

# Banking and mobile financial services are siblings

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HERE have been newspaper reports that banks are seeking to create separate companies to provide mobile financial services (MFS) to emulate the leading player, bKash. This is a vindication of what we conceptualised as the most suitable structure for bKash. I congratulate Bangladesh Bank (BB) for guiding the extraordinary growth of MFS since 2011, now serving over 45 million registered customers. The 45 million accounts represent about twice the number of regular bank accounts. Moreover, MFS-users have been largely ignored by regular banks and their inclusion will help Bangladesh reach the Sustainable Development Goals with vastly improved inclusivity. Increasingly, policymakers and banks are recognising the need to utilise services like bKash to channel foreign remittance to the end recipient instantly at a low cost or distribute safety net payment directly to the beneficiaries, thereby increasing the efficiency of the national economy.

I have been keenly watching the growth of MFS since its inception, having been the founding chairman of bKash for five years. After a career of over four decades in banking, as an executive, a board member and a regulator and given this extraordinary significance of MFS, I felt, it may be useful to articulate my thoughts and provide some personal insights into this issue.

Although many banks received MFS licences, only bKash was set up separately. This indeed confirms the usefulness of separating the operations from banks. However, this is not the only reason for the bKash success. It is high time for all stakeholders—particularly for BB—to review the MFS ecosystem and determine the next level of regulation. While BB's 2011 guidelines have been critically important for MFS success, it was far from clear how big MFS would be back in 2011. MFS was left to evolve inside the bank structure or be supervised as subsidiaries by sched-



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uled banks. This was done more as an initial measure to facilitate the birth of a new financial practice. Now it is abundantly clear that this is a whole new industry, not necessarily consistent with the mindset and skill sets of traditional bankers. Bankers are set to serve relatively better-off clients or corporations, not those who fall in the category of 'the bottom of the pyramid' (or the low income/rural segment), the kind of customers that operations like bKash serve.

Thus asking regular banks to supervise MFS is like asking regular banks to supervise microfinance institutions, something that would have been very counterproductive. The existing convoluted and indirect supervision system is impeding growth and creating governance problems and, above all, diluting supervision of a very important segment as described in my introductory paragraph. BB must now supervise these MFS providers

directly in order to assure the regulatory comfort to banks, the agencies and the end customers. This should be prioritised as an immediate imperative.

Another matter has changed since 2011. Bank-ownership was probably required to address legal and public trust issues back then. Now MFS is evolved and matured and enjoying public confidence. It is now clear that MFS requires not much bank ownership but international expertise and investments. One reason bKash has been successful is the partnership between US-based Money in Motion LLC (MIM) and Brac Bank. While Brac Bank provided the all-important 'trust' essential for any new financial institution, MIM brought knowledge of mobile money.

MIM was inducted in the board of bKash since its inception. It was also one of the founders of Kenya-based M-Pesa. Deep knowledge of mobile money is necessary

since this technology is used as an enabler for delivery of the product. Today digital payment technologies are developing very rapidly, something that international players (such as MasterCard, PayPal, Square, etc.) can bring. Thus BB must also consider regulations that are conducive to attracting foreign investment and expertise, and it must also keep in mind that ownership should be given to citizens as soon as practicable by encouraging listing of MFS entities in the Dhaka Stock Exchange.

At the same time, BB needs to maintain its position vis-à-vis mobile network operators (MNOs) who provide the essential highways on which MFS grows, much like the electricity grid supports the MNOs themselves. Since MNOs control this vital element, they may have an unfair advantage, preventing them from being fair competitors. MNOs should be limited to network provision, as BB has done. MNO ownership of MFS creates regulatory conflicts as well, and that too should be avoided. BB has discussed this extensively over the last three years and announced through a public notice that MNOs operating in Bangladesh should not be owners of MFS. MNOs must, however, be adequately and equitably compensated for the use of their networks.

