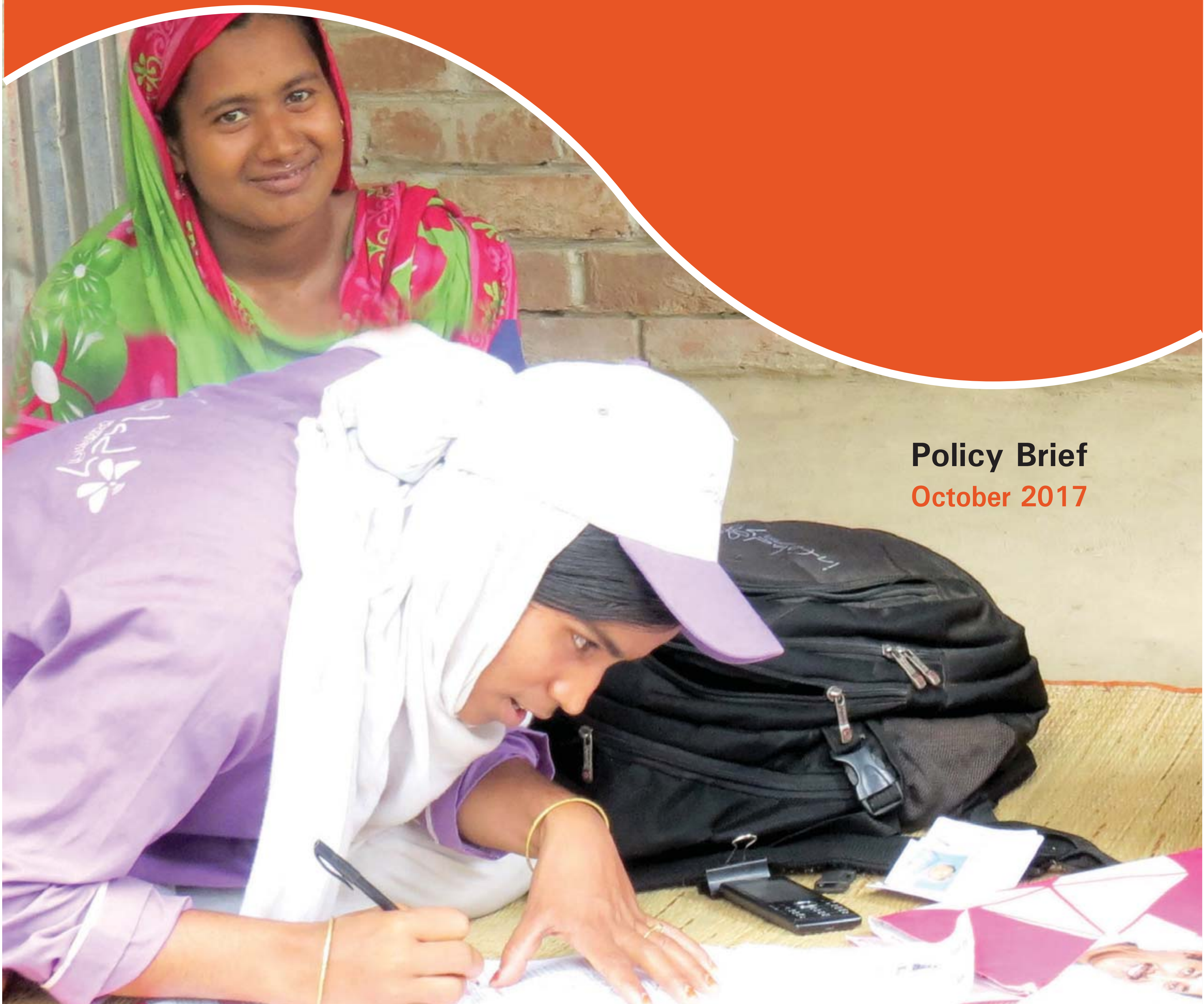
UNCDF | SHIFT
SHAPING INCLUSIVE FINANCE TRANSFORMATIONS

Advancing Access to Digital Financial Services in Bangladesh: Regulatory Agenda



Policy Brief

October 2017

Shaping Inclusive Finance Transformations (SHIFT) in Bangladesh

ABOUT SHIFT SAARC

The Shaping Inclusive Finance Transformations for the South Asian Association for Regional Cooperation (SHIFT SAARC) countries is a regional market-facilitation initiative with the aim to improve livelihoods and reduce poverty rates in SAARC countries by 2021. The initiative seeks to stimulate investment, business innovations and regulatory reform to expand economic participation and opportunities for women, and help small and growing businesses to be active agents in the formal economy.

SHIFT SAARC is currently being implemented in Bangladesh where it focuses on accelerating the uptake and usage of DFS to respond to the needs for expanding financial inclusion through digital pathways as described in the Government of Bangladesh's (GoB) Seventh Five Year Plan 2016-2020.

