

Internship Report on Loan Process Comparison of Banks and Financial Institutions

IDLC Finance Limited



Supervisor:

Noman Sir

Senior Lecturer, BRAC Business School

BRAC University

Prepared By:

Moeenul Karim

ID: 10304109

BRAC Business School, BRAC University

Dated: 19.08.2015

Date: 19th August, 2015

To

Noman Sir

Senior Lecturer, BRAC Business School

BRAC University

Subject: Submission of Internship Experience Report along with comparison of loan procedures between banking and non banking institutions.

Dear Sir,

I am glad to say that I am submitting my internship experience report after working for 3 months starting from April 26th 2015 with **IDLC Finance Limited** as an intern. I was engaged in the Credit Administration Department. My report is involved with the details of my assigned task, specifically the Credit Administration related process.

Hence, I am submitting my report, hoping that you will appreciate my informative and detailed approach. In case of any further clarification or elaboration or any kind of queries about the report, I am always at your service to give the clarifications.

Thank you.

Best regards,

Moeenul Karim

ID: 10304109

Acknowledgement

I would start by thanking the Almighty Allah for all His blessings. Firstly, I want to sincerely thank my internship supervisor, Noman Sir, Senior Lecturer, BRAC Business School, BRAC University for giving me the opportunity to do my internship report under his supervision, and for his unending support and providing the necessary help for the completion of this report.

I would like to thank Mr. Prodduthmoy Barua, (Assistant Manager, Credit Administration, IDLC) for teaching me all the basics of my tasks and patiently showing me every elaborate detail and guiding me throughout my internship period, Ataul Haque Mozumdar (Senior Officer) for all his guidelines and support, Asma Akter Santa (Officer, Service Delivery) for her support during the internship period and the entire team for being helpful and supportive in every little help I needed and for creating the opportunity for me to bring out my best performance.

Executive Summary

IDLC Finance limited one of renowned non-banking financial institution in Bangladesh. It started its operation at 1985 and it is the pioneer financial institution in Bangladesh. IDLC Finance Limited has different kinds of products and services. IDLC is financing in different sectors through their products and services. IDLC Finance Limited is a mother company. It has two separated subsidiaries and they are IDLC Investments Limited and IDLC Securities Limited. I have done my internship in IDLC Finance Limited in Credit Administration Department in Corporate Head Office.

Being an intern in the Credit Administration department, I got the opportunity to see how the Credit Administration works with Corporate Division to achieve targets with a minimal risk.

This report aims to try and provide a comparison for the loan procedures between Banking and Non-Banking Financial Institutions (NBFI). IDLC finance has been chosen to depict the model of the NBFI while BRAC Bank and Standard Chartered have been chosen for model of Bank.

Table of Contents

Introduction	06
Part 1 Internship Experience	09
Company Overview	10
Vision, Mission & History	11
IDLC Products	15
Part 2 Money Market	24
Model Study	26
Conclusion	32

Introduction

The Financial market of Bangladesh consists of both the **money market** and **capital market**.

Now as per the theoretical definition **Money market** is a market where financial instruments with high liquidity and very short maturities are traded. The money market is used by participants as a means for borrowing and lending in the short term.

The **Capital market** on the other hand is a market for buying and selling equity and debt instruments. Capital markets channel savings and investment between suppliers of capital such as retail investors and institutional investors, and users of capital like businesses, government and individuals. Capital markets are vital to the functioning of an economy, since capital is a critical component for generating economic output. Capital markets include primary markets, where new Stock and bond issues are sold to investors, and secondary markets which trade existing securities.

The Central Bank of our country i.e. Bangladesh Bank has defined the two markets along with their functions in as follows:-

Money Market: The money market comprises banks and financial institutions as intermediaries, 20 of them are primary dealers in treasury securities. Interbank clean and repo based lending, BB's repo, reverse repo auctions, BB bills auctions, treasury bills auctions are primary operations in the money market, there is also active secondary trade in treasury bills (upto 1 year maturity)

Capital market: The primary issues and secondary trading of equity securities of capital market take place through two (02) stock exchanges-Dhaka Stock Exchange and Chittagong Stock Exchange. The instruments in these exchanges are equity securities (shares), debentures and corporate bonds. The capital market is regulated by Bangladesh Securities and Exchange Commission (BSEC).

Banks and Non –banking financial institutions

Bangladesh Bank has set the foundations for two types of Banking's

- **Scheduled Banks:** The banks which get license to operate under Bank Company Act, 1991 (Amended upto 2013) are termed as Scheduled Banks. ex- Standard Chartered Bank
- **Non-Scheduled Banks:** The banks which are established for special and definite objective and operate under the acts that are enacted for meeting up those objectives, are termed as Non-Scheduled Banks. These banks cannot perform all functions of scheduled banks. Ex- KrishiUnnayan Bank

The Non-Banking Financial Institutions are under the Financial Institution Act, 1993 and as such are regulated by the Central Bank. As per the rules set by Central Bank a Financial Institution (FI) cannot perform the following functions

- FIs cannot issue cheques, pay-orders or demand drafts.
- FIs cannot receive demand deposits,
- FIs cannot be involved in foreign exchange financing,
- FIs can conduct their business operations with diversified financing modes like syndicated financing, bridge financing, lease financing, securitization instruments, private placement of equity etc.

Origin of the Report

Since practical orientation is an integral part of the BBA degree requirement, I was deputed by the BRAC Business School (BBS), BRAC University to IDLC Finance Limited to take real life exposure of the activities of the organization as a financial institution. During my internship at IDLC Finance Limited I was appointed to work in the field of Credit Administration of the Operations Department (CAD)

This report has been originated as the course requirement of the BBA program. I hope the report will give a clear idea about the activities and role of Credit Administrations and will be compared with Administrations of other Banks

Methodology

The paper has been written on the basis of information collected from primary and secondary sources.

- a. Primary Data; Discussion with my Organization supervisor, discussion with CAD department
- b. For the completion of the present study, secondary data has been collected. The main sources of secondary data are:
 - i. Annual Report of IDLC Finance Limited.
 - ii. Website of IDLC Finance Limited and other Banks
 - iii. Data from published reports of SEC, DSE
 - iv. Different Books, Journals, Periodicals, News Papers etc.

