

Payment Ecosystem in Bangladesh Challenges and Opportunities

The Daily Star organised a roundtable on "Payment Ecosystem in Bangladesh: Challenges and Opportunities" on February 1, 2016. Here we publish a summary of the discussions. -- Editor



Syed Mahbubur Rahman, MD & CEO, Dhaka Bank

Payment system is basically transaction of money between payer and payee. Bank is the core of a payment system, even if they are not always required to move money. For example, in cash-to-cash transaction, though a bank is not involved, still it is the source of the cash and could very well be the destination of the cash as well, when it gets deposited. There are different channels of payment such as traditional financial system, alternative delivery channels, remittance and other intermediaries.

In the traditional financial system there are 56 scheduled banks and 35 non-bank financial institutions in Bangladesh. In the last four years, Bangladesh Bank has introduced various electronic transfer mechanisms such as VHS, BFTN and RTGS. The government has also established NPSB (National Payment Switch Bangladesh) to accelerate inter-bank electronic payments. If we look at the current trend in our payment ecosystem, almost 8 Lac transactions happen through EFT (Electronic Fund Transfer) per month, amounting to Tk. 5,780 Cr. RTGS went live on October 29, 2015. It is an especial fund transfer system where the transfer of money takes place from one bank to another on a 'real time' and on 'gross' basis. A cheque worth Tk 1 lakh or more will be cleared within a minute as opposed to a day under the previous system. As of now, 5,000 branches out of 9,000 have come under the system. There are around 7000 ATMs around the country, and the number of daily transactions is 338,123 amounting to Tk.2.4bn daily. The number of POS is about 30,000 of which 16,000 have joined NPSB. The number of daily transactions through POS is 35,547 and daily transacted amount is Tk.28 Cr. But here we need to keep in mind that most of the ATMs and POS are located in urban and semi-urban areas.

In Bangladesh, cards came into being in late 80s and credit card was launched in 1997. The total number of debit card in Bangladesh is 8.3 million whereas the number of account holders is 40m. So there is a huge opportunity for cards to prosper if we issue a card against every savings account. Currently the card industry is growing about 2%. Total number of daily card transactions is around 3.8 Lac which amounts to Tk. 274 Crore. Internet banking is another recent phenomenon in the payment ecosystem. As on October 31, 2015, number of internet banking customers was 1,550,101 and the number of daily transaction stood at more than 19,000 amounting to Tk. 59 crore. As per BTCL data the total number of mobile subscribers has exceeded the figure of 10 crore, which is almost 70% of the total population. Now, the total number of internet users in Bangladesh stands at around 4 Crore. So the internet banking has a huge expansion opportunity. Mobile banking has also made a good starting. Many banks have introduced mobile apps. Mobile transactions have been increasing rapidly. E-commerce is another important addition to this digital transaction ecosystem. Four banks have got payment gateway. Currently our e-commerce volume is Tk 200 crore per year. But transactions in e-commerce are happening mostly on cash on delivery basis.

Each year, Bangladesh receives a huge amount of remittance from its citizens living abroad. The volume has now reached USD 15bn. Here most transactions happen on bank to bank basis. There is little

use of cards in this transaction system. Some banks have introduced remittance card but it is yet to get popularity. We are yet to make any headway in introducing PayPal in Bangladesh.

Everyday, the government does a huge amount of transaction. If we can introduce e-transaction in this process it will be a great boost for the payment ecosystem. MFS is also emerging in our country. In December, 2015, average value of MFS transaction per day was about 5.35bn. But it is mostly used for top up and money transfer service.

Now, if we look at the challenges we see, though NPSB is a good initiative it restricts the bank's choice of networks, thus limiting competition and innovation. Security continues to be an issue, as PCI-SSS and EMV are not widely adopted. POS and ATM deployment in rural areas is still low. There is a lack of dispute resolution and fraud management system in the NPSB. Participation in NPSB is mandatory for banks for ATM/POS/Internet/mobile transactions. But it has some drawbacks also. Single platform dependency creates concentrated single-point-of-failure risk. Again it limits the banks' ability to innovate by engaging with other stakeholders. In NPSB, ATM fee structure obliges Banks to subsidize customers' transactions. Last but not the least, flat POS interchange fee prevents Banks to address customer risk issues. Another challenge is that internet Bandwidth is still slow and relatively expensive, particularly in rural areas.

We want a modern and advanced financial payment system with sufficient ATM, POS, Debit/Credit/Prepaid cards that reduces cash carrying burden. We need to invest in non-traditional fund transferring channels to make the ecosystem more efficient. We also need to accelerate growth of electronic payments by launching innovative products and meeting risk and security standards. These initiatives would strengthen the payments ecosystem and contribute to the country's economic growth. The government needs to create a level playing field for all schemes. The NPSB has to bring innovation to the overall payment ecosystem with interoperability. We need to incentivize digital transaction and make it mandatory to issue a card against every savings account. Finally, there should be efforts to build acceptance of e-payment system among all the stakeholders.

Jeremy King, International Director, PCI Security Standards Council (PCI-SSC)

The challenge you are facing in Bangladesh is also a global challenge. In Europe and America, they have switched to chip card which prevents face to face fraud. The challenge is to protect customers' data. If the criminals can obtain the data contained in a card with magnetic stripe, they can copy the card and withdraw money from the ATMs. We have adopted EMV and encryption techniques to improve in this area. In Bangladesh all the merchants are using a single switch to transact their data. Criminals are very well organised. They know about the payment systems as much as we do. That is why they will know where the greatest aggregation of cardholder data is. It poses the greatest threat to the payment system as Bangladesh is still in an era of using magnetic stripe data and growing e-commerce data. That's why we need to ensure the best level of security throughout the payment system and adopt PCI SSC's data security standard as well as EMV.