SHIFT SAARC in Bangladesh aims at expanding the rate of digital accounts uptake, especially among women and small businesses by 2019 through two streams of intervention, one looking at policy and regulations and the other looking at merchants' acceptance. UNCDF aims to stimulate investment, business innovations and regulatory reform for promoting digital financial inclusion to expand economic participation and opportunities for low-income people, especially women, and small and growing businesses to be active agents in the formal economy. This is expected to contribute to increased growth in income and employment, reduced vulnerability to shocks and lower poverty levels contributing to the successful transitioning of Bangladesh from Least Developed Country (LDC) to Middle Income Country (MIC) by 2021.

ABOUT UNCDF

UNCDF makes public and private finance work for the poor in the world's 47 least developed countries. With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's financing models work through two channels: financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localized investments—through fiscal decentralization, innovative municipal finance, and structured project finance—can drive public and private funding that underpins local economic expansion and sustainable development. By strengthening how finance works for poor people at the household, small enterprises, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different SDGs.

BACKGROUND

Accelerating financial inclusion through digital pathways requires regulatory framework that reflects supportive policies for inclusive finance and greater efforts to increase uptake of digital accounts. The Shaping Inclusive Finance Transformations for the South Asian Association for Regional Cooperation (SHIFT SAARC) countries is focusing its efforts on specifically removing market constraints through enabling regulatory reforms. In Bangladesh, the Government has repeatedly emphasized on the potential of DFS for financial inclusion, and accordingly the regulatory framework to accelerate DFS needs toaccommodate appropriate provisions. In this context, UNCDF's SHIFT in Bangladesh project has undertaken a regulatory self-assessment research on the current DFS regulatory ecosystem in Bangladesh. This study took a 360^0 scan of the DFS regulatory ecosystem looking at regulations, macro-platforms, supply side capability, willingness and challenges, demand side readiness, knowledge and expectation etc.

The undertaking held a series of consultations with concerned stakeholders, sought and received written feedback from the concerned stakeholders and moreover a validation workshop was held in collaboration with Bangladesh Bank. Based on the desk research, consultations, written feedback and feedback from the validation workshop the regulatory self-assessment report and the policy brief have been produced. The key objective of the regulatory self-assessment study was to help DFS regulator to take stock of the DFS regulatory ecosystem and to identify areas for improvements. The policy brief is the outcome of the study and it contains well thought out recommendations for policy reforms and other measures in the existing DFS regulatory ecosystem which will encourage greater investment and innovation to achieve broader and deeper financial inclusion.

ACKNOWLDGEMENTS

As a part of a larger research project, this paper owes credit and thanks to all those who participated in the research process for helping to shape the overall approach to advancing digital financial services in Bangladesh. In specific, we are deeply appreciative of the partnership with the Bill and Melinda Gates Foundation, the Bangladesh Bank and MicroSave without whom this policy brief would not be made possible.

We are also grateful to those individuals who have provided extensive review and comments to this policy brief including SungAh Lee and Lynn Eisenhart of the Bill and Melinda Gates Foundation; Dr. Mustafa K. Mujeri of Institute for Inclusive Finance and Development, Bangladesh; Professor Dr. Shah Md. Ahsan Habib of Bangladesh Institute of Bank Management, and; Md. Ashraful Alam of UNCDF.

AUTHORS

Dr. Ana Klincic Andrews and David Cracknell

DISCLAIMER

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Acronyms

AFI	Alliance for Financial Inclusion
AML	Anti-Money Laundering
BB	Bangladesh Bank
BIBM	Bangladesh Institute of Bank Management
BMGF	Bill and Melinda Gates Foundation
BTRC	Bangladesh Telecommunications Regulatory Commission
CFT	Counter Financing of Terrorism
DFS	Digital Financial Services
FCA	Financial Conduct Authority
FDIP	Financial and Digital Inclusion Project
FinTech	Financial Technology
GDP	Gross Domestic Product
InM	Institute for Inclusive Finance and Development
KYC	Know Your Customer
LDC	Least Developed Country
MIC	Middle Income Country
MFS	Mobile financial services
MNO	Mobile Network Operator
NID	National Identification Card
OTC	Over-The-Counter
OVD	Officially Valid Documents
P2P	Person-to-Person
PoI	Proof of Identity
PoA	Proof of Address
SHIFT	Shaping Inclusive Finance Transformations
SAARC	South Asian Association for Regional Cooperation
SDG	Sustainable Development Goals
USSD	Unstructured Supplementary Service Data

Executive Summary

Government of Bangladesh has given priority to digitization of government services and to use digital pathways to achieve accelerated growth. Bangladesh has established itself as one of the vibrant mobile money country in the world.

