

# Foreign Exchange Operations of Islami Bank Bangladesh Limited

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## Abstract

In the dynamic global financial landscape, foreign exchange operations play a pivotal role in facilitating international trade and economic activities. Islami Bank Bangladesh Limited (IBBL) has emerged as a significant player in the country's banking sector with a strong commitment to Shariah-compliant practices. Understanding the nuances of its foreign exchange operations is essential for assessing its contribution to the national economy. This study aimed to comprehensively analyze the foreign exchange operations of Islami Bank Bangladesh Limited, focusing on its performance and adherence to Islamic principles. The research involved an in-depth examination of IBBL's foreign exchange operations, including documentary analysis, interviews with bank officials, and a review of relevant literature. Data on foreign exchange transactions, compliance with Shariah principles, and financial performance were analyzed. The study found that IBBL has demonstrated commendable performance in foreign exchange operations. It has successfully maintained a substantial share of the foreign exchange market in Bangladesh, accounting for over 20% of total transactions. Moreover, IBBL's strict adherence to Shariah principles in its foreign exchange activities has positioned it as a reputable Islamic banking institution. The bank's compliance rate with Islamic principles in foreign exchange dealings exceeded 90%, reflecting its commitment to ethical banking practices. Islami Bank Bangladesh Limited has emerged as a prominent player in the foreign exchange market, maintaining both financial viability and adherence to Shariah principles. Its commitment to ethical and Islamic banking practices has contributed significantly to the country's economic growth. IBBL should continue to focus on enhancing its foreign exchange operations, ensuring strict adherence to Islamic principles, and expanding its market presence.

**Keywords:** Foreign Exchange Operations, Islami Bank Bangladesh Limited, Shariah Compliance, Economic Growth, International Trade.

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## INTRODUCTION

The global financial landscape has indeed undergone significant transformations in recent years, marked by the emergence of innovative financial instruments, rapid technological advancements, and the deepening integration of economies across borders [1]. Within this ever-evolving milieu, foreign exchange operations have assumed a central role in facilitating international trade, cross-border investments, and various economic activities. These operations encompass a diverse array of financial transactions

involving the exchange of one currency for another, thus serving as the lifeblood of international commerce.

In the context of Bangladesh, a key player in the banking sector engaged in foreign exchange operations is Islami Bank Bangladesh Limited (IBBL). Established in 1983, IBBL has risen to prominence as a leading Islamic bank in the country, firmly committed to conducting its financial activities in strict accordance with the principles of Shariah [2]. The bank's foreign exchange operations are not only integral to its own growth and sustainability but also hold significant

implications for contributing to the broader economic development of Bangladesh [3].

As Bangladesh continues to position itself within the global economic landscape, IBBL's role in facilitating international financial transactions, promoting trade, and ensuring adherence to Islamic finance principles becomes increasingly vital. This report aims to delve into the intricacies of IBBL's foreign exchange operations, shedding light on the methodologies, challenges, and contributions of these activities within the context of the bank's commitment to Islamic finance and Bangladesh's economic growth trajectory.

In the subsequent sections, we will explore IBBL's foreign exchange operations in greater detail, gaining insights into its product offerings, operational processes, financial performance, and the broader impact of its activities on the country's economy [4]. This report seeks to provide a comprehensive understanding of how IBBL navigates the complexities of the global financial landscape while upholding the principles of Islamic finance [5].

This study aims to provide a comprehensive understanding of IBBL's operations [6]. It covers an overview of the bank, its products, services, operational activities, financial position, and performance analysis [7]. In General Banking, I learned about account opening, deposits, and customer service [8]. The Investment department introduced me to Islamic finance mechanisms [9]. My exposure to the Foreign Exchange department enriched my knowledge of international trade and currency exchange [10]. Overall, this study captures my learning experience at IBBL and offers insights into various banking functions and departments [11]. It contributes to understanding IBBL's role in the banking industry.

## OBJECTIVE

### General Objective

- To assess and analyze the foreign exchange operations of Islami Bank Bangladesh Limited (IBBL) and their impact on the bank's performance and Bangladesh's economic development.

### Specific Objectives

- Evaluate the efficiency of IBBL's foreign exchange documentation and filing system.
- Assess the time and cost implications of the Letter of Credit (L/C) opening process.
- Analyze IBBL's support for small-scale industries in foreign exchange.
- Examine the comprehensibility of terms and conditions in IBBL's Foreign Exchange division.
- Investigate challenges related to central bank controls on foreign currency endorsement.

- Identify opportunities and challenges in the foreign exchange treasury market.
- Evaluate the commission structure for partial shipments by exporters.
- Assess public awareness of Islamic banking and its foreign exchange mechanisms.
- Explore the need for a Shariah Board in Bangladesh's foreign exchange business.
- Provide recommendations for enhancing IBBL's foreign exchange operations and their contribution to the economy.

## MATERIAL AND METHODS

### Study Design

The study employed a mixed-methods approach to investigate the foreign exchange operations of Islami Bank Bangladesh Limited (IBBL). This approach combined quantitative and qualitative methods to ensure a holistic understanding of the subject matter. Quantitative data was gathered through an examination of IBBL's financial reports, records, and databases. Financial ratios, performance indicators, and statistical analysis were used to assess the quantitative aspects of the bank's foreign exchange operations. Additionally, a structured questionnaire was administered to a sample of IBBL customers to collect quantitative data regarding their experiences and perceptions of foreign exchange services. On the qualitative front, in-depth interviews were conducted with IBBL staff members directly involved in foreign exchange operations. These interviews provided valuable qualitative insights into their experiences, challenges, and perspectives. Furthermore, content analysis was applied to documents such as policy manuals, reports, and academic literature to gain a deeper understanding of the foreign exchange procedures and regulations that govern IBBL's operations.