Limitations of Study

The paper was set to determine as how NBFI's are better compared to Banks in terms of the loan procedure. Since I have no practical experience in working with the Banking Industry, the comparison had to be done on a theoretical perspective.

Some other difficulties were faced while making the report and they are as follows

- Difficulty in accessing data of its internal operations.
- Non-Availability of some preceding and latest data.
- Some information was withheld to retain the confidentiality of the organization.
 - No practical experience in working with the Banking Industry.
 - Very Limited information available over the internet on Bank Loan Procedures

I was placed for only around 3 months of time & working like a regular employee hindered the opportunity to put the effort for the study. The time span was not sufficient enough to learn all the activities of the organization properly. Therefore, it was very difficult to carry out the whole analysis.

PART-1

Internship Experience

IDLC Finance Limited

IDLC Finance Limited

Company Overview

IDLC Finance Limited was established in 1985 as a joint venture public limited company with the multinational collaboration of International Development Finance Institution, Commercial Banks, Insurance Company and Foreign Leasing Corporation. Technical assistance was provided by Korea Development Leasing Corporation (KDLC), the largest leasing company of the Republic of South Korea. In 1995, IDLC was licensed as a Financial Institution by the country's central bank, Bangladesh Bank, following the enactment of the Financial Institution Act 1993. During the last two and a half decades, IDLC has grown in tandem with the country's transition into a developing country and has emerged as Bangladesh's leading multi-product financial institution. To encapsulate the evolving nature of the company, IDLC has changed its name to IDLC Finance Limited from earlier Industrial Development Leasing Company of Bangladesh Limited in August 2007. During the past twenty six years of its operation, IDLC has played a catalytic role in providing alternative source of term and capital asset financing to the private sector. IDLC's primary focus has been in the area of 3-5 year term financial leasing with particular emphasis on balancing, modernization, replacement and expansion of existing units.

With its pioneering vision IDLC has not only established lease financing as an efficient and quality financial service but also laid the foundation for the creation of other leasing companies. Today lease financing has grown to be a promising industry. IDLC and its institutional shareholders have upheld their commitment towards the development of the financial service sector by offering high quality service to local entrepreneurs. To ensure steady and long term growth as well as to sharpen its competitive edge in a changing and challenging business environment. Since 1985, when IDLC was formed as the pioneering leasing company in Bangladesh, the company continues to evolve as an innovative financial solutions provider. IDLC is now able to offer its customers, integrated and customized financial solutions – all under one roof. The Company's wide array of products and services range from retail products, such as home and car loans, corporate and SME products including lease and term loans, structured finance services ranging from syndications to capital restructuring and a complete suite of investment banking and capital market services.

Vision

We will be the best financial brand in the country.

Mission

We will focus on quality growth, superior customer experience and sustainable business practices.

History of IDLC Finance Limited

23rd May 1985, the IDLC of Bangladesh Limited was incorporated as a joint venture public limited company with the multinational collaboration of five foreign and three domestic financial institutions. Now, IDLC is one of the top twenty companies in the country with a number of product lines. The company has authorized capital of BDT 1,000,000,000/- (10,000,000 shares of Taka. 100 each) and paid up capital of BDT 200,000,000/- (2,000,000 ordinary shares of BDT 100 each).

The company plotted its strategic focus to service diversification in 1994 by launching its deposits schemes. In 1997, IDLC introduced Real Estate Financing and Short term Financing. During the period of 1998 and 2006, the company broadened its activities into the areas of corporate financing, underwriting, issue management, syndication and other investment banking related services and evolved as a truly multi product financial institution.

Key Milestones of IDLC

The Signposts of IDLC' journey are given below chronologically:

May 23, 1985: Incorporation of the company.

February 22, 1986: Commencement of leasing Business.

May 18, 1986: Signing of first lease.

October 01, 1990: Establishment of branch in Chittagong.

March 20, 1993: Listing in Dhaka Stock Exchange.

September 10, 1994: Licensed by Bangladesh Bank for Deposit Collection.

February 07, 1995: Licensed as non-banking financial institution. Under Financial Institution Act-1993 of Bangladesh Bank.

July 02, 1995: Licensed by Bangladesh Bank as offshore financier in Export processing zones (EPZ).

November 25, 1996: Listing in Chittagong stock exchange.

May 27, 1997: Commencement of House Finance and Short term Finance operations.

January 22, 1998: Licensed as Merchant Banker by Securities and Exchange Commission.

January 22, 1998: Licensed as Merchant Banker By Securities and Exchange Commission.

January 15, 1999: Commencement of Corporate financing and Merchant Banking Operation.

December 05, 2000: Exceeded Taka 1 billion mark of annual lease execution.

May 22, 2002: Arranged the largest ever lease syndication amounting Taka 950 million by the corporate Finance Unit.

January 29, 2004: Opening of the first retail focused branch at Dhanmondi.

June 29, 2004: Opening of Gulshan branch.

November 22, 2004: Launching of Investment Management Services “Cap Invest”.

February 7, 2005: Issuance of First Securitized Zero Coupon Bonds by IDLC Securitization Trust 2005.

September 18, 2005: Launching of Local Enterprise Investment Center (LEIC), a center established for the development of SMEs with the contribution of the Canadian International Development Agency (CIDA) of the Government of Canada.

January 2, 2005: Opening of SME focused branch at Bogra.

April 6, 2006: Opening of branch at Uttara.

May 18, 2006: Opening of Merchant Banking branch in the port city Chittagong.

July 1, 2006: Reallocation of Company’s Registered and Corporate Head Office at 57, Gulshan Avenue.

September 18, 2006: Commencement of operation of IDLC Securities Limited, a wholly owned subsidiary of IDLC.

March 14, 2007: Launching the Discretionary Portfolio Management Services “Managed Cap Invest”.

August 5, 2007: Company name changed to IDLC Finance Limited from Industrial Development Leasing Company of Bangladesh Limited.

