Regulatory Guidelines for Mobile Financial Services (MFS) in Bangladesh

Recently, The Daily Star organised an opinion sharing session on 'Regulatory Guidelines for Mobile Financial Services (MFS) in Bangladesh'. Here we publish a summary of the discussions **-Editor**

Brig.(Rtd) Shahedul Anam Khan, Editor, Oped and Strategic Affairs, The Daily Star

We are the medium to let the public know about the guidelines and the shortcomings of Mobile Financial Services (MFS). Since it's a very new concept, it needs to involve every stakeholder, both from the banks and the MNOs. We also need to discuss how we will go about meeting the objectives of Bangladesh Bank and one of the objectives is to prevent terrorist funding and money laundering. We also need to determine how can the system provide better security to a staff providing service at the ground level? I believe security in MFS money transactions is a pressing issue for Bangladesh.

Pial Islam, Managing Partner, Pi Strategy Consultancy

Right now in Bangladesh about 25 million customers are using mobile banking, of which a certain portion is registered customers and others are not. We have noticed that the number of customers and agents have been growing exponentially. Despite the rapid development of mobile finance services, complete financial inclusion via mobile banking is yet to be reached. From the report, we could see that 37 percent has been financially included, among that only five percent is coming from mobile financial services, but maybe we could look at the opportunities to expand significantly at that stage.

The first revolution that happened in MFS was back in 2011 when Bangladesh Bank issued MFS guidelines and later updated this in December 2011 that works mostly as the basis of the whole system. These guidelines gave two ownership structures-related model. MFS could work as a wing of the bank and the guideline also allowed the MFS to act as a subsidiary to bank where at least 51 percent is owned by a single bank. And the most predominant model here today is bKash.

From the new guidelines, I could find three major straightforward shifts- ownership restructure, MNO participations and interoperability. As we are neither the bank nor the Telco, from our independent perspective we could say that globally over 200 plus mobile financial services that are out there, 70 percent of them are MNO centric. In many cases, these MNO centric models have proved themselves more successful as the MNOs can deal with issues like distribution networks and high volume low transactions better.

First, the new draft guidelines allow no more than 15 percent of the ownership by a single entity (bank or non-bank) which means a mobile banking operation needs to have about seven different equity partners. Even if you leave out the coordination costs associated with this proposal, getting seven organisations, some of whom will be direct competitors in their traditional businesses, to agree on things will not only be difficult, but it will be an ineffective governance structure. Moreover, with limited equal shares, the incentive for one organisation to take the lead on anything will be almost non-existent. Again it will raise the issue of free riding and as everyone has roughly similar share but the question remains who is going to lead. This has the risk of running an operation only half-heartedly.

Second point that I want to raise is that to be a partner or the equity owner, they need to have two preconditions.

One is, it needs to have telecommunication access to all licensed MFS platforms at the same effective standard of ease of access and pricing. If we look at the first part of it, I totally agree with it and I believe it's a good thing that the guideline puts forward.

But the second dimension from a classic economic theory perspective seems a little confusing. Because if I own a certain percent of it, then it would be a natural tendency of an organisation to want to do things to improve the opportunity out of that investment. But expecting a firm to offer the same pricing to its competitors, as it offers an organisation it partially owns, is counterintuitive to the principles of competitiveness. If your organisation owns shares of a firm, it is only natural that you would take steps to maximise its return on investment.

The third issue is with interoperability. The new draft guidelines indicate that this multi-player approach is intended for encouraging interoperability in mobile banking. This is truly confusing. While it is true that interoperability would help the mobile banking ecosystem to grow further, restructuring the ownership structure to do so is befuddling. We have interoperability in the banking sector today – if you write a check from one bank and deposit it into another bank, the check clears within 24 hours. We have a national payment switch for this. We also have interoperability in the telecom sector today – you can call your sister with a Robi number from your GP number. That connection is made in seconds. Do you really need to change the ownership structure to ensure interoperability? A much simpler and far more efficient way to ensure interoperability in the mobile banking sector would be to have them connected to the national payment switch.

