# The Impact of Bank Proliferation & Growth of MFS: A Study on Bangladesh's Financial Sector

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**Abstract**

Bangladesh's banking sector has undergone significant changes over recent years, driven by the dual forces of market concentration and digital transformation. This study explores the impact of these trends by examining how the dominance of a few large banks affects competition, profitability, and financial stability within the sector. Additionally, it assesses the growing influence of Mobile Financial Services (MFS) in expanding financial inclusion, particularly in underserved rural areas. The research utilizes secondary data from 2019 to 2023, highlighting that the top five banks control most small account deposits, leading to reduced market competition and challenges for smaller banks in achieving profitability. Large banks, benefiting from economies of scale, demonstrate greater efficiency and resilience, while smaller banks face higher operational costs and greater vulnerability to economic shocks. The rapid expansion of MFS has reshaped the financial landscape, offering accessible alternatives to traditional banking, but also posing new regulatory challenges. This study emphasizes the need for a balanced regulatory framework that supports financial inclusion, encourages competition, and ensures stability in a digitally evolving market. The findings offer insights for policymakers and banking stakeholders in navigating the sector's future.

**Keywords:** Bangladesh banking sector, market concentration, digital transformation, Mobile Financial Services (MFS), financial inclusion, bank efficiency, financial stability, regulatory framework.

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## Introduction

The banking sector plays a pivotal role in the economic development of a country, acting as the backbone of financial intermediation and facilitating capital flow to various sectors. In Bangladesh, the financial landscape has witnessed remarkable changes over the past few decades, characterized by a significant increase in the number of banks. From a mere handful of banks in the early years of independence in 1971, the country now boasts over 60 commercial banks, including state-owned, private, and foreign entities (Bangladesh Bank, 2023). This proliferation of banks has sparked a lively debate regarding its necessity and impact on the overall financial ecosystem and the economy at large.

The surge in the number of banks can be attributed to several factors, including economic liberalization, the privatization of state-owned banks, and the increasing demand for financial services from a growing population. As Bangladesh transitioned from a predominantly agrarian economy to a more diversified economic structure, the need for robust financial institutions became apparent. The banking sector has been instrumental in providing the necessary funding for key industries such as textiles, agriculture, and small and medium-sized enterprises (SMEs), which are vital for job creation and economic stability (World Bank, 2021).

However, the rapid proliferation of banks has not come without challenges. The increased competition has led to a race for market share, often resulting in aggressive lending practices and a decline in credit quality. The rise in non-performing loans (NPLs) has raised concerns about the stability of the banking sector, with the ratio of NPLs to total loans hovering around 9% as of 2022 (Bangladesh Bank, 2022). Moreover, issues of governance and regulatory compliance have plagued the sector, with several high-profile scandals and cases of financial misconduct coming to light in recent years. These challenges raise critical questions about the effectiveness of the current regulatory framework and the capacity of banks to maintain sound practices while catering to the growing demand for financial services.

The implications of bank proliferation extend beyond the financial sector, affecting the broader economy and society. While increased access to banking services has the potential to enhance financial inclusion, particularly among underserved populations in rural areas, it also risks creating a fragmented banking environment. This fragmentation can lead to inefficiencies, as smaller banks may struggle to compete with larger institutions, ultimately limiting their ability to serve their clients effectively (Bangladesh Bank.2019). Furthermore, the lack of a cohesive strategy for managing the growth of the banking sector may hinder the overall stability and resilience of the financial system.

As Bangladesh continues its journey towards becoming a middle-income country, understanding the necessity and impact of bank proliferation is crucial. Policymakers must strike a balance between encouraging competition and ensuring the stability of the banking sector. This involves not only strengthening regulatory oversight but also fostering a culture of responsible lending and ethical banking practices. By addressing these challenges, Bangladesh can harness the potential of its banking sector to drive sustainable economic growth and development.

In this article, we will delve deeper into the necessity of bank proliferation in Bangladesh, examining both its positive contributions and the challenges it poses. We will explore the implications for various stakeholders, including consumers, businesses, and the government, and provide recommendations for creating a more resilient and inclusive banking environment. Through this analysis, we aim to shed light on the critical role of the banking sector in shaping the future of Bangladesh's economy.

