



12 SEPTEMBER 2017

Highlights of DFCG Dialogue

DHAKA, BANGLADESH

The 10th meeting of Digital Finance Consultative Group (DFCG) was held in Dhaka on 12 September 2017. The title of this round's discussion was 'Emerging Frontiers of DFS in Bangladesh: Digital Identity and eKYC'. Around 40 representatives from different public and private sector organizations attended the session.

Executive Director of Bangladesh Bank Mijanur Rahman Joddar graced the occasion as the Chief Guest. Director (Systems & Services) of the Bangladesh Telecommunication Regulatory Commission (BTRC) Lt. Colonel Azizur Rahman Siddiqui and Managing Director of Bank Asia Limited Md. Arfan Ali attended as special guests. Deputy Project Director of Identification System for Enhancing Access to Services (IDEA) project under National Identity Registration Wing of Bangladesh Election Commission, Md. Elias Bhuiya delivered a presentation illustrating key features of NID database and activities undertaken.

Objectives of the dialogue

The key objective of the discussion was to explore strategies and opportunities for introducing eKYC utilizing digital identity through engaging regulators, financial institutions, DFS providers and

other concerned stakeholders. The dialogue intended to

- Explore strategies for strengthening coordination among Bangladesh Bank, Bangladesh Telecommunication Regulatory Commission (BTRC), National Identity Registration Wing of Bangladesh Election Commission and other concerned government agencies for taking a comprehensive approach towards introduction of a robust eKYC standards in near future which will on one hand ensure better customer verification, and on the other, be convenient to the customers.
- Identify potential scopes of introducing tiered and risk proportionate KYC system allowing eKYC mechanisms on pilot basis to identify practical challenges and opportunities for implementation.
- Determine next steps towards harmonisation of KYC requirements across banks, mobile network operators (MNOs), mobile financial services (MFS) providers and other related entities based on the pilot experimentation.



- Explore scopes of designing sector specific NID data usage policy considering pricing models, privacy and security concerns etc. for facilitating use by the financial service providers and other relevant sectors. Address amendment requirements in existing regulations if necessary.
- Identify required regulatory amendments and supportive policy guidelines frameworks for facilitating eKYC and tiered KYC.



Discussion highlights

Stakeholders urged for innovative access to national identity (NID) database of the Bangladesh Election Commission to promote Digital Financial Services (DFS) to the excluded and marginalized groups of the country in the dialogue. Participants highlighted that the ongoing implementation of highly reliable and accurate national data base of more than ninety million voters and nationwide issuance of smart NID have brought the opportunity to move forward towards introducing electronic Know Your Customers (eKYC) for the financial service providers (FSPs) utilizing digital identity of citizens. Introducing eKYC will improve process efficiency significantly reducing lead times, costs and challenges associated with physical documents verification and management. It can largely reduce the cost of service providers (i.e. banks, DFS providers, NBFIs) in the supply side and can make the financial services more accessible for the customers, especially low income segments in the demand side.

Representatives of the private sector financial institutions stressed on provision of access for both public and private sector organizations into NID database. Policy frameworks and regulations should be revisited if required to promote access of private sector institutions in this regard, as suggested by the speakers. Participants also recommended to enhance partnership among market players and policy makers including regulators in innovative use of existing biometric data.

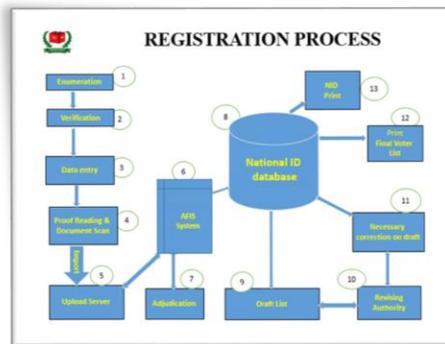
Brief highlights of the discussion are presented below:

Current Status of NID usage by FSPs & Recommendations

77 institutions are currently taking services from national identity database. 02 state-owned commercial banks, 41 private commercial banks and 14 non- bank financial institutions have Memorandum of Understanding (MoU) with NID Authority to use the database. At present, NID data sharing options are only available for public sector institutions. Private sector organizations are only eligible for data verification, they are not allowed to get access in the database as enacted by the NID ACT 2010.



Financial service providers recommended amendment of the NID act might be required in near future to facilitate access and diverse usage by the private sector institutions. Broader access to the database would accelerate



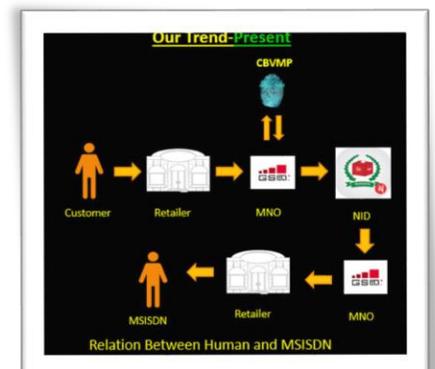
uptake of eKYC by the FSPs, they suggested. Participants also suggested to consider the pricing model for data verification, at this stage BDT 2 is charged for each verification by NID Authority. Appropriate pricing model is essential to sustain the database, at the same time promotion of eKYC will largely depend on the related expenses it will incur for the FSPs.

