

ELECTRONIC PAYMENT SYSTEM IN BANGLADESH: PROS AND CONS



Eastern Bank Ltd. and The Daily Star recently organized a roundtable on " Electronic Payment System in Bangladesh: Pros and Cons". The very timely topic was deliberated upon by experts from various sectors who either provide the service and regulate or utilise it on a regular basis. We present the excerpts below which we believe will help policy makers get a clear insight into the system and formulate policy for its further growth. -- Editor

Shahnoor Wahid, Special Supplement Editor,
The Daily Star

Today, we have an august gathering of bankers, market researcher, business leaders, telecommunication experts, IT sector professionals, security solution providers and media leaders. We are also customers of various banks. We use different kinds of cards and electronic payment systems. So there is a good opportunity to get a comprehensive view of different aspects of electronic payment from the stakeholders.

We shall hear from bankers about their experience in providing electronic payment services; researchers will present their findings of the effectiveness of these services; business leaders will assess the impact of these services on the overall business development of the country; experts from the technology sector will talk about solutions to ensure safety of electronic transaction; media professionals will tell us what role they can play to make people aware and popularize these services. I hope their recommendations will help develop the electronic payment system further.

Ali Reza Iftekhar, CEO, Eastern Bank Ltd.

There are so many positive things happening in last couple of years but there are also some challenges that need to be discussed, fine tuned and resolved to develop the electronic payment system further. Here is a short list of challenges:

- Probable cyber crime
- Money laundering
- Perception of people
- Initial high cost for access
- Confidence and security of transaction
- Lack of knowledge of skills
- Attitude to a new product
- Minimising cash based transaction

Professor S A Chowdhury, Bangladesh Institute
of Bank Management

Until 2009, our banking system had been following a paper based route. After that, with the supportive role of Bangladesh Bank, we moved towards an automated banking system that is compatible with international standards. In the provision of Bangladesh Bank's order, it is said under 7A (e) that Bangladesh Bank will have to promote, regulate and ensure a secured and efficient payment system. From 2009 onwards Bangladesh Bank has issued as many as six sets of regulations starting from automated cheque clearing, BFTN, electric fund transfer and, of late, mobile service. In 2013, they introduced agent banking system. In the meantime, both government and private banks have invested a good amount of resources to make the system automated and updated both horizontally and vertically. They have also taken financial inclusion projects to reach a wider population.

Now, we have to discuss three important areas. The first one is the technology component – the infrastructure. Second one is the security, safety and service. Because it is a national issue in a sense that all the goods and services transacted in a financial market have to be transparent and the payment system must be set in such a way that it will not only be harmonious, consistence and pragmatic but also helpful for people who are using these services. Third is the regulatory and legal framework which is entrusted upon the Central Bank. They are striving for national payment switches so that the inter-bank share holders can have a platform. Now, they are trying to amend certain provisions of the negotiable instrument act and adopt a payment act which is very essential for a robust banking system.

Nazeem A. Choudhury, Head of Consumer Banking, Eastern Bank Ltd.

Changes in electronic payment sector began with the introduction of cards then came mobile money trans-

fer and now with the convergence of mobile with agent banking. In this rapid transformation we have also been going through challenges. Every time we introduce a new technology, we see a lot of resistance from customers because they are habituated with traditional banking practices.

In Bangladesh, very few customers visit the branch physically. Often they do it through a bearer or some representatives. When we introduce a new technology it requires more direct customer interaction. So there lies a big challenge for us to educate people about new banking systems. And the education process should be two-fold: one for those who often visit branches as representative of the account holder and second one is the account holders themselves.

Our banking system is still in a nascent stage of fund transfer. We have to reach that stage where we will do the actual transaction. That will be the real banking experience.

Our card system is restricted to city areas only. We have to go beyond that. Mobile has reached every nook and corner of the country. Through mobile banking we have had a giant leap forward to rural areas. But it is only a cash jump. We have to reduce this overwhelming cash dependence.

Md. Shawkat Ali, Islami Bank Bangladesh

It is said that in electronic transaction there is a great fear of fraud and hacking. But how many hackings have been done in Bangladesh? Till now it is a myth for us. We often save pin numbers of ATM cards in our mobiles. On the internet we also expose our account details. This all happens due to our lack of awareness. So we need to work out some strategies to educate our customers and raise their awareness level.

Another point is that whenever any fraud happens and we seek help from law enforcing agencies they show an attitude that the bank is involved with the corruption. This mentality needs to be changed. They need to be educated also.

Our ATM booths are restricted to city areas only. We have to go beyond that. We have to reach remote areas with affordable banking facilities.

Next point is related to mobile banking and agent banking. We are trying to reach to the end customers through these systems. But if we consider these systems as full-fledged banking systems then a customer has to bear a lot of expenses. If we go to an agent to withdraw money it costs a lot. People without bank accounts have to bear even more. So we have to come out of cash banking. Introduction of virtual money and plastic money can be good options.

Shameemul Haque, DGM IT, Sonali Bank Ltd.

Bangladesh Bank has progressed a lot in automation. Through BFTN it connects all the banks and their branches the number of which will be around 8000. It helps to transfer remittance from one bank to another very quickly and very easily. If we consider it from the country's perspective it is very effective because it is secure and convenient. But how does this change impact on government owned banks? Previously we used to transfer money through TT (Telegraphic Transfer). We charged a certain amount of money for this service. But introduction of BFTN has made this TT system almost non-existent because BFTN is free of charge. It causes huge loss to the income of government banks. So I think there should be some sort of charge in the fund transferring mechanism.

