

Regulation of Mobile Financial Services in Bangladesh: Constraints and Prospects

Dr. Md. Nurul Amin

Associate Professor, Department of Public Administration, Jahangirnagar University, Savar, Dhaka-1342, Bangladesh

Abstract: This study deals with the regulation of mobile financial transaction services in Bangladesh. It mainly focuses on the constraints and prospects of the regulation of mobile banking services industry. It justifies the selection of the regulation of mobile banking market as the services are growing rapidly and facing many challenges including dominant market share. Quality regulatory framework may promote the competitiveness of the industry and public interest at the next level. The secondary sources of data have been used mainly in this research. It follows content analysis as qualitative research method. The study finds that Bangladesh Bank as 'independent' regulatory agency, ministry of finance, the parliamentary standing committee on ministry of finance, directorate of national consumer rights protection, Bangladesh competition commission and the association of bankers- Bangladesh are main actors involved in the regulatory arrangements. The major constraints of this industry include excessive service fees, regulation of transaction ceiling, fraudulent practices, maintaining service quality, and monopoly of service providers. The prospects include inception of regressive service fee, safety of user and technology, expansion of services, using fin-tech innovations for huge users and market improvement, creating level playing field for all operators including state-owned provider, and interoperability facilities. Therefore, the policy makers and regulators including the Bangladesh Bank should take into account the above findings to improve mobile banking services in Bangladesh.

I. INTRODUCTION

Mobile financial service (MFS) is an important way of electronic financial transaction in Bangladesh. As 'non-majoritarian' independent regulatory agency (Majone, 1999) the Bangladesh Bank (BB) is officially responsible to regulate the mobile financial service market for promoting business as well as public interest. As per definition of BB "MFS refers to E-money services provided against a particular mobile/cell phone number of a client (termed as Mobile Account), where the record of funds is stored on the electronic general ledger. These services can be draw-down through specific payment instructions to be issued from the bearer's mobile phone or through alternative digital process or device by ensuring authenticity of the transaction. However unlike e-money products, 'cash-in' and 'cash-out' and other services as permitted by BB (Bangladesh Bank) at agent locations are allowed for MFS accounts" (Bangladesh Bank, 2018: 2).

In Bangladesh, the mobile financial service has started on 22 September 2011 as guidelines endorsed by Bangladesh Bank (Bangladesh Bank, 2011). As on December 2020, the number

of service provider is 16 including one state owned provider. The overall situation of the mobile financial market can be seen in Table-1. Now mobile financial transactions have connected to diversified services from receiving and sending money to making payments for education, utilities, retail bills, transportation and government payments (Bangladesh Bank, 2017). It is the jurisdiction of Bangladesh Bank to oversee overall functions and functionaries related to the mobile banking services in Bangladesh.

However, the regulator of mobile financial activities is facing many challenges as a result of huge users, diversified services, and ever ending fintech innovations. The challenges in this sector also open many prospects that need to take into account for innovation and progress of mobile banking regulation in Bangladesh. As regulator BB aims to establish a financially viable, safe and competitive market for providers and consumers. In this perspective this research is intended to map the public authority and private actors involved in the regulatory arrangements and to explore the problems and prospects of the regulation of mobile financial services in Bangladesh.

Table- 1: Mobile Financial Services (MFS) Summary Statement of December, 2020

Serial no.	Description	Situation/Amount in December 2020
1	No. of Banks currently providing the Services	15
2	No. of agents	1,058,897
3	No. of registered clients in Lac	993.36
4	No. of active accounts in Lac	323.27
5	No. of total transaction	299,506,884
6	Total transaction in taka (in core BDT)	56,556.88
7	No. of daily average transaction	9,661,512
8	Average daily transaction (in core BDT)	1,824.42
9	Product wise information	Amount (in core BDT)
a.	Inward remittance	134.78
b.	Cash in transaction	17,346.65
c.	Cash out transaction	15,444.23
d.	P2P transaction	16,982.15
e.	Salary disbursement (B2P)	2,093.72

f.	Utility bill payment (P2B)	834.07
g.	Merchant payment	2,147.24
h.	Government payment	41.39
i.	Others	1,532.65

[1 lac = 0.10 million and 1 crore = 10 million]

Source: Bangladesh Bank, December 2020

II. OBJECTIVES OF THE STUDY

The general objective of the study is to assess the problems and prospects of mobile banking services regulation in Bangladesh. The specific objectives of the study are:

- To map actor's constellations in existing regulatory framework with regard to mobile banking services in Bangladesh;
- To identify the problems and prospects of quality mobile banking services regulation in Bangladesh.

