

BRAC University

Internship report on

“The Potential of Islamic NBFIs in Bangladesh”

Submitted to

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Letter of Transmittal

Date:

Mr. Hasan Maksud Chowdhury

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Subject: Submission of Internship Report

Dear Sir,

It is to inform you that I am completely contented to submit the internship report on “The Potential of Islamic NBFIs in Bangladesh” as per the supervisor’s instruction. I expect this report to be informative as well as comprehensive though there are some limitations. Working in IDLC Financing Limited was totally a challenging experience for me. While working in this organization I had to compete with other interns to get the appreciations which meant a lot for me. I feel that the vast knowledge and experience I got here will help me in my near future which is all about my career. I have tried my best to prepare the report very worthwhile with my limited knowledge.

Your acceptance and appreciation will surely inspire me a lot. For any further queries about the report, I will be gladly available to clarify the overall information used here.

Yours obediently,

Tahirun Nesa Jisha

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Acknowledgements

At the very outset, I would like to express my sincere gratefulness to the Almighty Allah, the most merciful and beneficiary for empowering me to accomplish the dissertation within scheduled time. I am highly indebted to my internship advisor, Mr. Hasan Maksud Chowdhury. He allowed me to encroach upon his precious time right from the very beginning of this paper work till the completion. His expert guidance, affectionate encouragement and critical suggestion provided me necessary insight into the problem and paved the way for the meaningful ending of this paper work in a short duration. Without his valuable advices and suggestion from experience, I would not be able to complete the whole thing in a right manner.

I would like to thank Mr. Adnan Rashid, Assistant General Manager and head of CRM- SEF in IDLC Financing Limited for showing great support during the whole time and for the co-operation during my tenure in the office.

Then I would like to thank all those who contributed through their comments and suggestions to prepare this internship report in a comprehensive manner. Some friends contributed with ideas and suggestions that enhanced this report. We would like to thank the people who provided discerning comments and suggestion.

Last but not the least, my heartiest thanks to BRAC University and all the respective faculties for their countless effort for making me what I am today.

Executive Summary

Internship is a mandatory requirement of my graduation program. As a student of Bachelor of business administration analyzing today's business world is very crucial. It is necessary to go through all fields of knowledge, both theoretical and practical. After completing four years BBA program, I was sent out to have practical knowledge in business life as a part of my academic program. In this report I had tried to focus my both theoretical and practical knowledge regarding SME financing of IDLC Finance Limited. My internship topic is “The Potential of Islamic NBFIs in Bangladesh”.

Financial sector of any country plays a critical role in transmitting monetary policy impulses to the entire economic system. Financing is a business built on risk. Yet, it is essential to manage and minimize that risk. The paper will discuss some critical issues involved in managing those risks and maintaining the financial performance according to Islamic Shariah. In this report, Potential of Islamic NBFIs in a new market like Bangladesh has been analyzed and discussed in details. By analyzing its overall pros and cons, various positive and negative sides of the proposal have come into light.

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Introduction to the report

The Islamic Financial Services industry is comprised of an increasingly diverse range of institutions, including commercial and investment banks, mutual insurance (takaful) and investment companies. Banks, however, remain the core of financial services in many countries and offshore financial centers since they account for the bulk of financial transaction and their soundness is of key concern for their systemic stability.

Bangladesh entered the Islamic banking system only in 1983, with the establishment of Islami Bank Bangladesh and within this short period of time, Islamic banking is seeing impressive growth in Bangladesh. Since then, five more full-fledged private Islamic banks and 20 Islamic banking branches of conventional banks have been established. Unfortunately, no Islamic NBFIs have been established yet in Bangladesh despite of its huge potential in terms of capturing the customer attention of a Muslim dominating country.

“The future of the Islamic banking systems is so bright,” Mominul Islam Patwary, Chairman of the executive committee of Islami Bank Bangladesh Limited, told IslamOnline.net.

Bangladesh being the world’s third largest Muslim majority country, with Muslims making up more than 80 percent of the nation’s 148 million population, Bangladesh can be represented as a hub of Islamic finance with its fastest growing sectors in the global financial industry.

Azizul Haque, who is also chairman of the Shari’ah Council of Dhaka, expects that higher growth rates in the next decade will force the global financial systems to Islamic banking. “The world is looking for a new economic order. Islamic economic system will be that new economic order,” the renowned economic expert said.

In Bangladesh, the actual portfolio outstanding is small compared to the potential demand. There are remaining huge gaps among the system in terms of knowledge and proper execution which can easily be improved to contribute to furthering the finance frontier. Here in this report, we will be trying to find these potentials in this sector.

Objective of the report:

My long-term objective of this report is to meet the partial requirements for the fulfillment of the Bachelor of Business Administration Program by sharing my internship experience. Along with that, this report goes into details of potentiality of Islamic NBFIs in Bangladesh and also risks associated with it. The objectives of this report can be divided into two parts specified as below:

1. Descriptive objective:

- Demonstrating Ethical standards describing moral and social value of Islamic financing and Market segmentation in terms of introducing Islamic NBFIs in Bangladesh along with offerings of Islamic financing system.
- Discussing difference between conventional and Islamic financing system.

2. Analytical objective:

- Gathering market response towards this proposal.
- Analyzing the findings to provide fruitful recommendation based on that.

These conclude and summarize my objectives behind making this report.

SCOPE OF THE REPORT

The report will attempt to present potential of Islamic NBFIs in Bangladesh which can eventually assist SMEs and lower socio-economic segments. This can be introduced either a small part of already existing NBFIs or as an independent entity. Since there is no particular regulation of Bangladesh Bank or of Company Act regarding this right now, this report will be suitable for near future hopefully. I will try to identify corporate philosophy as well as customer opinion on what constitutes a better service. Lastly, an attempt will be made to find out various problems hindering the inception of Islamic NBFIs. I will attempt to present an overview of different operations. After analyzing analogous situation in other areas, a step will be suggested to overcome the barriers to progress.

Origin Of the study

Internship program is a prerequisite for completion of the BBA program. It is a great opportunity for the students to know about the practical environment of the real business world and also the pros and cons of a specific business. This report is prepared as a mandatory requirement of the internship program under my BBA program of BRAC University. I have prepared this report under supervision of my manager from IDLC Finance Limited and my university supervisor.






Methodology of the Study

For achieving the specific objectives of this study information were gathering from both primary and secondary sources.

