

# Consumer Credit Scheme: A Major Weapon in Banking Sector of Bangladesh to Attract the Limited Income People

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## Abstract

Consumer credit scheme is one of the most important ranges of credit in banking. It is such an approach that enables the enhancement of the buying capacity of small as well as big scale consumers. Not only that, it also provided the bank an opportunity to make substantial amount of profit. It means that this scheme serves twofold interest; it benefits consumers as well as banks. Today Consumer Credit Scheme has become an integral part in the field of banking in Bangladesh. Consumers as a group are not only a source of deposit but also a vivacious and dynamic source of lending for banks. Rapid economic growth along with evolving of service sector espouses a substantial number of middle class families which have regular income with diversified need. They are aggressively active in financial market for securing loans in convenient term to purchase consumer goods in order to maintain as well as to improve their standard of living.

**Key words:** Consumer credit scheme, weapon of banking, customer's attitude.

## 1. Introduction

Structured Bangladesh banking sector cannot no longer rely on corporate leading due to immense competition and rapid evolving capital market. In order to earn handsome profit for shareholders as well as ensure continuous growth, banks need to find new sector for lending and consumer credit scheme is an ideal solution. Higher spread and quicker recycle of loanable funds have made consumer financing one of the most attractive and faster growing lending sector for commercial banks of Bangladesh. So most of the commercial Banks are concentrated on consumer financing market crafting aggressive marketing strategy equipped with novel and innovative product. Today's very much competitive business world it has become the toughest task to achieve customer satisfaction through quality service. To maintain customer satisfaction it is necessary to understand the perception, attitude, expectation, psychology and motivation about a particular issue. considering this, in the very challenging environment any organization needs to keep the improvement flow smoother and marketing properly through effective planning and execution of conception, quality pricing and promotional campaign and selecting the exact distribution channel. Under this circumstance Bangladesh Bank has felt that a gregarious and well-formulated guideline is essential for encouraging healthy competition among financial institution operating its customer financial market as well as to guard the interest of the customer. This evaluation help to understand about the reason behind starting such scheme, its specialty, operation and the acceptance of the product of this scheme through the customer's attitudes towards such scheme.

### 1.1 Objectives

- (I) To identify the reason behind the popularity of consumer credit scheme in limited income group people in Bangladesh
- (II) Level of customer satisfaction based on their expectation (Likert 5 point scale)
- (III) To identify the problems regarding the current CCS practices (Based on consumer's perception and expectation) and recommend some suggestions for the betterment of the CCS.

### 1.2 Methodology

The ways which was followed to collect, evaluate, analyze, interpret, and explain, preparation and presentation of data are presented below;

### **1.2.1 Sample design**

The total number of population in the study is the total customers of the selected banks of Khulna city who are enjoying consumer credit during three months (July-October). Out of the whole population of the year, 2011 (up to October 18) 100 customers are selected. Convenient sampling techniques are used to collect necessary information from the consumer credit holders.

### **1.2.2 Data collection Sources**

In the study both primary and secondary sources is used to collect necessary data.

#### **1.2.2.1 Primary Data sources**

In primary data collection process two methods were used-

- (a) Questionnaire technique.
- (b) Personal observation.

#### **(a) Questionnaire technique**

In questionnaire different questions were set up according to the objectives of the study.

In the questionnaire two different types were used. One is designed to collect data form the organization and respected person in charge of “Retail Banking” sector for consumer credit related information. Open ended as well as close ended both types will be used according to the necessity.

On the other hand the 2<sup>nd</sup> part is designed to measure the customer satisfaction. Different variables were identified here which played a vital role in measuring the customer satisfaction. In five point Likert scale two same shaped questionnaires is used. In the first part of the questionnaire the customers were asked to provide their opinion about the importance of the variables and in another part the creditors were requested to put their judgment about the satisfaction in current consumer credit services they are enjoying. After comparing the degree of importance and satisfaction level gap were find out between them.

#### **(b) Personal observation**

Observation method was used to collect data while the project work was conducted in the banks. The behavior, needs and wants of the customers and the treatment of the employee(s) of consumer credit department were also followed.

#### **1.2.2.2 Secondary Data sources**

For secondary information published journals, credit circular/ manual including consumer credit, newspaper and website.

