

Mobile banking takes shape

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MOBILE phone use in Bangladesh is not a luxury now. Almost half of the country's 160 million population uses mobile phones, but very few have bank accounts. There were lot of talks in the past few years on how the big population could be brought under the banking services via their mobile handsets. The GSM Association (GSMA) predicts that by 2012, nearly 300 million of the previously "unbanked" will be using some form of mobile banking.

The GSMA is an association of mobile operators and related companies devoted to supporting the standardising, deployment and promotion of the GSM mobile telephone system.

Bangladesh adopted the concept few years ago. Some banks have already started remittance services by mobile phone.

The central bank issued a guideline last week on mobile banking, covering core banking services.

In the guideline, the central bank made it clear that mobile banking will be bank-led, not telco-led. Now there is no confusion as the regulator, Bangladesh Bank, said: "From legal and regulatory perspective, only the bank-led model will be allowed to operate."

Bangladesh Bank said the move would help banks bring a vast number of unbanked people into the banking services through the mobile network operators (MNOs). Underprivileged and rural folks would benefit the most from the MFS, it said.

How?

The bank-led model shall offer an alternative to conventional branch-based banking to the unbanked population through appointed agents facilitated by the MNOs or solution providers. Customers account, termed "mobile account", will rest with the bank and will be accessible through the account holders mobile device. The account will be a non-cheque limited purpose one.

What are the services to be available?

Bangladesh Bank (BB) has allowed almost all services from disbursement of inward remittances to cash in and out, person to business payments, business to person payments, person to government payments, government to person payments and person to person payments.

Customers are also allowed to some other payments such as microfinance, overdrawn facility, insurance premium and deposit schemes. Cross-border outward remittances are allowed only after the central bank's approval.

Are all banks allowed to do the business?

No. Taking approval from the BB is



Mobile financial services could be a source of big help for the rural people. Bangladesh Bank has laid out a guideline to boost such services.

a must for banks to do the business.

"Banks willing to provide mobile financial services shall seek prior approval from Bangladesh Bank, with full details of the services including tentative implementation schedule," the banking regulator said in the guideline.

Banks shall have to submit agreements or memoranda of understanding containing service level agreement signed between the banks and their partners and agents before launching the product.

Who will select cash points and agents?

Banks will select the cash points and agents. A list consisting their names and addresses shall have to be submitted to the Department of Currency Management and Payment System of Bangladesh Bank on monthly basis.

The cash points or agents can be a bank branch or an outlet of a mobile phone operator. Banks have to rely fully on the MNOs as they lack countrywide presence. Banks will be the custodian of individual customers' deposits.

It is the bank's responsibility to identify, contract, educate, equip and monitor activities of the agents regularly. There must be a clear, well documented agent selection policy and

procedures. The agreement signed between the banks and the agents will primarily include business hours of the cash points/agents, standard of performance, fees permissible by Bangladesh Bank, customer service, dispute resolution procedure and proper signage.

Those who have countrywide branch network such as non-government organisations, the MNOs or the postal department may act as partner/agent. Banks should publish list as well as addresses of cash points/agents/partners in their websites.

The issues that should be taken into account for selection of partners/agents are: competence to implement and support the proposed activity, financial soundness, ability to meet commitments under adverse conditions, business reputation, security and internal control, audit coverage, reporting and monitoring environment.

Opening of mobile accounts

Banks must ensure that a mobile account is opened for each customer seeking to avail MFS with all the required documents as per the KYC (know your customer).

Transaction limit

The central bank is yet to determine the limit. But it said it will fix the

transaction limit as well as overall cap (per customer/ per month) if needed.

Charge for the services

Charge to be imposed for the services is a major challenge for the service providers. The central bank also did not suggest anything on the charges rather it said banks may fix charges which will be under Bangladesh Bank oversight.

Interest/profit

Banks shall pay interest/profit on the deposits lying with the customers' mobile accounts.

Risks and its mitigation

Anti-money laundering and terrorist financing are the two major areas of risks in mobile banking.

