ACCESSING CREDIT ANYTIME, ANYWHERE
The Growth of Digital Nano Loans

SAUDIA AFRIN

Eligible customers can access loan limits between Tk 500 and Tk 30,000, which can be used for both Pay-Later and Digital Nano Loans. This service aims to promote financial inclusion and assist marginalized individuals in purchasing daily essentials, available at over 600,000 merchant points across the country.

Just five years ago, accessing credit without collateral or complex paperwork through formal banking channels would have seemed almost unimaginable. However, this remarkable convenience has now become a reality, thanks to digital platforms offering digital nano lending. In the pursuit of financial inclusion, this initiative is transformative, particularly for low-income individuals and the unbanked population living in remote areas.

Disbursed entirely through digital channels such as MFS, mobile apps, e-wallets, and e-banking, nano loans eliminate the need for extensive paperwork and reduce processing times, enabling individuals in remote areas or those without access to traditional banking services to access funds quickly and efficiently. Borrowers can access loans ranging from BDT 500 to BDT

50,000, with a maximum interest rate of 9% from participating banks. The digital loan has become an instrumental tool for micro-entrepreneurs to meet emergency needs and utilise sudden business opportunities.

According to the Agriculture and Rural Statistics Report of 2018, approximately 73.91% of households obtained loans from private sources, including NGOs, relatives, and moneylenders. The borrowers often end up with empty pockets after repaying these loans, perpetuating a cycle of debt that hinders their ability to improve their living standards and foster rural socioeconomic development.

"Certain financial crises demand an immediate response; however, accessing the required amount can be challenging through formal banking channels. During such tough times, people usually borrow from informal channels to secure quick loans, often at high-interest rates," says Dr. Prashanta Kumar Banerjee, a professor at the Bangladesh Institute of Banking Management (BIBM), referring to digital loans as a cutting-edge financial instrument in supporting immediate needs.

bKash, in partnership with City Bank, introduced 'Digital Nano Loans' in December 2021 after piloting the initiative for one year under the supervision of Bangladesh Bank. According to an official source from bKash, the primary objective of launching this digital loan is to accelerate the financial inclusion of the country's underprivileged population, especially women and those living in rural areas, by ensuring their access to credit.

On MFS platforms, while loans are disbursed through the MFS operator, they are actually provided by partner banks. Eligibility is determined by the customer's transaction history, including monthly spending, account balance, and account tenure. These factors are evaluated through a scoring system to allocate the loan efficiently.

The bKash official source also informed that customers can borrow between Tk 500 and Tk 30,000 for a period of three months, depending on their creditworthiness, with a repayment facility in three equal instalments, and an early settlement option without a fee. According to central bank directives, bKash customers who have completed e-KYC through the biometric system and are using the bKash app are eligible for this loan from City Bank. The loan eligibility and amount are determined through an automated credit assessment system, based on the customer's transaction history in the bKash account and City Bank's credit risk management policy.

City Bank and bKash have launched Pay-Later, a collateral-free digital nano loan service designed to help marginalised individuals purchase daily essentials at over 600,000 merchant points nationwide. Through the bKash app, customers can make purchases using an interest-free loan, even without sufficient account balance, as long as the loan is repaid within seven days. No interest is charged if the due amount is paid on time.

Since the launch of the digital loan feature on bKash's platform, nearly Tk 15 billion (BDT 1,500 crore) has been disbursed. So far, 523,000 unique customers have accessed this service a total of 2.6 million times, with many users repeatedly availing themselves of this hassle-free, instant, and affordable loan. The service provides quick, small-scale credit to underserved segments, including grocers, small retailers, and agricultural farmers, helping them meet their financial needs efficiently.

"These loans, available through bKash's platform, require no documentation and offer seamless disbursement and repayment directly via MFS wallets. This ensures unparalleled convenience and accessibility for entrepreneurs in both urban and rural areas," says Kamrul Mehedi, Head of Small, Microfinance, and Agent Banking of City Bank.

Three other banks have introduced similar products through their own apps, such as the PrimeAgrim app and Erin. Over time, small-scale lending via digital channels has become increasingly popular among customers, including small and medium enterprises, highlighting its substantial potential.