Primary Sources

-  Direct work experience with the largest NBFIs of Bangladesh, IDLC Finance Limited.
-  Face to face interviews with the officials and account holders.
-  Relevant surveys

Secondary Sources







-  Company website
-  Journals related to Islamic NBFIs.
-  Magazine of IDLC Finance Limited.
-  Annual Reports of different Islamic and non-Islamic NBFIs.
-  Different websites, books, magazines, publications etc.

Limitations of the Study

There were some limitations and obstacles that I have faced during preparing this report. The main difficult part was to collect necessary information from the company. To collect primary data some individuals did not show interest while trying for interviewing them as it was beyond the company jurisdiction.

For secondary data, some of the reports of Bangladesh Bank regarding Company Act were inaccessible and password protected hence it was very hard for me to get the relevant information out of it.

Along with these, there were some other major limitations which I have faced while collecting the information. The can be pointed out as below:

-  Time limitation was a major constraint to gather the data
-  Some of the employees were no willing to share information regarding the company as the company follows a strict code of conduct.
-  Interns were not allowed to have access in some areas.
-  Soft copies of the data were sometime inaccessible for the interns.
-  Relevant data collecting was very difficult as the organization remains confidential.
-  Arranging analytical data and theoretical data within three months was a bit difficult

Lastly, I have to say that I have tried my best to arrange and organize all the data within a very short period of time. As an intern, sometime it was very hard to get all the necessary data in hand, but I tried to make it look as organized as possible.

Details of Islamic Economics

Islamic banking is a form of alternative financial system that prohibits from taking or offering interests, thus introducing a fair system of social justice and equality along with fulfilling financial needs of people and maintaining high standards of ethics, transparency and a sense of responsibility followed by the guidance of Shariah principles. In the context of Bangladesh being a Muslim dominating country, the introduction and continuation of Islamic NBFC has huge potential in near future irrespective of some challenges to face.

Islamic Economic Order

Islamic economic principles offer a balance between extreme capitalism and communism, offering an individual the freedom to produce and create wealth while surrounding the individual with a controlled policy. Here transactions are deemed fair only while leading to neither an unearned gain nor an undeserved loss. Followings are some of the salient features of this order to be encapsulated as-

- **Halal and Haram:**
A clear distinction between Halal (lawful) and Haram (Forbidden) is made in pursuit of such economic activity. In broader terms, all forms of morally or socially injurious economic activity are forbidden in this policy.
- **Zakat:**
Zakat refers to a tax on wealth that is distributed to the needy. It encourages an individual to contribute for the well-being of the community as a whole while reducing the margin of the surplus.
- **Profit sharing mode of financing:**
Profit sharing financing mode is preferable in Islamic economic thought with an aim to strike a balance between private property rights and distributional concerns. Along with risk-sharing contracts, there are several instruments of wealth distribution, namely Zakat(social welfare tax), Sadaqah(Charitable giving), Waqf(Charitable trust), Qard Hasan(interest-free loans) and inheritance.
- **Law of inheritance:**
According to Islamic law of inheritance, it is to highly prevent the accumulation of wealth in a few hands and to the detriment of society as a whole. Besides acknowledging the individual's right to own legitimately acquired wealth, it is obligatory to spend a significant portion of wealth judiciously, not to keep it idle.

Principles in Islamic Financial Transaction

Viewed as a whole, the economic system envisaged by Islam aims at social justice without inhibiting individual enterprise beyond the point where it becomes both collectively injurious and individually self-destructive. Islamic finance is based on four core principles- Prohibiting Usury, avoiding speculation, avoiding gambling and investing ethically.

- **Prohibition of Usury (Interest):**

the fact that usury requires the lender to return the borrowed money along with an extra amount makes it unfair. Nonetheless, interest is set arbitrarily and has no pre-set ceiling. In Islamic finance, money is considered as a medium of exchange having store value rather than a commodity of exchange. Spending and investing money in productive areas rather than keeping it idle is encouraged in Islamic finance.

- **Prohibition of Maisir (Gambling) and Avoidance of Gharar(Ambiguities):**

The Quran prohibits games of chance involving money, also trading in risk or excessive uncertainty and speculation in contractual agreement. Maisir is involved in contracts where the ownership of a good depends on the occurrence of pre-determined, uncertain event in the future. On the other hand, Gharar denotes speculative transaction or sale of probable items whose existence or characteristics are not certain. Due to risky nature that makes the investing similar to gambling. Islamic finance strongly prohibits the selling of something one does not own since that introduces risks of unavailability of that later on. As per laws of Islamic Finance , parties to a contract must have knowledge of the subject matter of the contract and its implication along with all possible risks and required information being transparent. Because of involving excessive risks and fostering uncertainty and fraudulent behavior, Maisir and Gharar both end up as a zero-sum game with unequal payoffs.

- **Profit and Loss sharing:**

PLS mode of financing refers to the idea of sharing risk and profit of any endeavor by all concerned parties. Application of Trade and Commerce (Al-bay) is exercised in Islamic Finance rather than any contractual guarantees. To be entitled to a return, a provider of finance must accept business risks or provide some service such as supplying an asset.

- **Ethical standards:**

Islamic finance believes to invest money in something good and wholesome. Islamic investing includes serious consideration of the business to be invested in, its policies, the product it produces, the service it provides and the impact of these on society. For example, investments involving alcohol, pork, gambling etc are prohibited.

Difference between Conventional and Islamic Financing

Islamic financing has the same purpose as the conventional ones leading to earn profit through financial intermediation while adhering to Islamic law. Both types of institutions are obliged to follow the financial laws and regulations of the countries in which they operate. This being said, there exists significant differences in operating ideology, business procedure and product offering.

