

Mobile Financial Services: Its Impact and Future in Bangladesh

mobile banking has been established. Through mobile banking, we can reach every village of Bangladesh. Dutch Bangla Bank started in March, 2011 and covered the whole Bangladesh with 20,000 agents by March, 2012.

Mobile banking is affordable for the poor because you can deposit 20 or 30 taka, and in the same way, you can draw small amounts of money. Maintaining a bank account is very costly. It costs almost 2000 taka for maintaining an account. In mobile banking there is no such cost. If you do not do any transaction for a year, it will cost you nothing.

Michael Kuehner, CEO, Robi



One technical but very important point is the identification of consumers. There is a strong and strict requirement from the regulator and the Home

Minister to identify all of the users who buy a SIM card. This is very tedious and challenging work. We are requesting for online access to the national data bank, which is carrying the identity of most of the people of the country in an authorized and proven way.

This would make the identification process much easier for the MFS providers also. However, the authority says that it is not secured, as there is a chance of being hacked. Concerns are also expressed in this forum about security. Mobile networks are possibly the safest platform in the world. There are no incidences where mobile platform was hacked. There are some exceptions on the smart phone site as the client of the smart phone of course have open software piece where a lot of things can happen. In Bangladesh, smart phone represent less than 2% of the population in the market. I think we can easily say that hacking into a phone of any user in Bangladesh is literally excluded because mobile networks are proprietary and very safe against the hacking from outside.

Dr. Mahabub Hossain, Executive Director of BRAC



Financial inclusion can contribute to financial growth by easing the financial transaction in terms of both mobilisation of savings as well as access-

ing the credit for doing small business and others. It will also increase the financial income of the poor people. In Bangladesh, micro-finance played that role very well. One major advantage of MFS is that it is a more user-friendly process for the user with fewer formalities. That is why the poor people feel comfortable and prefer MFS than banks. We have nearly 20 million microfinance members of MFI's who are currently transacting with small loans. These poor people generate regular income but cannot accumulate that income to pay at the end of the year. So making repayment weekly has been an effective instrument for getting this recovery. But the cost of MFI services is very high because of weekly involvement of the bank officers with the clients. So some of the MFIs are now thinking of moving from weekly repayment to monthly repayment system because it will reduce the cost of serving the loan. However, we still have poor people who feel much more comfortable with paying weekly rather than monthly. Through mobile financial services, we can reduce the cost of delivering micro-credit tremendously.

Iqbal Quadir, Professor, Massachusetts Institute of Technology



The point is how the provision for mobile financial services is to be made. On one hand, it is a banking service obviously and I see reports and guidelines from

Bangladesh Bank that this sector is to be regulated by Bangladesh Bank. At the same time, because the network technology is coming by another set of entities that is regulated by another regulator. Therefore, there is a natural confusion even though banking service is to be regulated by the Bangladesh Bank. Sometimes it is perceived to be partially provided by another entity. On that regard, I'd like to add a point that the technological ability to provide certain technology does not naturally make that entity capable of providing financial services due to the regulatory frame work that protects customers interest.

Shameem Ahsan, Sr. Vice President, Bangladesh Association of Software and Information Services (BASIS)



People want to buy from distant locations around country but they have to follow a lengthy transaction process. When we say that there is a scope for mobile

payment they feel more interested to buy things from online store. Some mobile payment is happening but they do not feel comfortable with hectic KYC process. We should make the KYC easier.

There should be a system that if I have a bank account I can transact through any mobile banking services. In Bangladesh, we see bank led model only, but there are other models like Google, Amazon.com, PayPal and so on. They are neither a bank nor a telephone company but giving mobile services and payment services. Therefore we should think of these new avenues.

Finally, mobile financial services should be connected with other financial services. It should be a package. In our country, we talk about twenty thousand crore taka from mobile phone service, but from value added services we get only 400 crore taka. This is only 20% of the global average. There is possibility of being a market of 4000 crore taka in Bangladesh. Through mobile, we can reach to grassroots level with information of health, education, agriculture and so on. Then there will be a demand of mobile payment.