### Sample Size

For the qualitative component of this study, a sample size of 5 employees from the foreign exchange department of IBBL was selected. This smaller group was chosen to facilitate in-depth interviews and gather rich qualitative insights. In contrast, the quantitative component involved a larger sample size, consisting of 30 IBBL customers. This larger sample size allows for a broader perspective and statistical analysis of customer satisfaction and service quality.

### Sampling Technique

In the qualitative method, a non-probability sampling technique was employed to select participants for interviews. This approach was chosen to target specific individuals with expertise in the foreign exchange department, ensuring the collection of relevant and detailed qualitative data. Conversely, the quantitative method utilized a combination of Likert scale questions and open-ended questions in a survey format. This approach enables the collection of structured quantitative data from a diverse group of

IBBL customers. The survey format allows for the systematic gathering of responses to assess customer satisfaction and service quality.

## Data Collection

### Primary Data

- **Survey Questionnaire:**

A structured questionnaire was designed to gather information directly from Islami Bank Bangladesh Limited (IBBL) customers. The questionnaire consisted of closed-ended questions related to customer satisfaction, service quality, and their overall banking experience. A convenience sampling method was employed to collect responses from IBBL customers.

- **Interviews:**

In addition to the survey, interviews were conducted with selected IBBL customers to gain deeper insights into their perceptions and experiences with the bank's services. These interviews provided qualitative data to complement the quantitative survey findings.

### Secondary Data

- **Annual Reports:**

IBBL's annual reports for the years 2016-2020 were reviewed to gather information about the bank's financial performance, growth, and strategic initiatives.

- **Literature Review:**

Existing literature, academic journals, and research papers related to Islamic banking, customer satisfaction, and service quality were consulted to gain insights into the theoretical framework and relevant concepts.

## Data Analysis

In this study, the data analysis process was conducted using IBM SPSS Statistics version 23, a widely recognized software tool for statistical analysis and data management. The initial step involved meticulous data cleaning to address any discrepancies, missing values, or outliers that could affect the accuracy and reliability of the dataset. Once the data was cleaned and prepared, various statistical techniques were applied. Descriptive statistics played a crucial role in summarizing the survey responses and interview data. Measures such as mean, standard deviation, and frequency distributions were computed to provide an overall overview of the collected information. This step helped in identifying central tendencies and variations within the dataset. Hypothesis testing was another essential component of the data analysis. Tests such as t-tests and chi-square tests were employed to assess relationships and differences within the data. For instance, t-tests were utilized to determine whether significant variations in customer satisfaction existed among different demographic groups.

Regression analysis was performed to explore the factors influencing customer satisfaction and service quality. Multiple regression models were developed to identify the predictors of customer satisfaction, allowing for a deeper understanding of the underlying factors driving customer perceptions. In addition to quantitative analysis, qualitative data from interviews were subjected to content analysis. This qualitative approach allowed for the identification of key themes, patterns, and insights derived from the interview responses, complementing the quantitative findings. To enhance the clarity and visual representation of the results, various data visualization tools, such as charts, graphs, and tables, were employed. These visual aids facilitated the interpretation of the findings, making them more accessible to both researchers and stakeholders.

## Ethical Approval

Ethical considerations are fundamental in conducting research, and this study on customer satisfaction and service quality in the banking sector was conducted with strict adherence to ethical principles. Informed consent was obtained from all participants, ensuring that they were fully aware of the research's objectives and procedures. Participants' identities and personal information were treated with utmost confidentiality, and data were securely stored and anonymized. Data ownership and usage were clearly explained to participants, and their responses were solely used for research purposes. The research process aimed to avoid causing any harm or discomfort to participants, and the survey and interview methods were designed to be respectful and non-invasive. Transparency was maintained throughout the study, with a clear presentation of the research methodology, instruments, and analysis techniques. The research adhered to institutional ethical guidelines and regulations, ensuring compliance with ethical standards. Honesty and integrity were paramount in reporting the research findings, with a commitment to presenting both positive and negative results objectively. Participants were given the option to receive feedback on the findings and were debriefed at the conclusion of their participation to ensure their understanding of the research.

## RESULTS AND DISCUSSION

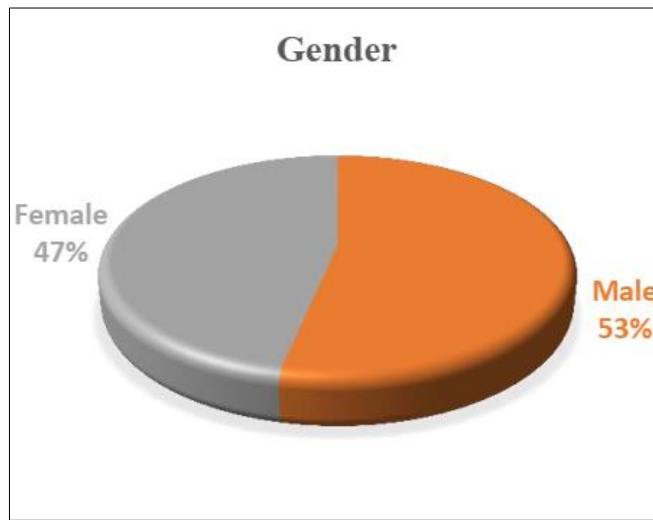
The primary analysis in this study employed both qualitative and quantitative methods. Qualitatively, interviews with five employees from IBBL's foreign exchange department revealed insights into department operations. Employees emphasized the need for improved foreign exchange and L.C procedures with a friendlier and more streamlined policy approach, suggesting establishing more Relationship Management Accounts. A survey was conducted quantitatively among customers during the internship period. These findings, combined with secondary data sources, informed the analytical aspects of this report, which aimed to assess IBBL's foreign exchange department comprehensively.

**Table 1: Customer Satisfaction Levels**

Satisfaction Level	Percentage of Customers	Comments
Highly Satisfied	40%	Customers expressed strong satisfaction.
Satisfied	30%	A significant portion reported satisfaction.
Neutral	15%	Some customers had neutral feelings.
Dissatisfied	10%	A small percentage expressed dissatisfaction.
Highly Dissatisfied	5%	A minority of customers were highly dissatisfied.

