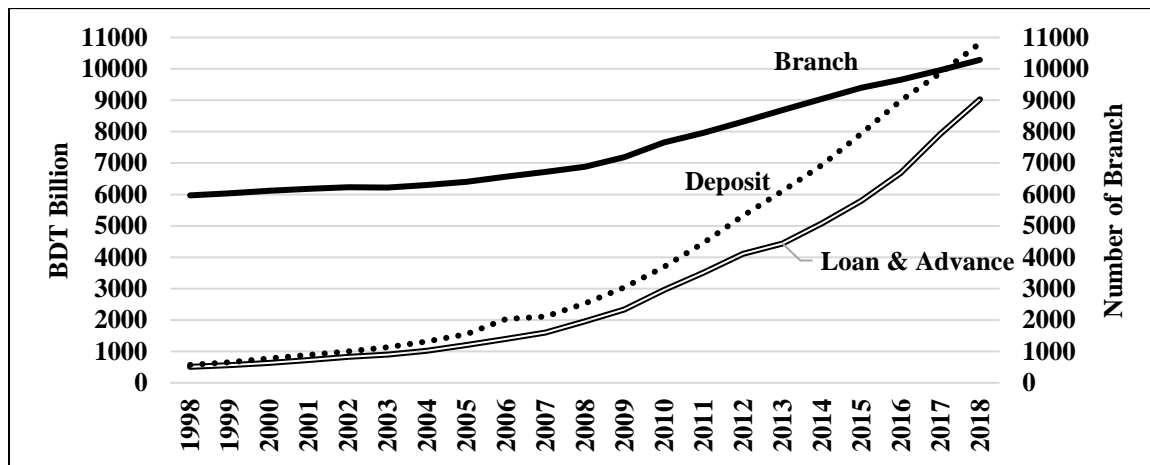


Source: Scheduled Bank Statistics, Bangladesh bank

Figure-4.7 shows the trend of deposit, loan, and number of branch from 1998 to 2018. From 1998 to 2005, a very few number of branches opened as compared to the period

during 2006- 2018. With the incorporation of new PCB's, the growth of bank branches boosted up to 10286 in 2018.

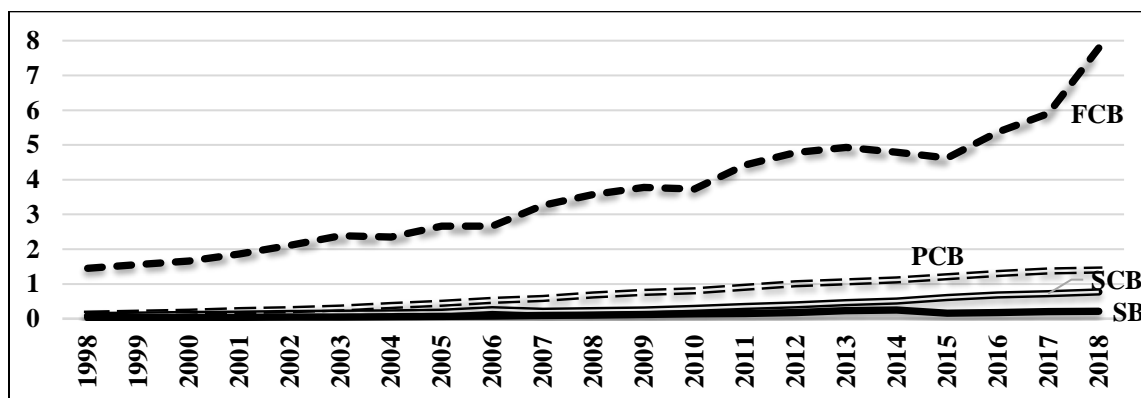
**Figure 4.7: Trend of Deposit, Loan & Advance and Number of Branch**



Source: Scheduled Bank Statistics, Bangladesh Bank

Average deposit per branch as a group is the highest in case of FCB which is reflected in the Figure-4.8. There was hardly a growth in per branch deposit of SCB from 1998 to 2014. In 2014 SCB per branch deposit was 0.25 billion BDT whereas in 2015 it was increased to 0.61 billion BDT, and then it followed an increasing trend (0.77 billion BDT in 2018). SB maintains a steady state position in per branch deposit acquisition. On the other hand, Deposit per branch in PCB maintains a steady growth.

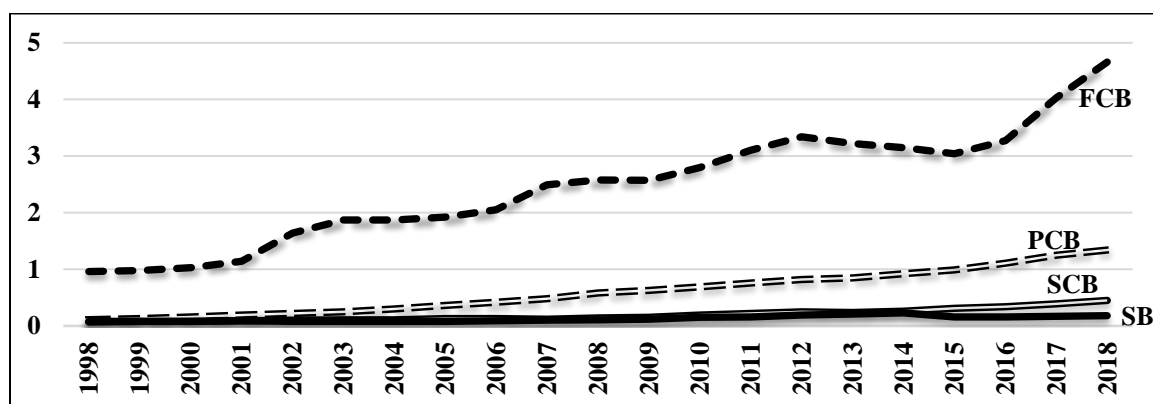
**Figure 4.8: Per Branch Deposit by Category of Banks (BDT billion)**



Source: Scheduled Bank Statistics, Bangladesh Bank

Figure-4.9 displays the average loan & advance per branch in different bank-groups. As like average deposit per branch, FCB was in the top position in creating loan & advance. PCB maintains steady growth rate in per branch loan & advance on the contrary, SCB and SB are yet to find a growth rate.