There is also a lack of proper policies, which has created obstacles for entrepreneurs to come up with innovative ideas. If an entrepreneur wants to provide an innovative service, he or she has to share 70-80% revenue with the telephone operator. There is no protection for intellectual property. BTRC started working on a guideline for VAS but it is yet to see the daylight.

M. Khalid Shams, former Chairman, Grameenphone and former Deputy Managing Director of Grameen Bank



We always overlap the security issue. When the first scope of being connected with marine fiber came we shielded away overplaying the security reasons. As a

result, we lost 20 years. We are running the risk again. Banks are by nature conservative. As a regulator, Bangladesh Bank should set up a small group to identify the security risk in mobile banking. It will be the best because we are now in a learning curve. We have to be careful but we should not let the possibility be missed.

My second point is that if financial inclusion is the objective as every body is emphasizing on it then how to reach the very large number of people who have been left outside the room of banking services. How do you create synergies among various partners? I think we need to look into existing models in various countries. Financial providers will have a comparative advantage if they can come up with differentiated products for villagers, girls, students, farmers and so on. Therefore, the banks and financial institutions have to demonstrate clearly that we are providing financial services to the poor people then all confusion will wither away within short time.

There are some risks in the service, but Bangladesh should seize the opportunity. MFS providers should come up with new products for the targeted people.

Dr. Hassan Zaman, Chief Economist, Bangladesh Bank



Two years ago, when we put these regulations in place we thought of the bank-led model, telco-led model and of having a hybrid model. In countries like Kenya,

this mobile financial services has expanded hugely and a telco-led model drove it. We can have quick outreach and improved financial inclusion quickly if we go for a combination of models or we can be more conservative, and go for the bank-led model and then expand the financial inclusion gradually. Now why did we go for the latter? The two key reasons are as follows:

One is that as a regulator of the financial system, the safety of bank depositors and of financial flows is of paramount importance to us. Therefore, from the consumer protection angle, when we know that this is poor people's money which is going into a certain system, we need to be confident that the money is safe. And that safety of money we get through the institutions that we have licensed. We want to make sure that if there is any issue with that safety of the deposits we can hold all those we have given licenses accountable to any issues that we face. We cannot hold any other party accountable directly.

The second key issue is the monetary policy. We need to have a handle on how much money is flowing in and out of banks in order for us to have a sense of whether the interest rates instruments we are using to regulate monetary policy and therefore ultimately inflation, how much it is. At the end of the month, each bank reports to us about financial flows, which includes the accounts which are currently part of their mobile financial services system. At this point I'm not sure if we'd be able to get that from telcos for example. These are some of the key reasons for the rationale for why we opted for this model and why we are very keen on sticking to this model, whilst being somewhat flexible to innovations as well.

3 to 4 months ago, we prepared a report on the regulatory challenges that we are facing. One of the key findings of the report was that as a regulator our job is to promote competition. In three years of time we have only two major players in this industry which has all the risks of monopolistic competition. As promotional activity, we suggested various donors who have shown their interest to invest in this sphere which will increase the investment in the long run. Another

regulatory challenge is ensuring compliance. We have a bank-led model. We want to make sure a simplified KYC form. We are now launching quite a major financial literacy campaign.

In terms of ensuring compliance, we see some cases where telcos are coming up as in fact the front for other banks to then provide those services. The issue that I want to be very clear on, that we don't want to see a case where we have different forms of money being created by a telco and then saying that a bank is a channel that cannot be. Telco is the channel by which these services are being provided, the bank provides the basic financial security and instrument, not the other way around. And along those lines, another regulatory challenge is mediation between telcos and banks with respect to charges and various gateways etc. We see this as part of our role to promote this industry, and we do it.

Finally, we have safety net programs in Bangladesh which is still massive, 2-3% GDP of the annual budget. About 60% - 70% are cash based and other 40% are food transfers. Those who get old age pensions or those who get benefits for being war veterans do not have to queue up in line for hours; if they can get their money on mobile phone through MFS. This should be the next frontier that we need to move to. As a regulator we are ready to help other organs of government to move in that direction.

