

Digitalization for Life

licenses will be given, etc. Our regulators will also need to accelerate their speed at over 60 miles in order to provide oversight to the evolving industry. Similarly, unless we have a coherent adoption of changes, digitalization will be extremely challenging. We need the right policies and a coherent arrangement behind them. The other issue is consistency in the policy – there should be complete synergy between policies and rules enacted by various wings of government when this comes to digital.

We have a population of 170 million and we do lots of transactions. Our transaction amounts may be very small but in terms of the number of transactions, it is half of that of the US. From a digital perspective, we need strong legal and technology platforms, and we simply cannot afford inconsistency as we aspire to become digitalised.

Barrister Tanjib ul Alam



In technological development and innovation, law is considered to be the worst enemy in the sense that laws are the last to catch up due to their slow pace. Banks have started adopting a software-based accounting system and maintenance of customer data. Back in the late '90s, there was no law regarding this. It took at least 10 years before laws giving legal recognition to digital maintenance of records were introduced. There is a law more than 100 years old: Bankers' Book Evidence Act, 1891. It says that if you want to know how much money you have deposited in your bank account, the book maintained by the bank would serve as evidence. Today, say you receive an SMS which says that your account balance is a certain amount. Until 2006 there was no legal recognition to this particular SMS. Through amendment of the Act recognition to all records maintained in the digital domain was given. The court can today summon for a digital copy of a bank account.

Our Companies Act may also need some changes. It states that it is mandatory for directors to sit four times a year—and they have to be present physically. A notice has to be sent by post; otherwise it is not recognized as a legal notice. But if you are doing business, you do not have the time to send seven days' notice and wait for that long for a decision to call a board meeting.

So we need coherence of laws as well as a good financial environment. Legal reforms for a conducive environment for doing business are necessary. Reforms in the Companies Act and financial regulations, and giving legal recognition to the digital format of transactions are needed. We also urgently need data protection laws, without which the aspirations of Digital Bangladesh would remain unfulfilled.

Khaled Rahman



BATB is a large organization and the highest taxpayer in the country—paying around Tk 16,500 crore to the government annually. Every day, we collect around Tk 70-80 crore. And out of this, we pay around Tk 50 crore to the government as well. Majority of this money is still being collected in a paper-heavy way. Digital collection is at 40 percent, largely through BEFTN and RTGS. Along with Citibank, N.A., we have been trying to convert our manual-based receivables into a digital method for the last two years. However, we still face significant challenges during such transitions.

The BEFTN and RTGS were introduced in 2011 and 2015, respectively. Yet, if you go to rural or semi-urban areas you will see that banks are reluctant to do transactions through BEFTN and RTGS, either because they don't have the technology for it or even if they have it, they are not willing to use it because it means you are debiting it off your account immediately. The central bank has played a pioneering role in terms of encouraging the banks to go for BEFTN and RTGS. Now, we need to have a reinforcement of the engagement, or enforcement from the central bank to push adoption of electronic payments in banks across country.

We have been also trying to help our distributors to improve their cash conversion cycle. We have around 0.8 million retailers across the country. The distributor representatives collect the money from those retailers and then deposit it to a local bank and then it gets transferred

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to distributors main bank. We have tried out MFS to fasten this conversion. The product is very good but if you look at the cost, it is not economically viable for business to collect cash from retailers through MFS. If we cannot support our distributors, our businesses cannot grow. Distributors need to focus on the business growth and productivity rather than on cash conversion. We need to come up with a product which is economically viable and will help business to focus on its core function. We have tried few MFS based model to digitize this collection. As we speak, some projects are still ongoing, and we really look forward to hearing about innovative solutions that can further improve our situation on digital collection.

Ashish Chakraborty



We are acquiring merchants for bKash as a pilot program and for other banks as well. But when we speak to these merchants - particularly at SME segment - we find that most of them don't have a trade license which is generally required for bank accounts and digital wallets. Sometimes, one single trade license is being used by multiple organizations. People are not used to accepting changes. When you ask people to get a trade license, they say that they are very happy with their cash-based systems. They don't want to be cashless whereas you want to make them cashless. There have to be innovative solutions. The positive sign is that central bank very supportive on the matter and has asked us to identify and share with them the problems so that they can work at policy level to resolve.