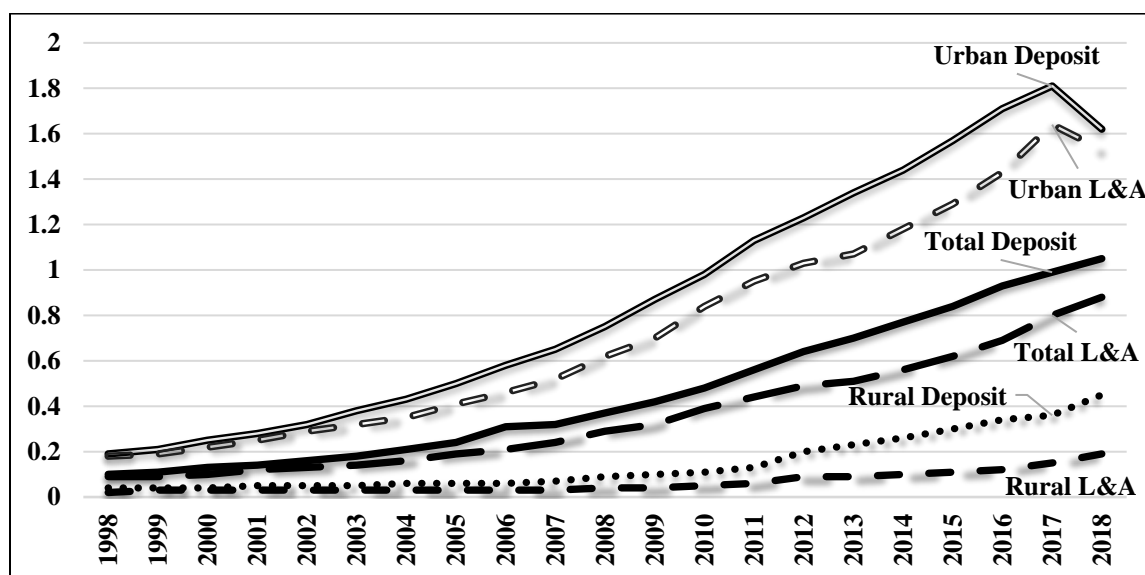
**Figure 4.9: Per Branch Loan & Advance by Category of Banks (BDT billion)**



Source: Scheduled Bank Statistics, Bangladesh Bank

Figure-4.10 shows deposit and loan & advance per branch in rural and urban area. It is clear that, banks are far behind in mobilizing deposit through rural branch and deployment of funds by these. In 2018, deposit per branch in rural areas was BDT 0.45 billion and loan & advance was BDT 0.19 billion. On the contrary, in urban areas, the respective figure of per branch deposit and loan & advance were BDT 1.62 and BDT 1.53 billion. Probably, this picture motivates bank-management to establish more urban branches instead of rural.

**Figure 4.10: Per Branch Deposit and Loan & Advance by Rural-Urban (BDT billion)**

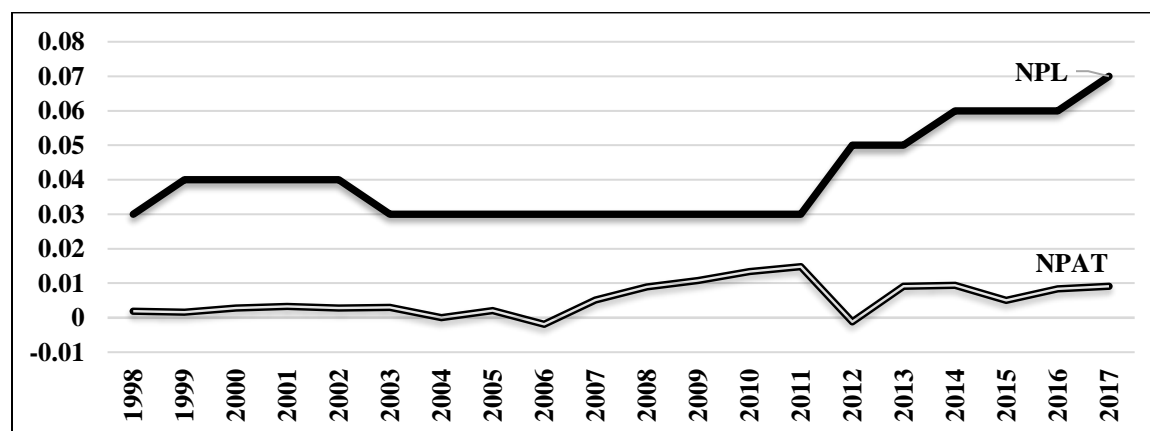


Source: Scheduled Bank Statistics, Bangladesh Bank

Figure-4.11 shows Net Profit After Tax (NPAT) and Non-performing Loan (NPL) per branch from the period 1998 to 2018. NPAT per branch shows fluctuations throughout the periods (1998-2018). Banks failed to achieve positive profit in 2006 (BDT -0.0019 billion

per branch) and 2012 (BDT -0.0012 billion per branch) as seen in the figure. In 2011 the NPAT per branch was the highest (BDT 0.014 billion). Up to 2011 NPL per branch remained mostly at the same level. However, after 2011 it made a big leap and moved to BDT 0.07 billion per branch in 2017.

**Figure 4.11: Per Branch NPAT and NPL (BDT billion)**



**Source:** 1. Annual Reports, Bangladesh Bank  
2. Monthly Economic Trends, Bangladesh Bank

## 5. Survey Findings and Discussion Outcome

### 5.1 Bank-Branch Opening Practices in Bangladesh

This section provides a vivid summary of the findings of the questionnaire survey which was conducted to collect opinions of the banks regarding new branch opening. Although questionnaire was sent to all banks, ultimately 25 banks responded within the time frame. Moreover, few banks did not answer the entire questionnaire.

#### 5.1.1 Availability of Written Policy for Branch Opening in Banks

Around three-fourth of the banks have no written policy concerning new branch opening. Having bank level written policy on a particular aspect of banking indicates the degree of formalization concerning the aspect. It is surprising to observe that only a quarter of the banks have written policy after so many years of profitable banking operations by many banks (Table-5.1).

**Table 5.1: Availability of Written Policy for Branch Opening**

Category	Response (%)
Yes	24
No	76

**Source:** Survey data

### 5.1.2 Frequency of Policy Revision

One-fourth of the banks that have written policy responded this question. Around half of the respondents opined that they revise their policy on yearly basis. (Table-5.2). Few banks express that branch expansion committee is in place that carries out the feasibility study. Survey responses reflect the informal approach on the part of the banks relating to branch opening.

**Table 5.2: Frequency of Policy Revision**

Frequency	Response (%)
Yearly	50
Bi-annually	-
Once in every 5 years	17
Others	33

Source: Survey data

### 5.1.3 Motivating Factors for Opening New Branch

Some banks are keen to open new branch almost in every year while others are reluctant to open new branch. Thus, it is really important to know the factors that motivate the banks to open new branches. According to survey data, around 96 percent banks opened new branch to facilitate customer service in a new location and around 88 percent banks opened new branch to maximize profitability (Table-5.3). Some bank also reported that they opened branch for fulfilling the dream or desire of the bank's chairman or one or more of the directors.

**Table 5.3: Motivating Factors for Opening New Branch**

Frequency	Response <sup>13</sup> (%)
Accelerating deposit collection	76
Increasing loan volume	76
Maximizing profitability	88
Facilitating customer service	96
Improving loan quality	32
<b>Other Reasons:</b>	36
<ul style="list-style-type: none"><li>▪ Political pressure to open new branch</li><li>▪ To enhance financial inclusion by bringing unbanked people under banking facilities</li><li>▪ Employment generation and economic development of target zone</li><li>▪ Country wide expansion of business area and proper customer service</li><li>▪ To increase banking network throughout the country</li></ul>	

Source: Survey data

<sup>13</sup> Multiple responses were allowed. Therefore, the sum of all the options is not expected to be equal to 100.