There is something to be learned from our MNO experience. MNOs demonstrate what would attract foreign expertise and investment. The government has rightly promoted competition among MNOs while not imposing restriction on foreign investment and ownership, leading to excellent MNO services nationwide. The top three MNOs in the country—Grameenphone, Robi, and Banglalink—have brought expertise and investments into the country. Being involved as a banker at the time when these MNOs started, I personally saw that investors with expertise did not feel comfortable with ownership control in the hands without expertise. In the end, the citizens enjoyed a better service, expansion of commerce and the country

benefitted from a growing government revenue base.

While a banking base for an MFS enterprise initially provided public trust, now that public trust exists with MFS itself. With direct supervision by BB and an independent capital base, the need for majority ownership by a bank should no longer be required. A minority ownership by a bank is sufficient. The 2011 BB guidelines left MFS players as bank-subidiaries, meaning a 51 percent ownership by banks. That was only an initial arrangement. A mechanical requirement of 51 percent ownership by any entity hinders the introduction of foreign owners who can bring much-needed investment and expertise. It encourages ownership to be manipulated through creative structures involving non-voting shares, options, and side letters, not to mention being a roadblock to listing MFS enterprises on the Dhaka Stock Exchange.

MFS is largely a payment business supporting transactions; the capital adequacy requirements for scheduled banks are also not necessary. Moreover, MFS performance parameters are different than those for banks generally expressed in terms of financial ratios. It is high time to drop the 51 percent bank ownership requirement.

The real secret of MFS success lies in the right expertise and adequate investment. BB needs to facilitate and enable this through an effective regulatory framework and direct supervision, removing artificial requirements that hinder growth. Banks and MFS should clearly be siblings as opposed to a parent-offspring relationship. As siblings, with a lot of common things in the DNA, banks and MFS players can contribute to each others' growth in positive ways. It is time MFS players stop hiding behind "mother banks" and come out of the shadows and present themselves for service to community.

The author is the chief executive officer at Bangladesh International Arbitration Centre and a former deputy governor of Bangladesh Bank.

## UAE blacklist likely to squeeze liquidity of Qatari banks



A man walks past a branch of Qatar National Bank in Riyadh, Saudi Arabia.

REUTERS, Dubai

A move by four Arab states to blacklist dozens of figures with alleged links to Qatar could squeeze liquidity at Qatari banks which get a significant amount of their funding from the region.

Qatari banks have around 60 billion riyals (\$16 billion) in funding in the form of customer and interbank deposits from other Gulf states, Chiradeep Ghosh, banking analyst at SICO Bahrain, said.

But the United Arab Emirates central bank has ordered local banks to stop dealing with the 59 individuals and 12 entities with alleged links to Qatar and to freeze their assets, state news agency WAM reported late on Friday.

It has also told them to apply enhanced due diligence for any accounts they hold with six Qatari banks, including Qatar National Bank (QNB) which is the Middle East and Africa's largest bank, WAM said in its report.

The six banks -- QNB, Qatar Islamic Bank, Qatar International Islamic Bank, Barwa Bank, Masraf Al Rayan and Doha Bank -- did not respond immediately to requests for comment.

Saudi Arabia, the UAE, Egypt and Bahrain had earlier branded as terrorists the same individuals, including Muslim Brotherhood spiritual leader Yousef al-Qaradawi, and entities including Qatari-funded charities Qatar Charity and Eid

Charity.

The move followed the isolation of Qatar by the four states, which have cut all diplomatic and transport links.

This pressure is likely to constrain the funding Qatari banks would be able to raise from Saudi Arabia, the UAE and Bahrain, one banker in the region told Reuters.

"All Qatari banks will struggle for liquidity and will have to pay a premium for funding from elsewhere outside these four countries," SICO Bahrain's Ghosh said.

Qatari banks, like their Gulf neighbours, have been struggling against a back-draw of lower oil prices, which has pushed up funding costs and raised non-performing loans.

"It is especially challenging as they're not very liquid as their loan to deposit ratios are already above 100 percent," Ghosh said.