## Methods

### Study Design

This study adopts a quantitative research approach to evaluate the necessity and impact of bank proliferation in Bangladesh's financial sector. The analysis is based on secondary data collected from various sources, including reports from Bangladesh Bank, annual financial statements of individual banks, and other publicly available economic reports. The research employs a cross-sectional design, with data spanning recent years (2019–2023), which allows for an in-depth analysis of the current trends and the relationship between bank proliferation, competition, profitability, financial inclusion, and stability within the banking sector. Below is a detailed breakdown of the research methods employed.

### Data Collection

### Secondary Data Sources

The data used in this study is drawn from several secondary sources, which include:

- Bangladesh Bank's Annual Reports: These reports provide comprehensive data on the overall performance of the banking sector, regulatory frameworks, and economic indicators influencing the financial sector.
- Bank-Specific Financial Reports: Financial data for individual banks, such as Sonali Bank, Agrani Bank, and smaller banks, was obtained from their annual reports and financial statements. This data includes key metrics like Return on Assets (ROA), Return on Equity (ROE), Cost-to-Income ratios, and Z-Scores for stability.
- Mobile Financial Service Reports: Data on the growth of Mobile Financial Services (MFS) was sourced from reports published by mobile network operators and Bangladesh Bank, detailing the rise of digital banking and mobile financial services.
- Market Share and Competition Data: Data regarding the market share of deposits and loans among different bank categories (private, state-owned, and foreign banks) was gathered from market surveys and publications by regulatory bodies.

The data spans from 2019 to 2023, providing a relevant time frame to analyze recent trends in the banking sector, especially considering the rise of digital financial services (MFS) and the proliferation of banks.

### Data Analysis

The data analysis in this study was conducted using a combination of descriptive and inferential statistical methods to assess various aspects of the banking sector in Bangladesh. Descriptive statistics were used to summarize key variables, including market share, interest rate spreads, and branch and employee data. Measures such as the mean, standard deviation, and range were calculated to provide a clear overview of the central tendencies and variability in the data. Herfindahl-Hirschman Index (HHI) was used to assess market concentration, specifically focusing on the concentration of small account deposits among the top 5 banks. A high HHI indicates a concentrated market with limited competition, while a low HHI suggests a more competitive market. To measure profitability and efficiency, the Return on Assets (ROA), Return on Equity (ROE), and Cost-to-Income Ratios were calculated. These ratios helped compare the financial performance of large banks (e.g., Sonali Bank, Agrani Bank) against smaller banks (e.g., Shimanto Bank). ROA and ROE were calculated to assess how efficiently banks generate profits from their assets and equity, while the Cost-to-Income Ratio helped evaluate operational efficiency. For bank stability, the Z-Score was calculated for both large and smaller banks, using a formula that incorporates ROA, equity-to-assets ratio, and total liabilities, to measure financial stability and the likelihood of bank failure. The analysis also examined the growth of Mobile Financial Services (MFS) using percentage growth calculations to assess the shift from traditional banking to digital financial services over the period from 2019 to 2023. Stress testing was conducted to simulate the impact of economic shocks on banks, assessing liquidity risks and the ability of banks to withstand financial downturns. Regression models were used to understand the relationship between bank size, profitability, and market power. Finally, a banking crisis simulation was run to evaluate how different banks would perform under extreme conditions, such as a run on deposits. All tests and calculations were performed using Microsoft Excel for basic computations, and SPSS was used for more advanced statistical analysis, including regression, correlation analysis, and stress testing simulations. The combination of these tests provided a comprehensive and robust understanding of the factors influencing the performance, stability, and competitiveness of the banking sector in Bangladesh.

**Limitations of the Study**

While this study provides valuable insights into the state of Bangladesh's banking sector, it does have limitations:

- Secondary Data Dependence: The analysis relies entirely on secondary data, which may be subject to reporting biases or inconsistencies across sources.
- Absence of Primary Data: Primary data on consumer experiences, bank customer satisfaction, or on-the-ground operational challenges of smaller banks was not collected.
- Regulatory Impact: The study evaluates regulatory effectiveness based on existing policies, but it does not measure the direct outcomes of specific regulatory interventions.

## RESULTS

### Market Concentration and Competition

The data reveals that while the total number of banks has grown, a significant portion of deposits is controlled by a few large institutions. Sonali Bank, Bangladesh Krishi Bank, Agrani Bank, Bank Asia, and Janata Bank collectively hold 82% of deposits in small accounts. This market concentration suggests that smaller banks are struggling to capture market share, limiting competition.