#### 5.1.4 Branch Opening Decision and Cost of Establishing Branch

Around a third of the banks stated that they considered the total cost of establishing a branch before taking the decision on opening a new bank branch in a certain location. In the remaining two-thirds banks, the new branch opening decision was not changed because of the high cost of establishment of the branch (Table-5.4). Though the sustainability or reaching at a break-even point by a branch largely depends on the cost of establishing branch, many banks disregard this aspect for some hidden reason.

**Table 5.4: Cost of Establishing Branch as a Decision Factor in Opening a Branch**

Category	Response (%)
Yes	32
No	68

Source: Survey data

#### 5.1.5 New Branch Location Decision

As expected, branch location decision should be undertaken based on research and field visit to avoid costly relocation or closure at a later stage. Around two-third of the respondents said that the decision was undertaken through bank's own research (Table-5.5). According to them banks' research team conducts survey, discusses with nearest branch managers and visits location, searches suitable infrastructure for housing the branch prior to the location decision. Approximately 40 percent of the banks stated that they mainly relied on the management prudence in many cases for branch opening decision.

**Table 5.5: New Branch Location Decision**

Basis of Decision	Response <sup>14</sup> (%)
Bank's Own Research	68
Hiring Research Expertise	-
Management Prudence	40
<b>Other Means</b>	12
<ul style="list-style-type: none"><li>• Decision is taken by field survey of existing nearest branch and controlling office</li><li>• Uncovered and potential areas get preference for new one</li><li>• Request from local people or businessmen</li></ul>	

Source: Survey data

#### 5.1.6 Status of Alternative Delivery Channels (ADC) in Banks

It is sometimes assumed that Alternative Delivery Channels are perfect substitute of bank branch. However, this is not always the case. Rather, sometimes bank needs to open a branch to support ADCs and sometimes needs to set up ADCs to support branches. About

<sup>14</sup> Multiple responses were allowed. Therefore, the sum of all the options is not expected to be equal to 100.

four-fifth of the banks said that there is positive correlation between ADCs and branch (Table-5.6).

**Table 5.6: Status of Alternative Delivery Channels (ADC) in Banks**

	Method of ADC	Category	Response (%)
1	Internet Banking	(a) Do not have any plan for offering internet banking facility by bank	-
		(b) Having plan for offering internet banking facility by bank in near future	28
		(c) Offering internet banking facility by bank	72
2	ATM (automated teller machine)/ CDM (Cash Deposit Machine)	(a) Do not have any plan for introducing ATM/CDM facility by bank	-
		(b) Having plan for introducing ATM/CDM facility by bank	7
		(c) Offering only ATM facility by bank	93
		(d) Offering both ATM/CDM by bank	
3	Mobile Banking	(a) Do not have any plan for offering mobile banking facility by bank	23
		(b) Having license for offering mobile banking facility but yet to start by bank	18
		(c) Offering mobile banking facility by bank	59
4	Agent Banking	(a) Do not have any plan for offering agent banking facility by bank	33
		(b) Having license for offering agent banking facility but yet to start by bank	29
		(c) Offering agent banking facility by bank	38
5	What is your opinion regarding relationship between expansion of ADCs and branch growth of banks	(a) There is no correlation between expansion of ADCs and branch network (Independent from each other)	17
		(b) There is a positive correlation between ADC and Branch network (requirements of ADCs will increase due to increase of branches of a bank)	79
		(c) There is a negative correlation between ADC and Branch network (requirements of opening new branches will decrease ADCs will increase due to increase of branches of a bank)	4

Source: Survey data

### **5.1.7 Closure or Relocation of Branches**

About 88 percent of the banks had to relocate their branch in the last five years. According to the survey data, 593 branches were relocated by the 25 banks in the last five years though



none was closed. Since getting branch license is subject to approval from Bangladesh Bank, branches once opened, are rarely closed. Rather these are relocated to suitable location that facilitates better customer service and ensures better visibility. Banks cited the reasons of relocation of the branches which are summarized in the Table-5.7.

**Table 5.7: Closure or Relocation of Branches**

Category	Response (%)
Yes	88
No	12
<b>Number of Branches Closed or Relocated</b>	
Number of Branches Closed	-
Number of Branches Relocated	593
<b>Reasons of Relocation of Branches:</b>	
<ul style="list-style-type: none"> <li>▪ Several branches were located in one small area and thus, relocated to avoid concentration</li> <li>▪ Better visibility, premises, customer access and overall business acquisition</li> <li>▪ Business importance of the area had been lost</li> <li>▪ To avoid the river erosion area</li> <li>▪ The branch building was in risky condition after earthquake</li> <li>▪ Relocated or moved to spacious and modern facilities</li> <li>▪ High rental cost</li> <li>▪ Better customer service and procurement of business</li> <li>▪ <u>Unwillingness of landlord to renew agreement</u></li> </ul>	

Source: Survey data

### **5.1.8 Support Facilities Given by Head Office to a Newly Opened Branch**

A newly opened branch, for survival and success, may require continuous support for the first few months after its opening. These services are generally offered by the head office to the branches at the time of opening of the branch and few months immediately after opening. A range of these supports as reported by the banks are summarized in the Box-5.1.

#### **Box 5.1: Support Facilities Given by Head Office to a Newly Opened Branch**

- House Rent Agreement with Landlord
- Construction of strong room and placement of vault
- Construction of manager chamber and cash counter
- Interior decoration and furnishing
- Obtaining branch license, routing number and SBS code from BB
- Logistics<sup>15</sup>.

<sup>15</sup> Furniture, Decoration, Electrical Fittings, Air conditioning, CCTV, Landline, IP Phone, Vault security and Fire Extinguisher, and Generator

- IT related support <sup>16</sup>
- Electrical equipment supply
- Posting experienced manpower
- Printing and stationary supply
- Preparing branch signboard
- Advertisement in local and national dailies
- Cash remittance and feeding facilities.
- Supplying various banking manuals, guidelines, forms, instructions
- Obtaining insurance of vault
- Staff training
- Realistic business plan and budget
- Safety and security arrangements

Source: Survey data

### 5.1.9 Branch Concentration

Bank branch concentration is a common reality across the country. Availability of bankable customers, number of business firms and business growth potentials matter in case of opening a new branch. If there is any unserved banking need in the area and no other alternative suitable building available to house a branch, there is no harm in opening more than one in a single building. However, there are arguments against branch concentration as excessive concentration leads to many problems. Around 44 percent banks reported that concentration is a problem while another 56 percent banks stated that concentration is not the main problem (Table-5.8).