Syed Mohammd Kamal, Master Card

We have talked about the acceptance capability of the card. In Bangladesh cards were launched in 1996. At the same time mobile was launched. Right now the total number of cards in Bangladesh will be over eight million. Out of the eight million, five million cards are

proprietary cards and three million are special cards that have global acceptance. At the same time if we compare the acceptance capability of the mobile wallet, by this time there are fourteen-fifteen million mobile wallets in this country. In acceptance capability still the number of card is very low. We have only 8500 merchant and 5500 ATMs in this country. So in total we have only 15000 acceptance point whereas according to the Bangladesh Bank data mobile banking has more than 26000 acceptance points. So we have to look into the convergence of the mobile and card system.

In Bangladesh, total number of unique account holders might be around 36 to 40 million. But there are only 7 million debt cards. So there is room to play. And once this 40 million will be covered then we can really talk about acceptance capability. At the same time, we should also work for building acceptance capability for the cards. Globally 85 % retail purchases are still done in cash. In Bangladesh the number might be 95%. Globally 60 trillion dollars is spent without any mode of instrument. So there is room to play there as well. So we have to build up a card base in the country and in parallel build up a system where the card can be converged with the mobile wallet so that mobile and card can complement each other. Bangladesh Bank has been very keen about the security aspect of the card. So it is a right time to build up a proper ecosystem among bank, card and mobile operator.

**Ershad Ahmed, Regulatory Affairs General
Manager, Banglalink**

BTTC is the main regulating body of mobile operators and mobile operators are bound to follow their rules and regulations. Our mobile financial service follows a bank led model. So there are also directives from the central bank that we have to follow. This often creates confusion. There should be an alignment between these two regulators to avoid confusions.

Vivek Sood, CEO, Grameenphone

Bangladesh Bank and other regulators follow an evolutionary approach rather than the revolutionary approach. And that is the right thing to do. We have this mobile banking which has really started in a big way. We say it is only meant for cash in and cash out transaction. But the fact is that it is creating a whole lot of wallet mobile account for customers. And that is the first step. So you need to have agents and players to create those kinds of significant mobile accounts. Now the question is how we use those mobile accounts to facilitate customers to really use the different kinds of payment solutions whether it is for salary or merchant payment etc. That's the next step we need to really figure out because that is not just going across the counter and taking money; it is a much more secured way of doing things because you are basically doing transaction in goods and services through that.

Second thing is financial inclusion. It is going to be tough for the banks to expand and go to the rural markets. That's why there should be some synergy between mobile banking and banking to make that happen. We used to do transaction through SMS. But we need to move towards internet and mobile apps that facilitate these types of services. Now we have 6% penetration of mobile phones in this country. It is growing at a very fast pace. It will really help customers to use a mobile wallet. Now the question comes is this: is Bangladesh really ready for e-commerce? My view is Bangladesh would be ready for e-commerce much faster than some of the other places because there is no other way to transact when we go down to the rural market. E-commerce in China has been growing annually at the rate of 50% percent year on year for the last three years. And after Google, Facebook like classified websites people visit e-commerce sites. I think Bangladesh will not be far behind in this aspect. Dutch

Telecom has launched mobile wallet which is based on the NFC technology which is now available in 18 smart phones. Now you do not really have to have a card. We just need to go to the pause and do the transaction. You can use multiple cards in your mobile handset and choose which card you like to use for transaction. And you have a secure means. You are downloading the application from Google play store and using those applications. We need to really put these revolutionary changes together. Should this be seen in isolation as a payment solution from a banking stand point or should we really put these together for technological solutions which can facilitate the consumers?

Ali Reza Iftakhar

Most of the commercial banks do not have full-fledged online banking systems. And some of them have online banking only at the front desk. But the front and back should be equally digitalized. There must be a smooth management before we launch any product.

We cannot go for any national payment solution without proper dispute management, fraud management and redundant management policies. Without clear policy guidelines about these issues, if any problem occurs, who will bear the responsibility? We have written to the government about this issue. I think there is a tremendous opportunity for banks, mobile operators and bKash like companies to join hands together.

Zahurul Alam, Faculty, IUB

In our financial regulation system there is very little scope for dispute resolution mechanism. There is also lack of uniform approach or uniform regulation for different agencies that are part of the same service.

E-banking system is a very high-tech approach. If there is any sort of requirement from any agency to use the hard copy and the signature then e-banking system will gradually become invalid. If you want to do any sort of transaction with the government agencies you are asked to use hard copy and hard signature. So we really cannot make any electronic transaction with the government agencies. So our government agencies should be made conducive towards e-banking system.

**Dr. S M Ahsan Habib, Director, Bangladesh
Institute of Bank Management**

We are well aware of the benefits of e-payment or online banking services. There are incidents of significant revenue losses due to fraud and manipulation of this system. In 2010, Latin American countries lost \$7 billion revenue due to fraud. Globally, this amount has been on the rise. This news obviously created some negative perception among people. When I go for shopping they ask for cash payment. Sometimes a consumer does not get discount by using card. It definitely discourages a customer. So the electronic payment system should be made comfortable.

Online banking can also be the very first step of green banking. We are all aware of the green card system. If we transfer a portion of bank's income to the NGOs who work on environment, they can provide services to rural areas. It will also increase financial inclusion and encourage service providers to expand their services to rural areas.

Omar Gias, Sr. Deputy Secretary
Communication & PR, BGMEA

Mobile banking has included a significant portion of garment workers in banking services. Now, they can send money to their villages through mobile banking. But the charge is very high. They do not use traditional banking system because that requires a lot of papers and procedures. So mobile banking like hassle free services can be a good option for them. But the charge