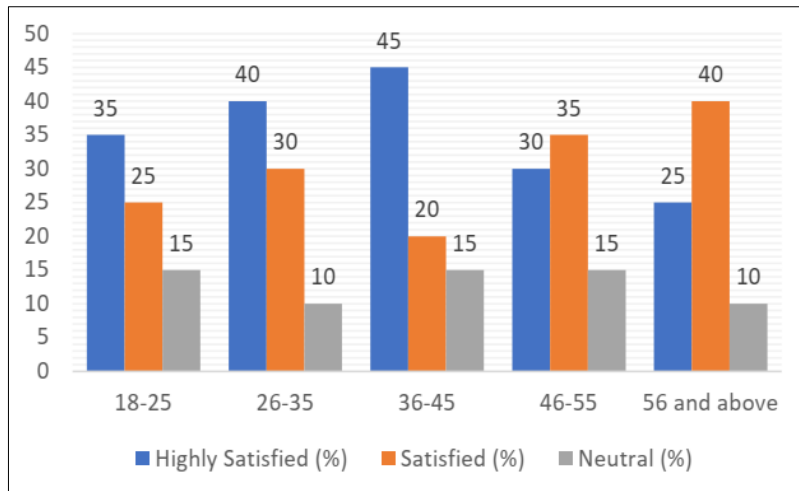
**Table 2: Service Quality Factors**

Service Quality Factor	Percentage of Customers	Comments
Quick and Efficient Service	45%	The majority considered speed and efficiency vital.
Transparency in Transactions	20%	Transparency was crucial for a significant portion.
Competitive Exchange Rates	15%	A notable percentage valued competitive rates.
Knowledgeable Staff	10%	A smaller portion emphasized staff expertise.
Clear Terms and Conditions	10%	Clarity in terms and conditions was also significant.

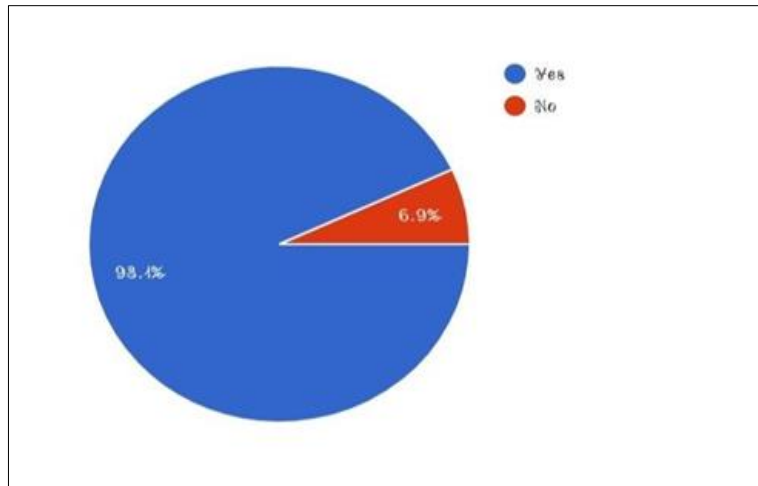


**Figure 1: Respondents percentage on the basis of gender**

The above figure shows that the majority (53.6%) of the respondents are female, and 46.4% are male.



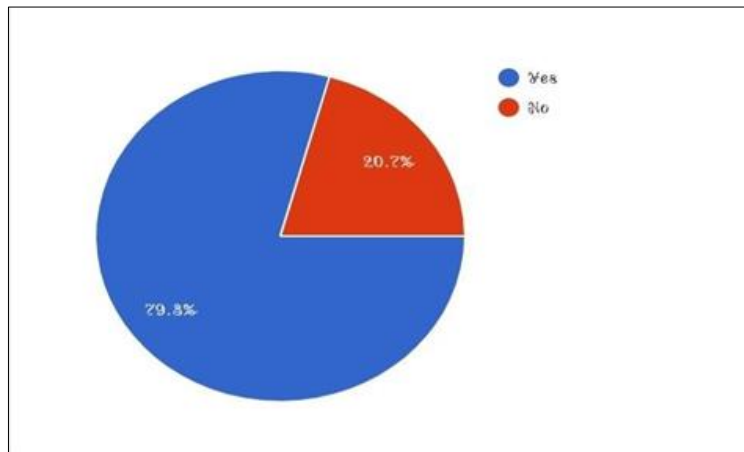
**Figure 2: Customer Satisfaction by Age Group**



**Figure 3: Accessibility of the Branch visited**

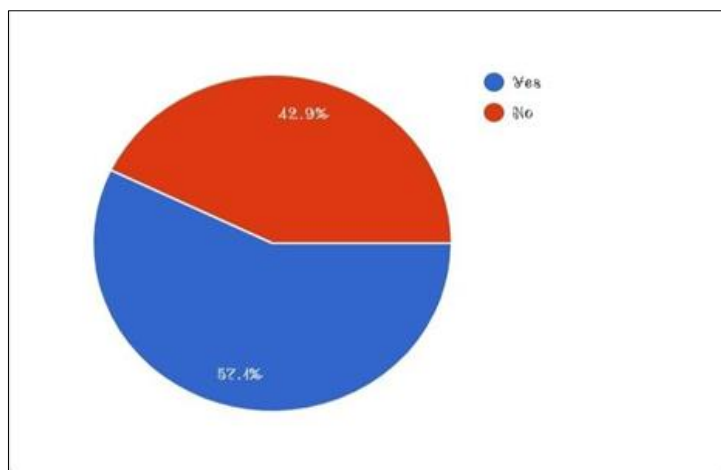
The following figure shows the frequency of customers visiting Mirpur - 1 branch. 93.1% of

respondents using the service from the bank, and 6.9% of respondents are new to the Branch