**Table 5.8: Branch Concentration**

Category	Response (%)
Yes	44
No	56
<b><u>Arguments in favor of ‘Yes’:</u></b>	
<ul style="list-style-type: none"> <li>▪ Due to branches of multiple banks being located at the same building or in one small area, high competition results. When many bank branches approach the same customer, customer become powerful. Bank branches engage in offering higher loan limits with the same business profile and cut interest rate below cost. This leads to unhealthy competition among branches and it is not good for sound banking.</li> </ul>	
<b><u>Arguments in favor of ‘No’:</u></b>	
<ul style="list-style-type: none"> <li>▪ Bank branches are different in terms of business strategy, brand image, service quality and real-time online facilities. Business potentiality in the location matters for</li> </ul>	

<sup>16</sup> Computers, Software, LAN, Network Connectivity and Accessories

the success of a branch. Moreover, the branch concentration problem can be minimized by rigorous marketing efforts and by service differentiation.

- Branch concentration is not always a problem rather indicates that the area has business and banking potentiality.
- Concentration leads to healthy competition among the bank branches which reduces cost and improves service quality. It is good for the clients as well.
- It is a common reality across the country. So, banks have to accept it and make its own footing with customized service, sensible pricing etc.
- Concentration not only creates competition but also creates prospect for growth.

**Source:** Survey data

#### ***5.1.10 Departments Engaged in Opening New Branch.***

New branch opening function is facilitated by several departments or division of banks. Box-5.2 summarizes the name of the departments whose support is needed for opening a new branch or making a newly opened branch operationally effective. The name of these departments varies from bank to bank.

#### **Box 5.2: Departments Engaged in Opening New Branch**

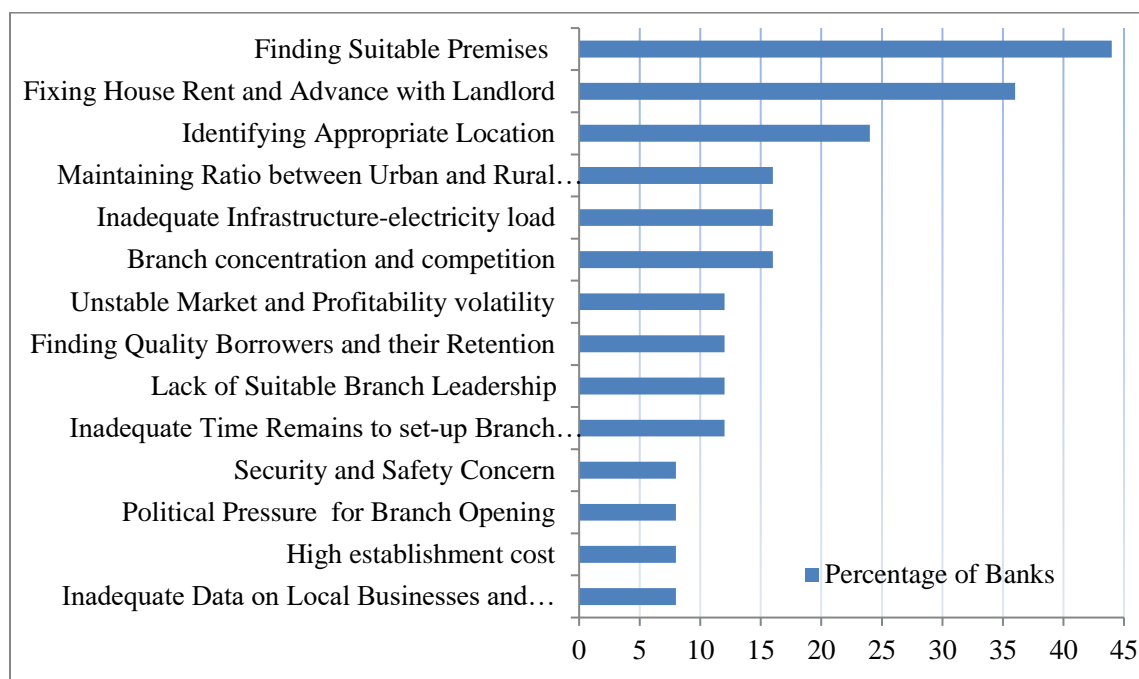
Name of Departments	
<ul style="list-style-type: none"> <li>• Branches Operations and Control Division</li> <li>• Establishment and Engineering Division</li> <li>• General Service Division</li> <li>• Information Technology Division</li> <li>• Human Resources Management Division</li> <li>• Planning co-ordination and Marketing Division</li> <li>• Planning and Research Division</li> <li>• Remittance Division</li> <li>• Department of Statistics and Research</li> <li>• Department of Reconciliation</li> <li>• Legal Department and Regulatory Affairs Division</li> </ul>	<ul style="list-style-type: none"> <li>• Financial Administration Division</li> <li>• Property Management Division</li> <li>• Branding and Communication Division</li> <li>• Card Division</li> <li>• Operations Division</li> <li>• Public Relation Division</li> <li>• Corporate Affairs and CSR Division</li> <li>• Facilities Management Division</li> <li>• Retail Banking and SME</li> <li>• Internal Control and Compliance Division</li> <li>• Logistic Support Division (LSD)</li> <li>• Alternative Delivery Channels (ADC)</li> <li>• Business Promotion and Marketing Department</li> </ul>

**Source:** Survey data

### 5.1.11 Challenges in Opening New Branch

Finding suitable premises to house the branch is the most commonly faced challenge as opined by 44 percent respondents (Figure-5.1). Sometimes banks face difficulty in arranging safe and stable electricity load capacity in otherwise acceptable premises. Around one third of the banks mentioned that they faced hardship in fixing house rent and advance with landlord. Among other challenges are appropriate location, branch concentration, lack of suitable branch leadership, and political pressure .

**Figure 5.1: Challenges in Branch Opening**



Source: Survey data

## 5.2 Summary of Discussion Outcome

The research team has made interactions with executives holding top management posts, executives working in Business Promotion and Marketing Department (BPMD), General Services Department (GSD), Branch Operation Department (BOD), Internal Control and Compliance Department (ICCD), branch level executives for getting insight about the matter. Moreover, discussions have been made with the executives of Bangladesh Bank. The discussion covered different issues like policy, process and strategy in relation with branch-opening. Moreover, respondents have described some problems and challenges along with few recommendations to make the branch opening process more effective.

### 5.2.1 Executives of Bangladesh Bank

Mostly, Banking Regulation and Policy Department (BRPD) of BB is associated with analysis of banks' proposal for issuing permission of opening new bank-branches in

Bangladesh. After liberation of Bangladesh, there was no restriction on opening new branches in the country. Subsequently, BB has imposed some restrictions or conditions considering improper practices in banking industry in opening new branch or shifting an existing one. Along with some published regulations, BB has some internal policies for allowing banks to open new branches. Ensuring financial inclusion through proper distribution of branches as well as banking services is one of the crucial factors considered by BB in permitting new branches. Moreover, governance system, management strategies, financial soundness and market perception are also considered by the supervisor. In line with this, overall CAMELS rating, capital position, non-performing loans, banking scam and rationality of spread are considered by BB in giving permission for new branches. Now-a-days, BB is more flexible in extending alternative approaches of banking channel instead of branch like banking booth, agent banking.

