

Mobile Financial Services: Its Impact and Future in Bangladesh

Salehuddin Ahmed, Managing Editor, The Daily Star



Bangladesh, with a population of 150 million and a per capita income of around \$800, has seen a steady economic growth over the last 15 years. We have successfully

reduced the poverty rate to 31 percent in 2010 from 60 percent in the early 1990s. This development reflects in the growth of the financial sector, supported by the recent transformation in banking technology.

Bangladesh can use mobile financial services not only to accelerate financial inclusion, but also to bring more than 85 percent un-banked population to the mainstream in a cost effective manner.

I found the poor and especially the women generated many of the innovative ideas in Bangladesh. The classic examples are microfinance and non-formal education of BRAC. Second lesson that I got is that, the tools of empowerment or power tools is usually been given to the men. I have found from the statistics that bKash has 25,000 agents and Dutch-Bangla Bank has 20,000 agents. My question is that how many among them are female. I think there is no female agent. I think we should consider giving the tool to the women and inclusion of women as agent. Good guidance will definitely help them to overcome the problem regarding illiteracy and inexperience.

Syed Mahbubur Rahman, Managing Director & CEO, BRAC Bank



In our country where only 15-20% of the population is banked, we have limitations in terms of reaching out to the population. Mobile financial services can really help in bringing

this piece to the formal economy. In our country, we have already seen launching of Mobile Financial Services (MFS) by few banks. Bangladesh Bank has already said that it should be Bank-led model. We call today's forum to make people aware of the services, as a new service there might be some misperception. We will try to get some clarity about those as well. We have tried to bring all the relevant stakeholders in a common platform. This forum is open to all, it doesn't represent BRAC Bank or bKash particularly.

Pial Islam, Managing Partner, Ppi Strategy Consulting



I would like to present the global perspective of mobile financial services based on our work with World Bank, ADP, CGAP and other organizations around the world. The

percentage of the adult population of the world who do not have financial bank account with any financial institutions is about 77%. Mostly poor segments of the population are excluded from financial services. Another point is that most of the bank accounts are limited within the people in between age 18 to 60. People under 18 and over 60 are typically disadvantaged in this sector. There is also a difference in terms of rural-urban divide. Rural people have less access to financial services around the world than their counterparts in the urban areas. There is also a gender as well as income divide.

Financial inclusion is something that

BRAC Bank, bKash and The Daily Star recently organized a roundtable on " Mobile Financial Services: Its impact and future in Bangladesh". We publish a summary of the discussions.

-- Editor



allows household and business to have access to two components - access to appropriate financial services and then effectively make use of those financial services. An important distinction is that financial development has disproportionately helped the poor. Many poor people in the rural communities who do not have the access to financial services in a formal financial institution would be paying a negative interest. They have to pay for the safekeeping of the fund.

When we look at financial inclusion and mobile payments, it helps in improving country's Gini Coefficient as well. The number of mobile phones and POS machines has been increasing significantly, and there is practically a mobile bank in the pockets of large number of people around the world. This is not different in Bangladesh either. There is a significant price reduction and phenomenal impact on ability to reach the base of the pyramid segments.

At a recent CGAP conference we were looking at Mobile Money specifically and found the responses from people of different countries that they think the biggest challenge is not technology but the business model where partnership play a big role. Partnership between existing platforms, such as a bank, a Mobile Network Operator as well as an agent network could be leveraged for local market access. Although this task of getting 77% of unbanked around the world into some sort of banking interfaces and experiences is very daunting, we see strong reason for hope at global level. Financial inclusion and innovations across axis has become number one priority in many countries.

Dr. Muhammad Abdul Mazid, former Chairman, National Board of Revenue



Mobile financial services are popularly known as "Mobile Banking". The financial experts have already agreed that the mobile banking will speed up financial

inclusion and bring more unbanked people under the banking system as the fast expanding mobile telephony has opened windows of opportunities of creative partnerships between banks and telephone companies and cost effective arrangements for delivery of financial services in Bangladesh. According to regulatory framework, only the bank-led model is allowed in Bangladesh where the financial institutions provide the service and take the compliance respon-

sibilities according to the definition; mobile operators provide the mobile connectivity and the customers and agents use their own handsets. Bank-led model is regulated by the central bank in Bangladesh. In September 2011, it has issued the Guideline on Mobile Financial Services (MFS) for the Banks. They have made it mandatory that there are Know Your Customer (KYC) forms for all customers and agents for security and better management purpose. Greater speed, easy accessibility, affordability, availability are the benefits of MFS, which are sometimes and in many cases very difficult to get in classical banking system. Security, convenience and mobility are other aspects that are ensured in this system. All mobile operators are involved in providing connectivity to MFS providers. bKash and DBBL are leading in this sector with about 2 million registered customers and 40 thousand agents nationwide.

In our country most of the peoples' livelihood is agro-based and they live in villages. There is also a growing urbanization for livelihoods. People are coming to the cities, they are earning money and they want to send the money to their parents living in the villages. There is a significant domestic remittance flow but the physical infrastructure is still poor.

Dr. AB Mirza Azizul Islam, former Adviser to Caretaker Government



I would like to present some inquiry before you. Firstly, what sort of programs do the Financial Service Providers have to expand the coverage of

this service? Second, we have heard that inward remittances can be made very expeditiously but we have not heard anything about the cost of this service, how affordable these services are for the poor. Third, what is the degree of security, as we know that with this global information technology the incidence of hacking also has increased dramatically? What are the possibilities of hacking? If there is some hacking into somebody's PIN number then what sort of security is there of the deposit of that customer? Fourth, in terms of regulatory framework do you see any lack of coordination or inconsistencies between the two major regulators, which will have to play role in this area, one is Central Bank and of course the other is the Telecom Regulatory Authority?