Kamal Quadir, CEO bKash



True partnership between mobile operators and financial institutions is essential in order to generate a win-win business case for both parties and users to get the services

at an affordable cost. I will give a concrete example here: 85% of bKash's income directly goes to the agents operating all over the country. Of the remaining 15%, mobile operators get 8.05%, and 6.95% goes to bKash. Now if there are 10 bKash type services in the country then we will see the mobile operators generating significant revenues from this sector. bKash is working with all the major operators under such partnership. Mobile operators are showing their eagerness because there is a general trend of increasing revenue for them from the MFS under the current arrangement.

Nawed Iqbal, CTO BRAC Bank



I want to touch the point that although there are a few banks that already have licenses, not all the banks are coming in. Some of the reasons are

the very high initial investment and the high risk associated with new venture undertakings. Most of the banks are approaching with existing process of banking for MFS. This approach is similar to the initial stage of introducing ATM and cards, which most of the banks shied away. Then third party came to the scene like E-cash, Q-cash, and set up the network. Then the local banks started to understand that it is not rocket science.

Another point is the impact and future aspects of MFS in Bangladesh. I have read an article where it was discussed that in not too distant future the card industry and retail banking is going to merge because these all are based on retail. Therefore, we need to look into that side also how we can expedite the process.

Pial Islam

One experiment is happening in

Bangladesh about G2P (Government to People) payments. With the Ministry of Disaster Management, an effort has been undertaken to provide payments to the vulnerable poor through mobiles. The target audience is very deprived/ poor and hence has no or very limited familiarity with the features of mobile phone. There are 600 thousand beneficiaries of the EGPP program and 30% of them own a mobile phone. Therefore, they are less familiar with the mobile technology compared to other average Bangladeshi. This target group audience also does have trouble remembering PINs. We tried to teach them to think about communication patterns from the surroundings with numbers e.g. a plough resembles the number 7. So a little training can go a significant way in enabling that.

Regarding cards, for this TG we have to think differently as their needs are different. A2I and Bangladesh Krishi Bank are experimenting with alternative technologies like Q.R. codes. These experimentations are extremely helpful in the early stages.

Another point that I make is about using MFI network to take the agent network to scale. Many of the MFI networks are already quite exhausted in providing services that they traditionally do. So re-training and re-tooling is needed. The agent-banking model (called the business correspondents) has not fully worked in India. In India they are looking at micro finance network. Therefore, Bangladesh should cautiously look into the microfinance network model, and agents should be properly trained and re-tooled.

Abdul Mueyed Chowdhury

We have talked about MFS services focusing on the poor. The trend of MFS focuses on the general people in the rural areas. But I would suggest that the banks should consider this very seriously. Mobile banking has already started in the developed countries of the world.

I would like to share some points-

- 1) Rationalization of cost of MFS services.
- 2) We should not be too concerned with the security of MFS in Bangladesh.
- 3) Government is seriously thinking about an Electronic ID better than that one made by the Election Commission. This would be very useful to have via the statistics division (BBS). Also some Union based identity in the database will be helpful.
- 4) MFS should be regulated by Bangladesh Bank similar to MRA (Micro-credit Regulatory Authority) where the Governor of the Bangladesh Bank is the Chairman.
- 5) Simpler system for the illiterate people is needed.
- 6) MFS should be considered as commercial issue. People will be interested only if it makes money.
- 7) A committee should be formed to study, monitor and recommend to the regulators.
- 8) Simplification of KYC.
- 9) Telecoms should continue to provide connectivity and increase their revenue rather than getting into MFS itself. It should be done by the bank because the central bank should always regulate the industry.
- 10) Women agents should be appointed. This should be seriously examined. BRAC Bank, bKash and DBBL can explore this right way.
- 11) G2P (Government to person) payments is an area where MFS will be useful.
- 12) Differentiated MFS products are needed for traders, youth, women, students, poor and ultra Poor.
- 13) Two regulators, Bangladesh Bank and BTRC, should meet time to time and talk to each other to understand the industry concerns.

If we can address these and implement other recommendations that have been raised by the participants, then we can smoothen the path for widening and deepening the reach of the MFS in Bangladesh.