

# Financial Inclusion through Mobile Banking in Bangladesh

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## Current Events Analysis Series

### Purpose of the Report

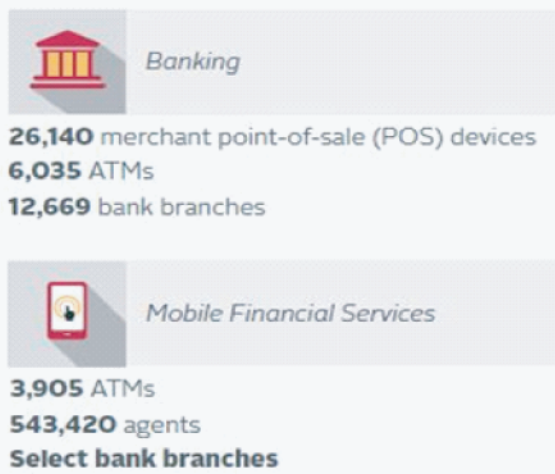
Mobile Financial Services (MFS) or Mobile Banking (or Mobile Money) as it is often interchangeably referred to, refers to a system whereby consumers can conduct financial transactions on a mobile device. Examples of such transactions include sending and receiving money, bill payments, salary disbursements, or sending money abroad. Mobile Banking in Bangladesh started in 2011 and has thus far seen phenomenal growth in terms of financial inclusion ('Mobile Banking takes financial services to unbanked population'). In a country where only 20 percent of adults have a bank account (or 40 percent if we include non-bank financial institutions), the poorer sections of society are clearly underserved by the traditional system of savings and financial intermediation. In this report, we examine some of the growth aspects of MFS, the benefits to the previously financially excluded, associated risks and finally the future outlook of the sector.

### Mobile Financial Services - Current State

According to the Planning Commission of Bangladesh (5<sup>th</sup> five-year plan for 2016-2020), despite the substantial expansion of bank branches and an increase in membership of Microfinance Institutions (MFIs), millions of citizens continue to remain financially excluded ("Mobile banking takes financial services to unbanked population"). The primary benefit of MFS lies in its potential to make basic financial services more accessible to the poor people of Bangladesh.

However, when it comes to mobile phone usage, there are 122 million subscribers - a penetration rate of more than 75 percent (Parvez, Islam, and Woodward). The purpose of MFS is not to replace branch banking. On the contrary, it exists to bring people under the banking services umbrella who are financially excluded for various reasons, such as, lack of rural bank branches, high fees, minimum transaction levels, fear of embracing the relatively complicated procedures, etc. Therefore, it is considered to be a collaborative process along with formal banking and microfinance services. In fact, MFS networks are particularly effective for people living in remote areas beyond the reach of the bank branch networks.

### How MFS compares to traditional banks



Source: USAID, mSTAR & fhi360

Several elements collectively contribute towards the proper functioning of an MFS operation: an enabling regulatory environment, a locally-adapted business model, a large agent network, adaptation of existing technology, institutional partnerships and user adoption - the last of which is the most important since it signifies whether the end-customers find value and use in the product. For most MFS providers, services offered include funds transfer, savings products, insurance products, bill payment (utility, education, etc.) and payment receipt (from employers, government,

etc.). As can be seen in the table below, mobile banking in Bangladesh is seeing incredible growth and this extraordinary progress is expected to continue.