With regard to corporations, they have the distributor-retailer model. The retailers don't have the necessary creditworthiness. They don't have the collateral to qualify for loans. When we tried to digitize the flow from retailers to corporates, through using Cards - which would have helped digitization as well as monitoring of the flows - we

found no banks are ready to give them any financial instrument as they lack credit strength and collateral capacity. We need to find a solution to these problems in enabling retailers to go digital. Besides, government payments have to be digitalized in full swing. Today government is paying many of its schemes online across cities and rural areas. But how about the cases where government is accepting money in complete manual channels? Government services facilitate many aspects of our daily lives. Payment related to these services must be automated in order to give the benefit of digitalization to wider mass.

In terms of e-commerce, the escrow mechanism has to be there. This helps the consumer to build trust over the digital system where he has the guarantee to get the money back if anything goes wrong with the product.

Quazi Zulquarnain



Uber has been operating for about two years in Bangladesh and there are other similar companies operating for about the same time. We are not really in competition with each other; we are in competition with the concept of owning a car. For instance, in Bangladesh, people have always been inclined towards buying cars, houses, etc.—this is sort of the height of affluence. So, essentially, we are fighting that culture. And this change does not happen in 2-3 years. The concept of ride-sharing itself is just 9 years old. Uber started its operations in 2009 and since then, this concept has spread across countries and across regions.

What people don't often notice is when you are outside and you are looking in, you may see a thriving sector. But if you are within the sector, you realize how much time, effort and investment goes into trying to make this an option for customers on a daily basis. It is not easy to replace 70-75 years of learned techniques. It is almost as hard as getting people to shift from cash to cashless transactions.

There is a lot of room for collaboration between financial institutions and ride-sharing services in order to enable the parties getting benefits of digital payments.

When we were about to launch Uber here in 2016, everyone I spoke to was skeptical about it. Security issues, sharing personal vehicles, and women's unwillingness particularly for security reasons were deemed as some of the causes why it would not work out. But if you were looking at it in a purely socioeconomic context, the purchasing power of people, the cost associated with owning a car, and the lack of a MRT system would be some reasons which would lead you to think that Uber could be a success in Bangladesh. Once we launched, we actually saw the potential and the heights we could reach and I think this is super exciting. This industry is here to stay with not just international operators like us, but also local players such as Pathao and Shohoz and others are in operation currently.

We are still a cash-first society. Dhaka is only the second city after Karachi where Uber was launched with cash instead of the card payment system. 96-97% of our transactions are cash-based. There is a lot of room for collaboration between financial institutions and ride-sharing services in order to enable the parties getting benefits of digital payments.

Hussain Elius



Our key objective is related to how our drivers can earn more. We have created opportunities for our drivers to be involved in delivery services such as food and grocery in off-peak hours. We also have e-commerce businesses. To efficiently maintain such a vast digital platform, we require a fast and effective payment solution. Most of our transactions are cash-based. When we briefly played around with cashless payments a month ago, we found out that customers, most of them living in urban areas, are adopting it very quickly but our drivers were found to be not much into the digital payment system. Most of the drivers have neither credit cards nor MFS account. Also, they prefer cash because it is tangible. We need to make this section of people aware of the benefits of going cashless.

We also need to bring changes to our existing digital payment system to make it popular and convenient among ride-sharing services. For example, currently to make a digital payment after a ride, a person has to wait to receive the OTP which often takes over a minute whereas he or she can just walk out by paying cash. In Bangladesh the central bank made a regulation requiring every transaction to go through a one-time password (OTP). In other places in the world, such regulations are more relaxed. They allow transactions of a certain amount without OTP. Bangladesh Bank can also follow in their footsteps.

Another issue we face in ride sharing business is lack of available financing options for the bike owners whom we call as Pilot. Financing as an industry doesn't exist in its fullest extent in Bangladesh. So we see neither financial institutions nor automobile companies are willing to extend hire purchase facility to the Pilot. This is an entry barrier for the new Pilots and barring the growth. We are trying to work out a model where we will play some role in terms of giving assurance to the automobile companies on repayments.

Raihan Shamsi



For big businesses, financing is not a problem but for SMEs and startups - which can be termed as the lifeline of the future economy - getting financing is a big challenge. To promote these business entities, we must bring accommodative changes to the whole business ecosystem of the country.