III. METHODOLOGY

The reliability and validity of research findings depends upon the sound methodological foundation of a research. Three aspects we need to take into account for a valid research methodology. First, one needs to define the case selection justification for the research. Here two aspects are very important: selecting a case from the theoretically guided population, and the practicality of the case. The paper deals with the regulation of mobile financial services in Bangladesh. For the definition of the concept of regulation, Koop and Lodge (2015) stated that "prototype regulation" is characterized by interventions that are intentional and direct— involving binding standard-setting, monitoring, and sanctioning—and exercised by public-sector actors on the economic activities of private-sector actors". Therefore, the term regulation is understood as administrative decisions for making private sectors economic activity more competent for the protection of public interest.

Mobile banking is a very growing financial service in Bangladesh. Now with 16 providers the transfer of money within country through mobile banking is very popular. In addition, Bangladesh receives foreign remittances through mobile financial transaction services. On the other hand, the transfer of money through mobile banking services from Bangladesh to abroad is not permitted. Despite having 16 operators, one important fact is the presence of dominant market player in the service delivery. One services provider—"bKash has 75% market share" (Kabir 2020) which is against the principle of quality regulation in this growing financial industry with higher transaction fee. Hence, in order to uphold the interest of the mass people in mobile banking services, quality regulatory decisions and its enforcement are important. Therefore, the case of Bangladesh for the study of mobile banking service regulation is urgent and quite justified.

For this study, data has been collected from the secondary sources only. It follows content analysis as qualitative

research method. As this study analyses the regulatory framework and the major constraints related to the mobile banking services in Bangladesh, it religiously follows the related law, rules and regulatory documents and data related to mobile financial services market performance. Especially it analyses the Bangladesh Bank regulatory framework on mobile financial services and its complacence in the service delivery. In addition, the previous study report, research article and newspaper article are used as secondary sources of data. The data collected through secondary sources are mainly analysed qualitatively in relation to the objectives of the study. This is, however, may consider the limitation of the study.

IV. ACTOR'S CONSTELLATIONS IN REGULATORY ARRANGEMENT IN MOBILE FINANCIAL TRANSACTIONS SERVICES IN BANGLADESH

Understanding regulatory actors' constellations in the regulatory arrangement is important for the assessment of a growing mobile financial sector and the interest of the people. As per the regulation and monitoring provision of the mobile financial services in Bangladesh, BB acts as sector specific regulator in the regulatory arrangements (Bangladesh Bank, 1972, 2011, 2018). In addition to sector specific regulator, the political authorities, such as Finance Division of the Ministry of Finance, Parliamentary Standing Committee on Ministry of Finance, and some co regulators, such as Bangladesh Telecommunications Regulatory Commission (BTRC), Directorate of National Consumer Rights Protection (DNCRP), Bangladesh Competition Commission (BCC) as general competition authority are directly and indirectly involved with the regulatory process (Government of Bangladesh, 2001 2009, 2012).

In addition to co-regulatory actors, interest groups, such as Association of Mobile Telecom Operator (AMTOB), and Association of Bankers, Bangladesh Limited (ABB), and Consumers Association of Bangladesh (CAB) as nationwide interest group of consumers, and international interest of consumers are connected with the regulates are related to the sector, and they are interacting with the main regulatory actors and co-regulators within the regulatory arrangements (Table-2).

Table-2: Actor's constellations in the regulatory arrangement in the mobile financial services in Bangladesh.