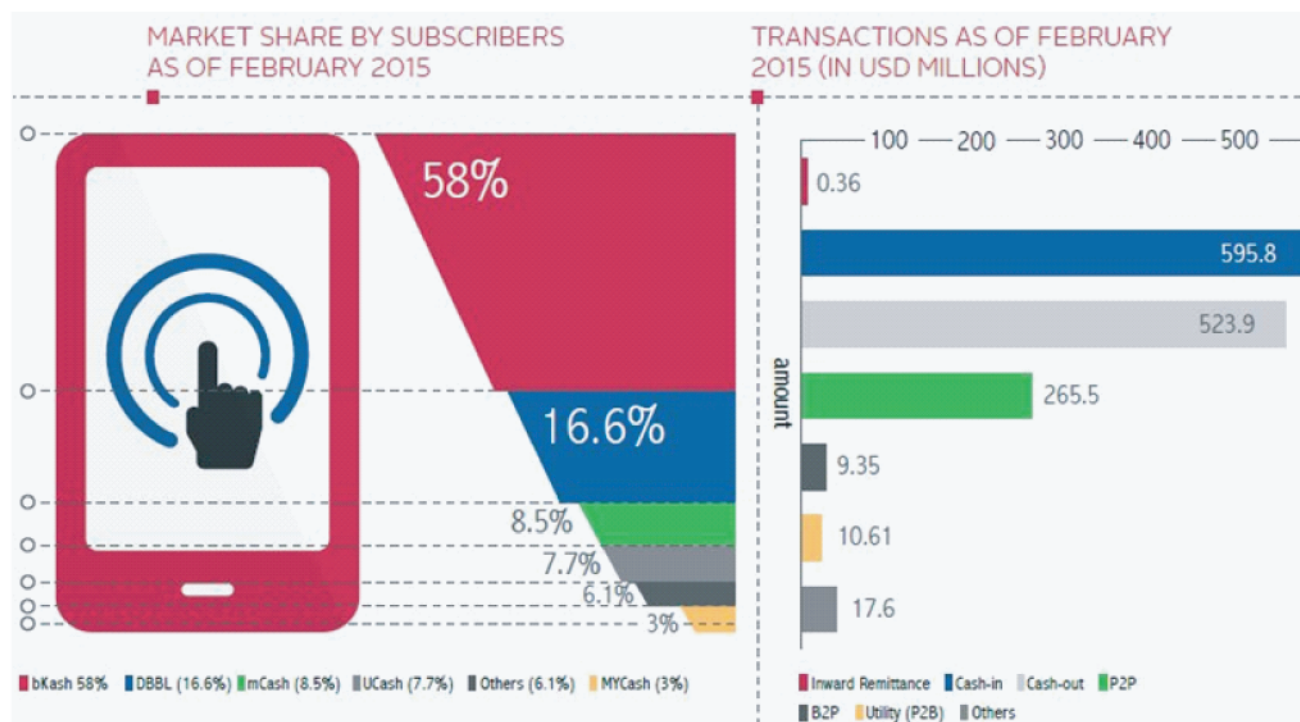
Key MFS Indicators	NUMBER OF AGENTS	NUMBER OF REGISTERED CLIENTS	NUMBER OF TRANSACTIONS	TRANSACTION VALUE
January 2013	0.060	5.00	10	\$301
December 2013	0.189	13.18	31.36	\$862
June 2014	0.414	16.7	44.01	\$1,110
December 2014	0.541	25.2	74.47	\$1,361
February 2015	0.543	25.87	76.99	\$1,423

*\*Numbers in millions \*Value in USD*

Source: USAID, mSTAR & fhi360

Twenty eight banks have been approved by Bangladesh Bank to provide MFS of which 20 have officially launched MFS. Of these, 10 already have mobile banking products in the market:

1. bKash (BRAC Bank)
2. DBBL Bank Mobile Banking (Dutch-Bangla Bank)
3. mCash (Islami Bank)
4. MYCash (Mercantile Bank)
5. UCash (United Commercial Bank)
6. IFIC Mobile Banking
7. Trust Bank Mobile Money
8. OK Banking (ONE Bank)
9. FSIBL FirstPaySureCash (First Security Islami Bank)
10. Hello (Bank Asia)



Source: USAID, mSTAR & fhi360

### B2B Transfers: Inward Remittance and Salary Payments

One of the most significant successes of mobile banking has been its role in facilitating the transfer of funds to remote areas of Bangladesh, particularly the option to send money at any time of the day ("Mobile Banking and Inward Remittances"). This has also eliminated the inconvenience of finding someone to physically carry the money back to the village, which can be a risky proposition (they could take off with the money or get robbed en route to the village).

In a study on savings patterns and remittances conducted by Professor Salahuddin M. Aminuzzaman of Dhaka University, the findings were as follows:

- ◆ Of the 461 rickshaw pullers surveyed , 76 percent said they sent money via mobile phones
- ◆ More than 51 percent of the recipients were parents and family members; 31 percent were spouses
- ◆ Contrary to expectations, older rickshaw pullers (35-40yrs) send higher amounts of money (Tk. 1,060). In terms of representation, the 45-50 age group made up 20.3 percent of the sample size
- ◆ In terms of geographic data, rickshaw pullers from the *monga*<sup>1</sup> -hit areas of Rangpur and Kurigram were the highest senders of cash per week (Tk. 1,110).
- ◆ The money received by the families of the rickshaw pullers was spent as follows (the survey respondents were allowed to choose multiple expense items):
  - Food expenses and family maintenance (75%)
  - Investments, including land purchases (35%)
  - Small business financing (32%)
  - Children's education (31%)
  - Loan repayment (unspecified amount)

With 31 percent spent on children's education, this is an encouraging step towards reducing illiteracy in various districts of Bangladesh. One such rickshaw puller mentions that when he goes home now, he only carries with him the bus fare and a little extra spending money. This adds to security as many of them are at risk of getting robbed.