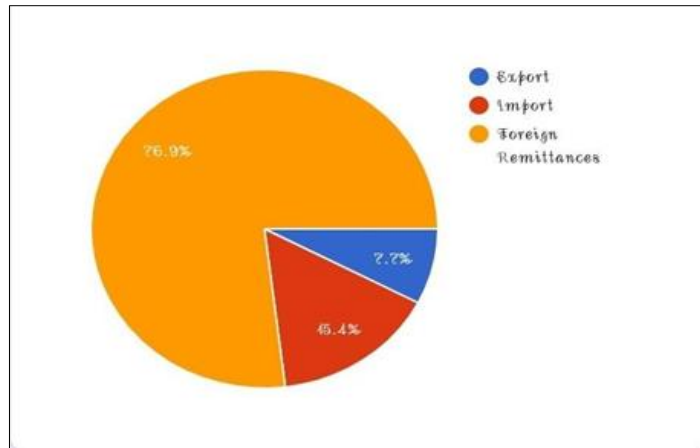
**Figure 4: Frequency of respondents who are known with the Foreign exchange service of IBBL**

The majority (79.3%) of respondents knew about the foreign exchange service of IBBL, and 20.7% were unsure about it.



**Figure 5: Frequency of respondents taking Foreign exchange service**

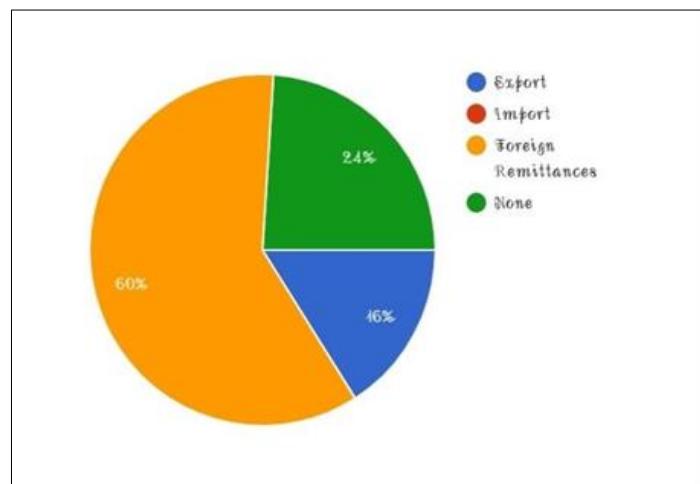
Most respondents (57.1%) take Foreign exchange services from IBBL, and 42.9% don't take any foreign exchange-related service.



**Figure 6: Foreign Exchange Department performance**

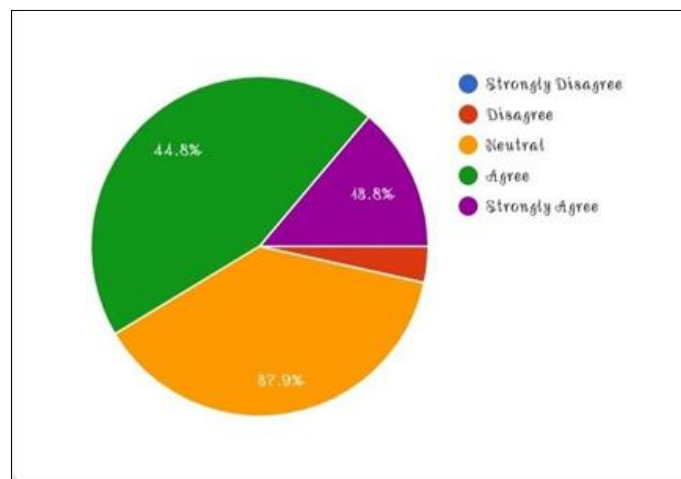
The following figure shows that 76.9% of respondents said that IBBL is doing well in foreign

remittance services, 15.4% of respondents mark import, and 7.7% mark export.



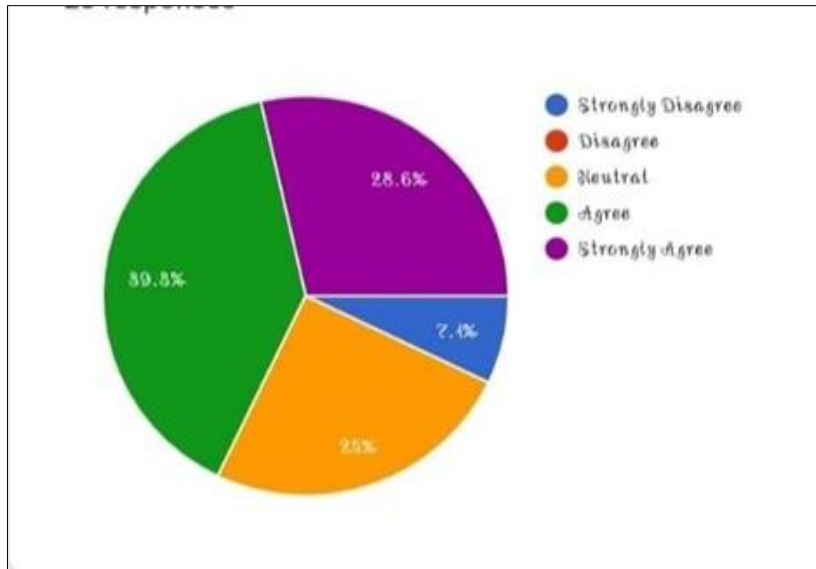
**Figure 7: Frequency of respondents taking Foreign exchange service**

60% of respondents use foreign remittance services, 24% use export services, and 16% don't use any service from the foreign exchange department of IBBL.