### **1.2.3 Data processing and analyzing**

Data were collected and coding decoding was also used. Microsoft Excel was used to find out the average satisfaction of the customer.

## **1.3 Difference between consumer loans and commercial loans**

Non-mortgage consumer loans differ substantially from commercial loans. Their usual purpose is to finance the purchase of durable goods, although many individuals borrow to finance education, medical care and other expenses. The average loan to each borrower is relatively small. Most loans have maturities from one to four years, are rapid in installment and carry fixed interest rate. Although they carry fixed interest rate, installment payment increase this rate sensitivity, as their average duration is relatively short.\

## **1.4 Banks offering consumer credit in Bangladesh**

Consumer credit has a responsible role to play in our country where income level is not high enough even to support the necessities of life let alone being luxuriated in anything else. The consumer credit is a way to make dreams come true. The banks in Bangladesh that provide Consumer Credit Scheme are as follows

- |                                   |                                |
|-----------------------------------|--------------------------------|
| 1. Al-Arafah Islami Bank Ltd.     | 3. Islami Bank Bangladesh Ltd. |
| 1. Al-Baraka Bank Bangladesh Ltd. | 4. Mercantile Bank Ltd.        |
| 2. IFIC Bank Ltd.                 | 5. National Bank Ltd.          |

- |                           |                                       |
|---------------------------|---------------------------------------|
| 6. Prime Bank Ltd.        | 10. Standard Chartered Grindlays Bank |
| 7. Pubali Bank Ltd.       | 11. Uttara Bank Ltd.                  |
| 8. Social Investment Bank | 12. One Bank Ltd.                     |
| 9. South East Bank Ltd.   |                                       |

### 1.5 Product Covered in General in Consumer Credit Scheme

**Vehicles:** Car, Micro-bus, Four Wheel Drives, Ambulance, Motor Cycle, Bi-cycle etc.

**Domestic Appliances:** Air Conditioner, Refrigerator, Deep Freezer, Washing Machine, Air Cooler, Water Cooler, Room Heater, Water Pump, Phone, Cellular/Mobile Phone, Ceiling Fan Pedestal Fan, Sewing Machine etc.

**Office Equipment:** Generator (non-commercial), Personal Computer, Photo Copiers, Facsimile Machines, IPS, UPS Volt guard/stabilizer.

**Entertainment:** VCR, VCP, Music system, Sound System, Radio System, Radio, Two in one, Video Camera with accessories etc.

**Kitchen Range:** Oven, Micro Oven, Toaster, Blender, Pressure-cooker, Dinner set, Tea set, Crockery etc.

**Furniture:** Different types of furniture, home repairing, internal decoration, Redecoration etc.

**Specialist-Accessory:** Clinical Instrument, Dental Instrument, Engine Architects, Chartered Accountants etc. specially needed instruments

### 1.6 Factors that affect the Demand for consumer installment credit

Normally the following factors affect the demand for consumer credit:

1. Consumer's disposable income ( After meeting all other expenses)
2. The real income for the proceeding/scheduled time/ year.
3. The size of the monthly installment-either it is too broad or small or reasonable
4. The growth in family formation-for micro to macro or vice versa
5. Down payment and contract length., rules or regulations - hard or flexible

### 1.7 Reasons behind popularity of Consumer Credit Scheme in Bangladesh

Commercial banks aggressively compete for consumer loans for a variety of reasons. In recent year net yield of consumer loans have exceeded those on commercial loans. Default rate stands higher than those on other loans, but the gross yield charged is more than required to compensate for the higher losses. When rate decline, net profits on consumer loans raise sharply because these loan rates are sticky. Individuals also typically maintain deposit account where they borrow. Retail deposits are relatively low cost and not nearly as rate sensitive as commercial deposits. Thus liquidity risk is reduced when the volume of consumer deposit increases at a bank. Among the limited income people consumer credit gained the popularity for several reasons as it provides the opportunity of buy and enjoy now and pay from future income by shopping convenience. It is true that lower group in Bangladesh are not financially solvent enough to buy essential household durables (like TV, fridge, furniture, sofa-set etc.) to boost up the lifestyle after fulfillment of their other basic needs. There are some implied factors which revealed some issues that how consumer credit scheme ultimately enhance the family bonding along with the life standard of the people. The factors are consumer credit to purchase household goods helps to get affiliation of family solidarity, relaxation and relationship. As a result the members may not require much time outside home for recreation or other purpose. By the help of consumer credit people become more financially eligible to buy fashionable and luxurious goods that ultimately help to exhibit their social status. Consumer credit develops and promotes mass production for durable goods. It also endorses higher employment. Sometimes its preserve our savings and the bank offered us convenience credit. We took credit for our pressure of necessary and sometimes for early consumption. Most of the people believe that consumer credit scheme increase the life security and comfort ability as the car loan.

