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In search of digital financial inclusion in Bangladesh

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Towards Digital Finance in Bangladesh
Leveraging digital technology to make services more accessible, especially for the poor and marginal, is gaining momentum as a core strategy for inclusive development all over the world. This can be observed across a growing number of sectors – from healthcare to education and sustainable development. The financial sector is no exception. And when it comes to utilization of digital innovations to enhance financial inclusion, Bangladesh perhaps is one of the pioneer countries.

As of 2018, 50 percent of Bangladesh's population had access to formal financial services, an increase of 57 percent since 2013. This has been possible because of the government's campaign for achieving "Digital Bangladesh" since 2009-10. Complementing this drive of the government, the central bank of the country started moving towards using technology more actively to expand financial services to the doorsteps of people, including those living in hard-to-reach areas.

BB's success in utilizing digital financial innovations to serve the underserved over the last decade or so requires revisiting, especially in the context of the pandemic-induced global economic slowdown and the subsequent process of recovery. Bangladesh certainly deserves to be recognized as an "early starter" as far as digital financial innovations are concerned.

Key measures taken to digitize the financial services in Bangladesh over the last decade can be summarized as:

- Introduction of automated Credit Information Bureau (CIB) to enable effective credit risk management and ease doing business in Bangladesh
 - Automated cheque processing, National Payment Switch, BEFTN and RTGS introduced to enhance speed as well as reliability of banking services
 - Linking the KYC process with the national database maintained by the National Election Commission (through utilizing the NIDs)
 - Implementation of online and paperless supervision, ISS (Integrated Supervision System), has been a great success
 - Major changes in traditional reporting of trade services by launching online reporting of all inward and outward remittance transactions of authorized dealers
 - Digitization of financial services (online banking, mobile financial services, and agent banking) has revolutionized access to finance in Bangladesh
 - Banks in Bangladesh have already started adopting blockchain technology, which, on a broader scale, will significantly help the country in trade-related transactions making it paperless, real-time, low-cost, faster, and free of errors
 - Above all, backed by the innovative initiatives of Bangladesh Bank, today the banks are using core banking software and have dramatically automated most of their internal and external operations
- This drive for digitization has, as expected, yielded significant positive impact in financial inclusion in Bangladesh. This is clearly visible in the periodical Financial Access Survey (FAS) conducted by the International Monetary Fund (IMF).

Review of the datasets of the FAS 2015 and FAS 2020 reveals that:

- Number of commercial bank branches per 100,000 adult persons in Bangladesh has increased from 8.61 in 2015 to 8.99 in 2020 (4 percent increase in 5 years)
 - Number of ATMs per 100,000 adult persons in Bangladesh has increased from 7.09 in 2015 to 10.18 in 2020 (44 percent increase in 5 years)
 - Number of registered mobile money agent outlets per 1,000 square kilometre has increased from 4,408 in 2015 to 8,141 in 2020 (85 percent increase in 5 years)
 - Number of registered mobile money accounts per 1,000 adult persons in Bangladesh have increased from 310 in 2015 to 825 in 2020 (166 percent increase in 5 years)
 - Value of mobile money transactions as percentage share of GDP has increased from 11.26 in 2015 to 20.45 in 2020 (82 percent increase in 5 years)
- It should be obvious from the discussion that digital financial service (DFS) has made reaching the "bottom of the social pyramid" possible for the

during the periods of lockdown. The collaboration between banks and fintech companies to mutually expand their services has also proved beneficial to the users of the financial services. More particularly, the country went onboard with these two digital finance innovations relatively early due to prudent and bold policy moves by the central bank.

Almost a decade ago, BB, after considering the prospects and challenges of MFS, chose to implement the "Bank-led Model" of MFS in the country. Within three to four years, virtually all citizens were brought under MFS coverage. The country is now enjoying the wider benefits of that prudent and early decision amidst the pandemic.

In the face of the new challenges brought by Covid-19, people from all walks of life in Bangladesh are increasingly depending on digital solutions, and MFS perhaps is the most prominent among them. Between March and November 2020, approximately 15 million new MFS customers have joined in. This makes the total number of MFS users almost 100 million.

other banks will also come forward to take advantage of this digital financial inclusion related regulation.

