FUTURE ROLE OF MOBILE FINANCIAL SERVICES IN BANGLADESH

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Mobile Financial Services in Bangladesh: The Context

* Financial inclusion got a big boost in Bangladesh from the recent surge in mobile financial accounts and transactions since mid-2013.
* Only ONE service Provider (bKash) captures major market share (about 81%): Why?
* Is there any entry barrier or regulatory barrier for other MFS providers?
* Is the cost of transaction of MFS rational?
* What do international experiences suggest?
Service Providers and Competition

- BRAC/BKASH - 81.4% of the total transactions
- Dutch Bangla Bank Limited (DBBL) - 16.8% of the total transactions
- About 10 banks are now offering services.

Figure: Market Share of MFS Providers (%)  
Source: Bangladesh Bank
MFS in Bangladesh: Growth Trend

- **No. of agents** - 1 lakh (2013) to 5.5 lakh (2015)
- **Gross monthly mobile money transactions** - $630 million (2013) to $1787 million (2015)
- **Amount of average daily transaction** - $47.44 million (USAID, 2015)
- **Average daily no. of transactions** - 2.57 million (USAID, 2015)
- **Active Customer** - 43% (11.7 million) (USAID, 2015)
- **41% of mobile phone owners have a mobile wallet**

Source: Bangladesh Bank; PRI Study, 2016
Product Diversification of MFS—A Concern

- As of November 2015: 96% of transactions involved money transfers, 79% were cash in/cash out type transactions and 17% were people to people (P2P) transactions.
- Other products include:
  - Private salary payments (0.9%);
  - Utility payments (0.7%);
  - Others (2.4%).
- A tiny volume (0.03%) also represented inward FE.
- There are no government to people (G2P) transactions yet.

Source: Bangladesh Bank
MFS Regulations of 2011, imposed an important regulatory constraint: Only banks are allowed to provide MFS.

Rules and regulations are stringent, giving a leeway for monopoly market.
Regulatory Environment for MFS: International Comparison (contd.)

* No restriction on MFS ownership in other countries, except in Bangladesh that requires bank-led MFS.

* All countries except Bangladesh allowed mobile network operators to take the lead in MFS.
Costs of Transaction

- Service charge in Bangladesh is about 2% at a flat rate (cash-out)
- In African countries (Kenya, Tanzania, Zimbabwe), the rate is applicable to different slabs—the higher the amount, the lower is the service charge (Regressive rate)
- If we consider variable costs of operation (including USSD price), rates in Bangladesh is not rational
- Appropriate tariff modeling is necessary
Recommendations

* Inclusive Growth and Finance
* Competitive MFS market and its liberalization (bank-led MFS and MNO-led MFS)
* Review USSD pricing and costs of transaction.
* Strategic Alliance with MNO and Financial Outlets (Banks, Agents, Postal)
* Modernizing and Liberalizing Regulations
* Emerging Challenges of Market Share—PayPal, Credit Card
* Role of Central Bank, BTRC and BFID (MoF)
THANK YOU