- Functions and operations modes in Islamic Financial system is based on Islamic Business law and operated under the guidance of Islamic Shariah while the orthodox one is based on man-made ideology and principles and do not have contact with any religious body.
- Against deposit, conventional NBFIs and banks guarantee the repayment of principal along with a fixed amount of income whereas Islamic banking promotes risk sharing between provider of capital and user of funds.
- Islamic organizations are strictly prohibited to charge interest whereas conventional ones charge predetermined interest against loans.
- Conventional ones use money as a commodity which leads to inflation while Islamic banking tends to create link with real sectors of the economic system by using trade related activities. This money being linked directly with real assets, it contributes directly in economic development.
- Islamic financing caters public interest first, its primary objective is to ensure halal economic growth whereas conventional ones focus solely on making profit and interest of the bank comes first.
- Islamic financing focuses on the idea of ‘fairness to the clients’, on the contrary, conventional ones aim to maximizing returns without any restriction while minimizing the risks.
- Islamic financing is asset based with a belief that only assets with an intrinsic value can be sold for profit, instead of exchanging money in conventional financing.
- In modern Islamic financing system, it has become one of the service-oriented functions, having a Zakat collection center, paying out Zakat and distributing the fund under the guideline of Shariah is one of the service oriented function.
- Conventional banks and NBFIs can charge additional money in case of default. Islamic organizations have no provision to charge any extra money from the defaulters. Only small amount of compensation could be collected and these proceeds are given to charity. Rebates are given for early settlement at the banks discretion.
- Since income from advance is fixed, conventional banks give little importance to developing expertise in project appraisal and evaluation and make no effort to ensure the growth with equity. Since Islamic financial organizations shares profit and loss, it pays greater attention to developing project appraisal and evaluation. Islamic banks give due importance to the public interest with an ultimate aim to ensure growth with equity.

Comparison of credit concepts:

Comparison credit concepts	Islamic banking	Traditional banking
Money	Means of transaction	Object of the transaction
Goods or property	Object of the transaction	Collateral
Sales	Means to profiting	Not applied
Partnership	Means of investment, risk of loss in the ordinary course of business	Not normally applied
Agency	Means of investment, risk of loss in the ordinary course of business	Not normally applied
Profit & Profit sharing	Outcome of selling, leasing, partnership or agency	Not allowed except from interest or fees
Guaranteed profit or interest	Forbidden	Basis of profit

Islamic Financing in SME

The SME division gives authority loaning to little and medium-sized organizations over an expansive scope of businesses including steel, concrete, light designing, plastics and materials, among others, geologically spread crosswise over Bangladesh. The division's operations incorporate term advances, working capital advances and rent financing, redid around client necessities. The division additionally underpins and energizes ladies business enterprise by giving them advances at appealing contracts.

Giving no intrigue office can contribute in this segment in more compelling way. This market division will urge more individuals to think of new thoughts and to put resources into SME. This can urge our childhood to contribute more in the general public as opposed to sitting inert. In the end, this will prompt financial development.

The common product in Islamic Banking Industry:

The common methods used in Islamic financing include sales contracts like:

- Bai- Muajjal
- *Murabahah (cost-plus sale),*
- *leasing (Ijarah),*
- *Salam (forward sale)*
- *Istisna (construction or manufacturing sale);*
- *wakalah (agency),*
- *Musharakah (joint venture or partnership) and*
- *Mudarabah (managed partnership).*

These Islamic contracts are used to manage credit and investment processes.

Compliance Issues:

If we think of LC in conventional banking, Titles of goods are ultimately passed to the Client. The Bank exerts control by holding on to the Title of good and releasing it to the client later.

Above all, Credit Policy must comply with following acts, rules and ordinances; and their amendments:

1. *Financial Institution Act 1993*
2. *The Companies Act 1994*
3. *Money Laundering Ordinance 2008*

This Credit Policy should likewise conform to all brochures of the Central Bank. If there should be an occurrence of any new demonstration, administer, mandate, alteration or roundabout; segments of Credit Policy in infringement – will consequently be supplanted and in this manner be corrected.

Connivance of the bank personnel with the borrower:

The recovery, in fact, starts from the selection of borrower. When a loan applicant approaches a loan officer's/credit officer's desk or calls over telephone for a loan, then he/she has to look upon each loan request as a challenge and an opportunity, not as a chore.

It is well known that banks have pressing problems owing to bad credits in Bangladesh. To improve the credit portfolio, better credit analysis is essential. Through good credit analysis, we can reduce the volume of bad or classified loans and it helps to form a good economic infrastructure for any country. 5 C's have been emphasized for good credit and 5 C's for bad credit and other 1C for good and bad credit which can be used as a lending tool for any credit officer.

First, lenders must know the Cs of good credit. These Cs are the tried and true rules of good loan making, consisting of Character, Capacity, Condition, Capital and Collateral. These traditional five Cs make the core of sound commercial loan making. However, first of all, after all analysis, we have to believe that credit will be good and it will be refunded as per schedule. As we know that the word "credit" comes from the Latin word "credere", which means "to believe" or "to entrust".

SWOT ANALYSIS:

SWOT analysis is a process or tool that identifies an organization's strengths, weaknesses, opportunities and threats. It is an analytical framework that assesses what an entity can and cannot do, for factors both internal as well as external. Strength and weakness is the internal factor and Opportunity and threat is the external factor. Using environmental data to evaluate the position of a company, a SWOT analysis determines what assists the firm or the business in accomplishing its objectives, and what obstacles must be overcome or minimized to achieve desired results: where the organization is today, and where it may be positioned in the future. (Investopedia)

The SWOT analysis of probable Islamic NBFIs of Bangladesh Limited is discussed below.

Flowchart: 4.1: SWOT Analysis



Flowchart: 4.1: SWOT Analysis

Strength

1. Not being dependent on interest income as a major revenue source due to following Islamic Shariah, which is a major limitation for other NBFIs.
2. Bangladesh being a Muslim country, Islamic NBFIs will get preference from its very inception undoubtedly.
3. The portfolio of Financial and investment instruments of Islamic financing are profitable, simultaneously, ethically motivated.
4. If proper networking is maintained, it is possible to have fundamental support from Islamic Development Bank (IDB).
5. Islamic windows in any conventional NBFIs can be run in the same way if it gets permitted. This can arrange additional partners for existing NBFIs.

Weakness

1. Strategically managing and implementing Islamic Shariah in proper way while being transparent. It should not be the case to deceive partners in the name of ethics. Having ethically safe and strong people in the management to ensure this.
2. Arranging Training, counseling and business facilitation services in the light of Islamic Shariah for the employees. This is to ensure that everyone in the organization share a similar mindset.
3. To maintain an independent Shariah committee is a challenge for Islamic Banking. Furthermore, different Shariah boards interpret contracts differently. A central Shariah board could perform remarkable jobs in the area of greater Shariah compliance and uniform compliance standards in the country.