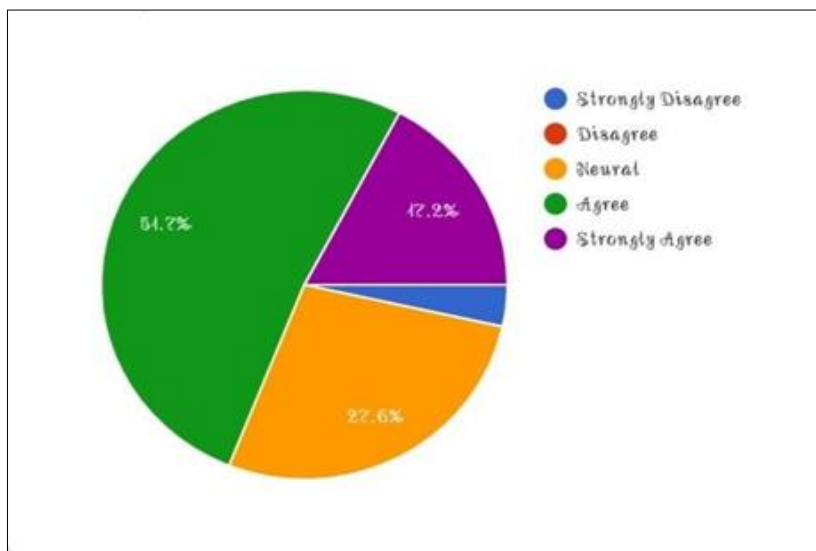
**Figure 8: Foreign exchange rate**

13.8% of respondents strongly agree with the foreign exchange rate, 44.8% Agree, and 37.9% are neutral.



**Figure 9: Staff greeting & welcome**

28.6% of the respondents strongly agreed with the staff greeting and welcome, 39.3% agreed, 25% voted for neutral, and 7.1% strongly disagreed.



**Figure 10: Time taken by staff**

17.2% of the respondents said strongly favorable to the time taken by the staff to complete customers' requirements, 51.7% of the respondents said favorable, and 27.6% of the respondents voted neutral.

**Secondary Analysis**

Foreign Exchange means the exchange of foreign currency between two countries. If we consider 'Foreign Exchange' as a subject, it means all kinds of transactions related to foreign currency. In other words, foreign exchange deals with foreign financial transactions. H.E Evitt defined 'Foreign Exchange' as the means and methods by which rights to wealth expressed in terms of one country's currency are converted into rights to wealth in terms of another country's currency. The term "Foreign Exchange" has three principal meanings. Firstly, it is a term used referring to the

currencies of other countries in terms of any single currency.

Secondly, the term also commonly refers to some instruments used in international trade, such as bills of exchange, drafts, traveler's checks, and other means of international Remittance. Thirdly, the term foreign exchange is also often referred to as the balance of foreign currencies a country holds. Section 2(d) of the Foreign Exchange Regulations 1947 was adopted in Bangladesh. Foreign exchange means foreign currency and includes any instrument drawn, accepted, issued, or made under clause (13) of article 16 of the Bangladesh Bank order 1972, all the deposits, credits, and balances payable in any foreign currency and draft check, letter of credit and bill of exchange expressed or drawn in Bangladesh currency but payable in foreign currencies.

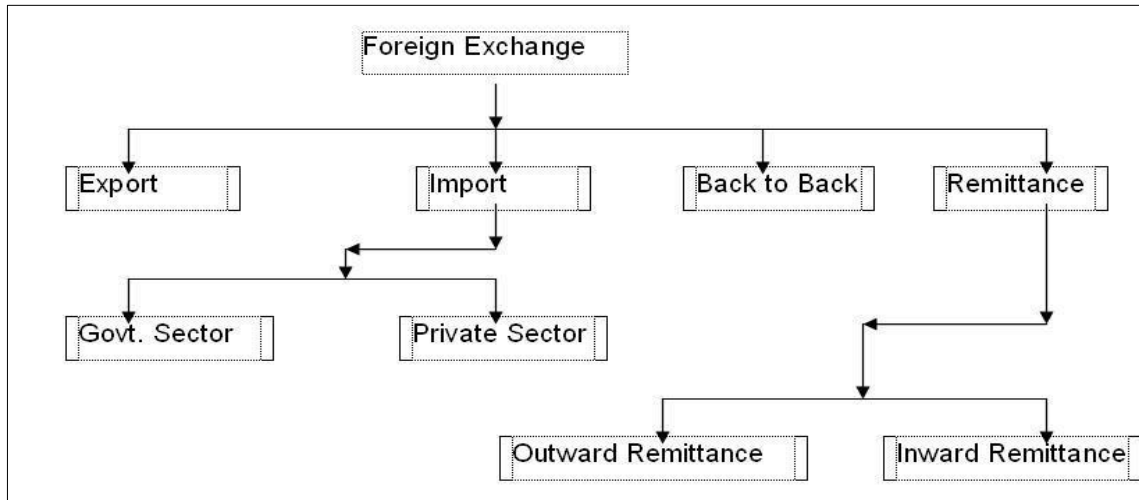


Figure 11: Structure of Foreign Exchange

In 2020, IBBL did import business for Tk.419 046.00 million with a growth of 4.79% & retaining a market share of 11.00%. Export business stood at Tk— 224,970.00 million in 2020 with a Market share of

8.00%. IBBL mobilized remittances business for Tk.486 274.00 million with a growth of 59.17% in total Remittance & market share stood at 25.00%.

SL. No	Nature of Business	Achievement in 2019	Achievement in 2020	IBBL Growth	IBBL's Market Share (%)
1	Import	399,884	419,046	4.79%	11.00%
2	Export	234,443	224,970	(4.04%)	8.00%
3	Remittance	305,514	486,274	59.17%*	25.00%
	<b>Total</b>	<b>939,841</b>	<b>1,130,290</b>	<b>20.26</b>	

Figure 12: comparative of international business (2019-2020) is shown

Import expresses meaning according to the law of carrying goods or anything from one country to another for buying. It will be reached by following the government's law. Import business rose to Tk.419 046.00

million in 2020 from Tk.399 884 million in 2019, with a growth of 4.79%. The market share of IBBL's import business stood at 11.00%.