Recommendations from BTRC

BTRC Director presented the past and present trends of digital identity and global trend in illustrative presentation. He suggested to consider KYC as a recurring process rather than one-time process, where customers and FI's are required to adhere to the KYC Norms prescribed by the regulators. It is not only the process of collection, it is also a process of maintaining updated records, he insisted. He recommended that regulators should standardize digital



identity registration, and ensure interoperability between DFS operators and service providers relying on the digital identity. The existing customer database FSPs have can be made interoperable, he suggested. To make the KYC process easier and customer friendly, if a customer is unable to provide a foundational document of digital identity, functional documents may be used depending on the profile and level of risks associated with the customer, he insisted.





Reflections & suggestions of the Private Sector Stakeholders

Features of eKYC should offer highest level of efficiency and customer convenience:

Referring to the features of India stack regarding eKYC i.e. (1) Presence less (2) Cashless (3) Paperless and (4) Consent based, participants recommended to utilize NID database to make the KYC process as convenient as possible for the customers at this stage. Discussants also highlighted the importance of taking a comprehensive approach considering various dimensions and aspects of process efficiency and customer convenience.

Risk based KYC and Tiered KYC based approach should be taken

Different customers have different risk profiles, so while introducing eKYC these variations should be considered. Low risk low income group customers should be supported with low KYC requirements to accelerate financial inclusion, as opined by the participants. **Frameworks and databases should be flexible and accommodative to product & service innovations**

Private sector stakeholders also emphasized to take an integrated forward looking approach from the very beginning not only concentrating on existing services available in the market but also considering future innovations which may come up in the market. Discussants suggested to design frameworks which will be flexible and accommodative to innovative products and services. Referring to examples of Vitenam where a leading mobile operator is doing credit scoring through utilizing integrated data and Pakistan where Telenor initiated credit rating for financial services, participants highlighted the importance of national data and eKYC in developing new services. So NID database should be updated and utilized for eKYC in a way so that it can



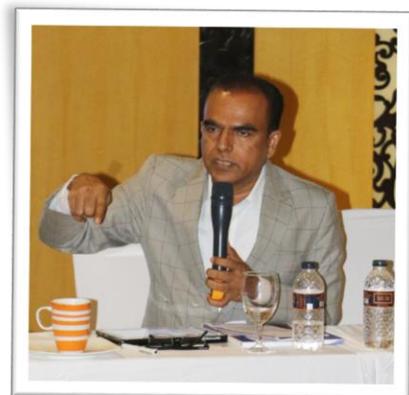
accommodate such product innovations in near future.

Regulators should critically handle issues such as privacy, consumer data protection etc.

Discussants suggested that Bangladesh can learn from the European market experiences while designing regulations regarding privacy, consumer data protection etc. These issues should be handled critically and regulations should be designed in a way so that risks are minimized.

eKYC can be promoted for Micro-Insurance and MFI Products

Beyond conventional financial products and services, eKYC can be tested in promotion of Micro-insurance and microfinance industry as well, as recommended by stakeholders.



Response from Bangladesh Bank

Executive Director of BB stated that Bangladesh Bank has drafted an eKYC

guideline which will be shared to sector stakeholders for consultation and inputs in November 2017. He also expressed his positive intent to take into account the suggestions made by stakeholders during the open floor discussion while finalizing the upcoming draft guideline. In collaboration with a2i, BB will also support a pilot of eKYC for G2P payments, he stated. Bangladesh Bank requested UNCDF to produce a policy note incorporating the suggestions during the discussion and the global best practices which will contribute to the process of drafting the guideline. Executive Director also suggested to arrange exposure visits for concerned officials of BB, BTRC and NID Authority to the countries which have successfully implemented eKYC so regulators can better understand the potential strategies and implementation challenges of introducing eKYC.

Way forward for UNCDF to address the recommendations on eKYC and digital identity

Based on the recommendations made by participants and Bangladesh Bank, UNCDF should undertake following activities:

- Undertake a research to prepare a policy note for BB which will contribute to the draft eKYC guideline
- Collaborate with a2i in the upcoming pilot of eKYC for G2P payments
- Arrange knowledge exposure visits for regulators to better understand global best practices



DFCG Way forward

UNCDF thanked mSTAR project to assist in the takeover of former Mobile Money Consultative Group (MMCG) into Digital Finance Consultative

Group (DFCG) and reaffirmed its commitment to give this coalition a sustainable shape as a consent based platform for knowledge exchange among the stakeholders. As the DFCG secretariat UNCDF will work to create bridge between regulators and private sector stakeholders through consultations. Following list of activities have been proposed and agreed among the members:

- DFCG will invite new stakeholders to join the platform to expand its outreach as a coalition for the DFS sector in Bangladesh

- ToR of DFCG has been shared among the members, based on feedback it will be finalized
- UNCDF will organize a participatory exercise to determine the vision, mission, objectives and scope of activities to give the coalition a formal and sustainable shape. The event will be hosted by UNCDF along with the current members in October 2017
- DFCG will continue to facilitate dialogues on relevant thematic issues around DFS in Bangladesh. Next round of DFCG dialogue will be held in the last quarter of 2017