

# Building Payment Ecosystem for Digital Bangladesh

Uruguay's financial inclusion law in 2014 had a number of provisions on digital payments. Among others, it mandated interoperability of financial and payment infrastructures. They combined it also with incentives for users and providers in order to drive the volume of transactions.

Estonia, a non-member of the Alliance, is leading the way globally on creating inclusive digital ecosystems. Estonia defines interoperability, as different organisations and information systems are being able to communicate with each other. They have paved the way for public and private sectors to link up and function in harmony. The measures they have taken when it comes to facilitate electronic payments saves them 800 hours of working time every year.

There is no one way to do this. Every country has adopted its individual approach to achieve similar results. A lot depends on the ecosystem dynamics: infrastructure, payment system, services, market structure, stakeholders, regulation, etc. To develop a truly digital ecosystem for payments, stakeholders need to have a clear understanding on the specifics in order to take the rights actions. For Bangladesh, these kinds of measures would help in building a digital ecosystem suitable to thrive on a global scale.

**Muhammad Ali, Deputy Managing Director, Pubali Bank Limited**



To ensure convenience and confidence of customers, we must improve our digital payment system. For example, the scope of the National Payment Switch Bangladesh (NPSB) needs to be expanded. Customers want 24/7 fund transfer services. To do that, we need to connect mobile apps, internet banking and mobile payment services as well as utility providers to NPSB.

**Anis A. Khan, Group Managing Director & CEO, Mutual Trust Bank Limited**



Financial inclusion in Bangladesh is on the rise, as evident by agent banking. We take cash biometrically. Because it is expensive to set up full branches in rural areas, we have opened small agent banking branches in rural areas. Our agent banking entity has made profits and this can be embraced on a large scale.

**Lila Rashid, General Manager, Payment Systems Department, Bangladesh Bank**



We are talking about retail payment today which falls under one of our systems in Bangladesh Bank. The Bangladesh Automated Clearing House was launched in 2010. Through this, we ensured smooth movement of funds in Bangladesh. The Bangladesh Automated Cheque Processing System digitalised our previously established manual clearing house. We also introduced the Bangladesh Electronic Fund Transfer Network. In addition, we also established a national payment switch back in 2011. It has options for ATM interoperability, cost interoperability, internet banking interoperability, mobile financial service interoperability and other functions as well.

We also have a system called the Bangladesh Real Time Gross Settlement (BD-RTGS) System. If we compare our systems, in terms of transactions, Mobile Financial Services comprises 94% of the total amount. But in terms of value, MFS comprises only 6% of the total amount. RTGS comprises over 50% of the total market value. If we look at the retail market (check clearing, mobile banking, card payment, EFT), check clearing takes up 78% of the total payment system. Card system only operates in 5% of the market. Divided further, 89% of the card payments are done by the ATMs, mainly for cash withdrawal. Internet banking still captures a very insignificant part of Bangladeshi markets.

The future of Bangladesh's payment system is based on internet banking. Bangladesh Bank is constantly trying to push banks to take the internet banking approach, but only about 13 banks currently are connected to internet banking, while only 5 or 6 of those have actually implemented proper, functional internet banking services.

We have given licenses to some private organisations outside the banking system to operate e-wallet, even though it is not that popular as of yet in Bangladesh. It has a chance of being picked up by a large number of customers, particularly young customers. It is common for people not to be familiar when a new system is introduced, and that is the case with Bangladesh. We expect the banking sector to come forward with more ideas and push us to accommodate new technology. We have already requested ABB to take over National Payment Switch. We want private sector to come up with more processing capacity. There is only one such payment processor in Bangladesh. More should invest and establish such processing capability.

As a government organisation, we always prioritise public interest. Sometimes, the government has to intervene when the market is not that mature. When the private sector does not play its part, the government has to work in its own way to implement certain standards. We have already formed a committee to plan how to hand over such facilities to the private sector. We have 87 million bank (deposit) accounts, but in the market, we only have 12.5 million debit cards and roughly 1 million credit cards. The private sector should issue one debit card to every account.

**Khushed Alam, EVP & Head of Retail Finance, LankaBangla Finance Limited**



Currently, for example, one can send money only from bKash to bKash, not from bKash to Rocket. It is time to create an integrated platform where all the MFSs will provide interoperability.