Ali Reza Iftikhar, CEO, Eastern Bank Ltd.

The opportunities are limitless in payment solutions. The gap between the number of mobile phone subscribers and people making payments electronically gives a rough idea of the potential. But to realise this potential, we need better regulation mechanism from the regulatory bodies. Regulator cannot be the operator. They should prepare the framework and let others operate it. If they themselves run operations it will create conflict of interest and hamper the ecosystem. There is a communication gap between the regulators and operators. We have been urging them to review their NPSB policy but they seem little interested to pay heed to our demands. Bangladesh Bank itself is not PCI SSC compliant. I do not see any justification why they are taking hurried steps to launch NPSB. So, all the operators are running a huge risk including the central bank. If something goes wrong the whole system will be paralyzed and the reputation of the country will be dented.

Vikas Varma, Executive Director, South Asia, MasterCard

In payment system there are two big drivers: ways to pay and places to pay. The growth of payment system depends on innovating more ways to pay which may be electronic access devices such as debit card, credit card, mobile applications and so on. Points of transactions such as merchants, e-com websites, P2P are equally important for accelerating the growth. Government and regulators have a great role in establishing the foundational elements of a payment system. They can do that by two ways: policy framing and incentivizing participants. Banks and financial institutions will follow this framework and use the incentives to roll out their operations and grow ways to pay and places to pay. Then they would use the services and networks like us who bring certain capability to the system to grow that ubiquity and scale. Growth can be challenging if there are situations in markets such as Bangladesh where the regulator also becomes a player in the payment ecosystem.

In Bangladesh, there is a significant room to grow. Eight million out of 109 million, less than 10 percent of the adults, can transact electronically today. Besides, less than 1 percent of everyday purchase happens electronically in Bangladesh, whereas the global average is 16 percent, and it is more than 60 percent in developed markets such as the US and South Korea. So we need to exploit this huge untapped potential.

Cost of cash and servicing of cash are other important areas. Cash at the teller is 4 to 6 times more expensive than it is at ATMs. ATM converts electronic cash to physical cash where as it is desirable that cash stay in electronic form as cash has its own challenges. It is costly to store, manage and move. We have studies that show that cost of cash is around 2 percent of the GDP.

The final aim of a good payment system is to ensure that cash flows are electronic and the way to do that is to ensure the growth of more ways to pay and more places to pay electronically.

Sanjay M Nazareth, Head of Client Support Services in India and South Asia for VISA

When we talk about Digital Bangladesh we are talking about the growth of electronic payments.

The entire payment ecosystem needs to be tuned with the objective of digital Bangladesh. Innovation, safety and security are the keys to the growth of the electronic payment system. At the end of the day, it is the customers who have to have the confidence in the payment system to pull out the cards and use. Safety and security should never be compromised. We hope that the regulator would come up with decisions that would help build the customers' confidence. They should not take any regressive step.

The core of innovation is allowing competition to come in. When you have multiple players in the market you will see innovation in their products. For example, in the early 80's and 90's India's automobile industry was limited to few players. It was when they open FDI and brought global players in India the industry boomed. Today, India exports vehicles globally. Competition also helps to grow and cut cost.

In Bangladesh, 95 percent transaction in e-commerce happens on cash on delivery basis. We need to innovative ways to grow acceptance. MPOS and P2M are such innovative solutions that can be introduced in Bangladesh as mobile and smart phone penetration have been growing rapidly in the country. These innovations help to grow acceptance of the ecosystem.

Abul Kashem Md Shirin, Deputy Managing Director, Dutch-Bangla Bank

Our payment ecosystem is moving from card to other electronic transaction mechanism such as mobile wallet. In garment industries they are paying the workers through mobile wallet. The government is also using MFS to disburse different allowances such as freedom fighters' allowance and scholarship for female students.

We need to maintain co-existence of various payment methods so that we do not become heavily dependent on a single platform. Our customers should have all the options available and they will choose the suitable one.

In Bangladesh, we see some banks' cards are EMV protected but some banks do not have that mechanism. So when a card holder of a protected bank will use the card in a non-protected bank's ATM there is a scope of fraudulence. In that case, who will take the responsibility? NPSB does not have a clear guidance in this regard. Again the NPSB itself is not EMV and PCI-SSC compliant. So we all are in a grave risk.

Another important issue is inter-change fee for ATM transactions. If one of my customers goes to another bank's ATM then I have to pay Tk 20 to that bank but I can charge my customer Tk 15 for that transaction. So the bank has to pay Tk 5 for each transaction from its own pocket. Banks want that the customer should foot the total charge. If the customers are willing to do that Bangladesh Bank should allow it. Again fixed fee of Tk 20 is not adequate. Every transaction cost the bank Tk 40. If the customer goes to another bank's ATM then the cost comes down to Tk 20. Then it is better for the banks not to open their own ATM, instead drive people to other Bank's ATM service. This will ultimately result in decline of ATM card users. Bangladesh Bank should look into this issue seriously.

E-commerce sites are not keen to accept payments through cards because they have to pay 3-4 percent charge to banks, that does not happen in case of cash-on-delivery. We need to bring the e-commerce transactions to e-payment system.