Further streamlining and easing of DFS regulatory regime would produce transformative change in financial inclusion space of Bangladesh. The self-assessment based DFS regulatory ecosystem study process six key recommendations to bring transformational changes in the DFS ecosystem in Bangladesh

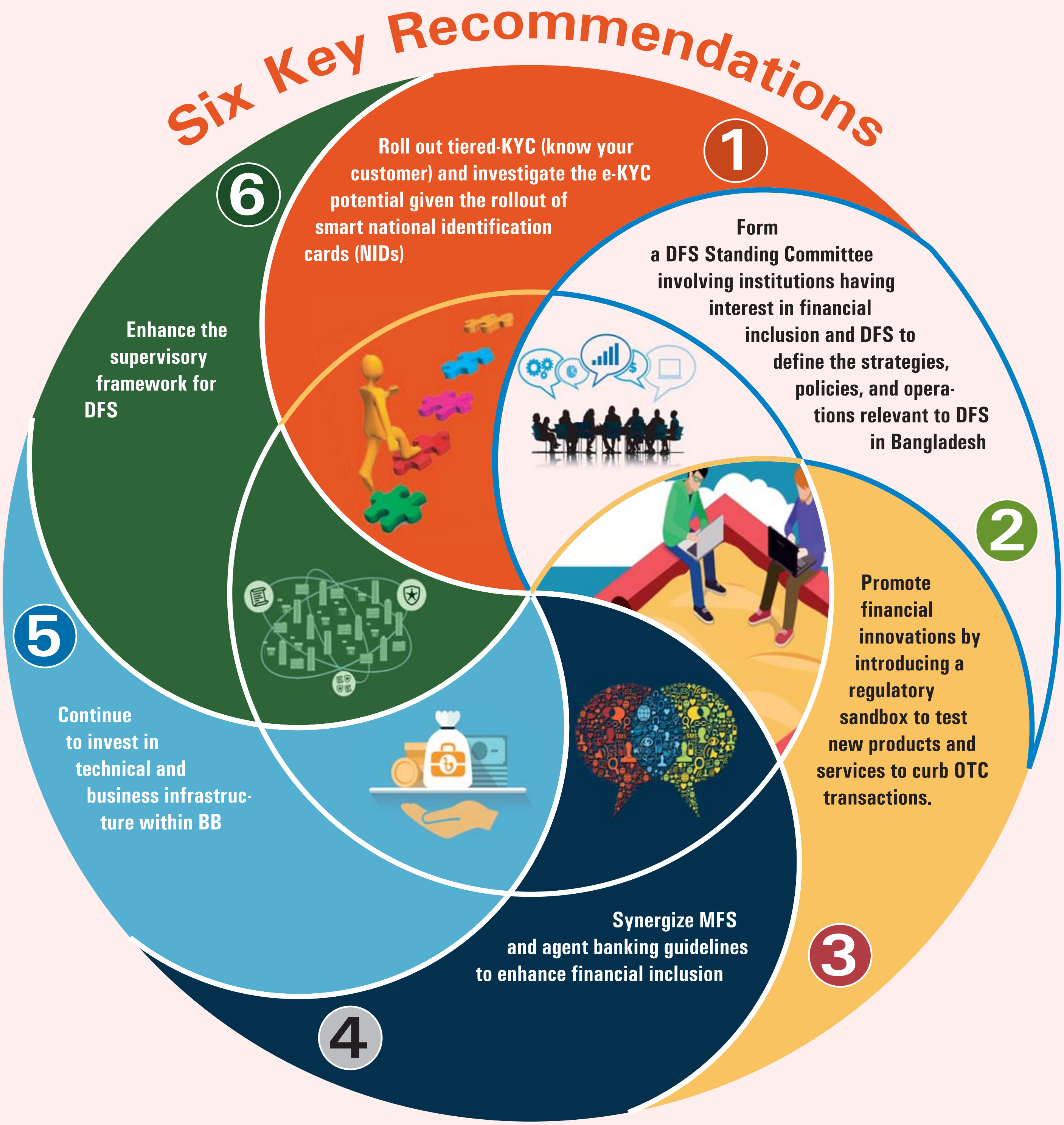
Increasing access to financial services through digital financial accounts is crucial for the government of Bangladesh. Financial inclusion promotes economic growth by enabling people to diversify their portfolios and meet their cash liquidity requirements. Given the expansion of mobile money and agent banking in Bangladesh, the case for promoting digital financial services (DFS) is strong. The government has thus laid out an ambitious agenda to build a seamless digital economy to enhance productivity, spur financial inclusion, and reduce poverty. This is the time to accelerate and deepen DFS.

Mobile technologies and DFS have been growing in Bangladesh. For example, mobile technologies and services generated 6.2 percent of the country's GDP in 2015, a contribution that amounted to around US$13 billion of economic value. In the same year, mobile operators and the ecosystem provided employment to more than 760,000 people across Bangladesh. Mobile financial services (MFS) guidelines have helped establish this market. Although the sustained efforts of a few financial services providers have contributed to the expansion of DFS, two providers continue to dominate the market. Further, while the government is responding to the emerging national interest to improve market competitiveness by introducing agent banking, some aspects of the MFS regulatory guidelines such as ownership structure, the role of non-bank entities, investment promotion, and unstructured supplementary service data (USSD) pricing have yet to be addressed.

Nonetheless, DFS have been given high priority in Bangladesh, as manifested by their inclusion alongside digital payment systems in the country's seventh five-year plan, the creation of a special working group on DFS in the Prime Minister's Office, and formation of the Payment Systems Department responsible for MFS and payment systems regulation. The development of the National Financial Inclusion Strategy will harmonize efforts to achieve financial inclusion by, among other things, accelerating DFS.

The barriers to the providers including duplicate regulatory regimes are being streamlined to open markets further and improve the ability of providers to compete. Moreover, space for innovation in DFS has been created by the regulators with agent banking among recent innovations.

