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The Role of Digital Financial Services in Bangladesh during the COVID-19 pandemic

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Introduction

Digital financial services (DFS) refer to a wide range of financial services (e.g., payments, remittances, and credit) accessed and delivered through digital channels, including mobile devices¹. However, in Bangladesh, DFS mainly involves mobile financial services (MFS). Apart from mobile money transfers and bill pay, other types of DFS such as credit, loans, insurance, etc. are absent in the country.

MFS started in Bangladesh in 2012, when the banking sector adopted mobile banking services to make its financial services more accessible to customers³. Services like mobile money transfers, online payments, and mobile recharge quickly became popular through the efforts of banks, agents, and government policies. However, the use of MFS skyrocketed during the COVID-19 pandemic. Almost all institutions were closed during the countrywide lockdown except for banks and emergency services. Banks operated for shorter hours, leading the government and the central bank to scale down cash transactions and encourage mobile banking². All of these efforts were taken in order to

¹ Agur, I., Peria, S.M., & Rochon, S. (2020). Digital Financial Services and the Pandemic: Opportunities and Risks for Emerging and Developing Economies. *International Monetary Fund*. <https://www.imf.org/-/media/Files/Publications/covid19-special-notes/en-special-series-on-covid-19-digital-financial-services-and-the-pandemic.ashx>

² Khatun, M.N., & Mitra, S. (2021). Mobile Banking during COVID-19 Pandemic in Bangladesh: A Novel Mechanism to Change and Accelerate People's Financial Access. *Green Finance* 3(3):253-267. DOI: [10.3934/GF.2021013](https://doi.org/10.3934/GF.2021013)

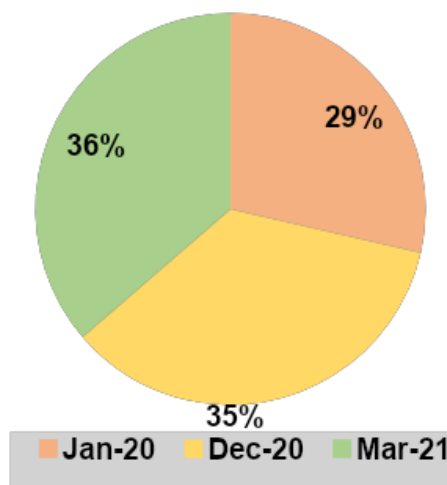
ensure public health, safety, and security. This paper aims to analyze the role of different MFS in terms of ensuring public health safety and security in the country during the COVID-19 pandemic.

Market size of DFS providers in Bangladesh

DFS witnessed an overwhelming demand during the pandemic. From government allowance and garment workers' salary disbursement to online shopping and utility bills payment – all were made through mobile banking. MFS also appeared as a swift transaction mode for migrants to send money into the country. From January to April 2020, bKash experienced a 144% increase in average daily remittance transactions, with Tk 1.38 billion transferred Inwards². The number of MFS registrants increased dramatically from 80.92 million in January 2020 to 99.34 million in December 2020, reaching 102.80 million in March 2021³.

Figure 1: MFS Users in Bangladesh

Number of MFS Registrants



Source: [Factors influencing the adoption intention of using mobile financial service during the COVID-19 pandemic: the role of FinTech](#)

In Bangladesh, the first MFS (bKash) was launched by the State Bank of Bangladesh (SBB) in May 2011. After DBBL, other private commercial banks joined the market. There are still no MFS owned by specialized development banks or foreign commercial

³ Yan, C., Siddik, A.B., Akter, N. et al. (2021). Factors influencing the adoption intention of using mobile financial service during the COVID-19 pandemic: the role of FinTech. *Environ Sci Pollut Res*. <https://doi.org/10.1007/s11356-021-17437-y>

banks to date. There is only one state-owned MFS named “Nagad” which is run by the Bangladesh Post Office.