Opportunity

1. Opportunity for co-branding and business partnerships with existing NBFIs.
2. According to Bangladesh Bank's report on [Performance, Regulation and Supervision of NBFIs](#), Non Bank Financial Institutions (NBFIs) are playing a crucial role by providing additional financial services that cannot be always provided by the banks. The NBFIs, with more multifaceted products and services have taken their place in the competitive financial market to satisfy the changing demands of customers. NBFIs also play an important role in the capital market as well as in real estate sector of Bangladesh. Like the banks, most of the NBFIs have separate subsidiaries to operate merchant banking

activities. NBFIs are supervised by Bangladesh Bank following a risk-based supervisory system. Needless to say that Islamic NBFIs will get extra preference in this case.

Table 7.1 Structure of NBFIs

	2009	2010	2011	2012	2013	2014	2015*
No. of NBFIs	29	29	31	31	31	31	32
Government-owned	1	1	2	3	3	3	3
Joint-venture	8	8	8	10	10	10	10
Private	20	20	20	18	18	18	19
New branches	20	20	53	8	7	7	15
Total branches	88	108	161	169	176	183	198

*As on 30 June 2015.

Source: Department of Financial Institutions and Markets.

Table 7.4 Profitability of NBFIs

(percent)

	2008	2009	2010	2011	2012	2013	2014	2015*
Return on equity (ROE)	12.9	20.9	24.4	11.7	10.4	7.5	9.9	7.6
Return on asset (ROA)	2.1	3.2	4.3	2.1	1.9	1.5	1.8	1.3

*As on 30 June, 2015 (Annualised).

Source: Department of Financial Institutions and Markets, BB.

Picture source: Bangladesh Bank Website.

Threat

1. Intense competition in corporate lending driving commercial banks to focus more on SME and consumer financing
2. New industry entrants providing stiff competition
3. Excess liquidity and lack of investment opportunities driving sector participants towards unhealthy price wars to grab the best customers

Porter's five factor model

Competitive rivalry

1. Number of competitors

The Bangladeshi financial services industry is marked by high levels of competition with 56 banks and 33 NBFIs operating in the space.

2. Switching cost

The switching cost is low due to a high concentration of service providers.

3. Quality difference

Introduction and implication of new financial technology, while providing services faster leads to establish differences in quality.

4. Customer loyalty

Traditionally, customers are reasonably loyal; however, the recent phenomenon of excess liquidity and intense price war has reduced loyalty to a great deal, especially across big ticket loans for all segments.

Threat of new entrants

A good number of new banks and NBFIs entered the already crowded financial services industry over the last three years. The possibility of new entrants, intensifying competition further, cannot be ruled out.

Supplier power

Moderate to low supplier power as the main input of the business include know-how and skilled resources.

Threat of substitute products

1. There is low threat within the NBFIs industry. However, if we consider loan products from banks as substitute products then the threat is high.
2. Additionally, for some segments, there exists a high threat of substitute products for instance for commercial vehicle loans where some of the vehicle suppliers themselves offer the vehicles in installments, removing the need to get a financier involved.

Buyer power

1. Buyers/customers have typically a high power in the equation since big corporate tend to be extremely rate sensitive.
2. SMEs have traditionally been fewer rates sensitive; however, they are beginning to enjoy more access to finance and coupled with excess liquidity and frequent price wars, are becoming more price-sensitive.
3. Big ticket consumer loans (mainly home loans) customers' power is at the highest level currently with extreme price competition from industry participants.
4. Recent excess liquidity reduced the power of depositors amid significant rate cut by banks.

Flowchart: Porter's Five Factor Model

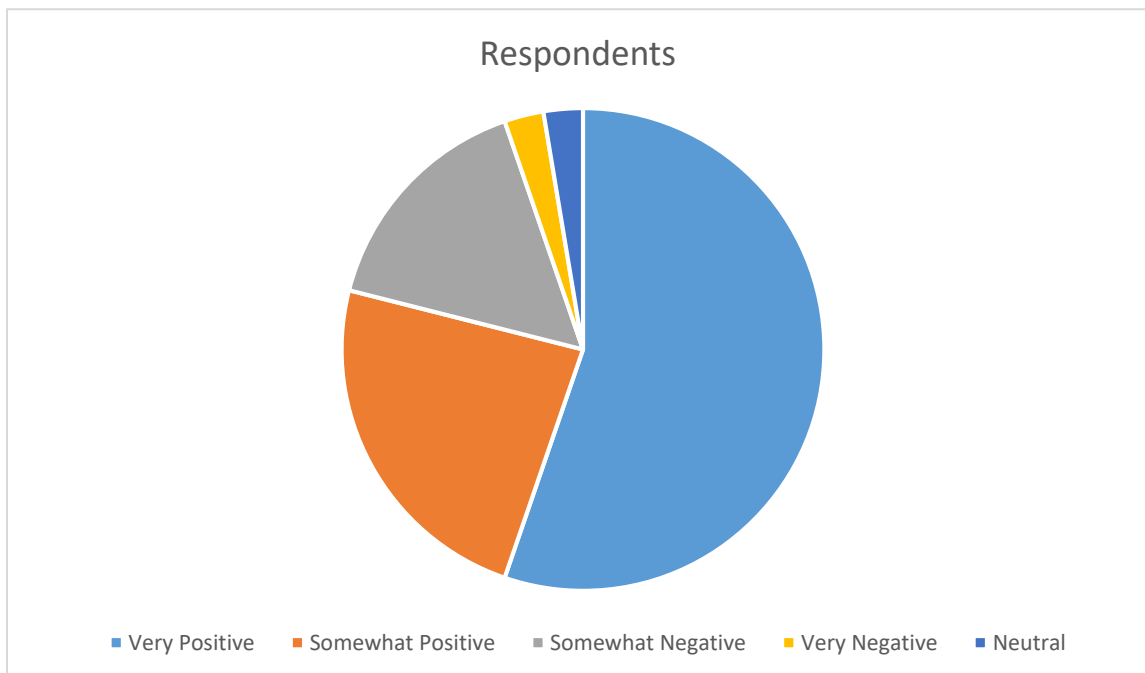


Market Survey:

Since we cannot take any rational decision without proper market response, we chose a sample size of 40 respondents. As we had a very limited time, so we kept our sample size very short. However, larger sample size can give accuracy in the research. organizations will use it as a method to reveal and measure the strength of a target group's opinion, attitude, or behavior with regards to a given subject. To know the behavior of customers towards Islamic NBFI, we required some qualitative information, so we set our survey questionnaire questions accordingly. This will help us to interpret the outcome of the survey easily. The questionnaire includes only two open end questions but the questions are designed to get descriptive responses. Respondent rate was 93%. We will be using simple graphical presentation for the analysis to show the outcome easily.