### 1.8 Eligibility of the client

Different banks set different eligibility criteria. Among them notable are:

- (a) **Age range:** 18 to 58 years (may differs)
- (b) **Service holder:**
  - (i) Service holder in govt., semi-govt. autonomous organization, bank, insurance and other financial organization, Defense, BDR, Police, Ansar and Educational Institution.
  - (ii) Employees of well-known private organization.
- (c) Businessman, self-employed person, professional's etc.
- (d) Any Bangladesh nationals who is eligible to contract and able to repay the loan and fulfill the clause.

### 1.9 Customer satisfaction regarding CCS

Customer satisfaction means a person's (Customer) feeling of pleasure or disappointment resulting from comparing a product's/service's perceived outcome or performance relating to his/her expectation. Satisfaction is a function of perceived performance expectation. If the performance falls short of expectation, the customer is dissatisfied. On the other hand if the performance matches the expectation, the customer is satisfied. When the performance exceeds expectation the customer is highly satisfied or delighted. Many service render organization like bank aiming for higher satisfaction of the customers. Because who are just satisfied still find it easy to switch when a better offers comes along. Those who are highly satisfied are much less ready to switch. High satisfaction or delight creates an emotional bond with the service, not just the traditional preferences. As a result high customer loyalty is created. The customers give special preferences to some particulars. They measure their satisfaction level comparison with their expectation of the performance of those particulars. The main concerned items to the customer were;

1. Location and environment of the bank.
2. Product and service under the scheme.
3. Amount limit of the loan.
4. Rate of interest
5. Age range in restriction of the bank.
6. Time duration of repayment.
7. Service charge of the scheme.
8. Minimum income level restriction.
9. Installment fixation.
10. Speediness in loan processing.
11. CCS transaction policy.
12. The requirement of guarantors.
13. The actions against due/default loan.
14. Information provided by the bank.
15. The effectiveness of the employees of CCS department.
16. Banker's effectiveness in solving various problems.
17. Real profitability of the loan.
18. Marketing or promotional campaign of CCS.
19. Supervision monitoring and follow-up.

When the above matters/issues are properly evaluated, then the overall performance of the can be measured. The overall performance evaluation is totally depends upon the opinion of the customers. There may remain vast difference between the expectation and customer satisfaction of particular issues. It may cross the expectation or lack behind it. So when a customer put his/her judgment about total performances , operation or the average satisfaction

level all the issues should considered very carefully. Because customer satisfaction is a very much burning issue in today's business world. As it is a relative matter, so companies are also facing trouble to meet ever-diversified customer satisfaction. If we have a glimpse on CCS of different bank's customer satisfaction, we see the bank is also underperforming in many of the cases. To measure the customer satisfaction MS Excel is used. In a 5 point Likert scale different values are assigned from 1 to 5. Basing upon the response of the customers different values are marked. Same type of questionnaire is used to measure the expectation and level of satisfaction. In the first part of the questionnaire the respondents were asked to answer to the variables basing upon the degree of importunes. That is how much important of those variables to the customers when they are ready to take service from any financial organization as bank. On the other portion of the questionnaire the same questions are asked to the creditors basing on the experiences that they have already gathered from the bank. For both the case the average is calculated. Then from the average satisfaction the average expectation was deducted for each of the variables. The gap between the expectation and satisfaction then easily can calculate.