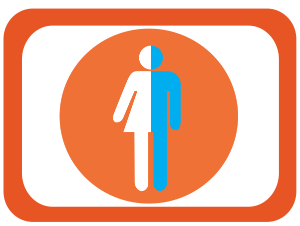
This Policy Brief examines the MFS regulatory landscape in Bangladesh to cultivate an enabling environment for accelerated DFS to achieve universal financial inclusion in the country. The brief suggests six practical policy recommendations for regulators and policymakers to help accelerate and deepen DFS in Bangladesh.


Six Key Recommendations
1
Roll out tiered-KYC (know your customer) and investigate the e-KYC potential given the rollout of smart national identification cards (NIDs)
Form a DFS Standing Committee involving institutions having interest in financial inclusion and DFS to define the strategies, policies, and operations relevant to DFS in Bangladesh
2
Promote financial innovations by introducing a regulatory sandbox to test new products and services to curb OTC transactions.
3
Synergize MFS and agent banking guidelines to enhance financial inclusion
4
5
Continue to invest in technical and business infrastructure within BB
6
Enhance the supervisory framework for DFS

BANGLADESH DFS CONTEXT

Bangladesh has achieved tremendous growth in mobile money uptake yet lagging behind in usage

Bangladesh is a success story of MFS worldwide. The available data show that from the introduction of mobile money in 2012 to 2017 more than 37 million people signed up. Over the past five years, improvements in the regulatory environment, coupled with the promotion of information and communication technologies, have led to growth in the number of mobile money subscribers. This growth has been primarily driven by the green- fielding bKash and to a lesser extent Dutch Bangla Bank. Nonetheless, 57 percent of the population do not have a financial account, and of the 43 percent that do, only 33 percent have a mobile account. Moreover, only 9 percent have it registered and only 8 percent use it actively. The registration of bank users has been averaging at 18 percent over the past five years; further, the uptake of mobile money steadily rose from 3 percent in 2013 to 9 percent in 2015, which is significant considering that mobile money is not a full-fledged banking service in Bangladesh and is predominantly used for cash-in and cash-out transactions. This rise in the uptake of mobile money may signal that non-banking consumers prefer mobile phones as payment instruments compared with accessing formal banking services.



Significant gender gap in mobile phone ownership & MFS uptake exist

In parallel, the active use of mobile money rose from 3 percent in 2013 to 8 percent in 2016 compared with bank use that, albeit steady at 12–13 percent over the past five years, has not been rising. However, despite the growth in mobile money accounts, most user transactions (95 percent) are still person-to-person (P2P) with only 15 percent of customers using mobile technologies for advanced activities such as bill payments and loan activities, suggesting that these services are either unavailable or that customers do not need or know about them. Additionally, DFS have not yet been optimized to expand financial services to women and the poor. Indeed, the significant gender gap in mobile phone ownership (only 46 percent of women own a mobile phone compared with 76 percent of men) might explain why women are not yet benefiting from MFS.

Moreover, undocumented cross-border remittances and over-the-counter (OTC, or agent-assisted) transactions persist, averaging 86 percent of all mobile money transactions , which signals a lack of monitoring and appropriate supervision to curb the practice as well as the failure of providers to convince and educate customers about the benefits of the registered use of mobile money accounts compared with OTC transactions. As a result, customers in Bangladesh do not fully benefit from mobile money use and are not empowered to do so.

Despite impressive growth of few innovations like bKash and Rocket, DFS has not taken a good shape and the market is yet to deepen its reach to rural poor and women

The current regulatory ecosystem represents missed opportunties both for regulators and private sector in offering full benefits of DFS to the clients

Interestingly, despite the strong business case for the introduction of DFS and growing evidence of an increase in DFS uptake by consumers, market efforts to expand product offerings and provide financial services through digital means have been insufficient. Undoubtedly, financial institutions have evolved their business practices and influenced the market by for example increasing access to financial services for 37 million people. However, apart from initial MFS innovations such as bKash and the recent introduction of agent banking, no other breakthrough innovations in the DFS ecosystem have been presented in Bangladesh. In turn, the acceleration of DFS products and services has not taken hold and the market is yet to deepen its reach.

Hence, the current situation represents a large missed opportunity both for regulators and for providers that have yet to embrace DFS to rapidly expand financial inclusion and offer consumers the full benefits of electronic financial services. This situation jeopardizes the potential for DFS to grow and harms opportunities for the rapid expansion of financial inclusion. Therefore, besides creating a greater value proposition for customers to use digital money the regulator must shift focus from “access” to “use” and “value,” which requires a push on multiple fronts (e.g., agent networks, pricing guidelines, better user interfaces). The Bangladesh Bank (BB) (the central bank of Bangladesh) is well positioned to motivate and influence changes in Bangladesh and pave the way towards universal financial inclusion through DFS.