The statistics that we have gathered are given as follows:

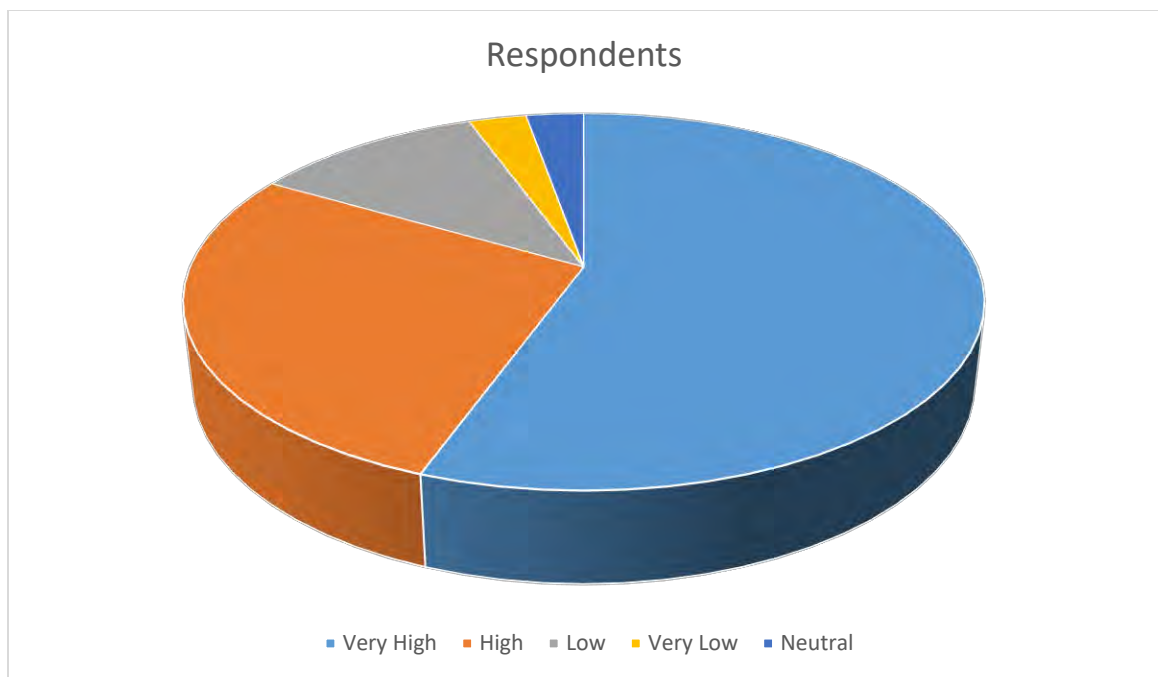
1. What is your first reaction to the Islamic NBFI service in Bangladesh?



From questionnaire response, we can see the majority of the respondents finds this initiative positive which matches with our prediction that Bangladesh being a muslim country would

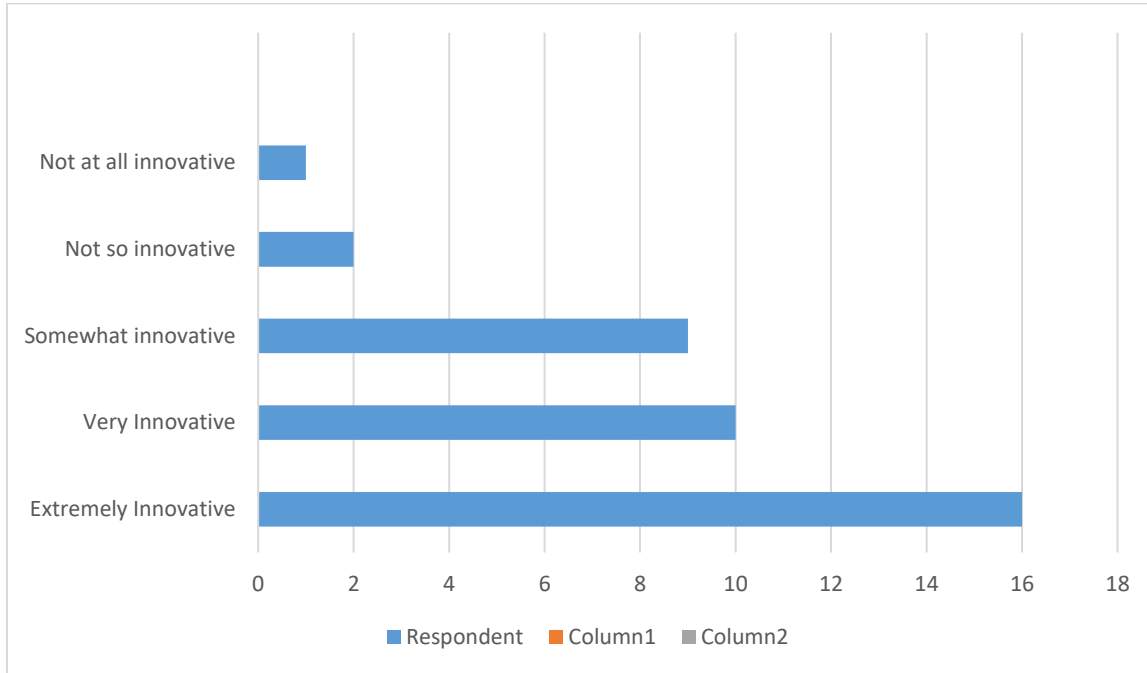
easily embrace Islamic NBFIs. 53.18% of the respondents showing a very positive attitude is surely to be considered significantly impressive.