December 3, 2007: IDLC Securities Limited, Chittagong Branch commenced operation.

December 18, 2007: IDLC Securities Limited, DOHS, Dhaka Branch opened.

January 6, 2009: Opening of Sylhet branch.

August 26, 2009: Opening of Gazipur SME Booth.

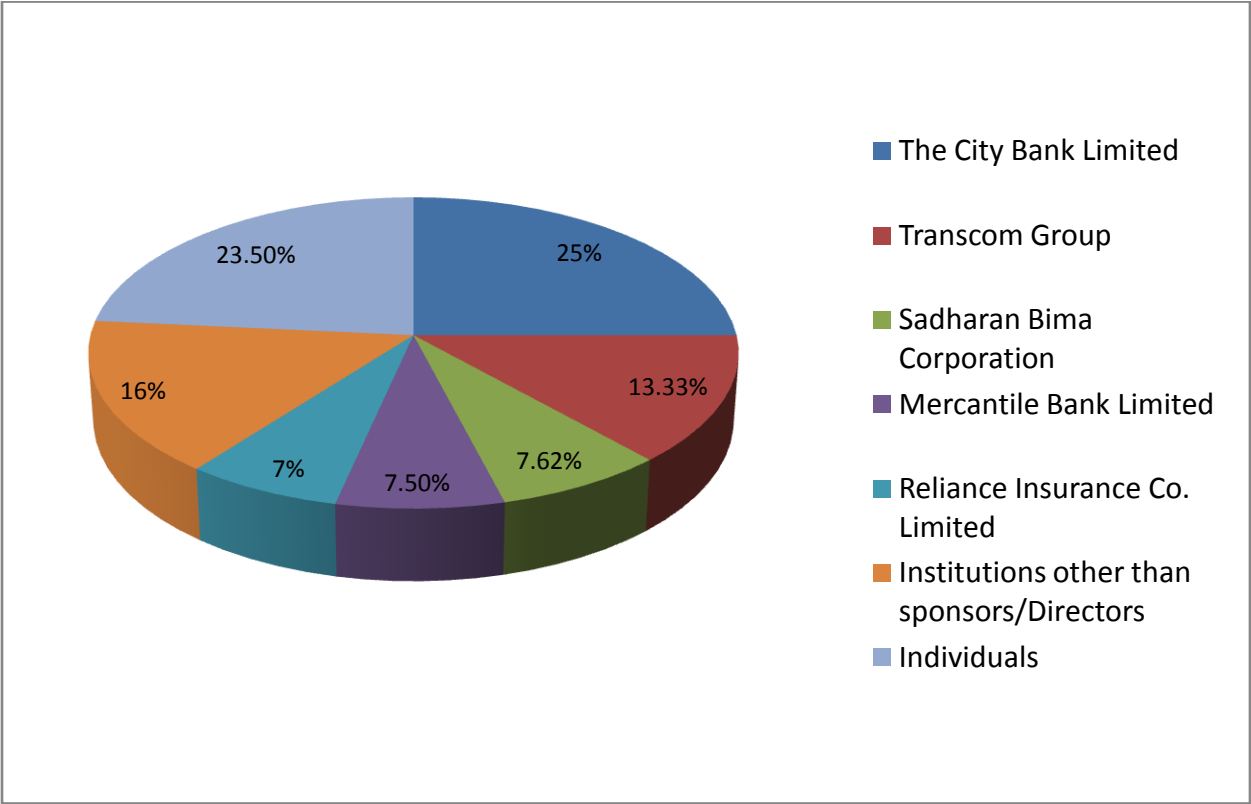
February 3, 2010: IDLC started its operation at Narayanganj.

February 24, 2010: Inauguration of Savar Branch.

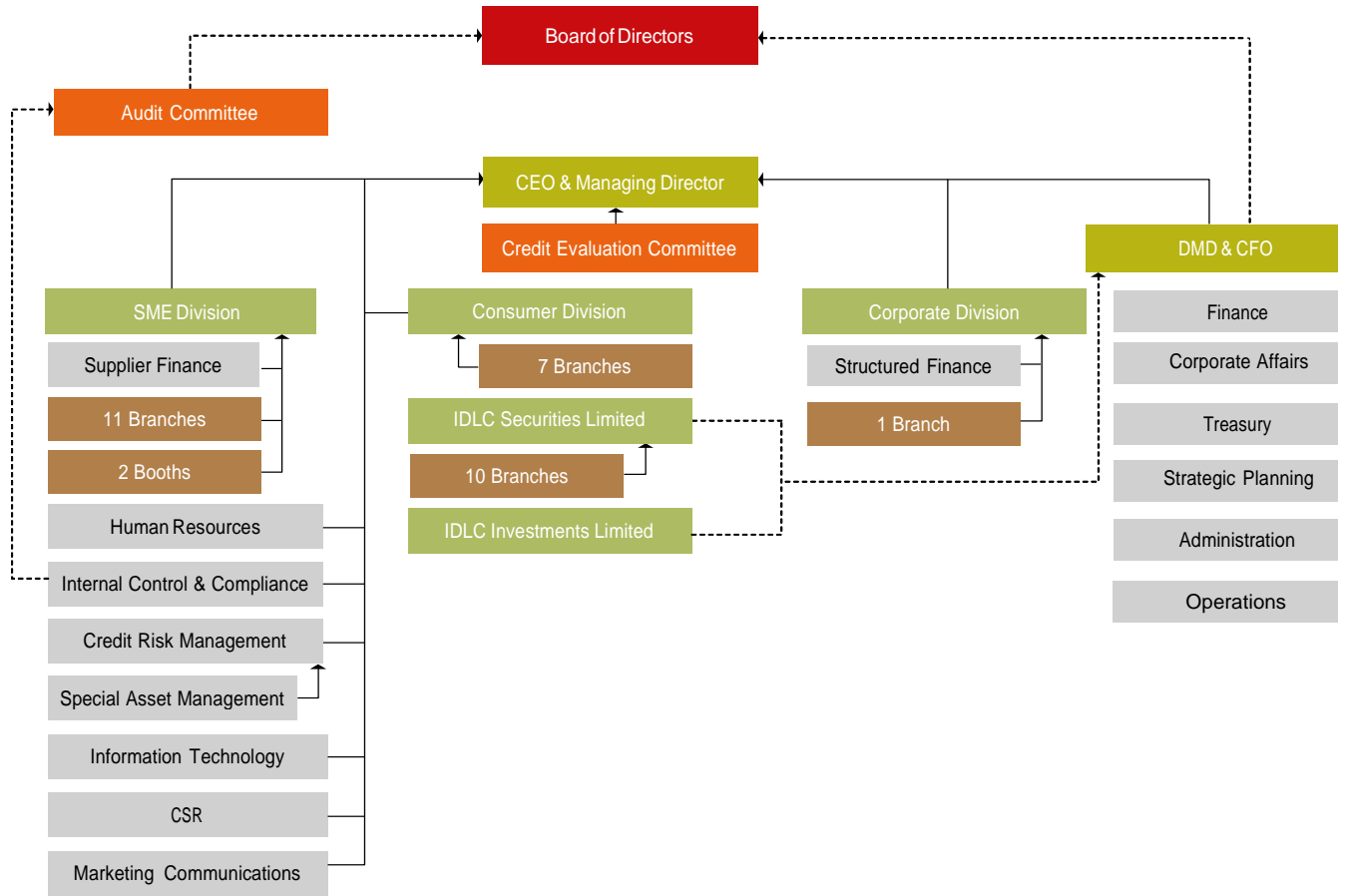
August 8, 2010: IDLC opened its 2nd branch in Chittagong at Nandankanon.