I will touch upon few areas to be considered as recommendations. Our ICT Act needs to be comprehensive enough to accommodate all the challenges we are currently facing for new digital startups who are helping to solve our challenges socially and economically.

Next is collaboration. Nowadays people don't need own a car or physical assets. Rather they can take it as a service and this will help create a strong digital society. So there needs to be a collaborative business environment to ensure mutual benefits for all.

Another recommendation is on shared use of resources to optimize benefit. You will not find another city in the world where there is an ATM booth every two steps. We

could ensure better usage of national wealth. Earlier every telecom entity used to build its own infrastructure but now they share their infrastructure. To help Bangladesh grow digitally faster, we have to bring together all our resources and have a cohesive, unified approach towards resolving the issues.

More than 90% of our economic transactions are done in cash while the world is moving to non-cash digital currency. We need to speed up enablement of digital currency to tap the benefit of digital economy.

Last but not the least, we have to improve on cyber security, otherwise, we will face disastrous consequences.

RECOMMENDATIONS

- ❑ A comprehensive and uniform digital strategy to be formulated with engagement from government's various wings as well as private sector players.
- ❑ Reforms in Company Act commensurate with modern days demand, and formulation of Data Protection Law to better enable digital ecosystem.
- ❑ Enforcement from regulator for bank branches at sub-urban and rural areas to support electronic payments for their customers.
- ❑ Expedite the roll out of IBFT (instant payment) platform. Consider to increase threshold of current IBFT settlements and include collection mechanism into the same by supporting Request to Pay or similar features.
- ❑ Start planning for tokenization of payments and introduce QR code standards for merchants, wallets and banks to create readiness for future payment ecosystem.
- ❑ Introduce provision of escrow mechanism to provide protection to e-commerce buyers against faulty products.
- ❑ Policy framework to welcome global players, while ensuring adequate incentive for local industry to grow by adopting technology and harnessing innovation - especially in the area of cross border e-commerce and Direct Carrier Billing service.
- ❑ Build up specific action plan to dispose cash from retailer's networks. Find ways to charge reasonable MFS (mobile banking) fees to corporates to adopt MFS payments.
- ❑ Consider launching unified payment portal or application that can integrate all banks and payment intermediaries to provide one stop payment solution to consumers.
- ❑ Promote API connectivity and introduce standards for Payments, Statements, Notifications, Account verification and other services.
- ❑ Faster onboarding system for retailers / merchants through verification of business documents, trade license etc. online.
- ❑ For making digital payment popular among users of ride-sharing services, the provision of OTP (one-time password) to be relaxed.
- ❑ Ensure access to finance for SMEs, entrepreneurs and startups.
- ❑ Build institutional awareness among government bodies in favor of digitization – roll out meaningful digital focused campaign on use of government services and payment to government agencies through electronic means.
- ❑ Cybersecurity system to be improved through awareness campaign and technology adoption across banks, government organizations, and private institutions.
- ❑ Amendment to relevant laws including Foreign Exchange Regulation Act 1947 to foster trade digitization by allowing removal of hard copy documents to initiate trade transactions and enabling online bill of entry matching through ASYCUDA system.

Zakaria Swapan



We are building a company which is paperless, faceless and cashless. We, at iPay, are driving home these three aspects. Going paperless is quite easy but the challenge is in making it "faceless" because there is no central point from where we can get reliable information about a person digitally. This is a big challenge for driving the growth of digital services.

All the banks in collaboration with Bangladesh Bank should work together to build a unified API for account verification.

I want to suggest three things that can bring dramatic changes to the whole digital ecosystem in Bangladesh. First is Digital KYC. We are spending crores of taka to build a database of our customers. But this should be done by a centralized authority.

Second is the verification of Account number. There is no API (Application Programming Interface) through which banks and Fintech firms can verify the account number of a customer. All the banks in collaboration with Bangladesh Bank should work together to build a unified API and give access to the people who are authorized to use it.

Currently we are doing account verification through penny testing but that is not instantaneous. Together with account number verification, we also should think for faster payment system that will allow us to bring money into wallet from bank account in fastest possible time.

Last but not the least, digital payment should be OTP-less up to a certain degree.