For extending Islamic banking license to the conventional banks, BB considers concerned banks' preparedness regarding implementation of Shari'ah. In this regard, BB expects that banks will train-up their human resources for providing efficient delivery of Islamic banking products/services, develop separate accounting system, commitment for developing suitable infrastructure, establishment of an Islamic banking division at head office level, and formation of a Shari'ah Supervisory Committee with prerequisite knowledge.

#### ***5.2.2 Top Executives of Scheduled Banks***

In Bangladesh a large number of people are still unbanked. As per the perceptions of top executives of banks, Bangladesh demands more branches than they are now at present. Most of the chief executives opine that expected number of branches of a bank depends on several factors. The bank having centralized system may prefer less number of branches as compared to a bank with decentralized system. With the expansion of alternative delivery channel of banking, requirements of opening more branches may decline. However, a local commercial bank may think to establish at least one branch in every district of Bangladesh for providing support to Upazila level. Upazila level may be covered through SME and Agri-branches and banking booths. Agent banking points may be distributed in such a way that they will cover municipalities and Union Parishads level. A bank may prepare a long-term plan for ensuring its presence all over the country. However, bank-management should also enhance the capacity and service quality of the established branches along with the quantity. Top executives suggest that BB may critically evaluate distribution of branches over the country before extending permission of new branches. They think that BB will allow banks to fix the floor space of a branch considering number of accounts, assets size, types of services provided through the branch, and nature and status of the customer. It is also recommended by the Chief Executive Officers (CEO) that concerned

banks and regulator will set-up a master plan for obtaining/granting permission for alternative delivery channels before experiencing high concentration in few locations. The managements of conventional banks also expect more support and cooperation from central bank in expanding Islamic banking services across the country.

### ***5.2.3 Bank Executives Working in BPMD, GSD, R&D and ICCD***

Some of the banks have established Research and Development (R&D) unit deploying equipped resources. Along with other activities, the unit conducts survey and analysis for identifying suitable location for opening new branches. The R&D may place recommendations to concern department and top management in this regard. BPMD, GSD and/or BOD works in preparing plan for opening new branch in the coming year, seeking approval from competent authority and implementing the same round the year. Considering business potentials, demography of locality, behavioral pattern of the residents, communication system, and law and order situation, some of the banks prepare a list of the proposed branches with assigned rank. Generally, BB does not ask to change location or reject proposal in connection with wrong selection. Banks may need to relocate an established branch. However, it is very rare for relocation of a branch because of poor performance. For national interest, BB may offer bank management to open branch in a specific location. It is not very hard to find that some branches have been opened considering some non-economic factors. Bank executives believe that a specific branch may not be able to show profit but the branch may add value to other branches in different ways. Most of the executives are in favor of selecting the site where branches of other banks already have. Executives of ICCD perceive that some fraudulent deposit or loan accounts may be created in new branches due to aggressive marketing. Therefore, ICCD tries to include all new branches within the audit coverage of next year.

### ***5.2.4 Executives Charged with New Branches***

Taking charge of a new branch for an executive is a great challenge. However, there is an ample opportunity for getting reward if the new branch takes-off successfully. Successful starting depends on surrounding business environment, strategy of the bank, deployment of an efficient team, internal banking atmosphere of the branch. Nonetheless, interpersonal skill of the branch incumbent is very crucial for creating a customer base. Branch managers urge that top management would consider the reality in appraising of a newly established branch. It is observed that generally, a new branch becomes profitable from the second year of operation.

### 5.3 Opening New Bank-Branch: Few Cases

#### Case 1: Turned into Success by Dynamic Decision

XYZ bank, a leading first generation private commercial bank, opened a new branch in the month of August, 2013 at Dumni in Purbachal area by incurring an initial cost of Taka 8 million. The branch is located near the 300-feet Boshundhara road, Dhaka. It was established initially targeting the customers of the proposed Purbachal New Town project. The bank thought that the new localities would be developed very soon and the branch would be able to get some loyal customers as an early established branch. However, the town did not develop as quickly as it was expected. The then dynamic branch leadership targeted the local recipients of land acquisition price for deposit collection. Fortunately, land acquisition office was processing documents for making payment to the local sellers. Bank worked hard to catch the prospective recipients. Bank had a locally recruited employee who greatly helped to identify the recipients. In this way, the bank was able to collect a lot of funds within the shortest possible time. Key financial indicators of the branch was as under-

Indicators (Amount in million taka)	December, 2014	December 2018	CAGR (%)
No. of employees	8	10	5.74
Deposit Amount	180	1200	60.69
Total Assets	188	1100	55.53
Loan Amount	10	330	139.68
Profit Amount	0.8	36	159.00
Non-performing loan	0.25	0.25	0

Source: Branch survey data

Bank successfully exceeded profit target in almost all the years since inception except in the year 2018 in which profit target was unusually high. In the said year, branch earned a total profit of taka 36 million against a target of Taka 50 million.

Among the success factors, proximity to economic activity, experienced branch leadership, local employee, successful marketing were mentionable. On the contrary, branch activity was badly affected by the lack of bankable clients. Particularly clients' ignorance about the importance of documentation adversely affected the proliferation of the loan portfolio of the branch. Bank was unable to give loan initially to the existing small business borrowers due to unavailability of the trade license and other basic documents. As such, branch leadership then gave loan to the MFIs and the MFIs' disbursed loan to the businesses. However, it was not much profitable for the branch. Branch leadership then focused on giving personal loan to the officials of the adjacent Dhaka city. At the end of 2018, bank had almost 400 personal loan account with outstanding amount of loan BDT 330 Million.

## **Case 2: Closing of Branch of FCB**

ABC bank, a multinational bank with presence in 26 countries, has been operating in Bangladesh with a few branches. The bank opened a new branch in October 2013 at Naya Bazar area in old Dhaka near English Road crossing. The location was very good from business point of view. Bank was happy to open a branch over there. Branch opening event was preceded by due financial analysis and projection activities which were done by the branch operations department of the bank.

In the subsequent two years, in 2014 and 2015, branch booked a good number of customers. Bank's balance sheet grew to almost 1000 million within the said two years and three months. Branch was expecting profit from the year 2016. Bank, at that point of time, was complying with the local regulators and head office requirements only. However, when other banks were fined by USA authorities on money laundering ground and compliance was globally emphasized, the bank learned a lesson and decided to comply global anti-money laundering norms very meticulously. In 2016, bank adopted global standards of anti-money laundering compliance.

As part of the rigid compliance of the global money laundering regulations, the Naya Bazar Branch asked its customers to provide a lot of compliance related documents. These documents include TIN, income tax return, audited financial statements and others. Family based limited companies that constitute a large part of the branch portfolio were reluctant to comply initially. A few customers submitted statements to the branch as per requirement. However, the branch found mismatch between the volume of business activities and the figures shown in the return. Customers mostly failed to comply despite the all-out effort of the branch. The branch eventually lost some of its big customers on the compliance ground to the local competitors. Moreover, supply of compliant fund was limited and, thus, cost of fund was high.