Table 1: Names of different mobile banking services in Bangladesh

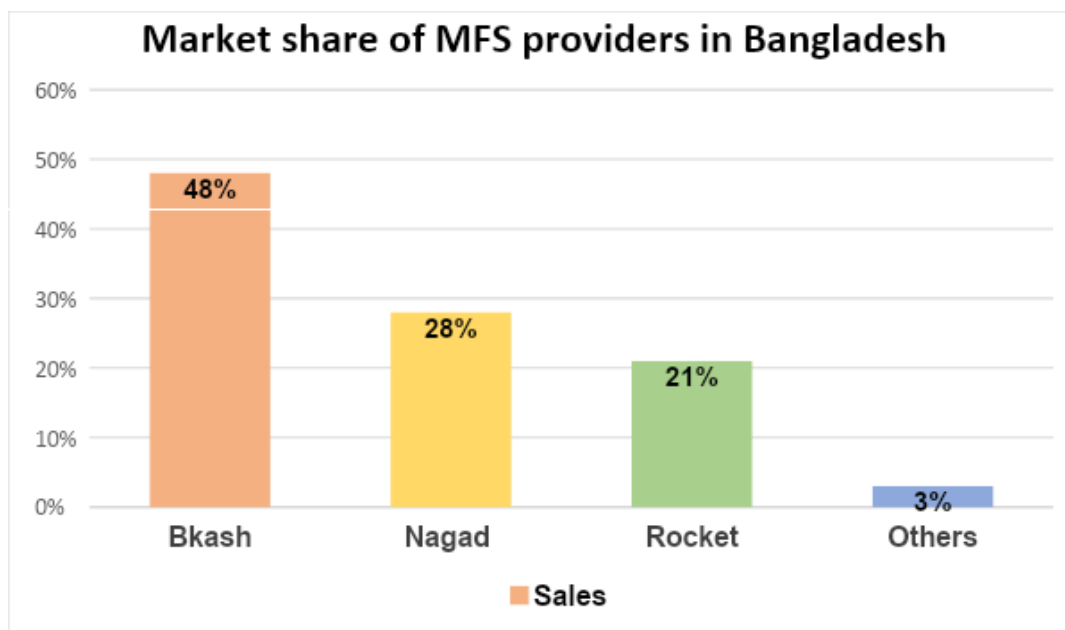
SI no.	MFS	Banks
1.	<i>Rocket</i>	Dutch Bangla Bank Ltd
2.	<i>bKash</i>	BRAC Bank Limited
3.	<i>Ucash</i>	United Commercial Bank Ltd
4.	<i>Mycash</i>	Mercantile Bank Ltd
5.	<i>OK Wallet</i>	One Bank Ltd
6.	<i>Nagad</i>	Bangladesh Post Office
7.	<i>T-cash</i>	Trust Bank Ltd
8.	<i>M-cash</i>	Islami Bank Ltd
9.	<i>RBL Sure cash</i>	Rupali Bank Ltd
10.	<i>Sure Cash</i>	Bangladesh Commercial Bank Ltd
11.	<i>NCCB Sure Cash</i>	National Credit and Commerce Bank Ltd
12.	<i>First Pay Sure Cash</i>	First Security Islami Bank Ltd
13.	<i>TeleCash</i>	South East Bank Ltd
14.	<i>Hello</i>	Bank Asia Ltd
15.	<i>IFIC Mobile Banking</i>	IFIC Bank Ltd

Source: Bangladesh Bank Website. Accessed on: 18 August 2022

Of all the MFS providers, bKash is leading from the forefront with a 48% market share. bKash operates a network of over 200,000 agents in Bangladesh’s urban and rural areas, with over 50 million verified accounts. Even though Nagad joined late in the race in 2019, it ranks second with a 28% market share, 240,000 appointed agents, and 12,000 partnered merchants countrywide. Despite being the first MFS in Bangladesh, Rocket

ranks third with a 21% market share, 239,003 agents, and 16 million customers across the country.⁴ The detailed market share is given in Figure 2.