2. How effectively, In your opinion, can Islamic NBFIs play a significant role in MSME sector development?



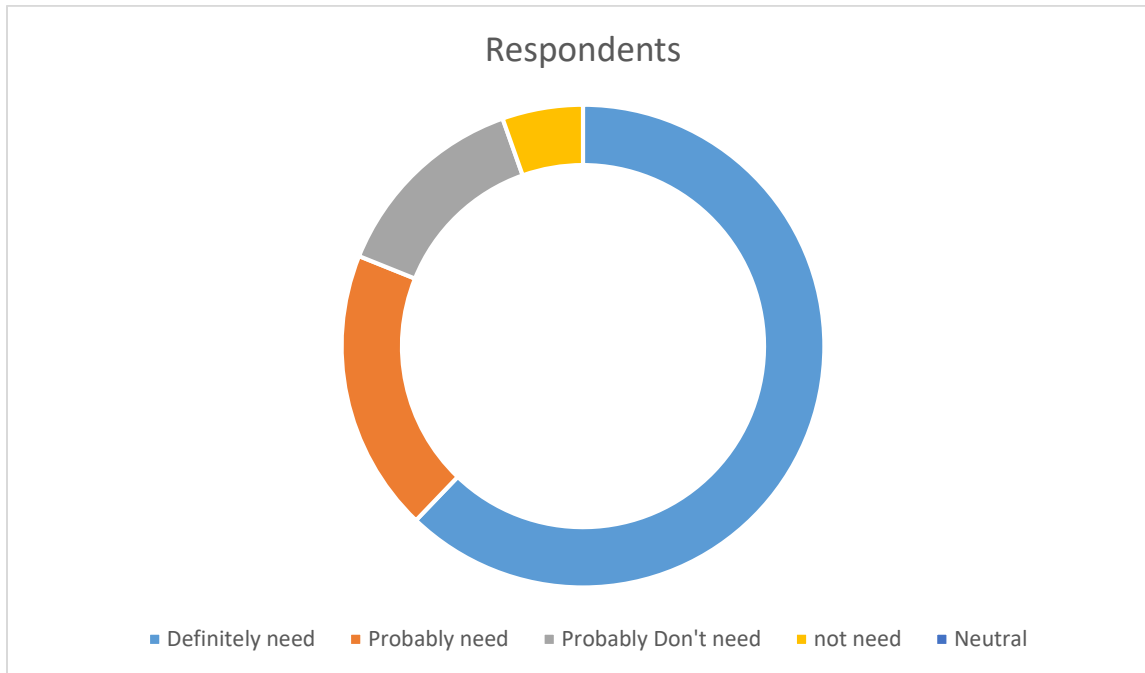
Here, 54% people think that Islamic NBFIs can make a positive impact in MSME sector development in a very high significant way. If we start working with a proper strategy to attain the goal, it has high possibility to contribute in economic growth.

3. How innovative is the service you believe in terms of Bangladesh's perspective?



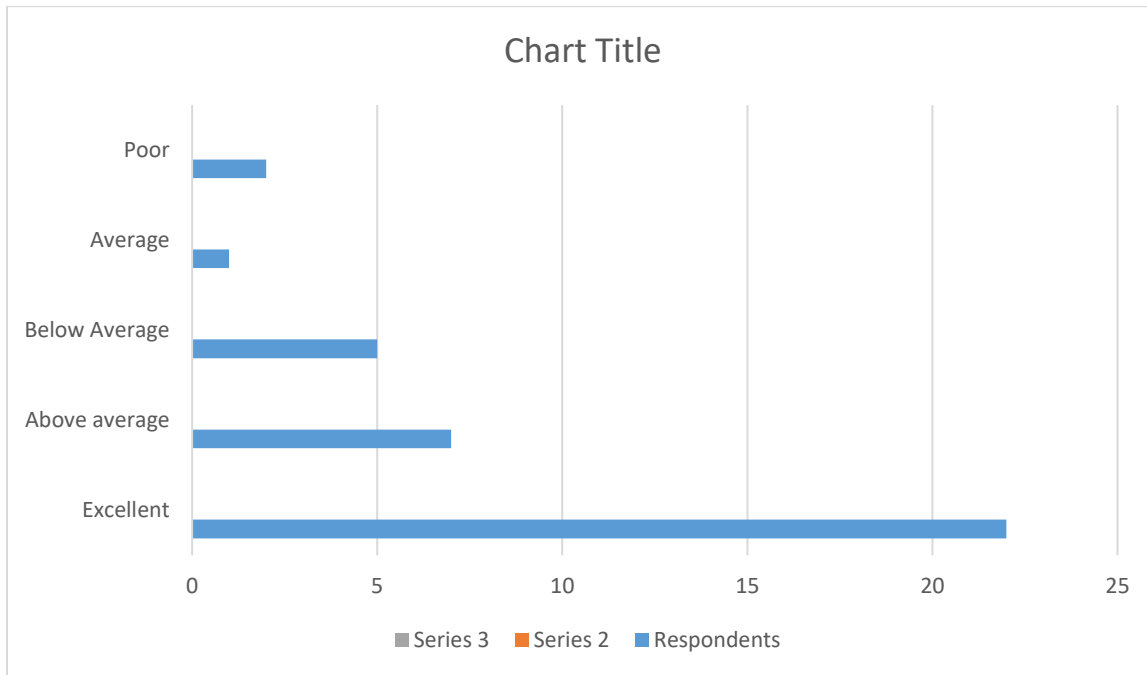
Here, the result is also positive. While doing face to face interviews, some important discussion regarding client demand, Government policy requirements, ethical finance principles and product diversification have taken place.

4. When you think about this service, do you think of it as something you need or do not need?



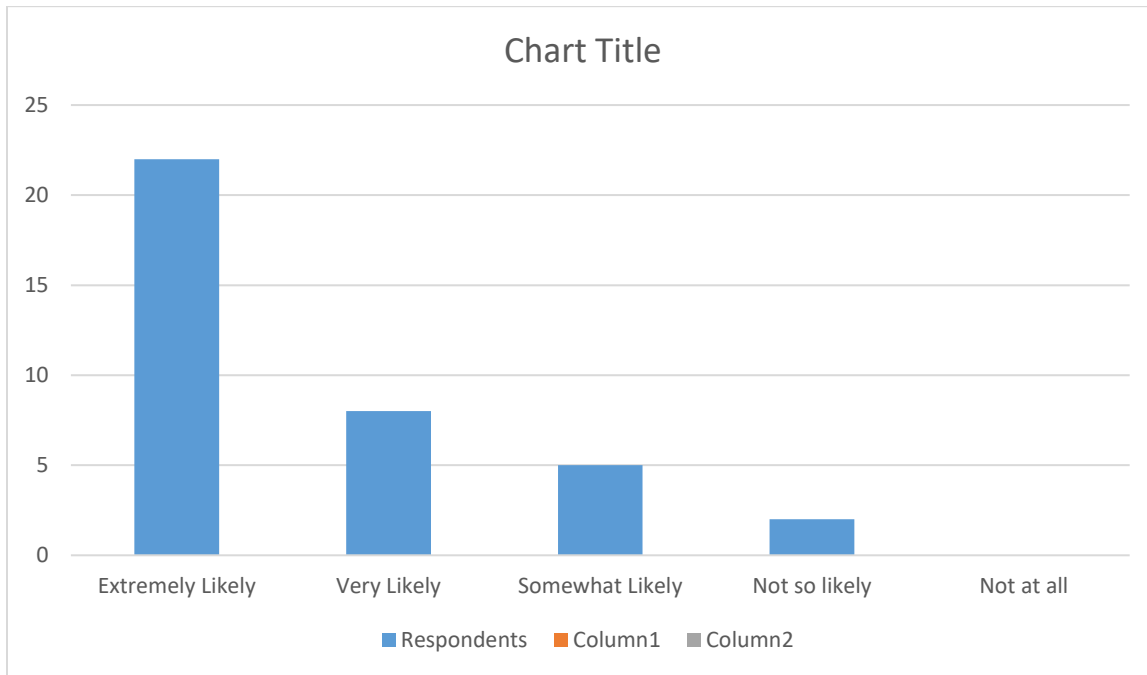
According to the response of all our target clients, they encourage this very much. When we asked them the reason behind it, Shariah compliance got preference in their replies mostly.