Brookings Financial and Digital Inclusion Project — Box 1

The Brookings Financial and Digital Inclusion Project (FDIP), launched in 2014, examines access to and the usage of secure, affordable formal financial services among underserved populations to provide information that can help drive financial inclusion in these countries. The FDIP looks at 26 countries across four dimensions of financial inclusion: country commitment (which examines the role of national regulators or other public sector financial inclusion authorities), mobile capacity (which examines mobile infrastructure and adoption as well as indicators specific to mobile money such as mobile money-enabled P2P payments and bill payments), regulatory environment (which examines agent banking, non-bank-led MFS deployment, e-money regulations, mobile money platform interoperability, cash-in/cash-out capability at agent locations), and the adoption of traditional financial services and DFS (which examines the penetration of traditional accounts, digital services links to traditional formal financial institutions and mobile money accounts with a special focus on female, low-income, and rural individuals). Overall, the FDIP ranks Bangladesh as 16th among the 21 countries surveyed with a score of 67 percent, signaling that it still has a way to go towards achieving financial inclusion; however, its commitment to financial inclusion scores at 94 percent, ranking it on par with Mexico, Peru, and the Philippines (however, slightly lower than India, which scores 100 percent). In terms of mobile capacity, Bangladesh scores 94 percent, placing it alongside Indonesia, Kenya, and Rwanda. Further, its regulatory environment score is 78 percent, placing Bangladesh in 17th place alongside South Africa and Turkey. This score indicates that Bangladesh can still make improvements to its enabling environment. In terms of adoption ranking, Bangladesh ranks low, at only 40 percent.

POLICY PRIORITY RECOMMENDATIONS

1

Roll out tiered-KYC (know your customer) and investigate the e-KYC potential given the rollout of smart national identification cards (NIDs)

KYC requirements, albeit necessary, can be a barrier to financial inclusion, especially if providers are unable to scale up anti-money laundering (AML)/KYC regulatory mandates among the low-income population and individuals are unable to meet KYC requirements. Overly complex and fragmented AML/KYC processes lead to inconsistent data capture and prevent the hard-to-reach poor from accessing and using formal banking services.

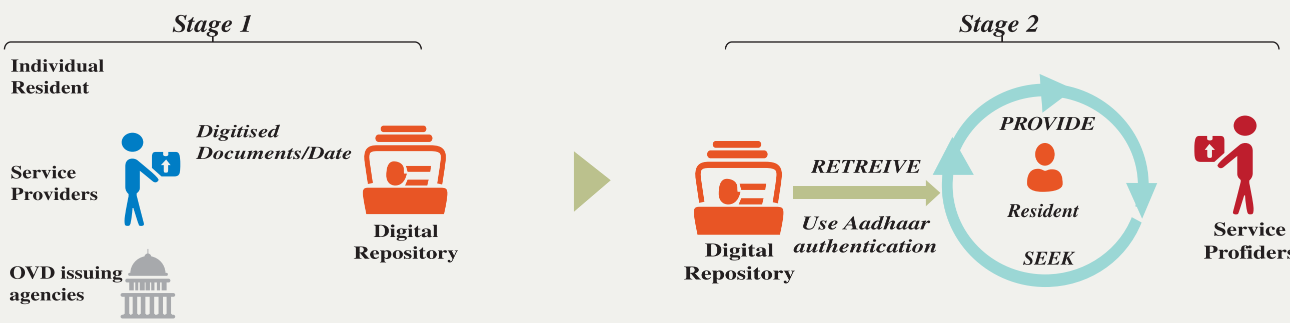
To enhance financial inclusion, BB should consider introducing a tiered-KYC regime that will ensure flexible account opening requirements for low-value accounts. However, for medium and high-value accounts, the KYC regime should increase progressively in proportion to account risk and use. By introducing a tiered-KYC regime, BB will remove access barriers and encourage banks to push account opening among the hard- to-reach, disadvantaged, and rural poor and women specifically. BB should formulate a robust KYC standard to both ensure better customer verification and increase customer convenience.

Finally, against the backdrop of the national issuance of smart National Identification Cards (NID) by 2019, the banking sector will be able to move from current paper-based identify verification to digital-based identity verification (i.e., e-KYC). In other words, banks will be able to automatically check demographic data against the national ID system to verify customers' identity which will facilitate fast account opening for all customers and streamline the customer registration and acquisition process. Indeed, although the new NID scheme will take longer to reach ultra-poor citizens, this is no barrier to e-KYC, as e-KYC practices can be conducted on the current NID system if MFS providers have access to the NID database and regulators allow the electronic capture of data.

Before issuing guidelines for the e-KYC regime, BB should first undertake an in-depth feasibility study to examine market readiness and options. Additionally, by conducting a small controlled pilot, it may be worthwhile testing the use of NIDs for e-KYC with one or two commercial banks before e-KYC rules are imposed on the entire banking sector. BB could also consider identifying common protocols for providers for the reference/use of national assets that exist (or will be developed) in Bangladesh, such as NIDs/other identities, interface design (yet to be developed), and customer protection.

International experiences of e-KYC learnings from India

Box 2



Stage 1: Basic PoI and PoA (national identity cards) as well as advanced (IT returns, bank account transactions) resident information can be fed into a centralized digital repository directly by residents themselves, by service providers (e.g., banks, Mobile Network Operators (MNOs), universities), or by official document-issuing authorities (e.g., the Passport Office).

