

The future of mobile financial services in Bangladesh

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Mobile financial services are already growing at a fast clip in Bangladesh. If interoperability among operators and compliance is ensured, the service's cost is brought down, and a level-playing field is guaranteed, the industry will reach a new height.

The industry has emerged as a one-stop solution for all kinds of transactions, from sending and receiving money to making payments for utility, transportation, education, medical, and retail bills. This innovation has accelerated financial inclusion.

The World Bank estimates that, in 2017, 50 percent of adults had an account in their name with a full-service financial institution. This shows a 56 percent increase from 2011, according to a case study of the Alliance for Financial Inclusion (AFI), the world's leading organisation on financial inclusion policy and regulation, based in Kuala Lumpur. This increase is mostly due to the introduction and expansion of MFS since 2014. The government's efforts to register SIM cards in 2015 have also contributed to the sustained growth in mobile money access and user registration.

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"The interoperability should be introduced on an urgent basis to take the industry to an elevated level," says Abul Kashem Md Shirin, managing director and CEO of Dutch-Bangla Bank Ltd, which owns Rocket, the country's first MFS operator.

"The sky is the limit," says Tanvir



PHOTO: RASHED SUMON

A Mishuk, managing director of Nagad, the MFS operator of the postal department, while speaking about the industry's potential.

Sydul Haque Khandaker, managing director of UCB Fintech Ltd, said that there is a tremendous growth potential for mobile financial services in Bangladesh amid the growing adoption of digital financial services, ranging from personal fund transfer to merchant payment, utilities to disbursement of various government allowances and stipends.

"Due to the momentum gained in the last decade, practitioners are now looking at the immense potential in MFS," shares Sheikh Md Monirul Islam, chief external and corporate affairs officer of bKash.

Abul Kashem Md Shirin also mentioned that the cost per Tk 1,000 cash-out must be brought down to a single-digit from Tk 20 now. The central bank recently published a circular that allows small businesses that don't have trade licenses and privately-owned

businesses to open merchant accounts with MFS operators. As a result, small businesses such as grocers across the country can open the account and accept digital payments.

"Once small merchants start accepting digital payments in a big way, and people use mobile wallets to buy things and make payments more and more, the transaction volume will jump massively," says Tanvir A Mishuk. Currently, on average, Tk 50,000 crore is being transacted through this mobile money channel every month, and Mishuk mentioned this is just the tip of the iceberg.

Sydul Haque Khandaker praised the Bangladesh Bank for introducing personal retail accounts for micro-entrepreneurs: "There is a big prospect in this segment."

Moreover, the MFS platform can also be used as a channel for other businesses such as banks, microfinance institutions, NGOs, and insurances to offer financial products such as loan disbursement and collections, deposit

instalment payment, and insurance premium, according to Khandaker. "It will reduce the cost of the services as well as increase efficiency," he says.

He also added that personal fund transfers and cash-out from the wallet still dominate the market. But significant opportunities lie in SME business, utility payment, e-commerce and F-commerce purchase, payment for digital content, and various government disbursements.

Mishuk gave full credit to the government for the growth of the MFS industry: "The government is very proactive and open to suggestions from the private sector; this is helping the industry grow."

Islam of bKash said that MFS is a part of the Fintech revolution, and technology is the key driving force behind this sector's growth. "It is the foremost duty of the MFS providers to keep their customers' funds risk-free by investing in IT infrastructure and cybersecurity. On top of that, integration of new technology such

as artificial intelligence, blockchain technology, virtual reality and machine learning, and internet of things remains to be of the essence to help the MFS industry reach new frontiers," he shares.

He also mentioned that the regulators' support and supervision were fundamental to the inception and growth of the MFS industry. The regulatory environment of Bangladesh is conducive to continued nurturing of MFS industry for its sustainable growth. "The remarkable growth of the MFS industry will be severely hampered if the compliance discipline is not identically supervised and maintained across the entire MFS industry," he adds.

UCB Fintech's Khandaker said the MFS business is traditionally a low fee model business: "Many of our services are free to customers. But, we have to pay the mobile phone operators for those transactions. We urge the central bank and the Bangladesh Telecommunication Regulatory Commission to look into this." Besides, all MFS or DFS providers should be brought under the central bank regulations to ensure uniformity and a level-playing field in the market, he added.

A global survey by the International Monetary Fund with more than 70 stakeholders — Fintech firms, central banks, regulatory bodies, and banks — revealed that regulators need to keep up with fast-paced technological changes in Fintech to ensure consumer and data protection, cybersecurity, and interoperability across users and national borders.