5. How would you rate the value for money of the service?



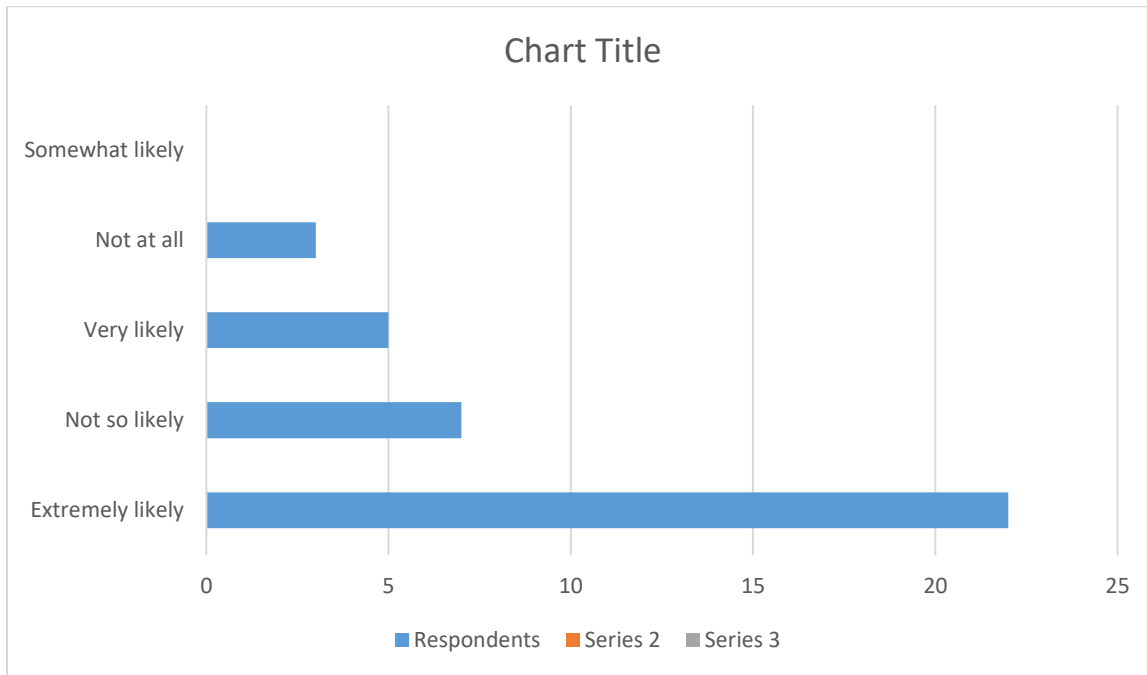
While doing face-to-face interview, some key points like developing cross-sectoral supervision, exploring the use of macroprudential tools to contain concentration risks followed by developing the capacity to assess systemic risks have been focused largely.

6. If this facility were available today, how likely would you be to use it?



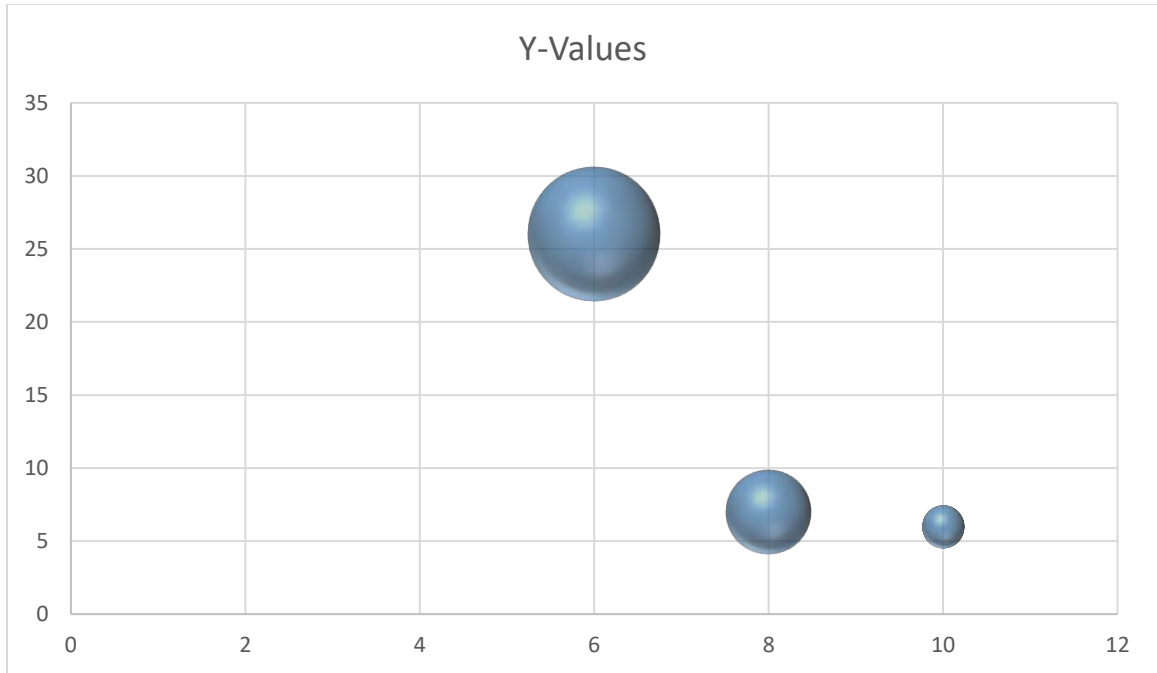
Bangladesh being a country with well-performing microfinance markets resulting higher competition and/or relatively high average finance sizes, It is, undoubtedly, to be said that there will be cheaper Murabaha (Mark-up and fees) products compared to other countries. Hence, attracting more customers.