Figure 2: Market share of MFS in Bangladesh



Source: Bangladesh Bank 2021

The Role of different MFS providers during COVID:

bKash

The role of bKash during the pandemic can be divided into two major activities: prompt service delivery and CSR activities. In terms of service delivery, bKash has made its facility of paying utility bills and money transfers easier by introducing 24/7 add money from VISA and MasterCard. The company supported the government in distributing cash aid, allowances, and stipends in the shortest possible time.⁵ bKash distributed the cash aid from the Prime Minister to 1 million and 50,000 distressed families affected by COVID-

⁴ Latifee, E.A., & Tamanna, M.K.(2022).A Review of Mobile Financial Services in Bangladesh. *International Journal of Advances in Engineering and Management*. Vol.4. DOI:[10.35629/5252-0402870873](https://doi.org/10.35629/5252-0402870873)

⁵ Hasan, M. (2021). Mobile Money in the COVID-19 Pandemic. *The Daily Star*. <https://www.thedailystar.net/supplements/mobile-financial-services/news/mobile-money-the-covid-19-pandemic-2028889>.

19 without charging them the “cash out” money. The government bore Tk 15 cash out charge per Tk 2500 per family and the rest of Tk 31.25 was borne by bKash.⁶

bKash also delivered stipends to 12 lakh 60 thousand secondary-level students through 240,000 nearby agents without charging them cash out money. The MFS provider delivered the timely payment of salaries and festival bonuses to 10 lakh garment workers and various small and medium enterprises during the lockdown period.³ While delivering these services, bKash rendered a huge subsidy of over Tk 22 crore. As part of its CSR activities, in collaboration with its overseas partner Alibaba, bKash donated 300 ventilators along with 300,000 emergency medical toolkits (e.g., infrared thermometers, masks, and other protective gear) to the government. From its fund, the company also donated 30 ventilators to different government hospitals in Dhaka.⁷ The company played the role of a corporate frontliner during the emergency crisis. Kamal Quadir, the chief executive officer (CEO) of bKash, received the “Best E-cash/money & CSR award” at Global Business CSR Award-2021 for his CSR contribution during the pandemic.⁸

Nagad

Backed by the government, Nagad had a major breakthrough during the pandemic. The role of Nagad can also be divided into two major activities: prompt service delivery and CSR activities. Nagad introduced a payment gateway for feature phone users in terms of service delivery. By simply dialing *167#, feature phone users could create a Nagad account and make transactions from the menu bar.⁹ The company cut the cash-out charge to Tk 9.99 per Tk 1000, the lowest among all MFS providers in Bangladesh, and

⁶ bKash.com (2021). More Than 1 Million Covid-affected Families will Receive Prime Minister’s Cash Aid through bKash This Time. *bKash*. <https://www.bkash.com/node/4679>

⁷ Babar, M. (2021). bKash Helps Relieve Pandemic Pain. *The Daily Star*. <https://www.thedailystar.net/business/news/bkash-helps-relieve-pandemic-pain-2042801>

⁸ The Daily Star. (2022). bKash CEO Awarded for COVID-19 CSR Efforts. <https://www.thedailystar.net/city/news/bkash-ceo-awarded-covid-19-csr-efforts-2044849>.

⁹ The Financial Express (2020). Payment of Covid-19 Test Fees through Nagad Draws Huge Response. <https://thefinancialexpress.com.bd/trade/payment-of-covid-19-test-fees-through-nagad-draws-huge-response-1600344558>

made sending money and paying utility bills (i.e., gas, electricity, water, Internet, mobile recharge, etc.) free while other MFS charged Tk 5 to Tk 30 for each of these bills.¹⁰

Nagad was the only MFS that introduced low-cost mobile payments for COVID-19 sample test collection. Tk 100 was fixed for testing at centres and Tk 300 for home sample collection. As part of its CSR activities, Nagad donated Tk 60 lakh to the Prime Minister's Relief and Welfare Fund.¹¹ In FY2020-21, the government disbursed different safety net pay-outs such as allowances, stipends, and grants to 3 crore people through Nagad with utmost transparency.¹² Nagad won the World Information Technology and Services Alliance (WITSA) Global ICT Excellence Award 2020 as the first Bangladeshi MFS for its role in promoting financial inclusion.⁷

Rocket

Compared to bKash and Nagad, Rocket moved slowly. Rocket was launched by DBBL in 2016 to bring unbanked people of rural areas into mobile banking. Rocket has a special feature of cash out from any of the 5000 DBBL booths spread across the country.² Customers of Rocket owning DBBL accounts could cash out money at the cheapest rate of Tk 9 per Tk 1000 withdrawal during the pandemic. The MFS provider added 30 lakh customers during the pandemic from March 2020 to November 2020.