Actors		Responsibilities
Sector regulator	Bangladesh Bank (BB)	Regulation of mobile financial services in Bangladesh under Bangladesh Bank Order, 1972 (P.O. No. 127 of 1972) and Bangladesh Mobile Financial Services (MFS) Regulations, 2018
Elected politician	Finance Division, Ministry of Finance	Making policy and programmers on financial matters including digital money transaction in Bangladesh
	Parliamentary Standing Committee	Oversee the functions of Ministry of finance as well as the

	on Ministry of Finance	department and agencies under the finance ministry.
Co-regulators	Bangladesh Telecommunications Regulatory Commission (BTRC).	BTRC is responsible to regulate the telecommunication industry with regard to access, affordability, and the quality of telecoms services.
	Directorate of National Consumer Rights Protection (DNCRP)	DNCRP is working to protect the rights of the consumers in any sector
	Bangladesh Competition Commission (BCC)	BCC is functioning to make a level playing field in business ventures with sound competition in all sectors and prevent monopoly in the business environment
Interest Groups	Association of Mobile Telecom Operator (AMTOB),	An interest group of mobile telecommunications service providers in Bangladesh
	Association of Bankers, Bangladesh Limited (ABB)	ABB is working for building an acceptable platform to exchange views with the regulatory authorities and other related associations in banking industry.
	Consumers Association of Bangladesh (CAB)	As a social group CAB is working to protect consumers from commodity adulteration and artificial price-hike and safeguard consumers' rights and interests in the country.

Source: Compiled by author, December 2020.

V. CONSTRAINTS OF MOBILE BANKING SERVICES REGULATION IN BANGLADESH

5.1 Excessive service charge

Most important aspect of the mobile financial transaction regulations in Bangladesh is the cost of services. The service charge of MFSs is determined by the service providers. The BB indirectly intervenes in the industry for affordable service charge. However, the service charge of mobile financial transaction is excessive in Bangladesh. The service providers did not follow regressive fee principle in their services. The regressive service fee refers to the higher the amount, the lower the service charge. Many African countries follow the regressive service fee in mobile financial services, For example, M-Peasa in Kenya follows regressive service charge in mobile banking (Safaricom, 2020) The existing highest official cash out service charge cost 1.8 per cent in Bangladesh. However, in practice, for getting retail services, the rate is about 2 per cent. Service provider shows unwillingness to provide services if anyone disagree to give 2 per cent service charge. It is the weak point of the mobile financial transaction regulation in practice in Bangladesh. The highest person to person (P2P) money transfer charge is Taka 10 per transaction for Bkash which is also very high (Bkash, 2020). Therefore, the customers have to pay excessive service charge for getting mobile money services in Bangladesh.

5.2 Transaction ceiling regulation

Regulation of the transaction ceiling is another aspect of the mobile financial service regulation in Bangladesh. From 2013

to onward, the transaction ceiling has been upgraded five times by the Bangladesh Bank (Bangladesh Bank, 2013, 2014, 2017a, 2017b, and 2019). On 19 May 2019, as per request of the service provider and to upgrade the payment ecosystem, Bangladesh Bank has enhanced the transaction ceiling. According to Bangladesh Bank, “ the maximum amount of Tk 30,000/ can be deposited into an MFS account each day and Tk 2,00,000/ monthly which is double from the existing amount of Tk 15,000 and Tk 1,00,000/respectively. Again, according to circular, the number of daily cash-in transaction for an individual improved to five from existing two and monthly transaction number twenty five from existing twenty times. The daily cash-out limit also uplifted to Tk 25,000 and monthly ceiling to Tk 1,50,000/ lakh which was previously was Tk 10,000 daily and Tk 50,000 monthly”. Moreover, person to person (PtoP) transaction limit is upgraded to Tk 25,000 daily and Tk 75,000/ monthly. In addition, the bank new regulation provides that the account holder is allowed to withdraw money for five times a day which was only two times asb per last regulatory decision. Besides, now the users can cash-out 20 times monthly, which was only 10 times previously (Bangladesh Bank, 2019). However, for regulator, it is really very tough to oversight the abuse of the transaction ceiling in mobile financial services.

5.3 Fraudulent practices

The abuse of mobile banking system is another problem of mobile financial transaction regulation in Bangladesh. The both mobile banking agent and client are suffering from the fraudulent practices through mobile banking facilities. In a study it is found that about 70 percent user considered mobile banking facilities as secured (Bhuiyan and Rahman, 2013). However, the prudent practice is going on in the mobile financial transactions. “Taking advantage of the widespread use of mobile banking services, scammers continue to target vulnerable users, mostly illiterate persons and those with little knowledge about technology” (Ullah 2019). The more the market is growing the more fraudulent practices are recorded. For example, it is said that, “every day 50 to 60 lakh transactions take place on bKash platform and they get maximum 100 complains of frauds per day” (Ullah 2019). The frauds are using syndicate for getting password from the account owners. For example, “Mr X, a businessman, received an SMS with instructions to dial certain numbers. Moments later he received a call from an anonymous caller. Claiming himself as an official of bKash, the caller asked for his password for generating a new password for Sohrab’s bKash account. Mr. X gave his password as instructed only to lose Tk 3,000 from his account” (Ullah 2019). Therefore, prudent practice is a major problem for regulatory enforcement and the sound mobile banking industry in Bangladesh.