October 27, 2010: IDLC stepped in Comilla.

Shareholding Structure



Organizational Structure:



IDLC Finance Products

The products of IDLC finance limited has been categorized under four categories and they are respectively:-

- a. **Corporate Finance-** IDLC finance provides extensive solutions to both local and multinational corporate houses for they have enough technical expertise and knowledge to cover wide varieties of financial problems

Some of the techniques implied by IDLC finance for providing financial solutions for the corporate houses are as follows:-

1. **Lease Finance-** The term lease in general states a contractual agreement between renter (lessee) and the owner of the property (lessor) stating for how long an asset can be rented out and at what rent.

There are two methods of leasing

Operational Lease- IDLC (lessor) will buy the capital machinery and maintain ownership of the machine while renting it out to another company (lessee) for a period less than the life of the machinery. During this period the lessee will pay out rent to IDLC however, the cost of maintenance will be beared by IDLC. At the end of the period the contract may be renewed or IDLC may wish to rent the machinery to another party.

Financial Lease- It maintains the same trend as operational lease, ownership of the machine will belong to IDLC however the difference lies in the cost of maintenance. Here the cost of maintenance will be bared by the lessee i.e. the company which is taking the machinery on lease. The rent will be provided to IDLC by the lessee. At the end of the term period the contract may be renewed.

However there is another method which a company might opt in case of a situation where it needs both liquid cash and capital machinery for making investment.

Sale and Leaseback- It is a process where an asset is purchased and then sold back immediately by the company to IDLC and take it as lease from IDLC. A minimal rent is charged in process

and cost of maintenance is done by IDLC. After the end of the term the company may take back its ownership.

Professor Paul Zarowin of the New York University, Stern School of Business defined the terminology as follows:-

"A sale and leaseback is a transaction where an asset is sold and then leased back. It is a means of financing for the lessee: a way for the lessee to get cash (by selling the asset), while still retaining use of the asset. "

2. **Loans**- Loan is an asset for both Banks & NBFI's. It is one of the main earning source for Non Banking Financial Institutions like IDLC finance limited. In lay mans term it follows the ancient Jewish concept where money is borrowed upon promise of a return more than the borrowed amount or else the collateral will be owned by the lender.

In modern day however, both the Banks and NBFI's follow the same principal the usage fro loan has expanded dramatically.

Some of the Loan schemes provided by IDLC finance are

Term Loan- Loans provided for meeting various capital machinery expenses including maintenance etc. Modernizing the production process as well as expanding capacity or space are also the reasons why these loans are provided.

The tenure for this loan is usually from 1-5 years while repayment may be done from monthly or quarterly basis. The installments can be either fixed or it may be a step up or step down process i.e. pay a certain amount for first few months and then pay lesser or more than the previous installment.

Bridge Financing- During an interim period of a project the borrower may require some money to meet certain requirements hence short term loan are provided

Loan to Corporate Houses to Procure Commercial Space- As suggested by the name it provides loan to corporate houses for procuring official and commercial spaces. The tenure for this loan lasts up to 7 years.

Long Term Finance for Real Estate Developers- The developers will be financed by IDLC in order to meet capital expenditure construction cost for specific construction project. The disbursement of loan is made in phases depending upon the work of the construction and the tenure lasts till 7 years. A certain debt-equity ratio has to be maintained.

3. **Working Capital-** The IDLC Finance may offer to provide funds for meeting day to day business activities. The modes include short term loans, work order etc.

4. **Project Financing-** Funds may be provided in order for enhancing production line, a new concern of an existing group, a new Joint Venture project of an existing company, etc. A certain required debt to equity ratio is maintained while tenure is dependent upon product type.

Club Financing for Relatively Larger Projects- In case of a large amount that needs to be borrowed, IDLC finance on behalf of the client can actually approach their strategic alliance partners and can make available that fund for the client.

b. **Consumer Division-** This division works more close and personally with the client. They develop products and services catering the personal needs of the clients. Some of the services and products offered by IDLC finance are as follows:-

- 1) **Deposit Schemes-** Deposit Schemes are savings schemes and there can be two kinds of scheme for savings and that are- monthly earner deposit where deposits can be made in monthly installments and regular earner package where deposits are made on annual basis.
- 2) **Home Loan-** As one of the main Home Loan suppliers in the nation, IDLC offers the most helpful Home Loan to suit your needs. With such a variety of alluring advantages, the home you generally needed is no more a fantasy.