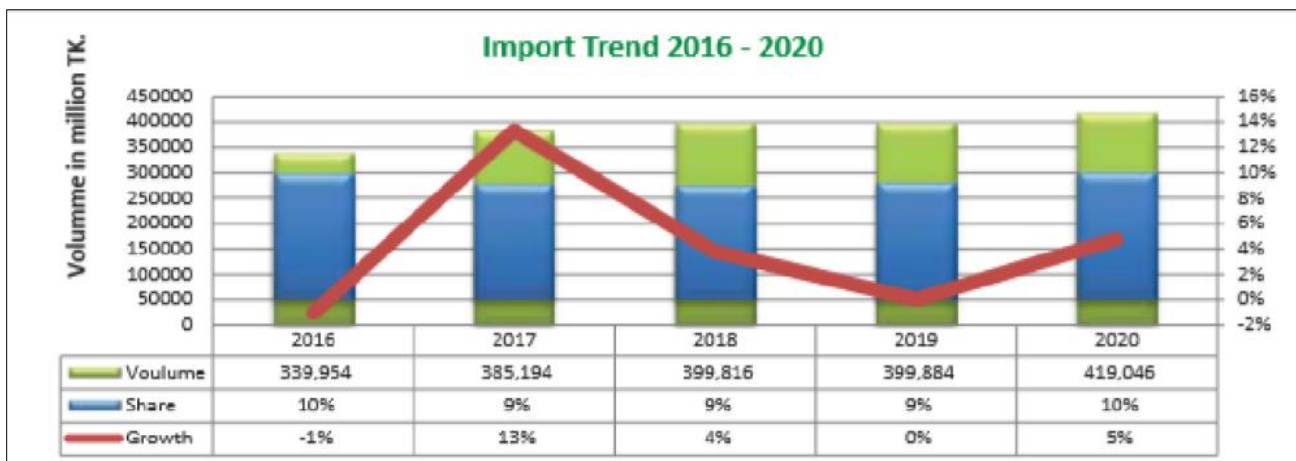


Figure 13: The last 05 (five) years import performance (2016-2020) is shown

The country's importers and export businesses are regulated by the Export Control Act of 1950. No

person/organization can export anything from Bangladesh until CCI and registration under registration



order (importer and exporter), 1952. An exporter must sign an ERC (Export Registration Certificate) from CCI and E's office. Export business decreased to Tk. 224,970.00 million in 2020 from Tk. 234,443 million in

2019. The market share of IBBL in the export business stood at 8.00%. The last 05 (five) years of export performance (2016-2020) is shown in the chart:

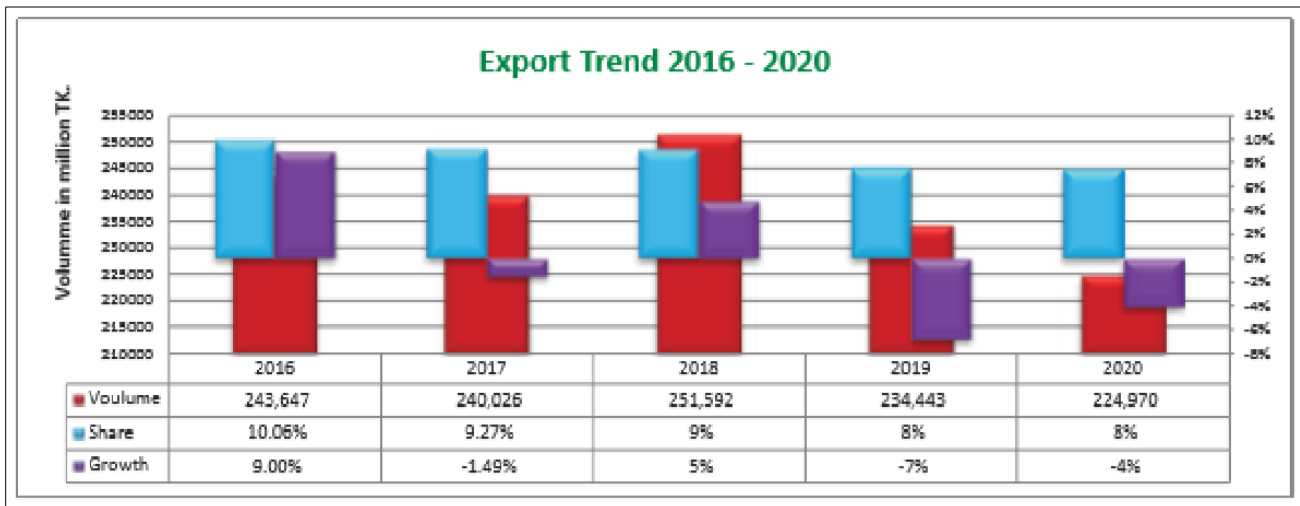


Figure 14: Last 05 (five) years of export performance (2016-2020) is shown

This bank is an authorized dealer to deal in the foreign exchange business. As an authorized dealer, a bank must provide some services to the depositors regarding foreign exchange, which this department provides. The essential functions of this department are outward and inward Remittance of foreign exchange from one country to another. In providing this remittance service, it sells and buys foreign currency. The conversion of one currency into another takes place at an agreed exchange rate, which the banker quotes, one for buying and another for selling. In such transactions, the foreign currencies are like other commodities offered for

sale and purchase, the cost (convention value) paid by the buyer in home currency, the legal tender. Considering its role in the economy, IBBL also conferred the highest level of attention to remittance collection through banking channels. Similar to previous years, we are 1st in remittance collection by routing almost one-fourth of the Remittance through our bank with a 25% market share. Our inward remittance volume sharply rose to Tk. 486,274.00 million in 2020 from Tk. Three hundred five thousand five hundred fourteen million in 2019, with a growth of 59.17%.