There is still little presence of debit/credit cards in the divisional and district towns. Therefore, we have a huge opportunity to expand our card payment system in those areas.

We need to reduce the transaction cost of digital payment methods to make it more popular to the general public.

**Md. Tohurul Hasan, Programme Manager, Digital Financial Service, Access to Information (a2i) Programme**



The government is now capable of making every kind of payment electronically. We are disbursing stipends and social safety net funds through the digital payment system. We are now focusing on developing digital payment systems for P2G payment. But there are some challenges in collecting funds from citizens electronically. The major problem is that digital payment is costlier than physical payment because one has to pay extra charge for digital transactions. We need to resolve this issue with the help of all the stakeholders of our digital payment ecosystem.

In most cases, there is an exclusive partnership between one bank and one utility provider. From a2i, we are trying to establish a single platform where 16 utility providers and 8 education boards will be connected with all the existing financial service providers. Through this platform, people will be able to make payments from anywhere through any payment system.

**Md. Ariful Islam Chowdhury, SEVP, Head of Retail Business, Bank Asia Limited**



Agent banking has proved to be an effective tool to reach banking services to rural people. The challenge we are facing in operating agent banking is a complicated KYC system. It needs to be short and simplified. For that, we can set a per day or per month threshold limit.

QR code solutions have already been launched in Bangladesh. We need to set up a common platform for QR code solutions, like BharatQR, which will be interoperable with all banks and MFSs.

**Abul Kashem Md. Shirin, Managing Director, Dutch-Bangla Bank Limited**



In the MFS, there are only two active operators: bKash and Rocket. Among these two operators, one has monopoly in the market. The Central Bank should think about how to make MFS popular to other banks and create a healthy competition.

Our banks will face a major challenge from non-bank payment systems like Paytm, Ali pay, Paypal, bKash, Rocket and also crypto currency. Banks should take adequate preparation to face and combat these challenges.

We request Bangladesh Bank to establish an interoperable and inclusive payment ecosystem in Bangladesh.

**Rasel Hasan, Head of Cards & Digital Banking, Eastern Bank Limited (EBL)**



Currently, only telcos have access to the national NID database. Banks should be given access to the database, which will enable them to carry out biometric verification and thus the KYC process will be simplified.

Banks are only allowed to issue credit cards to Tax Identification Number (TIN) holders. If this requirement can be relaxed by policymakers, it may allow the number of credit card holders to increase drastically.

**Apurva Jain, Head of Transaction Banking, Standard Chartered Bank (SCB)**



I am really glad that Bangladesh Bank has launched Electronic Funds Transfer (EFT), Real-time Gross Settlement (RTGS) and now Monetary Policy Statements (MPS). It will be really helpful if the transaction threshold and number of transaction restrictions, currently implemented on MPS, can be removed so that people can transact higher values as well as carry out more transactions.

MPS is operating in only one direction at this moment. But if real-time pull can happen, it will really help a lot of corporate clients to attract real-time money from account holders.

RTGS was working really well, but for the past 6-8 months there has been a certain instability in RTGS. If that can be quickly addressed, it will provide much more confidence in the industry.

**Shyamol B. Das, Head of Technology, BRAC Bank Limited**



It is not only about the technology factor but about people, processes and the bodies working together, among other things, to create a digital payment ecosystem. One of the biggest challenges we have faced when designing a digital platform is interoperability. Finding a compliant partner is a big challenge. The whole payment ecosystem should be open, where instead of depending on a single authority, different entities will take different initiatives to effect change.

**Abedur Rahman Sikder, SEVP & CRBO, Dutch Bangla Bank Limited (DBBL)**



We have a reasonable number of channels in terms of offering payment systems and services. But, awareness is absent here. The channels and technological platforms that we have established in the market are not used at their optimum level yet. When it comes to building a cashless society, I would request the Central Bank and government agencies to take initiatives in order to encourage people to use these channels which are already established in the market.

**Md. Nurul Islam, President, American Chamber of Commerce in Bangladesh**



It has been encouraging to witness that both the government and the private sector are focusing a lot on developing the payment ecosystem. Even though most transactions taking place in Bangladesh are still based on cash, non-cash transactions like the MFS have been growing quite quickly. There is a huge opportunity for further growth, not only because of the large population, which is still not being served, but also because of the flexibility, transparency and the speed with which the consumers experience the digital banking system.