Construction Loan- Take Loan for constructing new residential or commercial buildings, and extension or renovation of existing buildings. Flexible Repayment system is offered.

Registra Loan- The first of its kind, IDLC acts as a pioneer for providing you immediate cash required to complete registration for acquiring a land. The land acquired may act as a mortgage.

3) *Car loan-* IDLC finance realizes that car is no longer a luxury rather a necessity. Hence IDLC finance allows one to have their own car as it ensures personal control as well as mobility. In one word, it improves ones quality of life. IDLC Car Loan facility is here to make it happen for you.

4) *Personal Loan-* We understand your all out efforts to improve the quality of life, but necessities no longer wait for your savings to accumulate. Sometimes, it gets harder to meet ever changing needs. IDLC Finance Limited, the largest financial institution of the country, can help you achieve your aspirations with a Personal Loan that is suitable for you. IDLC Personal Loan - financing for all your need!

c. **SME Division-** Under the National Industrial Policy of Bangladesh a small and medium enterprise has been defined by the number of people it employs and the fixed capital it has, therefore based on the law a small enterprise is a firm that has less than 50 people employed and has a fixed capital of less than \$100mn while a medium enterprise has employees within 50-100 people and has a fixed capital of \$100-\$300mn. If a firm crosses these figures then it is identified as a large firm.

However, in 2010 Bangladesh Bank changed the definition of SME by including new sectors such as cottage industry.

Small Finance- Small Finance is for those companies which follow the

SME Loan- IDLC offers financing offices to little scale endeavors for doing their exchanging, assembling or administration business. In addition, financing offices for creating business land can likewise be benefited by such undertakings

ABASHAN Loan- It is a loan that is granted for establishing permanent structure over industrial areas and EPZ areas of the country.

Medium Finance- The Medium firms are financed by using the same tools as that of corporate however the tenure and amount tends to vary a little.

Supplier finance- This is a unique loan option provided to small enterprises in order to maintain the supply orders. This transient office empowers the suppliers/administration suppliers to understand the most extreme part of the installment not long after the conveyance has been made to the purchaser.

D.Capital Market- The Capital Market as stated earlier is a market for buying and selling equity. IDLC finance opened up a brokerage house to facilitate both corporate and normal citizens of such investments.

Portfolio Management- IDLC offers Portfolio Management administrations to both individual and institutional financial specialists through our auxiliary, IDLC Investments Limited. Speculators can benefit our administrations through our major optional venture accounts – MAXCAP and Cap Invest

MAX CAP- MAXCAP is a customized optional speculation record intended for high total assets customers, both people and foundations. IDLC Investments Limited, your Portfolio Manager, will take after a taught venture process and organized way to deal with construct your portfolio, custom-made to your particular needs and limitations.

CAP INVESTS-Top Invest is an Investor's Discretionary Account that gives edge credit offices to the financial specialists:

Real Services

Stretching out edge credit offices to empower financial specialists to win upgraded return

Enrolling the securities, and gathering profits and extra shares

Subscribing to the rights issues

Finishing dematerialization process

Keeping the securities in safe authority

Internship Experience-

My joining date at IDLC Finance Limited was 14th September, 2014. I had been assigned to the Credit Administration Department of IDLC Finance Limited under the supervision of Mr. Prodduthmoy Barua, Assistant Manager (Credit Administration). I had been hired along with another intern for this department to help them to carry out their daily jobs

The internship program at IDLC Finance Limited is quite challenging & effective tool for grooming leaders. The program is a new model which is designed to transition the new young professionals into the corporate world of Credit Administration. In this program not only did I learn through various attachments but also I made contributions by assisting the function with hands on support and also in terms of process improvements suggestions at the end that had real impact in making better working conditions and methods for others.

The Primary task handed to me and another fellow intern was to update their loan and lease files of medium and corporate enterprises into a software known as EDMS i.e. Electronically Data Management System. There was a certain pattern that we needed follow while performing this task, firstly we would have to arrange the files in an order where appraisal and office memo would be on top followed by sanction letters disbursement letter, conformation letter, LC documents etc. They would soon be followed by credit control and sale or lease agreement with certificate of lease execution and board resolution. In case of lease there would be money receipts, delivery challan, registration and insurance number otherwise the next set would be the personal guarantors, undertaking of the liability along with demand promissory note.

Once the documents are set in order they would then they would be scanned and uploaded in the software using a complex naming and numbering process. In this discussion we shall not go in details of the process of EDMS but we shall state the reason for IDLC's usage of the software. Basically all the documents of a particular client is saved using its Loan Account (L/A) number and the files are named after the (L/A) i.e.

1056209666666_Office Memo, this would serve the purpose of locating a particular clients information by various branches of IDLC across the country. In case of any law suit or the client is at default then these documents act as proofs.

Credit Administration Department receives loan booklets and required documents from sales team who have sold loan/lease to clients through Credit Risk Management. In the internship program, I had been given responsibility to check all the documents such as name, spelling, sign, seal, date, address, TIN, Trade license along with revenue stamps of Bangladesh Bank glued on the rightful agreement paper with the correct amount. Each intern had been given a responsibility to manage & be responsible for finding out if something went wrong or was missing and to inform Mr. AtaulHaqMozumdar who happens to be Senior Executive and looks over the SME booklets. If something went missing then he would first have to inform to our Department's Assistant Manager, Mr. ProddutmouyBarua and then perhaps the Relationship Manager to collect those missing files again. Only upon his instruction's would the booklets be needed to be taken to respective authority (e.g. manager/senior manager/head of credit) to get the disbursement.

Credit Risk Management decides who should get what amount of lease or loan. They visit customer's office, make inquiries in regards to customers whether they have whatever other credits/leases from distinctive monetary organizations or not. On the off chance that they think there is an immense danger for any enormous lease/credit for association then they approach customer to home loan and resource for security so that if he/she defaults to pay back, association can minimize the misfortune. Also, for any little rent/credit if there is immense danger they take security check from customers just to verify that customers have capacity to pay the advance/lease sum back. The security checks will be come back to customers once they pay back their rents. They rather call it "Rents."