In this way branch's cost of doing banking business increased manifold compared to local bank branches because of adoption of high level of compliance standard. Therefore, branch was unable to compete with local bank branches that mostly have lax compliance standards. Gradually, branch closed many accounts of the non-compliant customers. Deposit accounts, those retained, were shifted to nearest branch of the bank. Branch incurred unexpected losses in the year 2017 and part of the year 2018. The branch was ultimately closed in June 2018.



### **Case 3: Lack of Prudent Prediction**

PQR bank, a leading first generation private commercial bank, opened a new branch in 2012 at Munshi Para area of Dinajpur City. The area is very popular for the rice mills. Branch location was rightly chosen in the area. Branch immediately booked amount of deposit and loans that enabled the branch to earn BDT 1 crore profit in the first year of opening.

The banking sector of the country was then suffering from liquidity crisis and the deposit interest rate was very high compared to the rates available now. The PQR bank was also suffering from the liquidity problem. Bank's cost of fund was high. Deposit rate was as high as 13 percent. At that point in time, the said branch was mainly opened as a remedy to the liquidity problem of the bank. Bank had a deposit double product, the costliest and the longest maturity deposit product of the bank, which was very popular among the depositors.

Newly opened branch heavily booked a lot of long-term and the costliest deposits by offering Deposit Double Product. Branch used to give loan at 17% at that time. Moreover, the branch used to transfer the surplus fund to the head office at a transfer price slightly higher than bank's costliest deposit product price of 13%. Therefore, the branch was happy and the bank's head office suffering from liquidity stress was happy too. However, soon after the mid of the year 2013 and later the market deposit interest rate fell and the head office also reduced deposit interest rate. Loan products of the branch were re-priced downward almost immediately to retain the borrowers. Branch, however, was unable to re-price deposits as the deposits were booked for five years. Additionally, the branch used to get fund transfer price lower than cost of fund from the head office. As a result, branch incurred loss in the year 2013. For the same reason, the branch's loss continued up to the year 2015. Then again from the year 2016, the branch started booking profit. In 2018, branch reported BDT 60 lacs profit. Branch now also suffers from NPL which is around 4 person.

The factors that led to the loss were inexperienced branch manager (who was credit expert but not equipped with liability management lessons), inability of the bank to predict future interest rate movement, booking high-cost long-term funds.

### **Case 4: Efficient Branch Incumbent**

MNO Bank Ltd, a leading second generation Islamic private commercial bank, opened a new branch in 2012 at Kushtia City. The branch immediately booked good amount of deposit and loans in the first few days of the opening. The banking sector of the country was then suffering from liquidity crisis and the deposit interest rate was very high compared to the rates available now. But the manager was aware about the cost of fund

from the very beginning and he used to open a savings account first before opening an FDR.

In the first year of starting, the branch was able to earn BDT 1.5 Million profit thanks to the BDT 5 million loans created within few months. Branch-deposit was about BDT 12 million at the end of the first year. The bank focused on the retail and SME clients since the beginning for collecting deposit and also for giving loan. The branch was located near a well-established school. The branch banked on the school funds and happily served the need of the school.

<b>Indicators (Amount in million taka)</b>	<b>2012</b>	<b>2015</b>	<b>CAGR (%)</b>
No. of employees	6	10	13.62
Deposit Amount	12	30	25.74
Loan Amount	5	51	78.71
Profit Amount	1.5	17	83.48

**Source:** Branch survey data

Gradually, the branch experienced faster growth in their loan amount compared to deposit portfolio. Compound Annual Growth Rate (CAGR) of the branch's loan portfolio in the period between 2012 to 2015 was 78.71 percent. Consequently, the branch's profit also grew by 83.48 percent in the said period. Now the branch's loan portfolio is much higher than the deposit portfolio and is dependent on the head office for fund.

The factors that led to the success were experienced branch manager, initial good marketing in the local area, using personal familiarity and influence to hunt business, awareness about managing cost of fund, and providing quality service.

### **Case 5: Irrational Target**

HRB Bank Ltd., a leading fourth generation private commercial bank, opened a new branch at Chawkbazar area of old Dhaka as on January 24, 2016. Branch location was rightly chosen in a business hub of the old Dhaka. Initially the branch focused on deposit collection particularly the retail deposits to keep the cost of deposit low. The banking sector of the country was then suffering from shortages of liquidity. Head office also encouraged the branch to collect deposit by setting the transfer price slightly above the cost of fund of the branch. At the end of the first year, the amount of deposit collection was BDT 130 million which was only 30 percent of the ambitious target set by the head office. However, the branch was quite successful in collecting many small deposits. At the end of 2018, number of deposit of the branch reached to BDT 998 million from only BDT 300 million in 2016.

Indicators (Amount in million taka)	2016		2017		2018	
	Budget	Actual	Budget	Actual	Budget	Actual
Employees	6		9		8	
Number of deposit Account	300		862		998	
Deposit	440	130	360	176	420	220
Achievement of Budget	30%		49%		52%	
Number of loan Account	2		22		23	
Loan	54	5	625	104	380	182
Achievement of Budget	9%		17%		48%	
Profit (Loss)	(8.14) <sup>17</sup>		2.30		4.7	

Source: Branch survey data

At the end of 2016, the branch had only 2 loan account with outstanding balance BDT 5 Million and it grew to 23 loan accounts with outstanding balance of BDT 183 Million in 2018. In the first two years, the loan was satisfactory. However, the branch achieved 48 percent of the loan target in 2018.

As a result, the branch incurred loss of BDT 8.14 Million in the year 2016. Then again from the year 2017, the branch started booking profit. In 2018 branch reported BDT 4.7 million in profits.

Lack of branches around the country, experienced human resources and acute competition led to the existing condition of the branch. Besides branch leadership was overly focused on the deposit collection rather than on the creation of loan.

## 6. Observations and Recommendation

The network of branches kept on expanding continuously by the banking industry of Bangladesh through opening bank branches at a regular interval. The study finds out some gap between the ideal process and actual practices followed by banks in planning for and establishing new branches. A number of such imperfectness and some other related observations along with recommendations are presented below.

### 6.1 Branch Concentration and Competition

Bank branch concentration is a reality across the country. In some areas, one building accommodates few branches that results in high branch concentration. When branch concentration leads to unhealthy competition costly branch relocation becomes the only alternative. So, the banks should be more careful in selecting the location of new bank branch.

<sup>17</sup> Amount in the parenthesis represents loss.