5.4 Service quality

The quality of service is another critical aspect of the mobile financial services regulation as the satisfaction of the client is

important for any service industry. The Bangladesh Bank and the University of Dhaka did an interesting survey on the service quality of mobile financial transaction in Bangladesh by using SERVQUAL methodology. SERVQUAL assesses five dimensions of service quality as perceived by the service recipients, such as reliability, tangibility, assurance, empathy, and responsiveness (Parasuraman et al., 1988). According to survey result, in a scale of 5.00, tangibility got the highest score (3.75) of all the five dimensions of SERVQUAL method (Bangladesh Bank, 2017). Within tangibility dimension, the customers acknowledged the highest point to the large scale promotion of mobile banking services whereas they perceived the lowest score to the neat and clean appearance of the MFSs agents (Bangladesh Bank, 2017). Responsiveness is the worst performing dimension of SERVQUAL tool in MFSs business of Bangladesh. In the scale of 5.00, this dimension got an overall score of 3.40 (Bangladesh Bank, 2017). The customers under the survey opined that “MFSs agents are always too busy to respond to the clients' queries and they do not welcome clients with smile like the customer service executives of contemporary commercial banks” (Bangladesh Bank, 2017). Therefore, ensuring mobile banking service quality is a big challenge for the regulator.

5.5 Monopoly of service provider

One of the most important regulatory functions is to ensure a level playing field for the liberalized financial market in a given country. According to Bangladesh Bank, 16 mobile financial service companies including state owned entity “Nagad” are providing mobile financial transaction facilities in Bangladesh. Beyond the regulatory control of Bangladesh Bank, Nagad is operated by postal department of the government. However, out of 16 service providers, bKash of BRAC Bank Limited and Rocket of Dutch-Bangla Bank Limited, and Nagad are enjoying 99 per cent of the market share of the mobile financial service industry (Ullah, 2019). To be specific, bKash has 75% market share, and the Rocket and Nagad contain 10 to 12 percent each (Kabir 2020). Here bKash is clearly playing its role as the dominant market player. Despite regulatory advantage the state owned market player Nagad is not function well. According to official website of bKash, “it is running a network of more than 200,000 agents throughout urban and rural areas of Bangladesh with over 50 million registered accounts”(See bKash accounts at, <https://www.bkash.com/about/company-profile>). Therefore, overcoming monopoly business is the major challenge of the mobile financial service regulation in Bangladesh.

VI. PROSPECTS OF MOBILE BANKING REGULATION IN BANGLADESH

6.1 Expansion of users and market

The expansion of Bangladesh mobile financial transaction market is notable. The market with respect to user and transactions is developing rapidly. It is said that “transactions

through mobile financial services (MFS) grew 20.41 percent year-on-year to Tk 378,885 core in 2018” (Islam, 2019). As per report of Bangladesh Bank, in December 2020, number of registered clients reached at 795.08 Lak which was recorded as 993.36 lak in December 2019. It shows that the sector has 24.93 percent growth of users in a year. The growth has also recorded in money transactions through mobile financial systems. The average daily transaction was 1,824.42 (in core BDT) in December 2020 which was 2.1% higher than November of the same calendar year (Bangladesh Bank, 2020). Therefore, quality of regulation can easily enhance mobile banking market.

6.2. Level playing field for operators

The liberalized mobile banking service market requires level playing field for the operators. In order to ensure market effectiveness, there is a scope for the regulatory authority to take appropriate regulatory measures against the operator having dominant market share. Along with this and the regulatory advantages should be provided to the weak or new operators. Therefore, it is possible to ensure competitive market structure that could improve access, affordability and quality of the mobile banking services.