Other Players

The other MFS small players include Ucash, Mycash, OK Wallet, T-cash, M-cash, RBL Sure cash, Sure Cash, NCCB Sure Cash, First Pay Sure Cash, TeleCash, Hello, and IFIC Mobile Banking – all of which constitute 3% of market share only. With Nagad, bKash, and Rocket holding 97% market share in the market, these small players had little scope to play their roles during the pandemic.

¹⁰ BSS (2021). Minister Urges All to Use Nagad Service. *The Business Post*. <https://bangladeshpost.net/posts/minister-urges-all-to-use-nagad-service-58767>

¹¹ New Age. (2020). Nagad serves people during COVID-19. <https://www.newagebd.net/article/115761/nagad-serves-people-during-covid-19>

¹²BSS. (2021). Nagad Leads Digitization of Bangladesh's Financial Services. *New Age*. <https://www.newagebd.net/article/157813/nagad-leads-digitization-of-bangladeshs-financial-services>

The uptake of digital financial services (DFS) such as mobile banking is rapidly growing in developing countries, especially in Bangladesh, particularly among poor and marginalized people who had limited access to formal financial services previously. MFS providers, in association with NGOs such as BRAC, are also offering financial literacy to this group.

Social and Economic Cost of Using MFS

Although MFS secured remittance inflows into the country during the pandemic, money laundering occurred through MFS in the post-pandemic period. From June to September 2022, some Tk 25,000 crore was laundered through MFS by around 5,000 MFS agents, who collected the money through illegal hundi rackets to bypass the legal banking system¹³. In response, the central bank of Bangladesh, the Bangladesh Bank, has authorised MFS as a legal money transfer medium. MFS included the unbanked and under-banked rural population of the country in the formal economy. Besides that, MFS also introduced different services. As the MFS users mostly belong to the lower income group, it is essential to ensure safety and security of their money. For this, MFS providers must strengthen the compliance environment to keep the service risk-free.

Conclusion and Policy Recommendations

The COVID-19 pandemic paved a path of entry and market penetration for the DFS industry. Because of lockdowns, and strict physical distancing laws, DFS actors, banks, and the government made a massive shift from cash and bank payments to MFS. However, even though the COVID-19 pandemic elevated the use of MFS in the country, bKash and Nagad with a combined market share of 76%, created an oligopolistic market. The government's different incentives to draw new users to the platform, i.e., reduced cash out charge, paying utility bills free of charge, etc., give a strong competitive edge to Nagad over its competitors, especially the small players. On the other hand, bKash

¹³ TBS (2020). Hundi traders laundered Tk75,000cr in a year via MFS: CID. *The Business Standard*. <https://www.tbsnews.net/bangladesh/crime/hundi-traders-laundered-some-tk25000-crore-past-4-months-thru-mfs-cid-492410>

dominates the market by partnering up with different brands and corporations and offering discounts and cashback on purchases from these entities.

An oligopolistic market oppresses competition and creates an unhealthy environment for other competitors, especially the small players. The existing big actors and regulatory bodies (i.e., the Bangladesh Bank) should level the playing field for small actors by introducing a uniform cash-out charge for all actors and collaborating through introducing money transfers from one service to another, etc.

The government has a huge role to play in enhancing the DFS ecosystem in Bangladesh by creating mass awareness, enhancing digital literacy, and encouraging cashless payment among consumers. Even though Bangladesh has a state-owned MFS provider, the policies and programs should not affect any other player disproportionately. Moreover, DFS has the potential to improve the financial situation of underprivileged people. However, because of money laundering people may lose trust in MFS. It's good that the government took the initiative to approve MFS as a legal medium of remittance payment in order to prevent money laundering. To ensure that public funds are safe and secure, however, a monitoring cell should be in place to keep an eye on agents. To conclude, since Bangladesh shifted a major population from cash payment to digital payment during the pandemic, the DFS actors, banks, and the government should formulate policies and strategies to sustain the momentum by ensuring safety.