Stage 2: Any provider will be able to seek the information stored in the digital repository. Residents can provide access to their digital repository data by using Aadhaar authentication

The proposed e-KYC system will make paper-based information redundant and ease access to customer information. To increase customer uptake, the government of India plans to introduce supporting initiatives such as DigiLocker (a national platform for the issuance and verification of documents and certificates digitally, thus eliminating the use of physical documents)

Source : Micro Save

2

Form a DFS Standing Committee involving institutions with an interest in financial inclusion and DFS to define the strategies, policies, and operations relevant to DFS in Bangladesh

Two regulators significantly influence DFS and financial inclusion in Bangladesh, namely BB and the Bangladesh Telecommunications Regulatory Commission (BTRC), coupled with several other government institutions. MFS sector growth demands direct or indirect coordination with mobile network operators (MNOs). Given the synergies and complexities involved in promoting, regulating, and supervising DFS, by working together, these two regulators can agree on unified and aligned provisions under regulatory frameworks such as KYC as well as licensing and reporting requirements to help remove the ambiguities in the guidelines and ease regulatory compliance. Thus, regulatory coordination between BB and the BTRC is indispensable for promoting the DFS market in Bangladesh. Further, such coordination should include representatives of other government institutions interested in DFS. Greater coordination can be achieved by:

1. Forming a Standing Committee on DFS and financial inclusion comprising representatives of these bodies with a responsibility to define the strategies, policies, and operations related to the promotion, regulation, and supervision of DFS and financial inclusion. Such a body would not only provide a useful coordination mechanism among the different entities working on DFS but also provide the necessary momentum and buy-in from senior officials. The Standing Committee could, for example, take immediate actions on the following issues:

- Promulgate a DFS vision within the bank to identify and establish a common DFS and financial inclusion agenda for the country.

- Redefine the norms of USSD pricing and accessibility to provide a level playing field for DFS providers. Such regulation may look to set minimum quality standards and pricing rules (e.g., requiring that USSD prices are applied in a non-discriminatory fashion) to foster healthier competition.

- Agree to establish a Regulatory Sandbox to encourage market actors to innovate DFS (e.g., test savings, deposit, credit, and insurance products in a controlled environment) to raise DFS volumes and accelerate DFS nationally.

- Set interoperability goals for the financial sector in Bangladesh by identifying the degree of interoperability needed given the strategic imperatives of BB and promulgate guidelines on interoperability. On the industry front, there has been limited demand to promote interoperability largely because of the highly monopolistic characteristic of the MFS market. Furthermore, the National Switch is neither PCI-compliant nor EMV-certified, and nor does it have in-built dispute mechanisms. BB should mandate all banks to become members of the National Switch in a time-bound manner. Banks failing to do so should be penalized for non-compliance. BB should also link MFS with the National Switch to allow Bangladeshis to realize the full benefits of MFS for remote payments. This could also play a key role in encouraging customers to shift from OTC to self-conducted transactions.

2. Forming a DFS coordinating department within BB. Among the departments involved in DFS (e.g., Financial Inclusion Department, Payment Systems Department, Sustainable Finance Department, Bank and Financial Intelligence Unit), BB should consider forming a coordinating department for DFS activities to strengthen coordination and timely implementation across departments, thereby reducing duplication of efforts. Additionally, stronger coordination would remove any information asymmetries among departments. For example, departments could jointly examine and agree on the norms for DFS including MFS and agent banking and supervisory protocols.

3

Promote financial innovations by introducing a Regulatory Sandbox to test new products and services to curb OTC transactions

A Regulatory Sandbox, an approach to test business models , products, and services within a specific set of regulatory conditions, can solve the conundrum of spurring innovations while managing regulatory risks and concerns. The regulator has thus far been able to shield banks and citizens from the more damaging effects of undocumented remittances and the high number of OTC transactions by limiting transaction amounts and introducing KYC policies; however, the high number of OTC transactions pose a risk to the stability of the banking sector.

Against this backdrop, the introduction of a Regulatory Sandbox can be a useful mechanism to support the evolution of innovative DFS products/services and business models to reduce and gradually phase out OTC transactions without disturbing the market. Additionally, a Regulatory Sandbox can be particularly useful to test new financial products and services, as no MFS providers currently offer savings and credit products. A Regulatory Sandbox can be particularly effective as reputable providers are more likely to commit resources to launch new products or models if the regulator creates an environment of experimentation and innovation within a protective legal framework.

Further, the Sandbox approach would allow innovators to test products/services in live environments without some or all of the legal requirements (subject to predefined conditions). In turn, regulators could analyze the impact, safety, and robustness of the business model, services, or products to further inform DFS policies in Bangladesh. Specifically, a Sandbox approach can allow providers to test savings, deposit, credit, and insurance products in a controlled environment as well as work on interfaces beyond USSD, using both Sim Application Toolkits and application-based environments through regular interactions.

Regulatory Sandboxes: International Experiences — Box 3

Australia : To enable financial and non-financial institutions to experiment with financial technology solutions and support financial service innovations, the Australian Securities and Investment Commission launched its FinTech Regulatory Sandbox in 2016. Eligible businesses can test a range of financial or credit services with up to 100 retail clients and unlimited wholesale clients for up to 12 months without seeking approval from the Commission.