Some basic functionality had to be performed during the internship period such as sending Security Cheques to various IDLC branches upon closing of the Client's account. Now prequel to this we had to deal with the inventory problem of the IDLC finance limited. The Credit Administration Department had to maintain an inventory of all the security cheque's sent in by clients. There were two spreadsheets which were used; the

first would keep a record of cheques present in the vault while the second would mention the cheques returned. The problem was that the inventory was not recorded properly hence many cheques were not recorded while some went missing. There were also mismatch between client's security cheques amount and number etc.

Upon the instruction of our boss we had redone the inventory by manually putting a serial number on the envelope of the cheques and recording them in the excel sheet with clients name, amount cheque number etc. For the return sheet we just put date on top and cut and paste the clients name amount and cheque number while stating to whom the cheque was sent. E-mails were kept as record for the transaction.

Apart from the security cheque, we also had to go through the vault for land documents loan and lease files, we had to match the soft copy with the hard copy in terms of the location of the files. The main task was to note down whether they were at their specified location or not.

The experience was an eye opener to an actual corporate world and specially the finance world. As we go up the ladder our responsibility tends to increase along with our liabilities.

PART 2

Bank Vs Non -Bank

Financial

Institutions

Money Market

According to Bangladesh Bank, there are around 45 scheduled banks while there are around 37 non-scheduled banks. Altogether the Banking industry would comprise of only 83 banks in the Bangladesh economy.

According to an article published on BANK info beta, a web portal regarding the banking sector only, on the 22nd July of 2013, there were about 30 non -banking financial institutions. Therefore based on the information discussed above the following pie chart shows us the scenario of the money market.

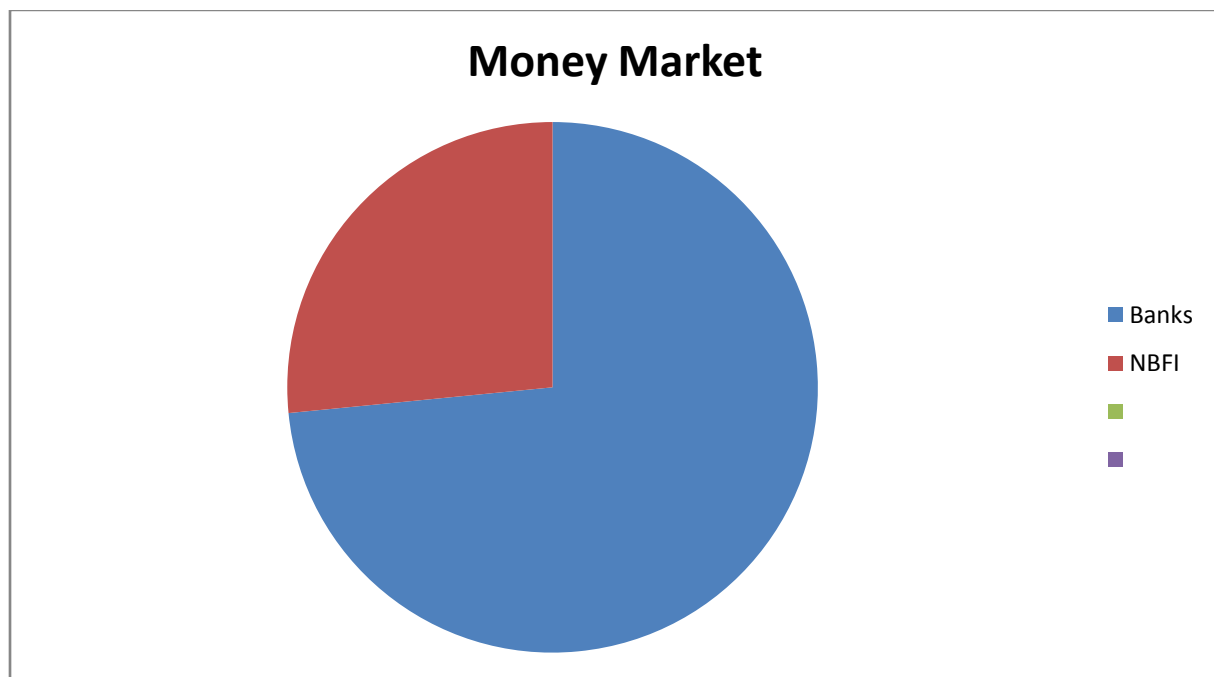


Fig- Total constitution of the Bank and Non -Banking Financial Institutions

Of the total industry, as stated previously around 43 are scheduled banks while the rest are non-scheduled banks and lastly a few non- banking financial Institutions. Below is the figure depicting the actual constituents of the three categories.

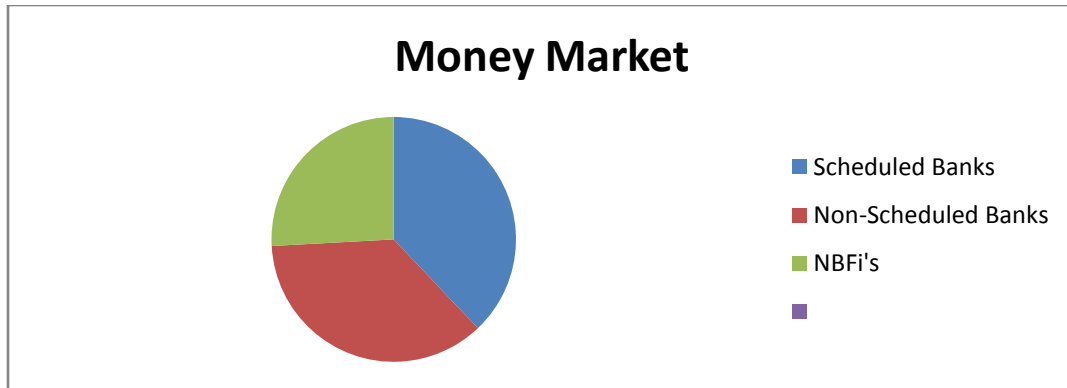


Fig- Actual Constituents

Loan is a key product for both Banks and NBFi. A loan is defined as the act of giving out money or property in exchange for a promise of payment in the future. In the previous section we have already seen some of the types of loan that can be offered. The entire banking and financial institution industry is heavily dependent on giving out loans in one form or another and collecting the returns.