In conclusion, this guideline is a very new thing in a significant way. This guideline fully recognises the challenges that the market has. I also like the fact that the guidelines are uploaded on the website and its openness to share and see by the whole industry. It's a positive thing that we have new guidelines, however it needs some more in depth analysis.

Dr. Rokonuzzaman, Professor, North South University

Unless there is significant benefit of economies of scale, an operator should not be allowed to enter in more than one vertical segment so that monopolistic market power accumulation to exercise vertical foreclosure strategy is being limited, preferably excluded, to minimise deadweight loss. For this reason, mobile operators are not allowed to be transmission service providers—although they have significantly deployed physical facilities. Thus, there is no strong rational for allowing MNOs in the service segment. The entry of MNOs, having no relevant specialisation, in financial service delivery appears to violate such basic principles of market based reform of the telecom industry.

Net Neutrality is another concern. By allowing MNOs in MFS, the door of anti-competitive strategy such as throttling rivals' mobile financial services, so that services in which MNOs have ownership is more attractive, will be exercised through measures such as non-uniform access time and security features. There could be argument of using regulation to address such issues, but due to information asymmetry, it is likely that policy of minimising conflict of interest will be more effective than monitoring unauthorised behaviours and taking punitive actions.

The competition as well as performance issues faced by the sector should be dealt with by strengthening market forces and making sure that telecom service providers offer dependable, secured services in a non-discriminatory manner to support the growth of this service to exploit its full potential. The telecom sector should be given clear policy and regulatory guidelines, so that they can compete in a profitable manner to provide neutral as well as a dependable platform to support the growth of competitive markets of diverse mobile centric services, such as health, financial, insurance, education, etc.

Within the context of socio-economic situation, both the cost and coverage of mobile data services are yet to make substantial improvement to deliver envisioned digital dividends to grassroots level of the society. Instead of investing capital in some other services, MNOs should use their limited capital to expand high speed mobile data services, particularly 3G and 4G, and subsidise the take off at the early stage to profit from economy of scale at later stage.

Policy issues such as the set of regulations imposed by Bangladesh Bank and the slow facilitaion of 4G services in this imperfect and dynamic market are also intellectually challenging. I would thus urge BTRC, MoPT and other regulatory institutions like the Bangladesh Bank, and service providers to invest in basic as well as applied research to bring timely insights to stakeholders to facilitate smart investment decisions, so that both consumer and producer surpluses are maximised.

Shahadat Khan, CEO, Progoti Systems

Within 4 years, Bangladesh could attain the number 2 position, which I consider a significant achievement for us. Kenya is number 1 at this moment, but we have all the potential to replace it. Our population is 4 times bigger and the GDP is five times bigger than that of Kenya- this already paves our way of becoming the number one. However, the regulatory framework needs to focus on three things.

Firstly, in terms of regulation we need to encourage more players to join. Right now, in Bangladesh 28 banks have obtained license where only two of these enjoy a significant share. Among these two, one bank holds 80 percent share, the other one holds 15 percent and the rest of them all together hold 5 percent. Here our objective will be to increase participation of organisations other than these two operators, otherwise it won't be good for the competition and the general people.

Secondly, if we think of this in the perspective of Bangladesh, we will face a low cost fund of around $20 billion. The issue of having a low cost fund of this much amount will arise whichever way we approach the issue. However, instead of it getting at one place with one company, we could think of more banks getting involved for deposit collection like India did. If instead of a limited number of banks, at least 20 banks were involved here, we could hope that the deposit will be safer.

For MFS we need a certain telecom connectivity. Having any kind of Telco's involvement is an essential part. Now we can see that 28 banks have taken license, but many other banks could be involved as well if we could solve the USSD problem. It is true that it will require a larger involvement and consultancy of BTRC, Telcos and Bangladesh Bank. Given that telecom companies want to participate in the MFS, having a known price access is necessary as a precondition of that. We have to make sure that the price has to be independent, despite the fact investors want to control using their monopolistic position. Also regulators would ask the telecom operators to ensure telecom access first so that everyone can operate. In a nutshell, telecom access and the pricing need to work separately.

