

# The journey towards becoming a cashless society

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It was 1994 when Standard Chartered Bank (SCB) Bangladesh rolled out automated teller machine and debit cards in tandem, which are considered to be the first example of technology integration in the country's banking sector.

ANZ Grindlays Bank that later merged with SCB then brought out credit cards in 1997, a development that can be viewed as the first mode of cashless transaction in Bangladesh.

Although it has been more than two and a half decades since the inception of the plastic money, cashless transaction only got its momentum in the last one decade.

The pandemic has given a great boost to these technology-based transactions as clients now prefer the digital platforms to settle transactions, sitting from the comfort of their homes, to decrease exposure to the virus.

Carrying out transactions without going to branches has become common among the middle class in the wake of the Covid-19 pandemic.

Against this backdrop, the following question arises: how close are we towards becoming a cashless society?

It is difficult to measure what proportion of the total transactions are settled through the various digital platforms as the central bank does not have any clear statistics to this end.

Analysts, however, predict that 30-35 percent of the total financial transactions are now settled in a cashless manner.

Although both the government and the central bank have taken plenty of initiatives in the last couple of years to reduce the use of hard cash, Bangladesh still has a long way to go in terms of becoming a cashless society, they said.

ATM booths and debit cards began getting popularity during the middle of the first decade of the 2000s, but this had little impact on cashless transactions.

The central bank introduced one-time password (OTP) or two factor authentication in 2010 for both debit and credit cards, which reduced the use of cash.

Before the two factor authentication process was introduced, clients had to take prior approval from the branch over the phone for the settlement of e-commerce transactions.

This initiative helped e-commerce gain momentum, encouraging cardholders to purchase goods and services through plastic money.

In addition, the central bank move has also inspired clients to embrace the plastic

money in recent years.

The use of both credit and debit cards has been on the rise consistently during the pandemic as more and more people are purchasing goods and services through e-commerce platforms from their homes.

The total amount of credit card loans held by lenders stood at Tk 1,509 crore in February, up 24 percent year-on-year while spending through debit cards increased 22 percent to Tk 14,776 crore.

Considering the potential of the electronic modes of payment, the Bangladesh Bank rolled out the Bangladesh Automated Cheque Processing System (BACPS) in 2010, replacing the regional clearing houses, which were operated on a manual basis.

Under this system, banks settle inter-bank cheques within one working day instead of two to three days needed by the manual system.

The Bangladesh Association of Software and Information Services requested the central bank and the finance and ICT ministries last year to provide 3 percent subsidy to clients and 2 percent to merchants on the use of cards, respectively.

In 2011, the central bank introduced the Bangladesh Electronic Fund Transfer Network (BEFTN) that allows corporate entities to pay wages and salaries to their staff and make bulk payment.

People can also pay utility bills, loan installments and insurance premiums through the platform.

On average, clients settle Tk 13,000 crore per day through inter-bank cheques and BEFTN, data from the central bank shows.

In 2012, the central bank set up the National Payment Switch Bangladesh (NPSB) with a view to attaining interoperability among banks for card-based and online retail transactions.

At present, the NPSB is processing interbank ATMs, POSs and the internet banking fund transfer (IBFT) transactions.

In a major move, the central bank launched the Real-time Gross Settlement



System (RTGS) in 2015, facilitating a safe and efficient interbank payment system in a digital manner.

The system allows banks to transfer funds from one bank's account to that of another on a real-time and gross basis.

The RTGS is designed to settle high-value (more than or equal to Tk 1 lakh) local currency as well as foreign currency transactions on a real time basis.

Prior to that, the central bank rolled out mobile financial services (MFS) in 2011, which are hugely popular among people from all walks of life.

The number of MFS accounts exceeded 10 crore in January with monthly transactions reaching Tk 57,253 crore.

Agent banking, another digital banking channel which has been in operation since 2016 in the rural areas, now helps lenders give out loans and mobilise deposits in tandem.

Deposits through the window soared 113 percent year-on-year to Tk 15,977 crore at the end of December last year while loan disbursement grew 324 percent to Tk 1,893 crore.

The digital financial platforms introduced by the central bank have had a positive impact on economic growth.

For instance, a garment worker can now send a portion of their salary to their near and dear ones in the village instantly by using a MFS channel at low costs.

This helps increase the currency movement in the economy and lets people fulfill their needs quickly, either for business or for their own consumption.

Mobile app-based transactions have also

played a great role in increasing cashless transactions in the last five years, said Naser Ezaz Bijoy, chief executive officer of SCB Bangladesh.

Clients now pay different kinds of utility bills through the app, which also allows them to pay installments of both deposit pension schemes (DPS) and loans.

There is no need to visit branches to make such payments, which is a great relief to people amid the pandemic, Bijoy said.

The government should incentivise cashless transactions as this would help widen the tax net, he said.

This will allow people to move funds effortlessly within the financial sector in real-time and at lower costs.

The boundary of cashless transactions will expand manifold when the Interoperable Digital Transaction Platform (IDTP) is operated by the central bank, Bijoy said.

The new system will be set up to establish interoperability among banks, MFS operators and payment service providers (PSPs) and would give a major boost to cashless transactions in the days ahead.

The central bank will set up the required hardware and software to start the new payment method in a full-fledged manner this year.

Illicit financial flows will be tackled efficiently to keep up with the expansion of the digital transaction platforms, said Syed Mahbubur Rahman, managing director of Mutual Trust Bank.

Those who are involved in money laundering show reluctance to settle transactions under the formal channels, he said.

The expansion of the digital platforms will bring the launderers under the banking sector, which will curb illegal transactions.

This will have a positive impact on tax mobilisation as well, Rahman said.

Md Arfan Ali, managing director of Bank Asia, said that handling cash incurs huge costs.

For instance, the country has to count more than Tk 9,000 crore in transactions each year due to its heavy dependence on cash, according to a BB report prepared in 2019.

Shops and banks have to bear the most—33 percent each—for using cash followed by corporate entities at 13 percent, the government at 10 percent and individuals at 6 percent, the report said.

The report titled "Reducing the cash transaction" mentioned that the maintenance costs of printed money are nearly 0.5 percent of the country's gross domestic product.

The central bank made this calculation based on a survey by McKinsey & Company, a consultancy firm in the US.

"So there is no option but to reduce the use of cash," Ali said, adding that micro-merchants and quick response (QR) codes will become the next big modes of cashless transaction.

The small businesses, like owners of grocery shops, are allowed to open micro-merchant accounts with banks as per the central banking guidelines.

Customers can pay their bills against their purchased products from the shops through QR codes by using their smartphones, Ali said.

The payment mode will become hugely popular in the days to come, especially in the remotest parts of the country.

"We should promote digital payment in the interest of the economy. Both the government and the central bank should take policy measures to this end," said Syed Mohammad Kamal, MasterCard's country manager.

The Bangladesh Association of Software and Information Services requested the central bank and the finance and ICT ministries last year to provide 3 percent subsidy to clients and 2 percent to merchants on the use of cards, respectively.

"If the government accepts the offer, the country's digital payments will grow significantly," Kamal said.

The subsidy should continue for a certain period so that people can become habituated to the plastic money gradually, he said.

MTB CARDS towards a cashless society

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