The guidelines have clearly mentioned that banks and its partners shall have to comply with the prevailing anti-money laundering/combating the financing of terrorism related laws, regulations and guidelines issued by the BB from time to time.

The cash points/agents/partners will be responsible for authenticity of the KYC of all the customers. No KYC or account opening form is required for the existing bank customers.

Banks shall ensure that suspect transactions can be isolated for subsequent investigation. Report must be sent to the BB immediately if there are

any suspicious, unusual or doubtful transactions likely to be related to money laundering or terrorist financing activities.

The banks will bear all the liabilities that arise from improper action on the part of their subsidiaries/cash points/agents/partners.

The BB also said banks have to develop an IT-based automated system to identify suspicious activity/transaction report before introducing the services.

Banks shall be responsible for mitigating all kinds of risks such as liquidity risk, operational risks, fraud risks, including money laundering and terrorist financing risks.

Technical risks should be covered by the solution provider.

Record retention

Transaction records of the mobile financial services must be retained for six years from the origination date of the entry. The participating bank(s) must, if requested by its customer or the receiving bank(s), provide the requester with a printout or reproduction of the information relating to the transaction. Banks should also be capable of reproducing such records for later reference, whether by transmission, printing, or otherwise.

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Revenue sharing, not an easy job

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BANGLADESH Bank has allowed bank-led model, not telco-led one to operationalise mobile financial services. But making it a bank-led model does not reduce the importance of a mobile operator in execution of the services. Telco partnerships are must as banks have to use their network and infrastructure to render services efficiently.

The central bank has handed over the revenue issue on the banks, although its guidelines have made it clear that banks will lead mobile banking.

"We need to be clear on the revenue sharing issue, as the business models for banks and telcos are totally different," said a senior official concerned of a private commercial bank that has licence to operate mobile banking.

Banks primarily derive income through net interest or through transactions such as remittance, whereas telcos earn primarily from mobile network access. So, banks have to be mindful of the differing objectives of both parties, when going into partnerships with telcos, said the official.

So far, the response from the telcos is not com-

mendable, according to bankers. A dozen of banks that have got permission to launch mobile banking are yet to partner with big telecom companies.

"MNOs [mobile network operators] are not signing contracts on pricing issue," said a chief executive of a private bank. "We are ready to provide telcos 30-40 percent of revenue, but they want more," he added.

Shah A Sarwar, managing director of Trust Bank, said his bank has already been providing mobile banking services through state-owned mobile operator Teletalk. As per the agreement, per transaction cost will be Tk 10 plus SMS (short messaging service) cost. But Sarwar did not disclose the revenue sharing model with Teletalk.

The bank is also in talks with Citycell in signing a deal soon, he said. "We are working out details in this regard."

Muklesur Rahman, deputy managing director of Eastern Bank Ltd (EBL), said banks have to invest huge, particularly in software to provide the services.

"We'll give Tk 3 to Tk 4 to the mobile operators against Tk 10 transaction charge," said Rahman. EBL is providing remittance through mobile phone since

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2010.

Dutch-Bangla Bank Ltd (DBBL), which is setting at least one office in every upazila to do mobile banking business, has signed deals with two telcos: Banglalink and Citycell.

"Banglalink and Citycell will charge one percent per transaction," said Abul Kashem Md Shirin, deputy managing director of DBBL. He said they are in talks with Airtel also.

The service will not be cheap either for the targeted poor rural customers or for the banks.

DBBL has already launched the services in six districts surrounding Dhaka and is now expanding to another 18 districts, said Shirin.

Kazi Monirul Kabir, chief communications officer of Grameenphone, said banks and MNOs are in a conflicting situation on the issue.

Banks' involvement into the process is to ensure financial integrity and telcos will transact and distribute as they have the required infrastructure, he said.

"It is important to understand our respective proposition," said Kabir. "It has to be win-win situation."

According to bankers, mobile banking has huge potential to grow. Nearly half of 160 million populations in the country are mobile users, but less than 15 percent are bank account holders (except one lakh farmers' accounts).

They also believe mobile banking will prevent money laundering, eliminate informal foreign remittance inflows and promote savings among rural people.

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