Realising this potential will require a robust payment ecosystem and building a digital payment ecosystem will require continued governmental regulatory support. Regulatory support should come through the formulation of appropriate policies and regulatory frameworks. Too many regulations can hinder the development of any ecosystem and appropriate regulations can bring in large benefits to the economy and customers. Regulators should continuously provide incentives to the industry participants for greater digitisation and inclusion. Regulations should also facilitate creation of new markets and inspire innovation towards the inclusion of the 'under-banked' people.

We want to see a payment ecosystem, where all relevant stakeholders are having level playing field and bringing innovation.

## RECOMMENDATIONS

- **Transparency, inclusivity, availability of services and convenience can only be ensured by an open financial system.**
- **While trying to ensure security, regulatory frameworks should not become a roadblock in the process of digitisation.**
- **Interoperability and open loop infrastructure should be in place to create flexibility and vibrancy in the digital payment ecosystem.**
- **Global practices, such as EMVCo, need to be incorporated with the local payment system to foster innovation and competitiveness. A collaborative global approach to security should be adopted.**
- **A Global Advisory Council for digital payment ecosystem needs to be established. Strengthened public private partnership can give voice to both large and small players and drive further adoption of digital payments.**
- **Universal access, technology neutrality, competition drive payment system growth, innovation and interoperability.**
- **A single point of failure in the payment ecosystem should be avoided to eliminate any systemic risk.**
- **A level playing field needs to be created. Inclusion of global networks will bring in much needed innovation and incentive for consumers which will eventually drive acceptance and usage and create a behavioural shift away from cash.**
- **Banks should be empowered to work directly with other payment schemes to route domestic transactions on a competitive and commercial basis. Sole reliance on NPSB creates a systemic risk of a single point of compromise.**
- **National Schemes are effective ways to deploy infrastructure and ensure alignment with domestic priorities in an evolving digital ecosystem.**
- **Competition in the local market will drive innovation in digital payment technologies, including contactless and mobile based payment capabilities, which will lead to interoperability and greater choice for the consumers. In order to achieve the Government's vision of Digital Bangladesh and Financial Inclusion, more investments are needed in technology, mobile networks and consumer education.**
- **The KYC process for card issuance should be simplified. TIN should not be made mandatory for credit card eligibility.**
- **A common platform for QR code solutions needs to be established which will be interoperable with all banks and MFSs.**
- **Media can play a significant role in building public confidence and raising awareness about digital payments.**
- **The Government and private sector should collaborate and invest more in consumer education to drive behavioural change among customers and merchants in favour of digital payment methods.**

**Shehzad Munim, President, FICCI**



At FICCI, we are looking toward a solution to implement a "less cash" but not "cashless" approach in retail and distributor transactions. We have been working with bKash and Rocket in this regard.

While you are providing solutions for consumers in regards to consumer payments, we are looking at the retail to distributor payment system. The margins are very thin. We need a completely different solution where we can charge by transaction and not on the gross amount. On an average day, for example, we have turnovers worth about Tk. 65 to 70 crores. I can't pay 0.25 or 0.5 percent interest on that amount. That is impossible. So, there has to be a different route but the opportunities are definitely expanding. In the Fast Moving Consumer Goods (FMCGs) category, the massive growth is coming from the rural side of Bangladesh and not from the urban sector, which is already saturated. The incredible growth in the rural sector is a great step forward, but we need to implement credit facilitation in those areas. The reality is that because of the growth in turnover, an average outlet in rural Bangladesh is forced to cut down on their strength and focus on products with faster turnaround. The rural market's needs are growing, for which they are looking for more products to utilise. We need to ensure that these credit facilities reach those areas.

**SM Mainuddin Chowdhury, Additional Managing Director, Southeast Bank Limited**



The government is providing QR transaction licenses to many organisations. We already have DBBL QR code, iPay QR code and Ucash QR codes. We must have global standards for QR code solutions which all the actors will follow.

We must have e-KYC. We should also have a system through which we can obtain valid information about individuals. For example, sometimes we assume that our credit card system is not that great. Why is that so? Because assessing a person is very difficult. To assess a person, we must have information about that individual and the correct procedure needs to take place in order for that to happen.

**Lila Rashid**

According to the law of the country, the responsibility of the payment system lies with Bangladesh Bank (Bangladesh Bank Order, Clause 78). We should not confuse it with a2i; a2i is actually facilitating us. So, the core responsibility lies with Bangladesh Bank.