**Table 1: Market Concentration and Competition**

| Bank Type | Market Share in Small Accounts | Key Banks Controlling Market | Herfindahl-Hirschman Index (HHI) |
|---|---|---|---|
| **Top 5 Banks** | 82% | Sonali Bank, Bangladesh Krishi Bank, Agrani Bank, Bank Asia, Janata Bank | 2,500+ (High Concentration) |
| **Other Banks (56 Banks)** | 18% | Smaller Banks | 500-1,000 (Low Concentration) |

### Geographical Disparities and Financial Inclusion

Urban areas have a higher concentration of bank branches (75%), whereas rural areas are increasingly served by smaller banks, which are expanding their branch networks (60% of rural branches). This shift helps improve financial inclusion in previously underserved areas.

**Table 2: Geographical Disparities and Financial Inclusion**

| Region | Number of Bank Branches | Urban Branches (%) | Rural Branches (%) | Branch Distribution |
|---|---|---|---|---|
| **Urban Areas** | 1,500 | 75% | 25% | High branch concentration |
| **Rural Areas** | 500 | 40% | 60% | Increased access by smaller banks |

**Efficiency of Smaller vs. Larger Banks**

Large banks, such as Sonali Bank and Agrani Bank, have expansive branch networks and large workforces, allowing them to handle a greater volume of transactions and offer a wide range of services. In contrast, smaller banks like Shimanto Bank operate with fewer resources, limiting their efficiency. Larger banks also benefit from economies of scale, which allows them to operate at a lower cost-to-income ratio.

**Table 3: Branch Efficiency**

| Bank Type | Average Branches per Bank | Employees per Bank | Efficiency Indicators |
|---|---|---|---|
| **Large Banks (SOCBs)** | High (e.g., Sonali Bank - 1,233 branches) | High (e.g., Sonali Bank - 21,839 employees) | Better resource allocation, greater capacity to serve large customer base. |
| **Smaller Banks** | Low (e.g., Shimanto Bank - 23 branches) | Low (e.g., Shimanto Bank - 283 employees) | Struggle with scalability, higher operating costs relative to income. |

**Interest Rate Spread and Profitability**

The interest rate spread has widened significantly between 2023 and 2024. For example, in October 2024, the lending rates increased to 9.66%, while the deposit rates stood at 5.84%, resulting in a spread of 5.86%. This trend indicates that banks are benefiting from higher profitability but also raising the cost of credit for consumers. Larger banks, especially private commercial banks (PCBs), tend to have lower spreads due to competitive pressures, while state-owned banks show wider spreads, which can crowd out smaller borrowers.

**Table 4: Interest Rate Spread (2023-2024)**

| Year | Lending Rate (%) | Deposit Rate (%) | Spread (%) | Implications |
|---|---|---|---|---|
| **2023 (Jan-Oct)** | 6.03 - 7.35 | 4.29 - 4.55 | 2.95 - 3.34 | Higher spread, benefiting banks' profitability but potentially stifling access to credit. |
| **2024 (Jan-Oct)** | 8.75 - 9.66 | 4.92 - 5.84 | 4.83 - 6.03 | Increased spread indicates rising borrowing costs for consumers, reducing affordability. |

**Growth of Mobile Financial Services (MFS)**

The rise in mobile financial services (MFS) is one of the most notable trends in the Bangladesh banking sector. From 8.43 crore accounts in 2019 to 22 crore accounts in 2023, the increase in MFS adoption has reshaped financial access, particularly for unbanked populations. MFS has provided a cost-effective and efficient alternative to traditional banking, reducing the need for a large network of physical bank branches.

**Table 5: Growth of Mobile Financial Services (MFS)**

| Year | MFS Accounts (Crores) | Growth (%) | Implications |
|---|---|---|---|
| **2019** | 8.43 | - | Starting point for rapid adoption of digital financial services. |
| **2023** | 22 | 160% | Major shift towards digital banking, reducing reliance on physical bank branches. |

**Mobile Financial Services (MFS) vs. Traditional Banking Growth**

This table compares the growth of Mobile Financial Services (MFS) and Traditional Bank Accounts in Bangladesh from 2019 to 2023. MFS accounts have shown remarkable growth, from 8.43 crore accounts in 2019 to 22 crore accounts in 2023, reflecting a 160% increase over the period. Traditional banking accounts, though still dominant, have seen slower growth, from 35 crore accounts in 2019 to 42 crore in 2023. The data highlights the shift towards digital banking as MFS grows faster than traditional banking, with an increasing share of the population opting for mobile-based financial services.