**The following table will help us to understand the subject:**

Variables/Factors (1)	Mean degree of importance (personal) (2)	Mean perceived role of factor(s) in preferring Khulna Branch (3)	Gap between expectation and perceived reality (4)=(3)-(2)
Location and environment.	4.12	4.32	.20
Product and service of CCS	4.24	4.2	-0.04
Amount limit of the loan	4.16	3.88	-0.28
Rate of interest.	4.56	1.72	-2.84
Age range in restriction of loan	3.84	3.24	-.60
Time duration in repayment	3.84	2.52	-1.52
Service charge for the scheme.	3.56	4.16	0.60
Income level restriction	3.96	1.64	-2.32
Installment fixation	3.72	4.04	.32
Speediness in loan processing.	4.16	2.84	-1.32
CCS transaction policy	4.08	4.16	.08
The requirement of guarantors	3.48	3.76	.28
Actions against due/default loan	3.6	2.92	-0.68
Information provided by the bank.	3.8	3.96	.16
Effectiveness of SSC department	4.08	4.08	0.00
Effectiveness in problem solving	4.12	3.84	-0.28
Real profitability of the loan.	3.84	4.24	.40
Marketing /promotional campaign.	4.12	2.56	-1.56
Supervision, monitoring, follow up	3.96	3.88	-.08

**Table 1:** Showing average gap between personal importance level and perceived role of factors

**Source:** Satisfaction measurement table

**1. Location and environment of the bank:** The terms location and environment has a great effect the customer satisfaction. Because the customer wants to get the best possible and higher quality of services form any service render organization. They want to get it in least time and least effort. For the selected banks expectation of the

customer about the location and environment was 4.12 but the actual level of satisfaction is 4.32 that are they are positively satisfied. Their level of satisfaction is more than .20 from their expectation. They are impressed to the environment, location or overall interior decoration of the located banks of Khulna city.

**2. Product and service under the scheme:** It indicates how many products are available under CCS scheme. Before taking loan or knowing more every intended customer expects that they will be able to get their every desired product. As a result the average expectation of the customer was 4.24 and they were satisfied at 4.20 levels after getting loan. That means still it falls short of .04 of the expectation.

**3. Amount limit of the loan:** The banks authorities have certain limit of sanctioning for a branch. With the permission of the head office the amount can be increased. In that case the loan will be realized under the direct supervision of the Head Office. Though there is on specific restriction for any particular branch, but the HO can restrict the loan providing limit evaluating the financial performance of a branch. For example before taking loan the intended customer's average expectation against any loan restriction was 4.16 and in the reality they were satisfied at 3.88 levels.

**4. Rate of interest:** Before taking loan most of the people provide the highest degree of impotence on the rate of interest. The current rate of interest of CCS is 16% that is more than the expectation. As a result the current creditors are satisfied at an average level of 1.72 where their expectation was at 4.56. The quick fluctuation of interest is another issue for such dissatisfaction.

**5. Age range in restriction of the bank:** Person within 25-60 is eligible to get the loan under CCS. At the time or before loan the customers give importance at 3.84 level and they are satisfied at 3.24. The age range restriction is the main reason of such result which is .60 less than their expectation.

**6. Time duration of repayment:** It is natural that every creditor wants to repay the credit at their most convenient time. The time duration for loan payment is 24 months most of the cases. That means 2 years. But the expectation does not match with their desired satisfaction. Because CCS is mainly designed for limited income grouped people. But two years is not sufficient the result is the only 2.52 level of satisfaction against 3.84 level of expectation.

**7. Service charge of the scheme:** Service charge means the fees which are kept by the exchange of service. In PBL it is only 1%. The creditors expect 3.56 level of service charge at get 4.16. The lower service charge is the reason of their .40 level of more satisfaction.

**8. Income level restriction:** To select the criteria for the borrowers, PBL restricted its customer group in a specific income range. It is different for different professionals. They must be within a restricted group. But the original limited income group people may not included in this group some times, though they badly need consumer credit to meet their need. The current creditors think that the authority should more flexible here. At the 3.96 average level of expectation only 1.64 level of satisfaction is gained in total five points.

**9. Installment fixation:** The time duration for repayment of the loan is one to two years and three years for the own employees of PBL. The total amount of loan is divided with time total number of months within which it must be paid. The amount for per installment is found out. Though most of the people are dissatisfied about the time duration, but the transparency and easy calculation of the installment procedure make the customers at 4.04 average level satisfied at their expectation of 3.72.