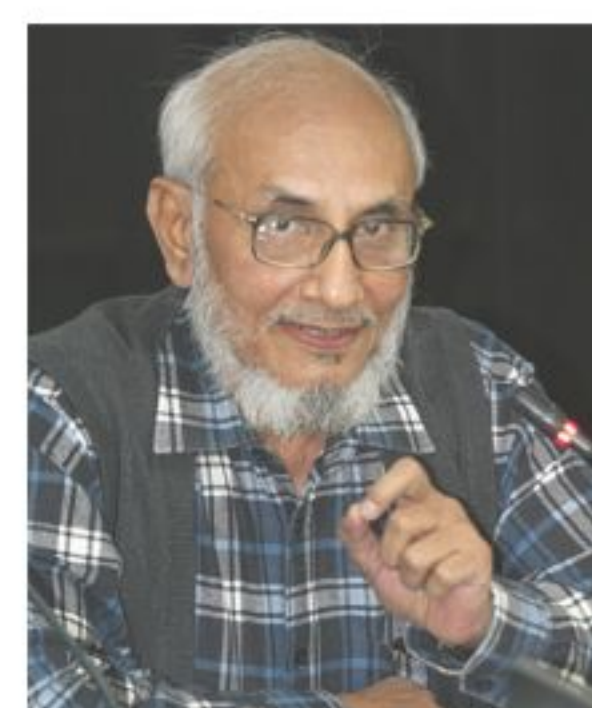
Md. Nazrul Islam Khan, ICT Secretary, NPD, Access to Information



In our project of Digital Bangladesh we use the term "services at the doorstep of people". In this perspective the term "Service at Peoples' Hand" or "Instant Service" will be more

suitable. The biggest barrier for our department is to identify a person. Studies show that there are some identified standardized formats in other countries. We prepared a standardized format and arranged approval from the Cabinet Division. We handed it over to Statistics Bureau, to execute this. We felt that the procedure needs an independent or a semi-independent body to govern it. Therefore, we selected Statistics Bureau rather than the Home Ministry to prepare a population register. A population register will help to identify a person only through accessing a database. In a situation when a person needs an urgent passport, information from different department is needed. For example, if there is any case had been filed against the person or not. A departmental register will be helpful then. Thus a combination of departmental and peripheral register will help in developing a population register. The estimated cost for this project is of Tk. 1200 crore. Although the estimated figure of cost is large, a population register should have been made as soon as possible. As a second option we can apply a guerrilla method which will not be that expensive. People under each Union will be called to capture photo and biometric finger print with the help of Union Chairman and other representatives of that union. Another option is to make everyone fill-in the standardized form, who is willing to take any service from UISC. Incrementally an amount of information can be compiled and a population register can be built. When this project is implemented it would contribute in the growth of mobile financial services in Bangladesh.

Abdul Mueyed Chowdhury, former Adviser to Caretaker Government



In Bangladesh, it is difficult for poor people to remember the PIN number. We have to innovate some kind of system whereby the account holder can be easily identified.

It is important to look into the security aspects of various security IDs itself. But for financial services we only need one simple identity - it is my money. Even if I have 10 cases against me I should be able to draw my money unless it is being attached by a court order.

Khondkar Ibrahim Khaled, former Chairman of Bangladesh Krishi Bank and former Deputy Governor of Bangladesh Bank



In our country middle class and lower middle class also maintain savings accounts in different banks where a service charge is deducted after 6 months from their savings.

The Government especially Bangladesh Bank decided that big banks make large amount of profit which can be cross subsidized. Opening a bank account with Tk 10 is not possible but still it has been opened so that a poor person can open a bank account and get the facilities with zero service charges. And the number of account is not less, it is 13 million where as the total number of adult and able population is around 8-9 crore. As it is a subsidized system the question of retainability and sustainability is arising here. We need to think of alternatives.

In Bangladesh, Micro Finance Institutions (MFIs) are now currently brought under laws. Under this Act, MRA (Micro Regulatory Authority) is already being established. It is different from Bangladesh Bank but still connected with it. Bangladesh Bank Governor is also the Chairman of MRA with its own managing director and managerial body. Bangladesh Bank has introduced an innovative Bank-led financial service. Similarly, if MRA can introduce MFI-led financial service then there will be no regulatory issues. MRA is still not a strong regulator but over time, they may get stronger with broader scopes and lower expenses. We need to target the segment that is immediately after the already banked population. In general, regulators create hindrance in the process to ensure the security of the involved parties against cheating and fraudulent activities. Is telephone authority capable of handling this responsibility? I think they are not able to do it and this is not their mandate.

Economic growth is highly correlated with our financial inclusion and education. The players in the field should work for education at their own level. We can form a concise flexible body named Mobile Financial Service Promotion Bureau like Export Promotion Bureau. The constituting bodies of the bureau will be the Central Bank, Banks, MFI and MRA, BTRC, MFS, academicians and other stakeholders. Its first work will be to identify the problems, to find out where is the bottleneck. It will conduct some research to understand the issues. It would introduce new services with lower cost that would be popular in the lower income customer group. Ultimately, the MFS operators will deliver these services found by the Bureau.

Abul Kashem Md. Shirin, Deputy Managing Director, Dutch Bangla Bank Limited



A bank cannot establish more than 10 branches in a year. According to this data to spread a bank through branches in every Upazilla it will take 50 years. And if we want to

establish a branch by a bank in every union then it will take 450 years. In this circumstance,