6.3 Interoperability facilities

Interoperability facilities are not available in the existing mobile banking facilities in Bangladesh. Interoperability could foster the business potentials through boarder expansion of transactions across users, service providers and national territories. The regulatory authority may introduce “Regulatory Sandbox” to analyse the impact, safety, and robustness of interoperability of mobile financial services (Mujeri and Azam, 2018). Therefore, there are clear prospects to start interoperability to adjust with social needs as well as the needs of the sector and financial inclusiveness.

6.4 Expansion of Services

The scope of the expansion of services is enormous. Currently along with sending and receiving money, it is possible to making payments for utility pay utility bill through the mobile financial transaction services. The salary, festival bonus etc. of the workers can be paid through the mobile financial services. The purpose of transaction includes paying fee of education services, transportation, medical, and retail bills, government disbursement etc. The horizon of the services can be extended through health insurance services; savings scheme and other value added services.

6.5 Safety of customers and technology

The fintech innovations require safety of customers and the technology itself. It is a fact that the number of fraud cases is not highly alarming in mobile banking. However, consumer data protecting is must for the regulators and the service providers. Special attention is required for the literate people mainly living in rural and remote areas. Here, appropriate cyber security measure need to take to make the mobile

financial transaction service good enough safe for the user. The regulatory authority may fix operators' response time for any complain raised by the customers. The consciousness rising initiative can enhance the user safety in mobile financial transaction market. Moreover, the regular update of the applications could enhance the security for the users of mobile financial transaction facilitates.

6.6 Regressive service fee

There is a scope to rationalize the service fee for the customers. The rate of service fee should be regressive—"the higher the amount, the lower the service charges". The regressive service fee could enhance the market and the level of satisfaction of the users. During Covid-19 Pandemic situation, as per direction of the regulator, up to 40,000 Tk./month 'Send Money' is free of charge for the customers of mobile banking services (Bangladesh Bank, 2021).

VII. CONCLUSION AND POLICY RECOMMENDATIONS

7.1 Conclusion

The transaction of money by utilizing the mobile phone technology is very interesting innovation of bank businesses. However, this business need to quality regulatory environment for its expansions and functions. The Bangladesh Bank is the sector specific regulator, which is responsible to make regulatory decisions and its enforcement for an effective market of mobile banking in Bangladesh. Along with Bangladesh bank other regulatory actors include, the ministry of finance, the parliamentary standing committee on the ministry of finance, directorate of national consumer rights protection, Bangladesh competition commission, and the association of bankers—Bangladesh limited, association of mobile telecom operator, and consumers association of Bangladesh.

The study identifies some problems of mobile financial transactions in Bangladesh through the review of literature in this research filed. First, it finds that the service fee is excessive. The customers or users have to pay more money for the utilization of the mobile banking services in comparison with same services in other developing countries. Second, fixing transaction selling is another challenge of the mobile banking in Bangladesh. Bangladesh Bank issues new regulation for upgrading transaction selling. Third, the abuse of mobile money transaction service by the criminal is a threat for this industry. It is found that the amount of fraud case is not so significant.

Fourth, quality of service is important as the satisfied customer and the users are very critical for the growth of a service industry. Responsiveness of the service provider is found poor in the mobile banking serves industry. Finally, monopoly of service providers is present in mobile financial service industry in Bangladesh. One operator, bKash is enjoying the significant market share.

7.2 Policy recommendations

The following are the policy recommendations to improve the standard of the mobile financial transactions service in Bangladesh:

- The level playing field for all operators should be ensured. The Bangladesh bank should follow the general competition law to make the mobile financial transaction service market for effective in Bangladesh.
- The service fee of the mobile financial transaction should be reduced. It should be regressive. The lower rate should be imposed for higher amount of transactions.
- Along with operators, the law enforcement agencies should take immediate action for every fraud case as per the user security of mobile financial transaction in Bangladesh is concern.
- The range of the services could be extended. For example, the savings facility and health insurance and worker payment of salary could be included in the list of mobile financial services.
- The quality of service should be improved. Especially, the responsiveness of the service provider toward the customers should be enhanced and the code of good practice should be fixed. Regular survey on customer satisfaction would be conducted by the regulatory authority.
- Interoperability across providers and national territories should be started immediately to adjust with social needs as well as the needs of the sector and financial inclusion.