Malaysia : Bank Negara Malaysia (the central Bank of Malaysia) aims to support innovations that have the potential to improve the efficiency, accessibility, and quality of financial services together to enhance risk management among Malaysian financial institutions and open new investment opportunities. It has approved four FinTech firms to operate within a Regulatory Sandbox. These firms will be able to launch their services within the limits set by the Central Bank. Bank Nagara has also created a Financial Technology Enabler Group to oversee the entry of technological innovations in financial services.

United Kingdom: The Financial Conduct Authority (FCA) in 2014 started Project Innovate to provide innovators with “safe spaces” to test innovative products, services, business models, and delivery mechanisms in live environments ensuring adequate consumer protection. Altogether, 69 firms applied, of which 24 met the Sandbox eligibility criteria. The FCA encouraged applications from both start-ups and well-established firms. It announced the second Sandbox round in 2017.

4

Synergize MFS and agent banking guidelines to enhance financial inclusion

To expand financial services, the regulator has allowed for the introduction of agent banking, which can be considered to be a financial innovation in Bangladesh to some degree. Agent banking brings full-fledged formal banking services into the reach of the poor, rural, and hard-to-reach population segments, whereas MFS do not have the features of traditional banking services, being a payment instrument in Bangladesh. As a result, the regulator has introduced greater compliance requirements for agent banking compared with MFS. It has also strengthened the surveillance of agent banking activities, especially given that such banking will influence the structure of financial markets, financial behaviors of consumers, and types of financial products traded.

Both agent banking and MFS focus on expanding financial services to the poor, rural, and hard-to-reach populations, but their respective guidelines significantly overlap and there is a lack of differentiation between the two. Hence, there has been a poor uptake of agent banking among providers. Consequently, the regulatory provisions between agent banking and MFS guidelines should be synergized to remove any uncertainty and ambiguity in interpretation among stakeholders. The regulator can:

- Strengthen those elements of the MFS guidelines to support tiered-KYC and other account opening requirements proportionate to risk; introduce regulations governing DFS consumers; make e-money licensing available to non-bank entities and regulate digital money; and introduce policies that foster competition.
- Align KYC, licensing, reporting, dispute resolution mechanisms, and consumer protection principles between the two guidelines.
- Review the scope of the guidelines as well as refine and finetune them with financial inclusion in mind. For example, current MFS regulations provide insufficient guidance on the liquidity management, data security, data privacy, and risk management systems to be adopted by providers.
- Review supervisory practices and streamline on-site and off-site supervision across agent banking and MFS. Supervision must ensure that service providers have adequate systems, insurance and security arrangements to address the issue associated with consumer protection.

5

Continue to invest in technical and business infrastructure within BB

The financial services and payment system markets are changing rapidly. From a regulatory perspective, promoting efficiency as well as competition in these markets, consistent with the overall stability of the financial system, is paramount. Since DFS will continue to be influential in Bangladesh, BB must enable continuous sustainable development in the DFS sector. Therefore, regulators should invest in technical and business infrastructure to enable them to continue operating to the appropriately high standards as well as adequately respond to the changing needs of Bangladesh's financial market. To that end, BB can consider:

- Including DFS among BB's strategic priorities in the next Strategic Plan and outlining its key actions to grow the sector. By so doing, BB will further signal its commitment and seriousness about the DFS sector as a vehicle for financial inclusion.
- Investing in the capacity development of BB employees and officials, especially those directly linked with payment systems and DFS, to remain up-to-date with new developments that have a bearing on the DFS market. In the immediate term, BB can consider establishing interoperability training programs (type, nature, purpose, definition, models, advantages and disadvantages of each model, back-end technology, and technical aspects of interoperability). It can also study Bangladesh models in which customers have access to multiple options to improve the ability to institute adequate monitoring systems.
- Commissioning relevant research and evaluate current DFS experiences to inform decision making in partnership with development partners. Some topics can include:
    - A customer journey study highlighting customers' experiences of the critical processes that are instrumental in pushing adoption and uptake such as KYC, financial education, interoperability, and user interfaces.
    - Studying financial needs among various market segments (e.g., rural, urban, women) towards identification and development of suitable financial products.
    - More use-case research for specialized products and mass market platforms for the identification of risk and fraud at the client, agent, and institutional levels.
    - Studying the uptake challenges that women face in using DFS to inform ways to promote the greater adoption of DFS by women.
    - Identifying the appropriate design for a national DFS financial education program including a strategy outlining its delivery mechanism, partnerships arrangements, funding sources.

- Engaging and initiating public debate and discussion on DFS issues. BB should also consider increasing its proactive interactions with both the market players and other non-DFS government departments (such as the Department of Education, Microfinance Regulatory Authority, and others). This will improve the promotion of DFS across economic and social sectors as well as aid in formulation of well-consulted, responsive, and enabling policies. BB could also consider stepping up industry dialogue and exchange by initiating and actively participating in seminars and roundtable discussions.

- Mentoring service providers through common dialogue and increased interaction with industry groups.