## **6.2 Decision about Location**

Site selection is one major decision for the new branch. Ideally, a bank's decision to open a branch should be based on identifying a profitable business area. So, the availability of the suitable location should determine the number of new branch for a bank. But, the study found the other way round i.e. 'number first then the location' principle guided the branch opening environment. Banks first get approval of the number of new branches and then they apply for the permission for the locations. Site selection process will be more strengthened if the banks are asked to perform a detailed site selection procedure and attach that along with the application for opening bank-branch at the time of submission to the Bangladesh Bank. From the macroeconomic point of view, the network of the bank-branches should be geographically as diversified and evenly distributed as possible keeping in mind the viability of the branches for promoting financial inclusion and reducing rural-urban disparity. In this regard, having a geographic mapping of branches through developing 'Bank Branch Apps' will be useful for the regulatory body to examine the suitability of the proposed location of the branch. The Bank Branch Apps may include the locations of all business centers of the banks such as branch, ATM booth, banking booth, and agent outlets.

## **6.3 Finding Suitable Premises**

Finding suitable premises is becoming increasingly difficult, particularly in the rural areas. There are quite a few issues connected to this problem. Among these issues, electricity load capacity of the buildings, security, house rent, and the amount paid in advance are considered as main hurdles. Sometimes, suitable buildings are found in an area where there is less business opportunity. These obstacles lead to delay in branch opening function which is costly. The banks, thus, should consider both the location and the premise at the same time while opening a new branch.

## **6.4 Maintaining Ratio between Urban and Rural Branch**

As per the current regulatory framework, banks are required to open one urban branch against a rural one. As many Upazilla headquarters located far from the city are defined as urban areas, banks establish a branch in remote rural areas to maintain the rural-urban mix. Thus, banking services are not reaching at the Upazilla headquarters to the expected level. This may lead to a situation in which significant banking need of people living in Upazilla headquarters remain unaddressed while the insignificant banking need of the villages are being attempted to be addressed. In addition, economic activities of the village areas are still insufficient to support a branch of a traditional bank. In this situation, the regulatory definition may be revised for better positioning of new bank branch.

### **6.5 Setting Business Target**

It is understandable that the banks will set a business target for the new branch. Observation shows that banks generally set their deposit, loan, and profit target without any underlying objective and quantitative analysis by taking into account the local business potentials, presence of other branches, future growth prospects, cultural and social traits of the location, and capacity of the bank. In fact, the widely accepted perception among the bankers is that the profit target of the new branch is set on the basis of the performance of other relatively newly opened branches. But due to the difference in business environment, profit target turns out to be unrealistic in many instances, and thus, puts extra pressure on the management. Usually, the banks plan to bring the new branch into a profitable one just after one year of operation. This is perhaps, too short a period to be justified for a new branch. What is important for any branch is to ensure smooth and stable growth in the long run that is not necessarily achieved by just first year's profit. So, the bank management should apply more prudence and long-term view in setting the profit target for a new branch.

### **6.6 Pre-operation Planning and the Quality of Human Resource**

Information and understanding about the people, business, and opinion of the competing bank branches are vital for the success of the new branch at least in the initial period. Branch management also needs to visit the businesses and meet the potential customers to attain the business target. Thus, it pays to select the new branch employee well ahead of launching the operation and allow them to stay in the proposed area to get insight about the locality before starting the operation. The study finds from the discussion with the new branch management that people care about the attitude of the branch official towards them in providing services. So, apart from the pricing of the product that remains beyond the control of the branch, skill and behavior of the employee turns out to be the significant success factor for a new branch. A bank, thus, should consider the soft skill of the employees for appointment in the new branch.

### **6.7 Strong R&D Division**

Any sort of business expansion requires sound planning and prediction utilizing all available information. The quality of decision to expand branch network improves if it is supported by the analysis of the location profile in terms of nature of business activity, banking habit of the people, the opinion of the banks operating in the proposed area and the recent performance of the branches. All these pre-launching analysis is better performed if there is a dedicated Research and Development Division in a bank. But, with few exceptions, there is a dearth of effective and well-equipped R&D units in terms of skilled manpower. Due importance should be given by the management to establish linkage between R&D and strategic decision in our banking sector. So, a full-fledged Research and

Development Department is required for all banks to ensure the thorough analysis required for determining optimal number of new branches and locating the best possible site of branches.

The banking sector of Bangladesh has, so far, experienced a persistent growth in terms of geographic and demographic coverage of financial services. Financial inclusion drive of the banks led by Bangladesh bank has made it possible for major segments of the people to bring under the banking service network. All major geographical locations are well covered by banking network. Widespread use of alternative delivery channel is adding significant value in the financial service industry. In this backdrop, quality of the opening decision and operation will matter much more than the number of branch in the future. The number of bank branches is increasing steadily in the banking sector of Bangladesh and is expected to be continued in the near future. But the study identifies some gap between the best practice and reality. The study also discovered some areas of improvement in taking a branch opening decision prudently. Banks' understanding about the depositors' and borrowers' preference is vital for smooth growth of the business. Knowledge generated through dealings with the depositors and borrowers provides useful learning about the environment in which a bank operates. Enhancement of bank's internal capacity to generate and utilize branch-opening related information and the quality of human resources will largely determine the success of any business expansion activity like opening a new bank branch.

### Reference

- Abbasi, G.Y. (2003), "A Decision Support System for Bank Location Selection", *International Journal of Computer Applications in Technology*, Vol. 16, pp. 202–210.
- Aguirregabiria, V., R. Clark and H. Wang (2016), "Diversification of Geographic Risk in Retail Bank Networks: Evidence from Bank Expansion after the Riegle-Neal Act", *RAND, Journal of Economics*, Vol. 47, No. 3, Fall 2016, pp. 529–572.
- Bangladesh Bank, *Annual Reports* Various Issues.
- Bangladesh Bank, *BRPD Circulars*.
- Bangladesh Bank, *Economic Trends*, Various Issues.
- Bangladesh Bank, *Scheduled Bank Statistics*, Various Issues.
- Barros, P. (1995), "Post-entry Expansion in Banking: the Case of Portugal", *International Journal of Industrial Organization*, Vol. 13, pp. 593–611.