**Table 6: Mobile Financial Services (MFS) vs. Traditional Banking Growth**

| Year | MFS Accounts (Crores) | Traditional Bank Accounts (Crores) | Growth (%) |
|---|---|---|---|
| **2019** | 8.43 | 35 | - |
| **2020** | 12.5 | 37 | 48.5% |
| **2021** | 15.8 | 38 | 26.4% |
| **2022** | 18.3 | 40 | 15.8% |
| **2023** | 22 | 42 | 20.2% |

**Regulatory Oversight and Stability**

Bangladesh Bank plays a crucial role in regulating the banking sector and ensuring its stability. Through its oversight functions, such as monetary policy, banking supervision, and money laundering prevention, Bangladesh Bank helps maintain order in a rapidly growing sector. However, with the rise of digital financial services, new challenges in regulation and consumer protection are emerging, highlighting the need for adaptive regulatory frameworks.

**Table 7: Regulatory Oversight and Stability**

| Regulatory Function | Role of Bangladesh Bank | Implications |
|---|---|---|
| **Monetary and Credit Policy** | Formulates and implements policies to regulate inflation and credit supply. | Ensures stability in the economy despite bank proliferation. |
| **Banking Supervision** | Oversees compliance with regulations, monitors financial health of banks. | Essential to prevent failures and maintain consumer confidence. |
| **Foreign Exchange Management** | Manages country's foreign reserves and foreign exchange market. | Ensures stability in the face of global financial volatility. |
| **Cybersecurity** | Needs to strengthen as digital banking and mobile financial services grow. | Protects financial data and prevents fraud in a digital banking world. |
| **Money Laundering Prevention** | Enforces anti-money laundering measures across all banks. | Reduces risk of financial crime, essential as digital services grow. |

**Systemic Risk and Bank Stability (Stress Testing)**

Stress testing results suggest that large banks are more resilient to economic shocks, with better liquidity management, while smaller banks show greater vulnerability. The rise of mobile financial services and digital banking increases the need for stronger regulatory frameworks to manage new types of risks.

**Table 8: Systemic Risk and Stress Testing Results**

| Bank Type | Stress Test Result | Liquidity Risk | Impact of Economic Shocks |
|---|---|---|---|
| **Large Banks** | High | Low | Low risk of failure during economic shocks |
| **Small Banks** | Moderate | High | High risk of liquidity crises during economic downturns |

**Banking Crisis Simulation**

In the case of a banking crisis, smaller banks face higher risks of failure due to liquidity problems, while larger banks show more resilience during such extreme conditions.

**Table 9: Banking Crisis Simulation Results**

| Bank Type | Crisis Impact (Failure Likelihood) | Liquidity Problems | Stability During Crisis |
|---|---|---|---|
| **Large Banks** | Low | Low | More stable during crises |
| **Small Banks** | High | High | More prone to failure |

**Bank Consolidation Impact**

The consolidation of smaller banks could lead to increased efficiency and market share, but might also reduce competition, which could have negative implications for consumers. Merged banks tend to have improved profitability, but customer retention is often a challenge after mergers.

**Table 10: Impact of Mergers and Acquisitions on Market Share**

| Impact Area | Pre-Consolidation | Post-Consolidation | Effect |
|---|---|---|---|
| **Market Share** | 10% | 25% | Increased market share for merged banks |
| **Operational Efficiency** | Low | High | Improved efficiency post-merger |
| **Customer Retention** | Moderate | Low | Challenges in retaining customers post-merger |

**Profitability and Efficiency (ROA, ROE, Cost-to-Income Ratio)**

The Profitability and Efficiency analysis shows that large banks outperform smaller banks in key financial metrics. Larger banks have higher Return on Assets (ROA) (2.5% to 3.5%) and Return on Equity (ROE) (12% to 15%), reflecting greater efficiency in generating profits from their assets and equity. They also have a lower Cost-to-Income Ratio (40% to 45%), indicating better control over operational costs. In contrast, smaller banks have lower ROA (0.5% to 1.5%) and ROE (6% to 8%), and a higher Cost-to-Income Ratio (50% to 60%), highlighting their struggle with efficiency and higher operating costs. Overall, the findings suggest that large banks are more profitable and efficient, while smaller banks face challenges in competing due to their higher operational costs and lower profitability.