Agent banking is another digital finance innovation brought in by BB in 2013. This innovative digital financial service model has become especially favoured by bankers who intend to expand their businesses through covering those customers living in hard-to-reach areas without incurring high costs for running their own branches. This is like a franchise business for the banks as well.

A nationwide survey conducted by Unnayan Shamannay, in 2018, has revealed that:

- 52 percent of the agent banking service users reported they are saving time because of agent banking outlets being close to their place of work/residence
- 67 percent of them reported they do not have to spend additional money to travel to the outlets (previously they had to spend money for travelling to the nearest bank branches)
- Most importantly, 20 percent of these respondents claimed that they were not able to save any money before agent banking was available in their respective localities

As a result, this model of financial service has become increasingly popular within a matter of only a few years. As of October 2020, the total number of agent outlets stood at over 14 thousand. Of course, the pandemic has made agent banking deliver further on its great potential. Only a year ago, this number was below 10 thousand. During the same period, the number of accounts facilitated by agent banking outlets almost doubled to 88 million. And deposit mobilized through these accounts more than doubled to BDT 137 billion. Most importantly, remittance received by these accounts quadrupled amidst the pandemic.

These encouraging figures further emphasize the need to properly harness the potential of agent banking in the process of economic recovery. It must be noted that running a bank branch costs BDT 0.5 to 0.7 million per month, whereas agent outlets are much cheaper. It is also a model that is easily accessible by the common customers. This, indeed, can be a reliable means to ensure access to finance for hard-to-reach areas. This last mile service to the earlier unbanked and underbanked people of Bangladesh holds promise for digital transformation of Bangladesh which is simultaneously inclusive.

Looking Ahead
Digitization of financial services has revolutionized access to finance in Bangladesh. And of course, this will be pivotal in making the country's economic recovery desirably inclusive. But there is no alternative to "learning by doing".

At the same time, special care needs to be taken to ensure that digital infrastructure and access-to-internet become affordable and sustainable. Moreover, a policy environment focusing on customer benefit must be the top priority, which necessitates ensuring interoperability, favourable tax policy etc. Gaining and maintaining customer confidence is also pivotal. DFS needs to ensure that customers get acclimated to the "new normal" and fraudsters do not spoil the show which has been developed with painstaking efforts.



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financial service providers at a low cost and with high pace. DFS has not only proven its efficiency and reliability to the private sector and/or the non-state actors, but also the government itself.

In January 2010, with prudent directives from the central bank, the retail banks started allowing ultra-poor citizens of the country to open no-frill accounts worth BDT 10 (approximately USD 0.1) so that they may receive Social Safety Net Programme (SSNP) support from the government via these accounts. Indeed, the proliferation of Mobile Financial Service (MFS) and agent banking services in Bangladesh have proven that early policy moves towards the right direction can provide cushion in case of shocks. And Bangladesh is now reaping the benefits of its early moves in the arena of DFS.

MFS and Agent Banking: Two important success stories in fintech development
How the silent revolution of digital finance in Bangladesh has helped the country in coping with the pandemic can perhaps be most vividly described through the successes of the MFS and agent banking in the country. The faster pace of internet banking has also been equally helpful to the digital banking, particularly

In November 2020, monthly transactions rose to more than BDT 500 billion (a 30 percent increase in less than a year). During this period (March-November 2020), monthly merchant payments via MFS more than tripled to almost BDT 19 billion; the monthly utility bill payment via the same almost doubled to over BDT 8.3 billion.

Gaining confidence based on this increased reliance of the people on MFS, Government of Bangladesh opted for cash assistance to five million vulnerable poor families hit by the coronavirus pandemic through four major MFS operators. In the post-Covid period, it is expected that more people will be relying on MFS. And experts believe that MFS proliferation will become a key determinant in the growth of MSMEs in Bangladesh. Already some experiments are being conducted on how banks can utilize the robust database of MFS providers to provide them smaller ticket credit package without human intervention. If pursued, this will revolutionize the depth and breadth of DFS in Bangladesh. In fact, City Bank and bKash have already joined hands in rolling out this nano credit with appropriate regulation from the central bank. I hope