Dhaka Bank has introduced "e-Rin," an end-to-end digital Nano loan service meeting the needs of customers for shopping, vacations, or addressing medical and emergency financial needs. This allows customers to receive loan disbursements directly into their wallets through the Dhaka Bank Mobile app and repay their loans via MFS wallets. "While the bank disburses all its digital small credits via its own platform, it remains open to collaborating with other platforms to reach the unbanked and underserved populations," says Mosleh Saad Mahmud, Head of the Liability & Cash Management Unit at Dhaka Bank.

Given the growing demand for this product, Bangladesh Bank increased the refinance scheme fund size for this scheme to BDT 5.0 billion in July 2023, which was initially BDT 100 crore and was introduced on July 2, 2022. As of December 2023, BDT 4.37 billion in credit facilities had been refinanced to the participating banks for disbursed digital loans, benefiting a total of 355,908 individuals, of which 22.26% are women.

In remote areas where banks lack a physical presence, the main concern is the recovery of funds. "Ensuring repayment doesn't necessarily mean taking collateral from the customer. For very small loans, the customer might not even possess collateral. If they did, they probably wouldn't need the loan in the first place. Instead of collateral, we rely on a track record for these customers. However, the reality is that many of these individuals lack any track record," says Sabbir Hossain, DMD & COO of BRAC Bank, while addressing the challenges that hinder the full potential of such an approach.

The lack of credit history is a nationwide challenge. If there were a central credit report for individuals, or even alternative credit scoring systems, banks and NBFIs could better assess loan eligibility. Even basic data, such as a person's mobile usage—monthly spending or how frequently they run out of credit—could offer valuable insights. Similarly, tracking utility bill payment behaviour, like whether they pay gas or electricity bills on time, could also provide useful information.

But unfortunately, we don't have access to any of this information. What we can access, however, is their MFS transaction behaviour. For example, if they have a mobile wallet and we analyse their transaction behaviour—how they spend or save—we can estimate their financial reliability," says Sabbir Ahmed of BRAC Bank.

The lending initiative the bank is working on with bKash is still underway, particularly in analysing borrowers' histories and preparing credit scores so that loans can be issued quickly and automatically when requested.

"Currently, we are running a few small-scale projects focusing on agents and merchants, with loan amounts up to BDT 10 lakh. Our merchants' businesses fall into two categories: retail (e.g., grocery stores) and services, primarily restaurants. In urban areas, there are few significant manufacturing businesses—most are in retail or services. The loans we've disbursed are part of our regular SME portfolio, which maintains a low default rate of under 3%, making it highly manageable," shares Sabbir Ahmed.

City Bank is advancing its MFS-based lending by developing alternative credit scoring models. It will utilise transaction data from MFS agents and B2B merchants, enabling more accurate credit assessments for micro and cottage businesses. "By analysing payment patterns, cash flows, and transaction volumes, the bank aims to extend credit to entrepreneurs who lack formal financial records but demonstrate strong operational activity through their digital footprints," adds Kamrul of City Bank.

He further emphasises that this data-driven approach holds significant potential to enhance financial inclusion by unlocking access to credit for untapped market segments, while minimising credit risk. He believes it will enable banks to expand their lending portfolios, setting a benchmark for innovative and inclusive banking solutions in Bangladesh.

Addressing challenges such as limited financial literacy, the digital divide in rural areas, and regulatory complexities in SME lending, Kamrul Mehedi states, "With continued government support, strategic fintech partnerships, and innovative solutions, City Bank is committed to empowering SMEs and believes financial access can be extended to underserved entrepreneurs nationwide."

Md. Salah Uddin Tanvir, First Assistant Vice President and Head of Strategy & Business Planning for Digital Financial Services at Al-Arafah Islami Bank, notes that the digital loan through MFS benefits both the banking industry and customers, marking a positive development. While the bank is not yet offering lending products through its MFS platform, he added, "We are working on it."

To ensure the sustainability and prosperity of such initiatives, trust must be built and sustained by creating a stable and fair financial system. In this regard, Dr. Prashanta Kumar emphasises, "Unless trust is established, people will lose interest in such an important initiative that enhances financial inclusion and provides access to fundamental financial services." He believes that by empowering individuals and encouraging entrepreneurship, nano loans can drive economic growth and development at the grassroots level.