However there lies some difference between the operations of a bank and a non -banking financial institution. The disparity shall be viewed in terms of their procedures. A quick reminder that Banks and Financial Institutions like IDLC fall under different Laws, Bank would fall under the Banks Act 1991 while the later follows Financial Act 1993.

In order to have an understanding between the differences regarding a Bank and a NBFi we shall do a model study where we will pick one Bank and one NBFi. This model will give us a guideline but not the complete picture for internal management rules differ from one bank to another.

For our study we choose IDLC finance limited as it is the number institution and market leader amongst non banking financial institutions and then we choose a local bank for example BRAC Bank for our study. We chose a local bank to pitch a local institution against another and particularly BRAC Bank because in some cases both BRAC Bank and IDLC Finance end up offering similar services and product line.

Model Study

Before we begin studying and analyzing the process and procedures it is imperative to state that from 2012 onwards Bangladesh Bank has stated the following rules:-

- For giving out loans, the stakeholder must present their National Identity Card.
- Any client opening up account must present their National ID

SME Division- Both IDLC finance and BRAC Bank offer loans to small firms for trading, merchandizing, manufacturing and so on.

BRAC Bank has divided its pool of funds and designed various product schemes to offer as loans, some of the SME Loans provided by BRAC Bank are as follows:-

AnonnoRin- Here in order to meet the business needs this loan is provided where businesses having trade license for over 2 years, proprietorship and earnings of minimum thirty thousand is necessary for being eligible to apply. In this type of loan no security is required and easy monthly installment system is present for pay back. The fund available for this loan is maximum 15 lac. Clients applying for the loan for the first time can only be sanctioned up to 10 lac.

Procedure- A form needs to be filled up stating the purpose of the loan and provide business address along with owner's personal details, National ID (NID) and Tax Identification Number (TIN) and Trade License. Passport size photos are a must.

Once the forms are submitted then BRAC Bank requires certain time period (generally a week or so) to disburse the loan amount. The installments can either be paid on a monthly basis or the client could only pay the interest on a monthly basis and principal can be paid in a single installment. Usually the installment needs to be paid back within 3 years.

ApurboRin- This is a loan system provided to businesses in order for acquiring working capital or buying a fixed asset. The amounts can tenure up to 10 lac to over 5 crores. The loan provides overdraft facility as well i.e. the bank can provide more amount then the amount initially taken as loan. A separate interest rate will be charged on this overdraft amount.

Businesses over 3 years are eligible to apply under the condition that mortgage security can be given to the bank.

Procedure- The business owner personal details along with photocopy of his NID, Trade License, and TIN certificate. This loan requires mortgage and therefore Land documents are to be provided as well. The list also includes a family guarantor and a third party guarantor along with a report from Credit Information Bureau of Bangladesh Bank and a no objection certificate.

Lastly a copy of utility bills for the past 3 months of the company and of the mortgage as well.

Again like the previous AnonnoRin here too the client may provide monthly installments or single installments.

Shomriddhi SME Loan- To meet import-export related expenses, post import expenses, tax/duty payment, local bill purchase, and working capital, and fixed asset finance, SHOMRIDDHI loan is offering BDT 1 Lac to BDT 50 million

Loans are offered against L/C, bill, Import Duty payment. Land can act as collateral or also the import item.

Procedures- Trade License TIN and NID of the owner or CEO of the company is compulsory. Now along with them Rent agreement deed, utility bill, in case of lease, lease agreement deed along with Import or Export registration certificate. For the collateral there must be a guarantor from family and another third party guarantor as well.

If the documentations are done properly then within 7 working days the loan is to be sanctioned.

Shokti Loan- This is a loan provided to businesses to meet their short term operational needs.

Businesses over 2 years old are eligible to apply. Here BRAC Bank offers partial cash security, if the business earnings are over 50,000/= per month then BRAC Bank can provide the loan against cash security. Otherwise, depending upon the nature of the business any form of fixed asset such as showroom or land or machinery can be used as collateral.

Procedure- Fill out a form stating the need of loan, hand over copies of Trade License NID TIN, and present documents of collateral such as possession deed of land, or showroom and a bank statement of 1 year.

Shokti Loan payments are flexible monthly and quarterly installments and at the same time single installment is also made to avail. The tenure is 180 days for the loan. (BRAC BANK, 2011)

IDLC SME Division- IDLC finance limited provides SME loans to small enterprises defined by the Central Bank. The purpose of the loan can be for merchandizing, trading, working capital needs and so on. Basically all the criteria are covered by BRAC Bank in their various SME schemes is covered in a single category by IDLC finance.

SME Finance- IDLC fiancé limited provides the loan for small firms which are at least over 2 years old and are a growing concern. Features offered are exceptional as IDLC provides loan without security for up to 15 lac without security while a simple bank statement is enough or other form of cash security is enough for the client to avail funds till 70 lac

Small Firms can also avail themselves with lease facilities and apart from that if the client already has taken loan from another institution they can still be eligible for applying SME loan from IDLC finance.

Procedure- The Relationship Manager (RM) will take the clients NID, Trade License, TIN Certificate along with passport size photos. A booklet will be filled by the RM after checking the customer's details and also discussing the terms and agreements along with security. The security can come in the form of Personal Guarantor i.e. client can bring in his choice of 5-6 people who will take the liability to pay IDLC the interest and principal in case the client fails. Land Mortgages can also act as security, Security cheques are also to avail as well.

All these information are then recorded in a booklet with revenue stamps from Bangladesh Bank glued to each agreement. Term Loan facility, Power of Attorney, Demand Promissory note are some of the agreements where revenue stamps are used. If the information passed on by the RM is correct then within one week the client gets his amount. IDLC often allows flexibility such as client may be given a few days time to bring forth their respective documents.