**Table 11: Profitability and Efficiency**

| Bank Type | Return on Assets (ROA) (%) | Return on Equity (ROE) (%) | Cost-to-Income Ratio (%) | Profitability Status |
|---|---|---|---|---|
| **Large Banks** | 2.5 - 3.5 | 12 - 15 | 40 - 45 | Higher profitability and efficiency |
| **Smaller Banks** | 0.5 - 1.5 | 6 - 8 | 50 - 60 | Lower profitability and higher inefficiency |

**Bank Stability (Z-Score Analysis)**

The Z-Score for large banks is higher (3.0 - 4.0), indicating greater stability and a lower risk of financial distress. In contrast, small banks have a lower Z-Score (1.5 - 2.5), suggesting higher vulnerability to financial instability.

**Table 12: Bank Stability (Z-Score Analysis)**

| Bank Type | Z-Score | Stability |
|---|---|---|
| **Large Banks** | 3.0 - 4.0 | More stable, less risk of distress |
| **Small Banks** | 1.5 - 2.5 | Higher risk of financial distress |

**Competitive Behavior and Market Power (Lerner Index)**

The Competitive Behavior and Market Power analysis, based on the Lerner Index, shows that large banks have high market power, reflected in their ability to set higher prices and maintain profitability with less competitive pressure. This results in less competitive pricing, as they dominate the market. In contrast, smaller banks have low market power and must offer more competitive pricing to attract customers, but they struggle with profitability and market share due to their limited resources. Therefore, large banks benefit from significant market power, while smaller banks engage in more competitive behavior to survive in a highly competitive market.

**Table 13: Competitive Behavior and Market Power**

| Bank Type | Lerner Index | Market Power | Competitive Behavior |
|---|---|---|---|
| Large Banks | High | Significant market power | Less competitive pricing |
| Smaller Banks | Low | Less market power | More competitive but with less market power |

**Discussion**

The findings of this study provide a nuanced understanding of the evolving dynamics within Bangladesh's banking sector, highlighting key trends in market concentration, competition, profitability, financial stability, and the rise of digital financial services. A significant takeaway from this research is the substantial market concentration in the banking sector, with the top five banks controlling a disproportionate share of small account deposits. This concentration is further confirmed by the Herfindahl-Hirschman Index (HHI), which reveals a high concentration of market power in the hands of a few large institutions. Such market dominance by a small number of banks, while ensuring stability in the sector, could restrict competition, potentially limiting consumer choice and innovation (Yesmin, 2023). Smaller banks, struggling to capture significant market share, face considerable barriers to competing with these industry giants, which are able to leverage their size for economies of scale and greater profitability. This concentration is not an isolated phenomenon; studies from other regions have shown that concentrated banking markets often face reduced competitive pressures, which may lead to higher prices for consumers and fewer incentives for banks to improve service offerings (The World Economic Forum, 2024).

Geographically, there remains a pronounced imbalance in the distribution of bank branches, with urban areas overwhelmingly benefiting from the majority of bank branches. This geographical disparity is indicative of the traditional focus on urban markets, where infrastructure and economic activity are more concentrated. However, the data highlights the growing efforts of smaller banks to penetrate rural areas, accounting for a greater share of branch expansion in these underserved regions. This shift aligns with the broader trend of financial inclusion, where mobile banking and branchless banking are increasingly being utilized to provide services to populations in rural areas who were once excluded from the formal financial system (Hasan, MK et. al, 2024). The expansion of mobile financial services (MFS), in particular, has revolutionized financial access, reducing the dependence on physical bank branches and enabling millions of unbanked individuals to access financial products. The growth of MFS in Bangladesh is staggering, with accounts increasing from 8.43 crore in 2019 to 22 crore by 2023, reflecting a 160% increase. This rapid adoption of mobile banking services is an important step towards increasing financial inclusion, particularly in rural areas, where traditional banking infrastructure is often lacking (Uddin, M.K, 2023).

The profitability and efficiency analysis reveals a stark contrast between large and smaller banks in terms of financial performance. Larger banks outperform smaller institutions across several metrics, including Return on Assets (ROA), Return on Equity (ROE), and Cost-to-Income ratios. This performance gap can largely be attributed to the economies of scale that larger banks enjoy, which allow them to operate more efficiently, reduce costs, and offer competitive pricing (Mia, M. R., 2023).). The results suggest that smaller banks, often burdened by higher operational costs and lower market share, struggle to compete with the profitability and efficiency of larger banks. This imbalance is consistent with findings from global banking sectors, where smaller institutions are generally less efficient due to their limited resource base and inability to achieve the same economies of scale as their larger counterparts (Sharipova ND ,2023). Given this profitability gap, smaller banks may face challenges in sustaining operations in the long run unless they find innovative ways to increase their efficiency or target underserved market segments more effectively.

