

# Bangladesh moving towards a cashless society

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The lockdown and subsequent restrictions triggered by the Covid-19 pandemic resulted in decreased mobility for almost everyone across the globe.

With people restricted to the boundaries of their homes, the usage of digital payments rose considerably in the last 18 months.

Bangladesh was no different in this respect. The country was already making great strides towards achieving a cashless society and the pandemic only further accelerated the move.

Digital commerce transactions more than doubled from 15 per cent in March 2020 to 30.35 per cent in June 2021 while card usage grew five times from Tk 225 crore to Tk 1,250 crore over the same period.

Besides facilitating trade, the digital payments also helped the government disburse financial assistance to those in need amid the ongoing Covid-19 crisis.

As per the Mastercard Economic Outlook Report published in December 2021, digital agility has been a key factor behind stronger revenue throughout the



contactless payments.

**Mobile Financial Services**

MFS is another popular mode of payment in the country that is accelerating digital payments. Since its inception in 2011, 29 banks have acquired MFS licences.

Bangladesh has over 170 million cellphone subscribers and over 112 million internet subscribers, and MFS has been the go-to solution in digital bill payments, online tax returns, academic institution registration, digital health services, and online banking systems.

According to Bangladesh Bank, the transaction amount in MFS in November 2021 stood at about Tk 67,967 crore, which is an increase of about Tk. 10,678 crore compared to January 2021.

Government bills and payments through MFS rose by a staggering 132 per cent in October 2021 compared to September earlier the same year.

MFS providers like bKash and Nagad are hugely popular when it comes to small-scale transactions as well as the micro-merchant sector.

Bangladesh Bank is set to launch interoperability among MFS providers, making these services more accessible.

MFS users can now "add money" to their bKash accounts from various bank cards and accounts, which has brought in interoperability between MFS and cards.

According to a study by the United Nations Capital Development Fund (UNCDF) in 2020, there are 2 million people involved in the micro-merchant sector who transact over \$18.42 billion annually. By 2023, this market is expected to grow to \$3 billion.

**QR Codes**

QR codes have also become a popular mode of payments today. Bangladesh Bank opted for the merchant presented QR code transaction or EMVQRCPs. It lets a user scan a QR code displayed by the merchant and make instant payments.

Banks and lenders are exclusively dependent on POS for payment gateways through their card or internet banking apps.

Bangla QR is a recent initiative by the central bank to bring the micro-merchant sector under the fold of the formal economy.

As per central bank guidelines, daily transactions up to Tk 20,000 can be made through Bangla QR.

Its viability has already been piloted by various banks. According to large aggregators and few banks, the number of QR merchants is approaching 50,000. Collaboration between banks and MFS providers will scale up Bangla QR's acceptance.

Additionally, to further grow the adoption of digital payments in the country, the payment systems department of Bangladesh Bank introduced Personal Retail Accounts (PRAs) in 2020 to bring micro, small and marginal traders, and service providers under the digital financial ecosystem.

Earlier, the small traders were largely dependent on cash for their supply chain and did not have the option to open personal retail accounts to receive micropayments.

With this initiative, small and micro traders would not be required to provide trade licences, tax identification numbers (TINs), value-added tax (VAT) registration or any other documents that are typically needed.

Just an attestation from any public representative will allow easy accessibility. PRAs will further expedite the

awareness and ramp up security and authentication efforts.

The right use of new-age technology is a must today to enhance the security of digital transactions to address the risk of fraudsters who track unmonitored, point-of-interaction, and standalone devices.

Bangladesh has gained significant momentum in building a cashless economy and generating financial inclusion on a massive scale for the past few years.

To achieve further progress, it will be important to implement policy reforms that create enabling conditions and evolve the regulatory environment, promote innovation, allow open loop payments across the country's transit system, and incentivize consumers and merchants for digital payments.

It will also be crucial to drive digital and financial literacy to enable users to better understand the services that they are availing and increase the adoption among all citizens.

Incentivising digital payments, opening up contactless debit card transactions, and introducing open loop payment tools at metro rails and other mass transportation will help accelerate digital transactions in Bangladesh.

India has been incentivising digital payments since December 2016 and has so far seen a significantly positive reaction to this end.

The future of digital payments is unfolding with an accelerated transformation – one that has long been predicted as the future and has now become a reality – that will propel Bangladesh to a cashless economy that is inclusive, smarter, and safer.

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pandemic, and its core lies in e-commerce. The report highlighted that "online transactions increased more in countries with higher pre-pandemic levels of digital maturity".

The increasing popularity of contactless credit cards, QR codes, and mobile financial services (MFS) that provide solutions for the unbanked and micro-merchants and interoperability among MFS providers are some of the factors driving the growth of digital payments.

**Debit & Credit cards**

According to Bangladesh Bank, year-to-date November 2021 transaction volumes at Point of Sales (POS) machines through debit, credit and prepaid cards increased 23 per cent compared to the same period last year.

Today, increasing awareness on using digital payments and networks, and banks offering exclusive offers on debit, credit and prepaid cards to people of all income groups, especially millennials, is making card culture popular and driving the growth of card transactions.

**Contactless cards**

The pandemic also resulted in the swift adoption of contactless payments across the globe. Many banks today are investing in building infrastructure to cater to the increasing demand for contactless cards.

There are many factors for this uptake. The most important being the presumed risk of contracting a Covid-19 infection from currency notes along with offering a quick, seamless and convenient mode of transacting.

In 2021, Mastercard saw the overall number of card-not-present transactions increase by more than 30 per cent worldwide while contactless as a share of the total in-person transactions increased by at least 50 per cent in more than 100 markets.

Over half a dozen financial institutions in Bangladesh are already issuing contactless credit cards and many others are ensuring their acceptance and deployment.

While the transaction limit for PIN-less transactions was increased to Tk 5,000 by Bangladesh Bank, raising it further would enable more adoption and achieve the vision of building a cashless society.

According to central bank regulations, PIN-less transactions can happen only through credit cards, however it is also important to enable debit and prepaid cards for contactless transactions.

Keeping safety and hygiene in mind, the government must also allow PIN-less transactions on debit and prepaid cards so that more people can experience

ILLUSTRATION: STAR

government's agenda towards financial inclusion and bring the unbanked populace under the umbrella of digital payments.

With a significant increase in the number of digital payments, the exposure to cyber security risks, such as phishing, virus attacks or malware is also increasing.

According to a study, global card fraud losses will exceed \$35 billion in 2020. It is therefore even more critical for organisations and governments to build

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