Inference- IDLC is simpler in its approach unlike BRAC Bank which has sub divided its category making more complex procedures, rather than IDLC which has similar procedure throughout any form of SME loan. The service provided by IDLC is also quicker than BRAC Bank and at the same time IDLC can provide multiple forms of security whereas BRAC Bank has only one form of security which is Mortgage. Only in rare cases do BRAC Bank allows cash security.

Women Entrepreneurial Loan (WEL)-In order to promote Governments vision of a country with great skilled workforce and enhance the economy by increasing GDP, women would play a crucial role. Therefore Bangladesh Bank has sanctioned Women Entrepreneurial Loan with a maximum interest rate of only 10%. On behalf of the Central Bank, all banks and other financial institutions give out the loan to women entrepreneurs.

Prothoma Loan- Prothoma Loan is a loan entitled only for women entrepreneur. The loan can fulfill objectives like trading, manufacturing etc.

As suggested by Bangladesh Bank the interest rate is only 10%, the maximum loan availability is 1 million.

Procedure-The documents required are NID TIN and Trade License. In case of partnership the partnership agreement is also necessary. If the company turns out to be a Private Limited Company then Board resolution copy is also a must. A form needs to be filled out giving the work details and the purpose of the loan.

Once the documentations are clearly done then the Bank takes one week to ensure that the amount is disbursed to the client and client can get away with its operations.

IDLC Purnota- The IDLC Purnota also gives out loan with a maximum interest rate of only 10%. Other than that there is always a constant helpline service available for giving advice to the women entrepreneurs.

The Business can be a start up or it can be old as well. The firm needs not to be small; it can be medium as well. The eligibility is a valid trade license with at least 1 year old. The purpose of

the business can be working capital, manufacturing, trade, purchase of capital machinery and so on.

Minimum loan amount that needs applied is 3 lac while the company can provide unsecured loan of up to 25 lac.

Procedure- Like all other loans here too the owner or the chairpersons NID, Trade License, TIN Certificate are required. In consequence to these documents, if there is any need for mortgage then the possession deed, power of attorney, mortgage deed needs to be provided. In cases where the entrepreneur wants to provide personal guarantor, then contact details along with NID & TIN certificate of the guarantors needs to be given as well. The RM then will translate all the information in to the booklet specifying WEL. Once the documentations are correctly done then disbursement is done within 5 working days.

IDLC finance provides a constant helpline which acts as guideline to the entrepreneurs and at the same time the company may lend a hand in making some business decisions such as evaluating the present value of a machine, the net worth of a company and so on.

Inference- Flexible form of securities is provided by IDLC finance and at the same time loan amounts without security is high. There is a particular RM for every client.

Consumer Division-

Home Loan- In the previous section I have already mentioned the kinds of loan that associates with home.

For House Loan both BRAC Bank and IDLC finance follows similar pattern of documentation and procedures. The difference being in the client's income. IDLC finance is open to people whose income levels are at least 30,000 while BRAC Bank's rules states that consumers whose income levels are at least 50,000 are applicable for the loan.

Procedure- Like all other loans here too the client's NID TIN are needed. Bank Statement of the client is crucial for this loan. Both BRAC Bank and IDLC finance would like to have the power of attorney over the house and use it as collateral. However, there lies a key distinction, BRAC

Bank would like the clients to have family member and third person as guarantor hence their NID TIN and Bank Statement along with utility bill is needed as well while IDLC finance gives out an extra insurance service which was stated in the product description section. In order for that to be effective the insurance company must give out statement and forms stating they are covering the insurance in case the owner dies and the insurance money will go to IDLC finance.

Both BRAC Bank and IDLC finance takes 7 working days in processing these documents and only upon clean sheet do they disburse the loan.

Highlights- In the discussions made above we have three observations.

Primary observation is that the loan amount provided by IDLC finance is generally more than that of the Bank; one of the key issues for such occurrence is that according to the Bank Act 1991 a Bank must maintain a reserve ratio with the Central Bank. Currently that ratio is only 18% from the previous budget year of 25%.

Secondarily from all the forms of loan mentioned both IDLC finance and BRAC Bank promises to give out the disbursement within 7 working days, however, IDLC finance has a simpler approach towards SME Loans compare to BRAC Bank. Therefore we may infer that non banking institutions formalities are easier and less complicated.

Security in IDLC security is very flexible, starting from personal guarantors to security cheques to even savings account balance along with land and fixed asset mortgage which is the only form of security for banks.

Conclusion

Throughout the paper there have been two segments that has been spoken about, the first being the honorary experience of working in the largest non banking financial institute of the country and learning vastly about the outside real world corporate dilemma's and secondarily comparing the process and procedures with a bank.

The highlights of this paper have been the model study of the process and procedure comparison where mainly the disparities were learnt between banking and non banking institutions.

Based on the model we may infer the following

- Loan amount availability is less in Bank compared to NBFIs for Banks need to maintain a reserve ratio
- NBFIs can give quicker response to the clients
- NBFIs have versatile form of security
- Banks only can have mortgage as security

Therefore based on the experience and model study it is perhaps better to seek financial aid from a Non Banking Financial Institution rather than a bank. However, we must bear in mind that the entire industry has not been taken into consideration.

REFERENCES

(n.d.).

Bangladesh Bank . (2006, January 19). *Banks & FI's*. Retrieved August 08th , 2015, from Bangladesh Bank : <https://www.bb.org.bd/fnansys/bankfi.php>

Bangladesh Bank . (2006, January 19). *Financial Markets*. Retrieved August 08, 2015, from Bangladesh Bank : <https://www.bb.org.bd/fnansys/finmarket.php>

BRAC BANK. (2011, JULY 04). *SME BANKING*. Retrieved August 018, 2015, from BRAC BANK: http://www.bracbank.com/sme_banking.php

Helpline, B. B. (2015, August 08th). *Loan Procedures* . (M. Karim, Interviewer)

IDLC Finance . (2010, October 12). *IDLC Products and Services*. Retrieved July 26th , 2015, from www.idlc.com : http://www.idlc.com/producta_services.php