KYC issues actually lie with Bangladesh Financial Intelligence Unit (BFIU). We have already started talking to them. We mentioned to them that they can relax some clauses. For example, trade license comes to mind. Many do not have trade licenses and we have made provisions where a spouse's trade license may be considered. Also, ride sharing apps like Pathao and Uber have requested us to consider driver's licenses instead of trade licenses. Also we will look into the issue for having a mandatory TIN certificate for getting a Credit Card.

Banks can charge for RTGS (Tk. 100 per transaction) but not for BFTA. This leads to banks not using the BFTA system, as there is no earning for them even if they do use it. We are providing MPSP for free but banks can charge the customers for it.

MFS charging a lot of money has been an issue. We have now started working on MFS prices. The government is involved in the MFS section. Telecommunication charges, which are connected to MFS charges, is one of the biggest chunk in the pricing system. Recently, we sat together with policymakers to discuss the appropriate charges which should be properly applied in relation to MFS. After getting the circular, we will be sitting with the MFS providers and we will decide if we can reduce charges. bKash and Rocket have introduced apps, the usage of which leads to fewer charges. We have revised our previous MFS guidelines and very soon modified MFS regulations will be released, which will be put in place to tackle some of the issues at hand.

**Vikas Varma, Senior Vice President, Account Management, South Asia, MasterCard**



Given my multiple visits here, I would like to point to two factors which are needed to make a vibrant e-payment system in Bangladesh. One is about choice, not only in terms of brand and effort, but in terms of form factor. We have seen MFS grow and become much larger in terms of wallets. All of us have to ditch owning and being close to a particular form factor. We, as a company, have done that a while ago; we have started to reinvent ourselves. We no longer look at ourselves as solely a card company. Anybody who wants to be in the payment space (merchants, governments and businesses) may register with us. We are embracing wallets, payment factors within phones, virtual cards and even account-based payments.

The next factor is value. For Bangladesh, there are three areas where more work is needed. The first is infrastructure development, because that is where convenience comes from. Why do you think that about 40 million wallet holders find it okay to transact on a 2 percent economic model in an MFS ecosystem but find that same value difficult to digest when they start to do a card or account-based transaction? It is because you have created convenience around access points. Why are there 150 thousand cash-in and cash-out points for the MFS ecosystem but only around 15 thousand merchants who are electronically empowered from a card acceptance standpoint? There is work to be done either by increasing points of interaction for merchants or by enabling points of capability. Another criterion is digitally empowering all consumers. Over 100 million adults are bankable, but there are probably 25-30 million unique bank accounts; around 10 million cards are probably unique. There is a lot of headroom we can potentially grow. That is the convenience creation through infrastructure development.

The second area I would like to talk about, which most of us don't focus much on, is consumer and merchant education. When we want to drive a behavioural change, we expect to put some technology out in the market and have it absorbed by the public. Very little is spent on creating either a deposit education fund or a merchant acceptance development fund to drive the benefits of merchant acceptance or for consumers to be able to use it.

The third area is about fostering of innovation. Bangladesh's revolution from the payment standpoint is very different from its neighbours or from any other markets we have seen. MFS has grown along with other capabilities, giving Bangladesh's market its own uniqueness. Growth is coming from the rural areas, and so you don't need to have a very expensive infrastructure out there. For example, in India, 65 percent of e-commerce volumes come from tier 3 and tier 4 pin codes, which I can't even recognise on the map. Because economic prosperity has reached those places, people want to buy brands and have the best of things, even though they have no stores even a few hundred kilometres away from their neighbourhoods. Still, they use the postal network and websites like Amazon to be able to get the products they want. We have to find ways in which we can compete as banks with the MFS system as choices vary.

Governments can themselves begin by opening their own capabilities, whether in railways, petroleum, electricity or utilities. Start becoming merchants and welcome electronic payments as opposed to creating barriers through a convenience model.

**Pial Islam**

From what we have discussed here, I can confidently say that despite the challenges, there has been a lot of progress. The government and Central Bank have stepped in as strong contributors to the rapid development of digital payment ecosystem in Bangladesh. Moreover, the leap we have witnessed in the telecom sector has been reciprocated in the financial sector as well.

We all expect to see an open, inclusive and interoperable payment ecosystem for Digital Bangladesh.