In recent years several have also expanded outside Qatar's small domestic market to grow their business, with QNB holding a presence in several countries including Egypt, Turkey, Nigeria and UAE either directly or via affiliates.

UAE banks would find it relatively easy to comply with the rules as many had invested in improving their compliance systems in recent years and already complied with sanctions against a range of other entities and individuals, another banker said.

## Apple's Cook tells MIT graduates – temper technology with humanity

REUTERS, Cambridge, Mass

APPLE CEO Tim Cook on Friday warned graduates at MIT, a pioneer in fields like computers and robots, about technology's dehumanizing aspects and urged them to infuse its development with their own values.

"I'm not worried about artificial intelligence giving computers the ability to think like humans," Cook said in his commencement speech at the Massachusetts Institute of Technology. "I'm more concerned about people thinking like computers, without values or compassion, without concern for consequence."

Speaking to thousands of students and their families at MIT's Cambridge, Massachusetts, campus, Cook praised the benefits of new devices and social media. But he also cautioned that the same technologies can divide people through threats to privacy or security, and said technology must be tempered with human knowledge.

"Technology is capable of doing great things, but it doesn't want to do great things. It doesn't want anything," the Apple Inc chief executive said. "That part takes all of us."

Cook's speech did not break new ground for him as head of the world's most valuable technology company but added some context around some of his past decisions, such as taking controversial stances to protect privacy rights and investing heavily in green technologies.

Cook has criticized President Donald Trump's policies but offered only a gentle joke at the president's expense on Friday, telling students it is obvious they have taken over



Apple CEO Tim Cook gives the thumbs up as he is introduced to speak during Commencement Exercises at Massachusetts Institute of Technology in Cambridge, Massachusetts, on Friday.

Trump's Twitter account.

"I can tell college students are behind it because most of the tweets happen at 3 a.m.," Cook said. His 15-minute talk stood in contrast to a lengthier graduation speech his predecessor, Apple co-founder Steve Jobs, gave at MIT rival Stanford University in 2005, in which Jobs outlined his free-thinking background and told graduates to find work they loved.

Cook took a more conventional career path to the top of Apple, where he became CEO in 2011 after stints at IBM and Compaq.

Cook, who is openly gay but famously circumspect, gave few details about his own life on Friday except to outline what he described as a frustrating search for meaning until joining Apple.

He said at one point he sought guidance in religion and last year met with Pope Francis, who Cook said reinforced his own sense that technology must be harnessed with strong values. He said Francis told him, "Never has humanity had such power over itself, yet nothing ensures that it will be used wisely."

## Costs of bank cyber thefts hit SWIFT profit last year

REUTERS, London

Dealing with cyber hacks on banks ate into profit last year at the SWIFT messaging system, which financial institutions use to move trillions of dollars each day.

Hackers stole \$81 million from the Bangladesh central bank in February last year after gaining access to its SWIFT terminal and the emergence of other successful and unsuccessful hacks rocked faith in a system previously seen as totally secure.

Despite this, traffic increased on the network

last year, hitting an all time peak in June of over 30 million messages.

SWIFT's 2016 profit before tax and rebates to its owner-customers fell by 31 percent to 47 million euros (\$53 million), following additional investments in security, the co-operative said in its annual report published on Friday.

Chairman Yawar Shah said that Belgium-based SWIFT -- the Society for Worldwide Interbank Financial Telecommunication -- had linked management goals and incentives to security targets.

SWIFT, which was criticized by some former

staff and customers for failing to have spotted weaknesses in its customers' operating practices, has expanded its security teams and developed new tools to help clients monitor transactions and spot anomalies.

Its ability to pre-empt attacks was limited by its customers' historic failure to share information about hacks, SWIFT said.

SWIFT is operated as a service to all banks, so cash surpluses are usually distributed to customers via rebates and ever-lower prices, rather than via dividends. Customers received no rebate for 2016. In 2015 the rebate was 33 million euros.