**10. Speediness in loan processing:** Every intended customer want that they will be able to get the loan in least possible time. They are not fond of any lengthy process which may kill time. It is nothing but wasting of time to them. Besides this the customers think that they need credit to meet the burning needs. So it has to meet when it needs. Most of the customers emphasize upon the speediness in total operating. Not only the loan processing, but also other times they want to avoid any time killing problems. The expectation of the customer was at 4.16 where the bank was able to meet only 2.84 average level of satisfaction. Though the bank authority has an explanation in their own-that is less employees and the ignorance of the customers. Some times the customers take huge time in popper replacing of documents.

**11. CCS transaction policy:** Transaction policy means the terms and conditions that the client as well as the bank has to follow to disbursement a loan. In case of CCS the bank follows more or less same policy as they follow in case of normal credit. More over there is a great opportunity in the CCS of is that no physical collateral is required like other credit. Most of the clients (current or intended) appreciated this condition. This term is also a fact to attract them to CCS. Because it is said that CCS is mainly designed for limited income group people. For most of the people



it is tough to submit all the papers of their assets, especially when they stay apart from it. For this friendly and flexible condition the average satisfaction of the CCS's customers was 4.16 where the expected average was 4.08. That means the clients are .08 more (averagely) satisfied than their expectation.

**12. The requirement of guarantors:** At the time of loan taking the borrowers need to provide the guarantee of two accepted persons by the bank authority. The clients hope that there must be a chance of others to repay the loan in case of failure of the borrower. Some times the borrowers may totally fail to repay unintentionally. The economic and other condition may go out of control of them and make it impossible to repay. The clients think that the requirement of guarantors is very much necessary not only for borrower but also for the bank. But there is a question-the guarantors should not be harassed any how. In case of the requirements the average expectation was 3.48 and received satisfaction average was 3.76 that is .28 portion of positive gap remain there.

**13. The actions against due/default loan:** When the creditors fail to repay the bank then the bank takes actions against defaulters. The creditors expect that the bank properly take action in case of defaulter. In the five point Likert Scales the position of the customer expectation was 3.6 and their satisfaction level was 2.92 that means there remain .28 of negative gap between expectation and obtained satisfaction.

**14. Information provided by the bank:** Before taking any loan the customers think that should have enough information in their hand to justify the real profitability of the loan. In case of providing loan the bank is almost to the satisfactory level. The position was 3.96 at the opposite of 3.8 levels of expectations.

**15. The effectiveness of the employees of CCS department:** At the time of getting after taking loan the borrowers need the assistance of the employees of the CCS department. Such as; make clear the terms and conditions, fill-up different forms which seems difficult to the, some calculation or other documentations. It may become difficult or impossible for the creditors without the proper assistances of the employees of CCS department. The expectation of the intended borrower before taking loan was the department will always by them –it was 4.08 and they are able to get 4.08 level of satisfaction. That means it exactly adjust with their expectation at an average calculation.

**16. Banker's effectiveness in solving various problems:** After getting loan the responsibilities of the borrower and the bank increase gradually. One hand the bank needs proper monitoring of the loan to ensure higher profitability, on the other hand the borrowers can face several problems. So both the party needs to be careful enough to avoid any unexpected situations. The customers hope that the bank must be caring enough to solve any types of the clients to decrease the satisfaction among them. Considering this the customer expectation was 4.12 and gets 3.84 still there remain .28 negative gaps between these.

**17. Real profitability of the loan:** The profitability can be measured from two view points. From the bank's view and the customer other hand. Bank can easily measure it by examining the amount disbursed or by the recovery rate. But the customers measure it in different ways. They think how much fruitful the loan is for them. Though the effectiveness of the loan depends upon the use of the borrowers but they also consider some things which are associated with the items of loan and the performances of the bank also. The considered matters are;

- Different items of loan.
- Difficulty in loan taking.
- Rapidness of the bankers.
- Availability of loan. etc.

Some times it is fund that time, terms or unavailability can damage the real profitable of the loan. So to measure the real profitability the customers expect that the available items under CCS will be effective enough to meet their need and fulfill the main objectives of starting CCS. At 3.84 level of expectation the satisfaction level is 4.24 that means it cross the satisfactory level and it can said that CCS is really profitable for the limited income group.

**18. Marketing or promotional campaign of CCS:** The growth, maturity or sustainability depends upon the promotion of the product. Though there is a vast demand of consumer credit scheme, the marketing and promotional campaign is legging behind in case of CCS. The borrowers think that there should more promotional captivities in the commercials or other areas. So that more people can know and attracted to CCS. More promotional campaign is needed as there is a huge informative gap among the customers before coming bank –that is -1.56 against 4.12 average expectations.