Stability analysis, as measured by the Z-Score, further corroborates the disparity between large and smaller banks. Larger banks exhibit significantly higher Z-Scores, indicating greater stability and a lower risk of financial distress. This is in line with broader banking studies that suggest larger banks are better positioned to absorb financial shocks, due to stronger capital reserves and more diversified portfolios (De Haas, R., 2023).). On the other hand, smaller banks are more vulnerable to financial instability, with their lower Z-Scores suggesting a heightened risk of failure in times of economic stress. The findings of this study point to the importance of regulatory oversight by Bangladesh Bank to ensure that smaller banks are adequately capitalized and able to withstand potential market shocks.

 

The rise of Mobile Financial Services (MFS) in Bangladesh, as highlighted by the growth in MFS accounts, marks a fundamental shift in how financial services are accessed. The remarkable growth of MFS, which saw a 160% increase in accounts between 2019 and 2023, underscores the increasing reliance on mobile banking solutions. MFS has emerged as a cost-effective and accessible alternative to traditional banking, especially in rural areas where access to physical branches is limited. This shift towards digital financial services is consistent with global trends, where mobile banking is seen as a key enabler of financial inclusion, especially in developing economies (Murshed, M., 2023). The Bangladesh Bank's efforts to regulate and facilitate the growth of MFS have played a crucial role in this transformation, positioning the country as a leader in digital financial inclusion in South Asia. As the study demonstrates, the rise of MFS is not only transforming how people access financial services but also reshaping the competitive landscape, as traditional banks must adapt to the increasing demand for digital banking solutions.

Lastly, the findings from the systemic risk and stress testing suggest that large banks are better positioned to handle economic shocks compared to their smaller counterparts. While large banks exhibit resilience in terms of liquidity and risk management, smaller banks face higher risks during periods of financial distress. This highlights the importance of strengthening regulatory frameworks, particularly for smaller institutions, to mitigate the risks associated with liquidity crises and ensure stability in the overall financial system. Given the increasing reliance on digital financial services, regulators must also focus on safeguarding against cybersecurity risks, as the move towards mobile banking introduces new challenges in securing financial transactions (Jasur, A., 2023).

In conclusion, the findings of this study underscore the need for a balanced approach in regulating the banking sector in Bangladesh. While large banks dominate the market and show superior profitability and stability, the expansion of mobile financial services and the efforts of smaller banks to reach underserved regions offer opportunities for greater financial inclusion. Policymakers and regulators must continue to foster a competitive banking environment, encourage innovation, and ensure that smaller banks are adequately supported to compete effectively, all while maintaining the stability of the financial system.

**Conclusion**

This study provides a comprehensive examination of the dynamics shaping Bangladesh's banking sector, focusing on market concentration, profitability, efficiency, stability, and the rise of digital financial services. The findings indicate a significant market concentration, with a few large banks dominating the sector, controlling the majority of small account deposits. This concentration has resulted in reduced competition, creating challenges for smaller banks to capture market share and compete effectively. While large banks demonstrate superior profitability and efficiency, benefiting from economies of scale and extensive networks, smaller banks continue to struggle with higher operational costs and lower efficiency, raising concerns about their long-term sustainability.

The analysis also underscores the transformative impact of Mobile Financial Services (MFS), which have rapidly expanded and reshaped financial access, particularly in underserved rural areas. This shift towards digital banking aligns with global trends and highlights the potential for MFS to improve financial inclusion. However, it also presents challenges for traditional banks, particularly smaller institutions, which must adapt to the increasing demand for digital solutions. The role of Bangladesh Bank in maintaining stability through robust regulatory oversight has been pivotal, particularly in managing the risks associated with a more concentrated market and the digital transformation of financial services. The findings suggest that continued regulatory vigilance is necessary to ensure that both large and smaller banks operate safely, particularly in the face of potential economic shocks.

Overall, this study emphasizes the need for a balanced regulatory approach that encourages competition, fosters innovation, and supports smaller banks in navigating the challenges of a rapidly changing financial landscape. Policymakers must strike a careful balance between maintaining stability in a concentrated market while promoting a more inclusive and competitive banking sector that can meet the evolving needs of Bangladesh's diverse population. As digital financial services continue to grow, embracing technology and improving financial access will be key to ensuring the resilience and adaptability of the banking sector in the years to come.

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