7. How likely are you to replace your current service with this new service?



We cannot neglect market and financial awareness of end customers. Also, local religious councils and committees play an important role in decision making process for the majority of the people lacking proper financial knowledge. However, in our survey, more than 55.65% of the respondents responded to this question with a definite positive attitude.

8. On a scale of 1 to 10, How likely is it that you would recommend this new service to your friends and colleagues?



Here,

Detractors (0-6) – 67%

Passive (7-8) - 18%

Promoters (9-10) – 16%

Findings and recommendations

FINDINGS

- Product innovation is most crucial challenge in Islamic Financing. In present socio-economic context, maintaining authenticity in following the Shariah principles could be the hurdle. In Islamic Banking, there exists a gap for well-defined products, standards and risk management tools to hedge against high volatility in market.
- Though the perceived demand is high and is mainly driven by religious considerations of the Islamic population, it is hard to assume Customers' preferences to necessarily translate into buying behavior.
- In the two open ended questions, we mostly found the urge to ensure transparency in terms of implementing Shariah law properly.
- From Bangladesh's perspective, NBFIs are still a new concept for many people. This innovation can attract people easily. However, an extensive focus should be on words of mouth of customers to have new ones.
- In Bangladesh, there are already a good number of Islamic banks. To compete with them, at first, customers should be reached out to understand the basic difference. Otherwise, it would be hard to compete with the existent market.
- In Bangladesh, existing NBFIs are losing potential customers who want Islamic facilities. With proper management and execution, it is possible to have a separate Islamic unit in the existing NBFIs to avoid losing customers. Most importantly, the biggest challenge here will be to ensure and representation of proper transparency. Otherwise, it is of no use.
- Bangladesh Bank has no obligation regarding having an Islamic unit within already existing NBFIs under Company Act, so far. On the other hand, Bangladesh Bank put an obligation to have an Islamic unit within conventional Banks and promoted separated entity of both. This should be kept in mind as a probable challenge.

RECOMMENDATIONS

- The management should review their systems, policies, processes and product prices in line with their competitors and the changing market reality.
- Adequate training should be conducted for the employee to improve their analytical ability and professional standard regarding the use of tools and techniques in selecting the borrowers and analyzing the loan proposals.
- A research and development cell for the purpose of lending analysis and recovery of loans should be introduced.

- In reducing magnitude of classified loans, the system of credit appraisal needs to be strengthened through developing comprehensive borrower rating system.
- SME financing can be named as supervisory credit. So solid observing adjacent to the great credit can draw out the ideal outcome. Along these lines, an effective gathering group ought to be utilized. Money related Institutions ought to build up an arrangement of free, continuous credit audit and the consequences of such surveys ought to be conveyed straightforwardly to the top managerial staff and senior administration. Money related Institutions must have a framework set up for overseeing issue credits and different other exercise circumstances.

CONCLUSION

Though it has been more three decades that Islamic saving money operations are being directed in Bangladesh, still the area presently can't seem to grow significantly contrasted with other Islamic Banks worked in various nations on the planet. In Bangladesh, Islamic banks have not yet been effective in concocting a premium free component to put their assets in business on here and now premise or giving purchaser credits or supporting government if there should be an occurrence of managing shortfalls. Besides, the hazard engaged with benefit sharing plans thought to be high to the point that the majority of the Islamic banks in Bangladesh want to rehearse those systems of financing which could bring a settled resource return. Such practices prompt feedback that Islamic banks have not nullified premium, rather they just repackage the ordinary offerings utilizing Islamic name, however such feedback has dependably been firmly denied by the Islamic Financial Institutions. Sluggish credit development is another test experienced by Islamic financials as most are compelled with the issue of abundance liquidity. The approach producers of nation may consider having bonds like Sukuk for more prominent solace in liquidity administration by the Islamic banks. Challenges of Know your customer (KYC) and consistence are extreme trouble of saving money industry including Islamic banks. This is especially applicable with regards to tending to illegal tax avoidance dangers. To be said, consistence is the most difficult hazard banks are confronting today. This is high time to acquaint more far reaching rules with convey more noteworthy straightforwardness and responsibility to the business. As of late, the World Bank has attempted a task to audit the current Islamic keeping money direction for conceivable lawful changes. Moreover, Bangladesh Bank is wanting to frame a board of trustees to survey and refresh the current Islamic saving money rules.

Appendix:

- 1. What is your first reaction to the Islamic NBFi service in Bangladesh?**
 - i. Very Positive
 - ii. Somewhat positive
 - iii. Somewhat negative
 - iv. Very negative
 - v. neutral
- 2. How effectively, in your opinion, can Islamic NBFi play a significant role in MSME sector development?**
 - i. Very high
 - ii. High
 - iii. Low
 - iv. Very low
 - v. neutral
- 3. How innovative is the service you believe in terms of Bangladesh's perspective?**
 - i. Extremely innovative
 - ii. Very innovative
 - iii. Somewhat innovative
 - iv. Not so innovative
 - v. Not at all innovative
- 4. When you think about this service, do you think of it as something you need or do not need?**
 - i. Definitely need
 - ii. Probably need
 - iii. Probably don't need
 - iv. Not need
 - v. neutral
- 5. How would you rate the value for money of the service?**
 - i. Excellent
 - ii. Above average
 - iii. Below average
 - iv. Average
 - v. Poor
- 6. If this facility were available today, how likely would you be to use it?**
 - i. Extremely likely
 - ii. Very likely
 - iii. Somewhat likely
 - iv. Not so likely
 - v. Not at all likely
- 7. How likely are you to replace your current service with this new service?**
 - i. Extremely likely
 - ii. Very likely
 - iii. Somewhat likely
 - iv. Not so likely

v. Not at all likely

- 8. On a scale of 1 to 10, How likely is it that you would recommend this new service to your friends and colleagues?**
- 9. In your own words, what are the things that you like most about this new service in Bangladesh?**
- 10. In your own words, what are the things that you would most like to improve in this new service?**

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