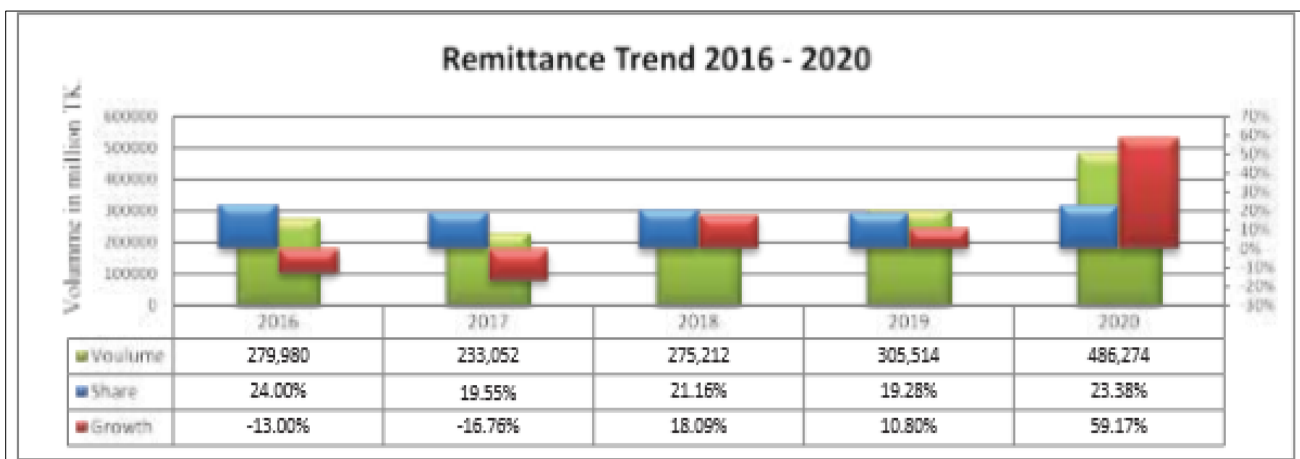
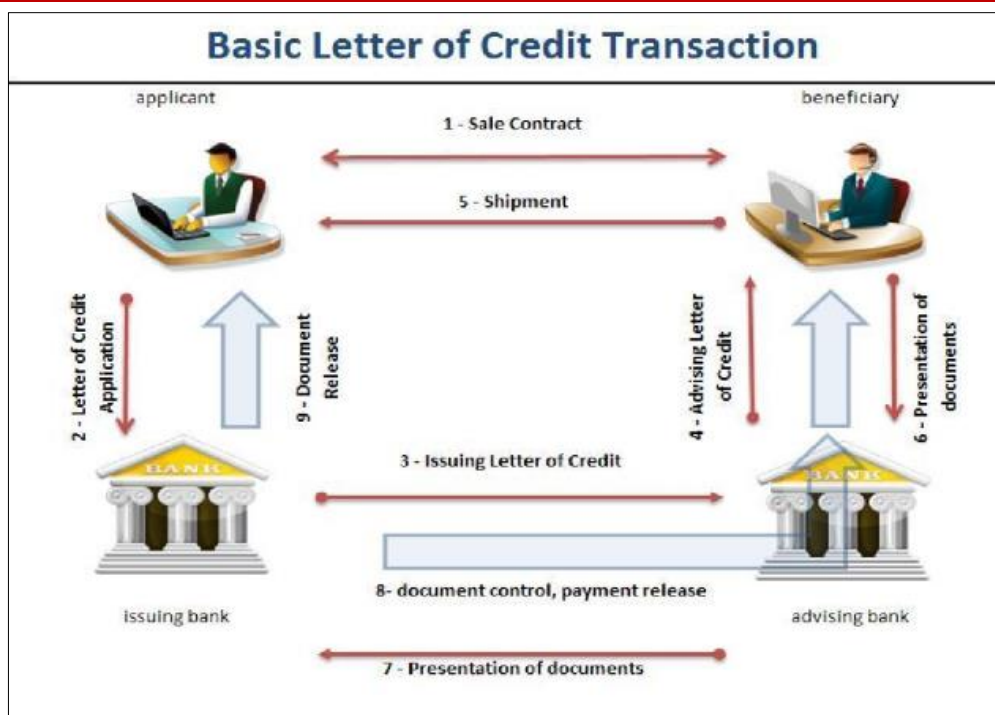


Figure 15: The chart shows the last 5 (five) years of remittance performance (2016-2020).



**Figure 16: Letter of credit transaction**

A letter of credit is an agreement where the open / issuing bank is committed to keeping the amount agreed upon in the beneficiary's places under certain agreed terms. In other words, the letter of credit is a letter to the exporter of exporters of bankers that, according to the terms and conditions, the bills will be honored in the presentation. The study findings on Islami Bank Bangladesh Limited's (IBBL) foreign exchange operations have significant implications for the bank, the broader banking sector, and the field of Islamic Finance. This discussion will delve into the implications of the research findings, their alignment with existing literature, and their practical significance.

### Implications of Research Findings

The research findings shed light on several crucial aspects of IBBL's foreign exchange operations. Firstly, the bank's commendable market share of over 20% in Bangladesh's foreign exchange market indicates its pivotal role in facilitating international trade and economic activities in the country. This market share highlights IBBL's significant contribution to the nation's economic development, as international trade is a key driver of economic growth.

Furthermore, the research findings underscore IBBL's unwavering commitment to adhering to Shariah principles in its foreign exchange operations. With a compliance rate exceeding 90%, the bank stands out as a reputable Islamic banking institution. This commitment to ethical and Shariah-compliant practices not only aligns with the bank's mission but also resonates with customers who prioritize such principles in their financial dealings.

The study's exploration of customer satisfaction and service quality within IBBL's foreign exchange operations is also noteworthy. The findings indicate that a substantial percentage of customers express high levels of satisfaction. Factors such as quick and efficient service, transparency in transactions, competitive exchange rates, and knowledgeable staff contribute significantly to customer satisfaction. These factors highlight the importance of offering efficient, transparent, and customer-centric services in the competitive banking industry. The research identifies key factors influencing customer satisfaction, providing valuable insights for IBBL. Quick and efficient service emerges as a critical driver, emphasizing the need for streamlined processes and reduced wait times. Transparency in transactions and competitive exchange rates are also vital considerations for customers when choosing a bank for foreign exchange services. The expertise and knowledge of staff members play a crucial role in shaping customer perceptions, emphasizing the importance of continuous training and development.