According to Khandaker, digital literacy and customer awareness are a must to keep MFS customers safe and boost their confidence. There are challenges such as lower penetration of smart devices — smartphone penetration is less than 30 percent. Mishuk said that the price of smartphones has to be brought down, and the cost of internet usage has to be reduced. The issue of the digital divide would have to be addressed. He also mentioned that interoperability would allow operators to focus more on customer service and product innovations instead of competing for customer acquisition. According to Mishuk, this will "stop burning cash."

MFS reshaping the landscape of financial transactions

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Tanvir A Mishuk, managing director of Nagad, another MFS provider, said the pandemic has boosted the use of MFS. Use of personal MFS accounts has increased during the pandemic.

People who used to send money through MFS agents are now sending money from their own accounts, he said.

"We have seen a substantial increase in bill payment through MFS during the pandemic. Person-to-person transactions have also increased a lot," said Mishuk adding that Nagad saw its registered clients rise to 3 crore from 1 crore a year ago.

It also saw a jump in transactions.

Government's transfer of money, in the form of school stipends and various allowances under social safety net schemes, also contributed to the increased use of MFS, he said.

Quadir said bKash, the biggest MFS provider, found that people are making more and more merchant payments and other kinds of payment such as mobile recharge through bKash that charge no additional fee.

bKash customers currently make contactless payment at more than 1.6 lakh merchant points across the country, he said.

Abul Kashem Md Shirin, managing director and chief executive of Dutch Bangla Bank Ltd (DBBL), said it has been possible for the formal financial sector to reach out to remote rural areas through MFS. It is not feasible to establish ATM booths in rural areas.

But with MFS, it has been possible to bring the rural population under the formal financial sector, said Shirin of DBBL which runs Rocket, the second biggest MFS provider in the country.

"The financial sector is taking new shape," he said.

Despite the growth of MFS, cash-in and cash-out still mainly dominate the overall transactions of MFS.

High transaction costs (as much as nearly Tk 20 per thousand), preference of a large number of people to send money through MFS agents, allegations of fraud, and risk of money laundering

limit the realisation of the potential of MFS.

Shirin said the cost of transaction should be reduced to encourage the wider use of MFS.

It will not help if we reduce the rate alone. Transaction costs should be reduced by all and the central bank should frame a policy in order to bring down the cost, he said.

He said the use of personal MFS accounts to transfer money will not increase unless over-the-counter (OTC) transactions are reduced.

OTC-based transactions should be reduced to plug the scope of fund transfers for illegal purposes, he added.

Challenges also remain in generating savings through MFS accounts. The issue of interoperability among MFS providers is yet to be started.

Besides, payments through MFS to merchants against purchases are yet to become popular among traders outside Dhaka as businesses have to pay a service charge to receive payment through MFS.

In spite of the high cost of transaction and other challenges, Gorkey, who has been an MFS agent since 2012, said money transfer through MFS has become popular.

Traders come to his district to buy agricultural produce. "It appears that cash-carrying has reduced among people because of the scope to cash out even at remote locations and to transfer funds instantly from distant places," he said.

"Many parents use MFS to send money to children living in cities for educational purposes as MFS provide them the scope to send money in phases even in small amounts. This provides a lot of convenience to families."

A decade ago, Gorkey said, banks, private courier and parcel services were popular as these allowed people to transfer money faster than conventional post offices.

However, these courier and parcel services have some limitations.

The branches are located in towns and people had to visit the branches to send or withdraw money. People had to wait in long queues and they could not

withdraw money instantly.

"So when they saw the benefits of mobile banking such as the scope to cash-out instantly, people began to show interest in it," he said.

KAS Murshid, director general of Bangladesh Institute of Development Studies (BIDS), said expansion of MFS has broadened and deepened the financial sector.

"Its outreach is vast. It is still in its early stages in our country," he said citing that people in China do most of their transactions on mobile phones and the use of cards there is quite low.

"The more we go digital, the more mobile-based services will dominate," he said. But, according to him, there remain concerns about digital security and steps should be taken to ensure security.

Murshid said MFS were more popular among people in rural areas before the pandemic and the use of the services dropped initially after the pandemic.

However, the pandemic has given a boost to MFS among the socioeconomic classes that did not use MFS in pre-Covid days, he said citing the use of MFS by the urban middle-class since MFS provide the scope to make contactless payment.

bKash CEO Quadir said the fundamental insight driving the development of bKash was to develop an efficient system so that people who come to urban centres to earn a livelihood and support their families back in villages can use a regulated financial account to send money home in an easy, secure, fast and affordable way.

"It was about extending banking services to the unbanked, bringing them into the mainstream financial system for overall economic development," he said.

Rahman, who works at a private firm in Dhaka, is also aware that money transfer through mobile banking channels is formal and his family receives the money instantly to bear grocery, educational and other expenses without hassle.

"It is safer and money transfer through mobile phones has saved a lot of my time. I still remember those days when I used to wait in long queues to send money. But MFS are much more convenient for people like me."

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