Md. Abdullah Al Mamoon



We are living in a digital era. I view the topic of digitalization for life in terms of how we can make our digital ecosystem convenient to live a better life in the digital era. A survey conducted by UN Capital Development Fund found that there are about 1.3 million micro-merchants who are doing transactions

Blockchain is one of the technologies which can provide solutions to some of the things discussed today, including digital KYC, reliability, cheaper and faster solutions needed to ensure convenience.

worth USD 15 billion annually. Unfortunately, these people are experiencing lack of proper digital payment enabler to think paperless in conducting such huge volume of transactions.

We are one of the first entities in Bangladesh who have used Blockchain technology in our background considering future scalability of our business. This is one of the technologies which can provide solutions to some of the things discussed today, including digital KYC, reliability, cheaper and faster solutions needed to ensure convenience.

While back-end of Upay is built upon blockchain, its front-end is based on QR code. We have two objectives in mind: going cashless and giving comfort to consumers that it is secure.

Md Moinul Huq



When we talk about automation and digitalization, we mostly focus on the payment system but we also need to go for automation and digitalization of our international trade transactions. Here we need to amend the guideline for foreign exchange transactions which is premised on the Foreign Exchange Regulation Act 1947.

Although there was an amendment to this Act, it did not bring the required change in the guideline which governs day-to-day trade transactions.

Along the same line, we also need to adopt cross-border e-commerce and direct career billing gradually.

As the country's apparel export industry is targeting to achieve \$ 50 Billion export in 2021, more technology-driven investment is required to increase the share of wallet in the high-end segment. Emerging technology like Robotics have already started to become huge value addition for transforming manufacturing and non-manufacturing operations with new efficacies.

Bangladesh Bank has been doing a phenomenal job in driving forward digitalization in the whole financial system. It recently launched an internet banking fund transfer system. I would request the central bank to do some necessary modifications in the system. The current modality is more C2C because there is a threshold of Tk 2 lakh per day and one can only do five transactions, and can't go beyond Tk 50,000 per transaction. If we can increase the threshold and gradually allow direct debit under this internet banking fund transfer system, more Business to Business (B2B) and Consumer to Business (C2B) flows will enter the system which will eventually get translated into instant payments for Bangladesh.

Fahim Mashroor



Digital technologies have become consumption tools. We are not exploiting its tremendous potential of creating value.

Interoperability is one area where I would request Central bank to pay attention. We can think of one unified portal or application which will be used by all payment service providers i.e. banks, MFS, wallets etc. Today, we

can't make bKash payments to Rocket or iPay because there is a lack of collaboration between the service providers. The central bank should come forward to bridge this gap and work to establish a common platform.

With regard to e-commerce, I would urge to provide adequate protection to local industries while opening up gateways for international players like amazon and Alibaba. I am not against foreign investment or foreign companies entering our market but there must be a long-term vision so that our local companies have the opportunity to thrive.

Ali Kamran Zahid



There are three key things that need to be considered to carry forward today's discussion.

First, the digital ecosystem needs to be developed. The responsibility doesn't lie with central bank alone. The payment system is only a part of it. Other components of the digital ecosystem equally need to be developed including some of the topics discussed today. Second, cooperation between the service providers and regulators is has to be more effective. There is a certain degree of partnership in place already which has brought us here today in terms of launching so many new things especially in last 6-8 years. The collaboration now needs to reach its next level in order to build ourselves future ready by addressing issues like interoperability, instant payment, new legal provisions to support digital etc. Last but not the least, regulation should follow innovation. From the central bank's view, we are always supportive of innovation and keen to facilitate an environment that promotes benefits for all.

As far as banking regulations are concerned, Bangladesh Bank is very proactive. We are trying to maintain harmony in the market. We are working to make our MFS interoperable through our national payment switch. This will make bKash and others settle payments instantly with bank accounts. Recently we relaxed the OTP requirement for transactions which are made through Contactless Cards. We will also consider your suggestion to extend this

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provision to other payment areas.

We have a huge young population who need to be given opportunities for entrepreneurship. Credit worthiness and collateral are coming up as big challenges. We can learn from the world's examples where credit is provided based on data on a customer's creditworthiness without taking any collateral. These are the things that we need to adopt in our country.