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Different Parametric and Non-parametric Approaches to Model the Efficiency of Islamic and Conventional Banks in Bangladesh

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Abstract: This study empirically investigates the efficiency of Islamic and conventional banks in Bangladesh using different frontier approaches. These different measurements provide comprehensive and robust results of efficiency of individual bank compare to its peer group in every aspect considered. The results show that conventional and Islamic banks have been improving and converge to the highest level of efficiency. Results also show that conventional banks are only slightly more efficient than Islamic banks. But, IBBL alone is slightly more efficient than conventional banks. However, they are improving and converging to a high level of efficiency. Study also finds that the Bangladeshi Islamic banking industry, especially Islami Bank Bangladesh Limited (IBBL), has in terms of assets, deposits, income, remittance collection, foreign exchange business and financing base, grown rapidly over the study period (2003 to 2008). Therefore, Islamic banks should redirect their marketing and communication strategies to focus more on targeting floating customers. The shortage in human resource should also be given serious attention with short term and long term strategies.

Keywords: Islamic Banking, stochastic frontier approach, data envelopment analysis (DEA), allocative, technical, cost, scale, profit efficiency

INTRODUCTION

In Bangladesh, Banking sector started working since its independence and has started to emerge in 1990s. By December 2009, there are 4 public limited bank, 5 specialized bank, 30 domestic private bank and 9 foreign private bank working across the country.

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