Mamunur Rashid, Chairman, Financial Excellence Limited

Incidentally, I wrote an article in The Daily Star on MFS whether it should be bank led or Telco led. Later, Ibarahim Khaled and Muhammad Zafar Iqbal both agreed to the fact that it should a bank led system to keep it stable from the control and comprise perspective. Back when the caretaker government assumed power, it investigated all the incidents of demanding ransoms over phone and most of the incidents occurred using a particular mobile operator. The concern is selling SIM cards without proper registration and any proof of valid identity cards. Just now we saw from the presentation that at present in Bangladesh 85 percent over the counter transactions are happening where neither receiver nor sender use their own wallets. Such transactions have raised concerns for money laundering, fraudulence and encouraged different terrorist activities. The RAB led investigation further informed that many of the accounts have not adhered to Know Your Customer (KYC) norms.

Recently, BRAC Bank and Dutch-Bangla Bank signed an agreement with the Election Commission to verify National ID of all customers for transparency and accountability in account opening and banking services. It will help prevent identity frauds and ensure authenticity of KYC forms. Thus, it will also facilitate smooth operations of mobile banking services. However, different problems like over the counter transactions, absence of a vertical approach in getting a license remain there. Now we need to see whether Bangladesh Bank wants to be a low entry barrier industry and the present operators who are controlling 95 percent of the entire market need to be concerned regarding the operational risk management. Bangladesh Bank and BRAC Bank are attempting to handle it. Bangladesh Bank is also encouraging multi-stakeholder approach which also complies with the recent guideline. We want to encourage competition, financial inclusion and more involvement of the rural side of the country. We would like to welcome Bangladesh Bank to learn from the experience of nine banks that have been approved. Instead of focusing only on selling more mobile connections, they need to be concerned with their customer's transaction proof to control micro level terrorist financing so that our total population can enjoy the sustainable benefits of the sector. We need technological intervention for continuous solution building.

Abul Kashem Md. Shirin, DMD , Dutch-Bangla Bank Limited

We need a level playing field for MFS businesses. There is a real problem in getting USSD connection from telecoms. Many banks have the license to run MFS but cannot start operations due to this problem of connection.

Over the counter (OTC) transactions is a recurrent problem in MFS. It is often used in financing criminal activities. But in a real bank-led MFS model, there is no scope of OTC transaction because banks are very compliant.

Our MFS is a wing of our bank and not a subsidiary organisation. To popularise this service, we have invested heavily in advertisement and created a brand for it. We have also invested in manpower, hardware and software. We have developed distribution channels all over the country. Apart from these investments, we have incurred a loss of Tk 100 crore in the last four and a half years. We have seen it as an investment. But now after doing all these investments when we are asked to hold only 15 percent of the total shares then where will we go? With 15 percent shares, our bank cannot have much control on the business for which the bank has endured so many hassles. How will we recover our investment? Many say that this is like an investment in a grocery shop. That means if we suffer a loss then it is our fault. If we suffer a loss due to our operational failure then that's fine, but if we have to incur losses due to new regulations then the onus is on the regulators.

It is said that the proposed regulation is aimed at creating inclusiveness in the MFS business. But I think in the existing mono-bank-led model, the scope is already there. The lead bank, retaining 51 percent shares of its own can share the rest 49 percent with other entities. It is already an inclusive structure.

So it is my recommendation that the existing mono-bank-led MFS where it operates as a wing of the bank should be allowed to run as it is. But if they want to go for a subsidiary model they should be allowed to do that. For new MFS entities, the government can make the provision of establishing a subsidiary organisation for MFS. But there also a bank should lead the whole process, holding at least 51 percent shares of the business and the rest 49 percent shares can be distributed amongst other organisations, including non-bank entities. Here again there is no clear definition of a non-bank entity.