Banking on Technology
Adopting Fintech for Better Banking Services

MUJIB RAHMAN

The financial landscape of Bangladesh is undergoing a significant transformation, with banks and Mobile Financial Service (MFS) providers increasingly adopting fintech (financial technology) to provide more inclusive and efficient banking services. Fintech combines traditional banking with cutting-edge technologies such as the Internet of Things (IoT), big data, cloud computing, and Artificial Intelligence (AI). This combination has made financial services more accessible, cost-effective, and user-friendly, particularly for underserved populations, including rural communities and women.

Commercial banks have embraced fintech to enhance their service offerings. City Bank is a key player in adopting fintech to improve its banking services. The bank has introduced mobile wallets and QR code payments, which allow users to make transactions quickly and securely. Additionally, City Bank has introduced NFC (Near Field Communication) technology, which enables contactless payments through smartphones or smartwatches. These innovations have streamlined payment processes and reduced transaction times. Arup Haider, Head of Retail Banking at City Bank, highlights the growing trend of wearable devices such as smartwatches, which now support contactless payments, further enhancing convenience for customers.

City Bank has also been incorporating AI and machine learning into its services. By using AI-powered systems, the bank can analyze data to assess creditworthiness and offer tailored financial products. These technologies also help automate tasks like loan profiling and statement analysis, making banking more efficient for both clients and financial institutions. In December 2021, City Bank, in collaboration with bKash, launched 'Digital Nano Loans', a partnership that continues to run successfully.

Mutual Trust Bank (MTB) is also enhancing financial services through technology. Its Interoperable platforms allow seamless transfers between MFS operators and banks, while QR code payments simplify retail transactions. MTB is using AI-driven credit scoring to provide microloans and collaborating with fintech firms for microcredit offerings. The bank is also exploring blockchain for cross-border payments and expanding agent banking in rural areas. MTB has also implemented biometric systems for account registration, ensuring compliance with KYC and AML regulations. Through Open Banking and API integration, MTB fosters a collaborative fintech ecosystem, broadening access to financial services.

Al-Arafah Islamic Bank has integrated fintech to provide more inclusive financial services. Md Salah Uddin Tanvir, Head of Strategy & Business Planning, explained that the bank is working to connect its mobile services with platforms like bKash and Nagad, enabling seamless fund transfers across platforms. The bank also uses e-KYC for digital onboarding, allowing customers to open wallets remotely, and employs biometric authentication for secure access. Additionally, API integration enhances functionality by connecting with third-party services.

Dhaka Bank is also actively adopting fintech to expand its digital offerings. The bank provides a range of services, including mobile apps for convenient banking, digital loans for SMEs, and online payment solutions. Mosleh Saad Mahmud, Head of Liability & Cash Management at Dhaka Bank, stresses the importance of delivering customer-centric services, particularly in rural areas, where access to physical bank branches is limited. The bank is focusing on providing solutions directly to customers' doorsteps, further enhancing the accessibility of banking services.

BRAC Bank has partnered with bKash to offer loans to its agents and merchants. The bank is working on developing efficient collection mechanisms for SMEs and is aiming for a cashless society. M. Sabbir Hossain, DMD & COO of BRAC Bank, emphasizes the importance of state intervention to support financial inclusion, particularly by promoting online payment systems for essential services like tuition fees and utility bills. The bank is also exploring the use of AI and machine learning to provide more personalized and cost-effective financial products.

Non-Banking Financial Institutions (NBFIs), such as IDLC, are playing a significant role in the fintech ecosystem. Through its collaboration with bKash to offer Digital Payment Services (DPS), IDLC has successfully opened over 1.2 million accounts, many of which are held by women. Md Ariful Islam, Deputy General Manager at IDLC, emphasised that this partnership has improved financial access for underserved groups like housewives and small business owners. IDLC is also enhancing the customer experience by using digital onboarding, e-KYC, and AI-driven analytics to offer personalised solutions.

As Bangladesh continues to embrace the Fourth Industrial Revolution, fintech is expected to play an even more significant role in the country's economic development. By leveraging technology to provide more inclusive, accessible, and secure financial services, banks and MFS providers are helping bridge the gap between the unbanked and the financial system. The combination of fintech and MFS has the potential to transform the banking sector, making financial services available to all, regardless of location or income level.

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