- Continuing to participate in SAARC and global policy discussions and forums as well as sharing Bangladesh's experiences. BB can also plan to go through the Alliance for Financial Inclusion (AFI) peer review process on MFS regulations.

- Undertaking knowledge exchange visits to the relevant markets to learn about the strategies other central banks have used to address specific market issues (e.g., understanding e-KYC by visiting India, understanding Regulatory Sandbox implementation by visiting Malaysia, Australia, and the United Kingdom).

6

Enhance the supervisory framework for DFS

Financial technology and the DFS revolution offers immense potential for improving the efficiency of and expanding access to finance. Online banking combined with digital identification has completely reshaped customers' banking experiences in Europe, for example. While changes in banking practices are a continuation of a long-term trend, the pace of change is now rapid. Recent developments include crypto-currency, third-party lending through mobile phone-based applications, and even mobile money and technology-based agent banking. The change process will not slow. BB has faced multiple risks in recent times such as unrecognized OTC and irregularities in agent transactions. The recent fraud that shook Bangladesh's financial sector seems to have created an environment of apprehension and a lack of confidence in the central bank's security systems. Consequently, BB must further advance risk management within BB and the financial sector to better address fraud as well as AML/CFT in DFS.

Because of these rapid changes and risks in DFS, central banks globally must reconsider how to manage risk in the financial sector. Established mechanisms exist to manage risk in traditional banking (e.g., vetting senior management, reviewing policies and procedures, capital adequacy, systems, disaster recovery solutions, statutory disclosure, and stress testing) but the risk management frameworks for DFS are at a nascent stage. BB similarly to other central banks, has the challenge of defining a risk management framework aligned with global industry standards while responsive to national needs, particularly to meet the objectives of greater financial inclusion. This will be a step towards restoring confidence in the banking and financial sector of the country.

To develop an adequate and robust risk framework for DFS, BB should consider

- Participating actively in risk management discussions at the AFI and working together globally to establish best practices and standards.
- Inviting supervision and risk management experts from other markets to share best practices and train BB staff.
- Reviewing the current supervisory framework to improve and strengthen supervision protocols in DFS. This can include:
  - Developing tools to monitor the efficacy of agent-level operations.
  - Creating supervision guidelines outlining systemic supervision, deparmental supervision, and, if needed, agent-based supervision.
  - Defining and recommending common protocols for providers, such as using NIDs to verify KYC and providing guidelines on interface design including vernacular language requirements and customer protection norms.
  - Ensuring, through supervision, that providers have the vision, systems, and training to innovate.
- Monitoring service providers through common dialogue groups and increased interaction with industry groups.
- Preparing for the entry of new market players in DFS. BB should be prepared to supervise and monitor the market as it grows as well as build capacities to manage growth and diversification in market players.

Roadmap for the Implementation of policy priorities to accelerate DFS in Bangladesh

Timeframe	Policy Priorities	Key Immediate Actions	Envisioned Impact
1-12 Months	Roll out Tiered-KYC and Investigate the Potential for e-KYC	• Build consensus within and outside BB on the goals and targets of tiered-KYC • Draft tiered-KYC guidelines and validate through stakeholder engagement processes • Develop a tiered-KYC rollout and implementation plan • Undertake a feasibility study for e-KYC using NIDs • Conduct a small controlled pilot in partnership with a development partner/bank to test e-KYC	Increased account opening
1-12 Months	Form a DFS Standing Committee	• Define the purpose, mission, and timeframe of the DFS Standing committee • Select members who will serve on the committee and select its chair • Form the committee and establish its processes	Common vision and commitment across the relevant authorities contributing to the acceleration of DFS in Bangladesh
1-12 Months	Promote Financial Innovations by Introducing a Regulatory Sandbox	• Study Sandbox implementation by visiting countries where such Sandboxes have been successfully implemented • Develop Sandbox framework and validate the framework approach through stakeholder engagement • Implement the Regulatory Sandbox framework	Innovative products, services, and business models better meeting customer needs, thus contributing to the acceleration of DFS in the cuntry
13-24 Months	Synergize MFS and Agent Banking Guidelines	• Request a development partner to objectively review the guidelines and identify areas of overlap and develop recommendations for synergizing the Guidelines • Undertake stakeholder engagement to understand the information asymmetries between the Guidelines and how to remove them • Make the necessary changes to the Guidelines • Issue updated Guidelines	Removal of information asymmetries encouraging the greater uptake of MFS and agent banking, leading to the greater uptake and use of these services among consumers
13-24 Months	Continue to Invest in Technical and Business Infrastructure within BB	• Assess the technical and business infrastructure needs within BB • Develop a capacity development plan • Request development partners' support for the implementation of the plan • Build capacity in accordance with the plan	Increased abilities and readiness of BB to respond to rapid DFS market challenges
13-24 Months	Enhance the Supervisory Framework for DFS	• Conduct gap assessment of the current approach to DFS supervision • Develop a supervisory roadmap/strategy to address the gaps and improve supervisory capacity and implementation of monitoring and supervision • Implement the roadmap within the specified timeframe	Increased trust and confidence in the financial system

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UN Capital Development Fund
E/8-A, IDB Bhaban, Level 7, Sher-e-Bangla Nagar
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