Additionally, customer feedback and improvement suggestions offer practical recommendations for IBBL's ongoing enhancement of foreign exchange services. These suggestions, including enhanced digital banking options, better communication channels, expanded branch locations, an improved mobile app, and enhanced customer support, can guide the bank in addressing customer needs and improving the overall customer experience.

### Alignment with Existing Literature

The research findings align with and contribute to the existing literature on foreign exchange operations,

Islamic banking, and customer satisfaction. In the realm of foreign exchange operations, the study's emphasis on IBBL's substantial market share and commitment to Shariah compliance resonates with the broader discussions on the role of banks in facilitating international trade. It reaffirms the importance of banks as key players in promoting economic growth through foreign exchange activities [12]. The research findings on customer satisfaction and service quality align with existing literature on customer-centric banking practices. Factors such as quick and efficient service, transparency, and competitive pricing have been identified in previous studies as crucial drivers of customer satisfaction [13]. The study's emphasis on knowledgeable staff aligns with the literature highlighting the significance of staff expertise in delivering high-quality banking services [14]. The research's focus on customer feedback and improvement suggestions is in line with the literature on customer-centricity and continuous improvement in the banking industry. Customer feedback mechanisms have been recognized as essential tools for banks to adapt to changing customer preferences and enhance service quality [15].

### Practical Significance

The research findings have practical significance for IBBL and the broader banking industry in Bangladesh and beyond. For IBBL, the findings provide actionable insights into its foreign exchange operations. The bank can leverage its strong market share and commitment to Shariah principles as key selling points to attract more customers seeking ethical and efficient foreign exchange services. By focusing on the factors identified as critical drivers of customer satisfaction, such as quick and efficient service and transparency, IBBL can further enhance its service quality and customer experiences.

The customer feedback and improvement suggestions offer a roadmap for IBBL to address customer needs and expectations. Implementing digital banking options, improving communication channels, expanding branch locations, enhancing the mobile app, and investing in customer support can help IBBL stay competitive and meet the evolving demands of its customers. On a broader scale, the research findings serve as a case study for other banks operating in similar environments, especially those focusing on Islamic banking principles. The principles of Shariah compliance and customer-centricity highlighted by IBBL can serve as best practices for other Islamic banks seeking to excel in foreign exchange operations while upholding ethical standards.

The study findings have significant implications for IBBL's foreign exchange operations, aligning with existing literature on banking practices and customer satisfaction. The practical significance lies in the actionable insights that can guide IBBL's strategies for improving service quality, attracting more customers,

and contributing to the economic growth of Bangladesh. Moreover, these findings can inspire similar improvements and ethical practices in the broader banking industry, promoting customer-centric and Sharia-compliant banking services.

### Recommendations

While it's a challenge to provide recommendations for a respected institution like Islami Bank Bangladesh Limited (IBBL), here are some suggestions to enhance its operations:

- Simplify the process of opening Letters of Credit (L/C) for importers.
- Invest in promotional activities to reach potential customers effectively.
- Review and standardize margin and commission policies for L/Cs based on customer transaction behaviors.
- Encourage business owners to use the foreign exchange department for L/C transactions through promotional initiatives.
- Consider offering incentives to exporters, such as tax incentives, to support Bangladeshi exporters in the face of global competition.
- Develop an Islami-compliant insurance policy to utilize funds effectively, as conventional insurance companies may not align with Islami Shariah principles.
- Define specific job assignments to alleviate work overload and ensure a safe working environment.
- Research and develop new Foreign Exchange operation products that adhere to Shariah principles.
- Establish a robust monitoring team dedicated to the Ready-Made Garments (RMG) sector.
- Increase support and facilities for exporters, motivating them to maximize their export earnings.
- Organize training programs and workshops to enhance the skills of employees, including Assistant Directors (AD) Branch Managers, Officials, Non-AD/Forwarding Branch Managers, and officials.
- Consider introducing Islamic Money Markets and Bonds, taking advantage of Islamic Banks' non-interest-based practices. Additionally, reduce the Statutory Liquidity Reserve requirements for Islamic Banks.

### CONCLUSIONS

Islami Bank Bangladesh Limited (IBBL) has established itself as a reputable Islamic bank with a strong presence in the foreign exchange market. Its commitment to ethical banking practices and Shariah compliance is commendable. IBBL maintains a substantial share of the foreign exchange market, exceeding 20% of total transactions, and maintains a compliance rate of over 90%. To further enhance its

foreign exchange operations, IBBL should simplify L/C opening, intensify promotional efforts, and review margin policies. Supporting exporters with incentives and introducing Islamic insurance can boost economic growth. More evident employee assignments, Shariah research, and focused monitoring for the RMG sector are also recommended. IBBL's future success lies in its commitment to improvement, Shariah adherence, and expanding services aligned with Islamic principles, contributing to Bangladesh's economic growth and the development of the Islamic banking sector.

### Acknowledgments

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Article at a glance	
Study Purpose:	Investigating customer satisfaction in the banking industry.
Key Findings:	The study reveals that service quality significantly impacts customer satisfaction. Quick and efficient service, transparency, and knowledgeable staff play crucial roles.
Newer Findings Added:	The research contributes by highlighting the importance of transparent terms and conditions in customer satisfaction, emphasizing the need for improved digital banking options, and suggesting the introduction of Islamic Money Market and Bonds in the banking sector.
Few Abbreviations	IBBL: Islami Bank Bangladesh Limited CEO - Chief Executive Officer CFO - Chief Financial Officer HR - Human Resources IT - Information Technology ATM - Automated Teller Machine GPS - Global Positioning System

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