According to Power and Participation Research Center (PPCR), research has shown that in the past, families would struggle to cope financially when the sole breadwinner was not living them ("76% of Dhaka's rickshaw-pullers send home money by cell phone"). However, owing to mobile banking, distance is no longer a hurdle when it comes to sending back money. What would take days before (people sending money through family and others from the city to the villages risking theft and muggings) can now be completed in a matter of minutes. PPCR executive chairman, Hossain Zillur Rahman states that this embrace of technology is also an example of people's empowerment.

Another widespread benefit of MFS is the practice of Business-to-People (B2P) payments which businesses use to pay their employees. Prior to the introduction of Person-to-Person (P2P) and B2P services, salary disbursements would be a tedious process for some industries ("Salary disbursement through mobile banking gains popularity"). Garments workers for example, had to queue for hours to draw their monthly salary. With the adaptive use of MFS, salaries are now deposited into the workers' accounts instantly. Because the money is in their accounts, these workers are also less likely to spend it quickly, leading to savings. According to former Bangladesh Garments Manufacturers and Exporters Association (BGMEA) president, Abdus Salam Murshedy, mobile payments make salary disbursement easier, save time, reduces the tension of the workers while at the same time save companies' time, money and resources. The practice of salary disbursement through B2P increased by 18.9 percent in January, 2015 from December, 2014.

<sup>1</sup>. *Monga is a Bengali term referring to the yearly cyclical phenomenon of poverty and hunger in Bangladesh.*



## All good and revolutionary, but what are the risks?

While MFS has revolutionized the financial inclusion process, the system has its share of risks which are perhaps not sufficiently discussed. According to the General Manager of the IT department of a private sector bank in Bangladesh, there are notable security concerns involved in inward remittances via MFS.<sup>2</sup> These include terrorism financing by way of cluster transactions at bank branches, money laundering and even paying bribes. Because mobile banking operates on PIN-based applications, there are no screening systems available to verify transactions (something that would be possible for a system using internet based applications). As a result, there are occasions where the customer tried to send money through an agent and the person on the other end did not receive it. The agent denies any wrongdoing which is impossible to prove. Banks use stringent screening processes using what they call a Surveillance Transaction Report (STR) which uses a strong pattern algorithm which alerts them of any suspicious activity. However, it is too expensive to employ these measures at MFS levels.

There are also distribution risks involved. According to a distributor for an MFS provider, the biggest risk in mobile money is still physically moving the money from place to place.<sup>3</sup> Robberies are very common when the money is en route to or from the agent. In fact, they are so prevalent that insurance companies are no longer interested in insuring the agents' money. Security companies and banks are willing and able to invest in insurance of armoured transportation but for agents and distributors for MFS, these costs are not worth the revenue they earn. As a result, the responsibility for the lost money lies with the agent or the distributor (depending on who is sending the money). In addition, factors such as influence with the police and the villagers (in the locality where the agents and distributors operate) matter significantly in reducing these risks.

## Future Outlook

Despite the risks, mobile banking is starting to improve the lives of many of the financially excluded citizens of Bangladesh. It has led to savings for many, quick and easy money transfers to their loved ones and from their employers, and easy access to cash at locations all over the country thanks to the vast distribution networks of MFS providers. According to Kamal Qadir, CEO of bKash, having a large customer base will lead to greater benefits as the ecosystem becomes more robust. Inter-operability between the telecom providers will give the clients fully integrated services. Growth will depend on how effectively and creatively people are engaged to use the services on offer. Finally, at the moment, mobile wallet<sup>4</sup> penetration is still relatively low - most customers conduct their transactions through agents. Even though the benefits of using mobile wallets are substantial, opening an account involves going to an agent, having a national ID and completing a form with 21 questions, which, for many potential MFS users, can be a hassle. For such users, the hassle is not justified because they do not have the need to store money or make an airtime purchase in the middle of the night or send money to relatives at any random hour. These are challenges which will gradually be addressed. However, the pace at which that happens depends on how effectively the various players involved in the MFS system play their roles in internalizing the value of adapting to mobile wallets.

<sup>2</sup> Primary Research, using Key-informant Interviews (KII) conducted by the author

<sup>3</sup> Ibid.

<sup>4</sup> The mobile wallet, which is also called mWallet, digital wallet, or eWallet, refers to a mobile technology that is used similarly to a real wallet. The Mobile Wallet provides a convenient solution for any business looking to allow customers to purchase their products online with greater ease, therefore driving sales. As mobile use grows rapidly, users begin to go online more often via mobile and even shop via mobile. With the mobile wallet, it is possible to hold all of the items that a physical wallet would carry on your mobile device.

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