**19. Supervision, monitoring and follow up:** In case of consumer credit scheme to maintain the total control on the credit time to time monitoring and follow up and also supervision from the credit division is required. One side it decrease the chance of due or default for the bank on the other hand it motivate or inspire or make active the creditors to repay the loan. The creditors think that there should enough activities in the credit division. At 3.96 level of average expectation that means in fine point scale the garage degree of importance was 3.96 and the bank was able to meet 3.88.

Now we take a look at what percentage of people said the following factors were very important to them to measure the service quality of a particular organization. That means they put 5 on the Likert Scale;

Variables	Percentage of people said the factor is very important (5)
Location and environment.	32%
Product and service of CCS	36
Amount limit of the loan	28
Rate of interest.	64
Age range in transaction of bank.	20
Time duration in repayment	20
Service charge for the scheme.	12
Income level restriction	36
Installment fixation	16
Speediness in loan processing.	40
SSC transaction policy	28
The requirement of guarantors	20
Actions against due/default loan	16
Information provided by the bank.	20
Effectiveness of SSC department	32
Effectiveness in problem solving	40
Real profitability of the loan.	20
Marketing /promotional campaign.	32
Supervision, monitoring and follow up	36%

Table: 2 showing the percentage of people emphasizing most on a specific variable. [Source: Satisfaction measurement table]

\*\*\*It should be mentioned the result does not match with the average importance of the survey, only the 5 point selectors are considered here.\*\*\*

Now we can look at the following table where it is shown how much customer are very satisfied with their obtained performance.



Table: 3 the percentage of very satisfied people on a particular variables

<b>Variables</b>	<b>Percentage of people said that they are very satisfied (5)</b>
Location and environment.	48%
Product and service of CCS	48
Amount limit of the loan	32
Rate of interest.	0
Age range in transaction of bank.	4
Time duration in repayment	0
Service charge for the scheme.	40
Income level restriction	0
Installment fixation	28
Speediness in loan processing.	12
SSC transaction policy	44
The requirement of guarantors	24
Actions against due/default loan	4
Information provided by the bank.	28
Effectiveness of SSC department	28
Effectiveness in problem solving	32
Real profitability of the loan.	40
Marketing /promotional campaign.	0
Supervision, monitoring and follow up	24%

[Source: Satisfaction measurement table]

## 2. Conclusion

Consumer lending has become the inseparable part of social transaction. From the very early age it had taken place in our society in the non-institutional form. In our country, banking sector introduced the product in mid 90's. It is growing rapidly because; the product has the potentiality of earning huge profit to the banks. But the product has not developed in structure and statute. In developed world consumer credit play the dual role of investment and consumption, but not in our country. Here it is considered to be only consumption. As a result, regulatory body asks for setting limit on consumer lending. Banks are interested in this product, because it earns profit over and exceeding the market profit. It creates a bank customer relationship, which has an overall macro-economic impact of induced purchasing power, forced saving and investment. On the other hand, consumer credit by banks has some social benefits. As it provides for emergency service and tertiary education, bring qualitative improvement in the goods market through enhanced competition. CCS also provides further economic benefit if consumer expends on productive goods or on cost saving items. So we can conclude that this product is very profitable for the banks. But the product is not fully standardized and do not detail in symmetries information for the consumer, as delivery system is also loaded with comparative complexity.

### 2.1 Recommendations

1. To attract more customers the CCS needs more promotional campaign. It can be through radio, televisions, newspapers or other commercials.
2. A customer may be persuaded to repay his installment by offering him that if he repays his installment within the fixed time he will be entitled to get new loan at a lower rate of interest and with less formality. This kind of offer will inspire him not to be defaulter. Moreover, this offer will make a new customer from an existing customer.
3. Customers should be given some options. They should be given some incentives like reduction of 1 or 2 percent interest if they repay their loan within due time.
4. The rate of interest should be much lower to attract more customers.
5. The use of technology should increase to make the total credit operation more effective and efficient.
6. Repayment time should increase, because 24 months are not sufficient to repay loan.
7. To do business in an effective manner PBL should focus and identify its target market segment. Through evaluating customers wants, needs according to their income, expense the new customer segment should be selected.

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