- Barros, P. (1999), “Multimarket Competition in Banking with an Example from the Case of Portuguese Market”, *International Journal of Industrial Organization* Vol. 17, pp. 335–352.
- Berg, S.A. and M. Kim (1994), “Oligopolistic Interdependence and the Structure of Production in Banking: an Empirical Evaluation”, *Journal of Money, Credit, and Banking* Vol. 26, pp. 309–322.
- Berg, S.A. and M. Kim (1998) “Banks as Multioutput Oligopolies: An Empirical Evaluation of the Retail and Corporate Banking Markets”, *Journal of Money, Credit, and Banking*, Vol. 30, 135–153.
- Boufounou, P.V. (1995), “Evaluating Bank Branch Location and Performance: A Case Study”, *European Journal of Operational Research*, Vol. 87, pp. 389–402.
- Cabello, J. G. (2017), “A Decision Model for Bank Branch Site Selection: Define Branch Success and do not Deviate”, *Socio-Economic Planning Sciences* xxx, pp. 1–10.
- Cabral, L., R. Majure (1994), “An Empirical Analysis of Bank Branching: Portugal 1989–1991. In: Neven, D., Roller, L. (Eds.), *The Empirical Analysis of Industrial Organization*. CEPR, London.
- CALOMIRIS, C. *U.S. Bank Deregulation in Historical Perspective*. Cambridge, UK: Cambridge University Press, 2000.
- Cerasi, V. (1995), “A Model of Retail Banking Competition”, *London School of Economics*, Mimeo.
- Cerasi, V., B. Chizzolini and M. Ivaldi (1997), “The Impact of Deregulation on Branching and Entry Costs in the Banking Industry”, *Universita’ Bocconi, Milano, Working Paper 117*.
- Cinar, N. (2009), “A Decision Support Model for Bank Branch Location Selection”, *World Academy of Science, Engineering & Technology*, Vol. 60, pp. 126–131.
- Degryse, H. (1996), “On the Interaction between Vertical and Horizontal Product Differentiation: An Application to Banking”, *Journal of Industrial Economics*, Vol. 44, pp. 169–186.
- Demsetz R.S. and P.E. Strahan (1997), “Diversificaion, Size and Risk at Bank Holding Companies”, *Journal of Money, Credit, and Banking*, Vol. 29, pp. 300–313.
- Jayaratne, J. and P.E. Strahan (1996), “The Finance-growth Nexus: Evidence from Bank Branch Deregulation”, *Quarterly Journal of Economics* Vol. 111, pp. 639–670.
- Kim, M. and B. Vale (2000), “Non-price Strategic Behavior: the Case of Bank Branches”, *International Journal of Industrial Organization*, Vol. 19, pp. 1583–1602.

Matutes, C. and A. Padilla (1994), “Shared ATM Networks and Banking Competition”, *European Economic Review*, Vol. 38, pp. 1113–1138.

Ministry of Finance. আর্থিক প্রতিষ্ঠানের প্রতিবেদনসমূহ. Various Issues.

Nam, S. and P.N. Ellinger (2008), “Branch Expansion of Commercial Banks in Rural America”, *American Agricultural Economics Association Annual Meeting*, Orlando, FL, July 27-July 29, 2008

Nathan, A. and E.H. Neave (1989), “Competition and Contestability in Canada’s Financial System: Empirical Results”, *Canadian Journal of Economics* Vol. 22, pp. 576–594.

Salop, S. (1979), “Monopolistic Competition with Outside Goods”, *Bell Journal of Economics*, Vol. 10, pp. 141–156.

Shaffer, S. (1993), “A Test of Competition in Canadian Banking. *Journal of Money, Credit and Banking*, Vol. 25, pp. 49–61.

Shiers, A.F. (2002), “Branch Banking, Economic Diversity and Bank Risk”, *The Quarterly Review of Economic and Finance*, Vol. 42, pp. 587-598

## Appendix I

### Bangladesh Institute of Bank Management (BIBM)

Mirpur-2, Dhaka-1216

### Research Project on

### Opening New Branches of Banks: Rationality and Reality

### Questionnaire

1. Name of the Bank :
2. Year of Establishment :
3. Branch Composition and Profitability :

Particulars	December 31, 2018			June 30, 2019		
	Profitable	Losing	Total	Profitable	Losing	Total
Number of Urban Branch						
Number of Rural Branch						
Total Number of Branch						
Number of AD Branch						
<b>Division Wise</b>			Dec 2018			June 2019
Dhaka						
Chattogram						



Khulna			
Sylhet			
Barishal			
Rangpur			
Rajshahi			
Mymensingh			

4. Do you have any approved written policy regarding branch opening in your bank?  
 (a) Yes (b) No

5. If yes, how frequently the policy is revised?

- (a) Yearly  
 (b) Bi-annually  
 (c) Once in every 5 years  
 (d) Others (Specify:  
 (e) N/A (Without having written policy)

6. Please state the factors that motivates your bank to open new branches.

***(More than one answer is allowed)***

- (a) To accelerate deposit collection  
 (b) To increase loan volume  
 (c) To maximize profitability  
 (d) To facilitate customer service  
 (e) To improve loan quality  
 (f) Other reasons (please specify):

7. Does the decision of opening a branch depend on cost of establishing a branch?

- (a) Yes (b) No

8. How do you decide about the location of new branches in your bank?

9.

- (a) Through Bank's Own Research (b) By Hiring Research Expertise from out side  
 (c) Management Prudence (d) Others (Please give details):

10. Status of your banks regarding alternative delivery channels (ADC):

	Method of ADC	Option	Response (√)
6	Internet Banking	(a) Do not have any plan for offering internet banking facility by bank	
		(b) Having plan for offering internet banking facility by bank in near future	
		(c) Offering internet banking facility by bank	
7	ATM (automated teller machine)/CDM	(a) Do not have any plan for introducing ATM/CDM facility by bank	

	(Cash Deposit Machine)	(b) Having plan for introducing ATM/CDM facility by bank	
		(c) Offering only ATM facility by bank	
		(d) Offering both ATM/CDM by bank	
8	Mobile Banking	(a) Do not have any plan for offering mobile banking facility by bank	
		(b) Having license for offering mobile banking facility but yet to start by bank	
		(c) Offering mobile banking facility by bank	
9	Agent Banking	(a) Do not have any plan for offering agent banking facility by bank	
		(b) Having license for offering agent banking facility but yet to start by bank	
		(c) Offering agent banking facility by bank	
10	What is your opinion regarding relationship between expansion of ADCs and branch growth of banks	(a) There is no correlation between expansion of ADCs and branch network (Independent from each other)	
		(b) There is a positive correlation between ADC and Branch network (requirements of ADCs will increase due to increase of branches of a bank)	
		(c) There is a negative correlation between ADC and Branch network (requirements of opening new branches will decrease ADCs will increase due to increase of branches of a bank)	

11. Has any branch been closed or relocated in last five years in your bank?

(a) Yes

(b) No

If yes, how many branches closed or relocated?

Particulars	Reasons
Number of branch closed	
Number of branch relocated	

12. What types of support facilities are given to a newly opened branch by head office?

- 1.
- 2.
- 3.
- 4.
- 5.

13. It is commonly seen that there are more than one bank branch in one building. Sometimes 5-7 branches of different banks in one small area. Do you think that the stated situation is a problem for sound banking?

(a) Yes

(b) No

i) If yes, why and how do you address this issue in case of opening new branch?

ii) If no, please state the reasons of ignoring the branch concentration?

14. Please mention name of the departments and their role in opening new branch.

Name of Departments	Role of the Departments

15. What are the challenges commonly faced by your bank in case of branch opening? How these challenges should be addressed.

Challenges	Remedies

## **Bangladesh Institute of Bank Management (BIBM)**

**Plot No.-4, Main Road No. -1 (South), Section No. -2, Mirpur, Dhaka-1216**

**Tel: 48032091-4; 48032096-7, Fax: 880-2-48033495, E-mail [bibmresearch@bibm.org.bd](mailto:bibmresearch@bibm.org.bd); Web: [www.bibm.org.bd](http://www.bibm.org.bd)**

**Price: BDT 300.00**

**USD 8.00**