REFERENCES

- [1] Bangladesh Bank (2021), Regarding the Continuation of ATM and MFS Services within COVID-19 Situation, PSD Circular No 5/2021, Dhaka: Payment Systems Department.
- [2] Bangladesh Bank (2011) "Guidelines on Mobile Financial Services (MFS) for Banks", Dhaka: Payment Systems Department, Bangladesh Bank
- [3] Bangladesh Bank (2012). Mobile Financial Services in Bangladesh: An Overview of Market Development. Policy Paper, Dhaka: Bangladesh Bank
- [4] Bangladesh Bank (2018) "Bangladesh Mobile Financial Services (MFS) Regulations, 2018", Dhaka: Payment Systems Department, Bangladesh Bank
- [5] Bangladesh Bank (2017), *An Impact Study on Mobile Financial Services (MFSs) in Bangladesh*, Dhaka: Bangladesh Bank
- [6] Bangladesh Bank (2019), Regarding *Mobile Financial Services (MFSs) Transactions*, PSD Circular No 1/2019, Dhaka: Payment Systems Department.
- [7] Bangladesh Bank (2017a), Regarding *Mobile Financial Services (MFSs) Transactions*, PSD Circular No 1/2017, Dhaka: Payment Systems Department.
- [8] Bangladesh Bank (2017b), Regarding *Mobile Financial Services (MFSs) Transactions*, PSD Circular No 6/2017, Dhaka: Payment Systems Department.
- [9] Bangladesh Bank (2013), Regarding *Mobile Financial Services (MFSs) Transactions*, PSD Circular No 1/2013, Dhaka: Payment Systems Department.

- [10] Bangladesh Bank (2014), Regarding *Mobile Financial Services (MFSs) Transactions, PSD Circular No 7/2014*, Dhaka: Payment Systems Department.
- [11] Bhuiyan, Md. Saifur Rahman and Rahman, Md. Mizanur (2013) "Implementation of Mobile Banking in Bangladesh: Opportunities and Challenges", *Journal of Electronics and Communication Engineering*, Volume 7, Issue 5 (Sep.- Oct. 2013), PP 53-58
- [12] Bkash (2020) "Bkash Rates" accessed at <https://www.bkash.com/products-services/send-money>
- [13] Government of Bangladesh (2009), *The Consumers' Right Protection Act, 2009*, Dhaka: Ministry of Law, Justice and Parliamentary Affairs.
- [14] Government of Bangladesh (2012), *The Competition Act, 2012*, Dhaka: Ministry of Law, Justice and Parliamentary Affairs.
- [15] Government of Bangladesh (2001), *The Bangladesh Telecommunication Act, 2001*, Dhaka: Ministry of Law, Justice and Parliamentary Affairs.
- [16] Islam, Muhammad Zahidul(2019) "MFS Reach Widens", *The Daily Star*, 27 January 2019, Dhaka
- [17] Koop, C. and Lodge, M. (2015) 'What is regulation? An interdisciplinary concept analysis', *Regulation & Governance*, doi: 10.1111/rego.12094.
- [18] Kabir, FHM Humayan (2020) Covid triggers rise in mobile financial services, *The Financial. Express*, November 14, 2020
- [19] Majone, G. (1999), 'The regulatory state and its legitimacy problems', *West European Politics*, 22(1), 1–24
- [20] Mujeer, Mustafa K. &Azam, Sifat-E (2018) "Interoperability of Digital Finance in Bangladesh: Challenges and Taking-Off Options", Working Paper No. 54, Dhaka: Institute for Inclusive Finance and Development (InM)
- [21] Parasuraman, A, Ziethaml, V. and Berry, L.L., (1988). 'SERVQUAL: A Multiple- Item Scale for Measuring Consumer Perceptions of Service Quality' *Journal of Retailing*, Vol. 62, No. 1.
- [22] Parvez, Jaheed, Islam, Ariful, and Woodard, Josh (2015) *Mobile Financial Services in Bangladesh: A Survey of Current Services, Regulations, and Usage in Select USAID Projects*.
- [23] Safaricom (2020) "M-Pesa Rates", accessed at <https://www.safaricom.co.ke/m-pesa/getting-started/m-pesa-rates>.
- [24] Ullah, Ahamed (2019) "Mobile banking frauds continue", *The Daily Sun*, Dhaka, 14 March 2019