

Fintech for Financial Inclusion

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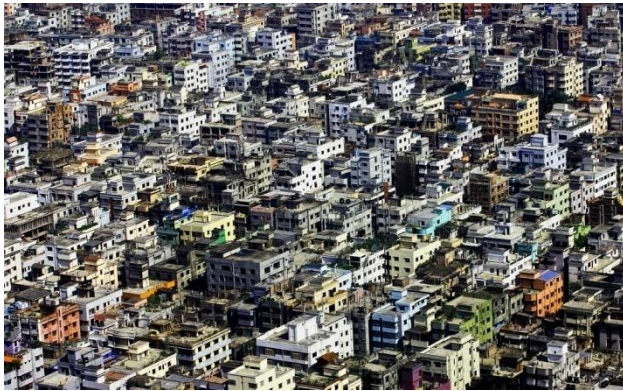
Outline

- The Bangladeshi context
- The Macro Overview – Parameters for Financial Inclusion
- Fintech for Financial Inclusion: MFIs/Mobile Financial Services (MFS)
- Challenges and Lessons

The Bangladeshi context...

- From a low-income agrarian society at its birth in 1971, Bangladesh is now a lower middle-income country of 160 million people in the midst of critical transitions. Population density and size fostered financial innovation and inclusion, including through microfinance.

Urbanization



30%

Industrialization



28% GDP

Demographics



50% < 25 yr

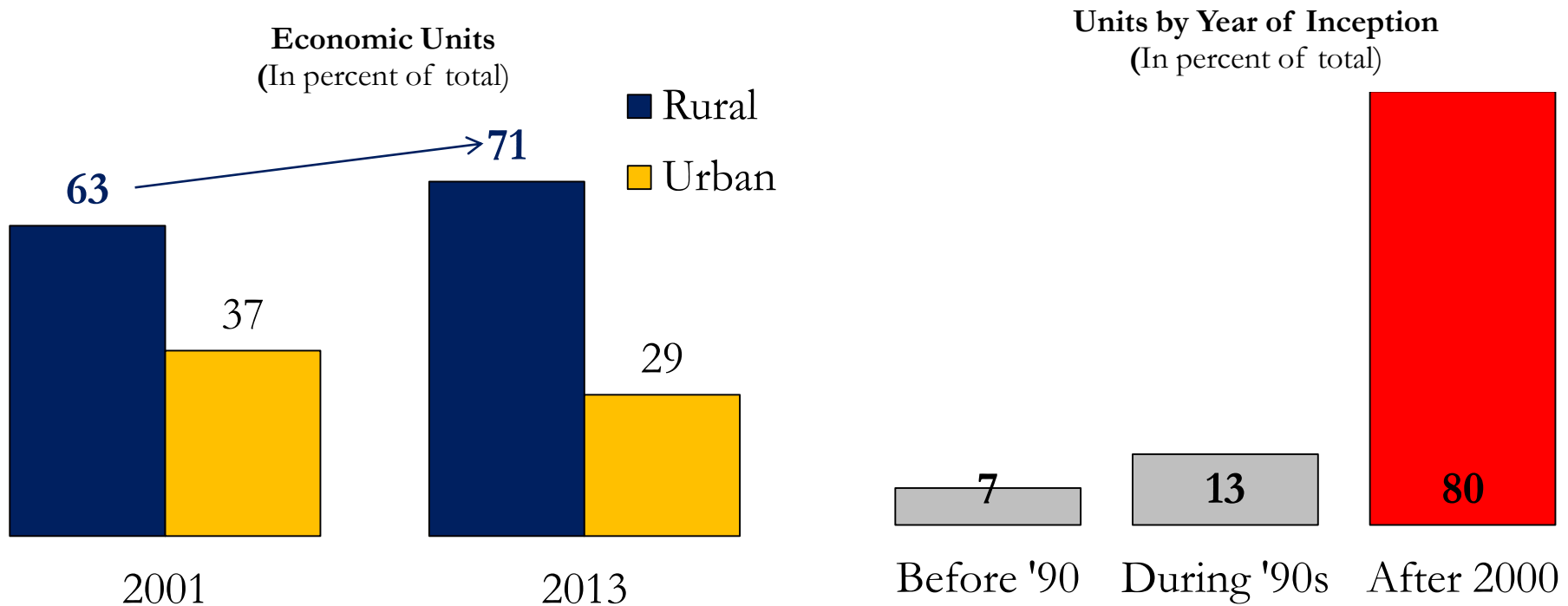
Technology



125 m
Mobile

Growth has been bottom-up, driven by young, rural firms

- Recent transformations, fuelled by dynamic rural non-farm sectors (enterprise numbers more than doubled in last decade)



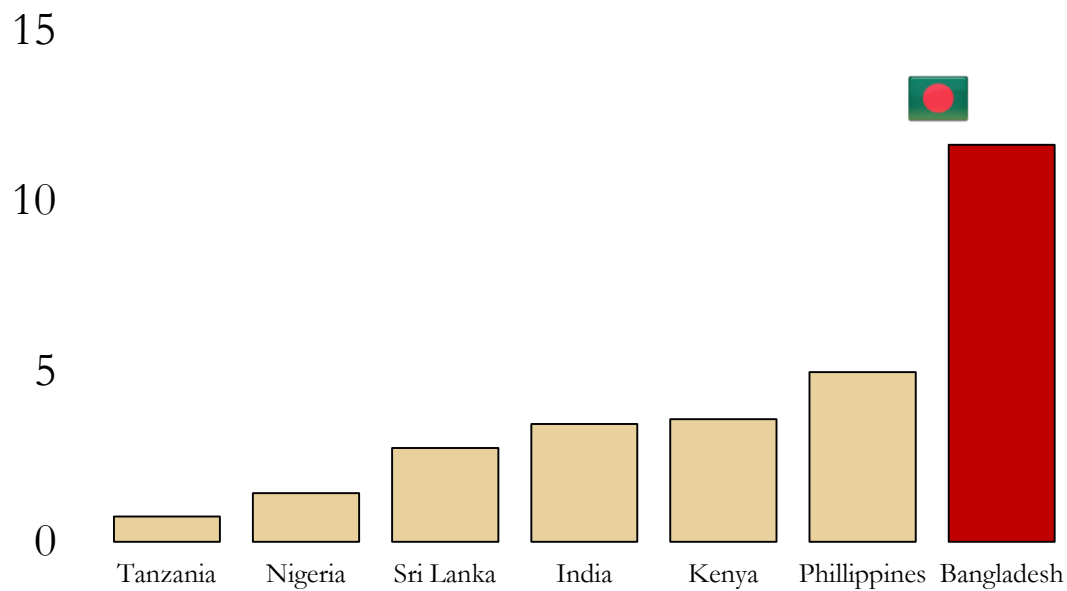
Financial inclusion through microfinance institutions

- 700+ MFIs and 37 million active borrowers in Bangladesh

Digitization through the DFS Wallet
(BRAC and Shakti examples)

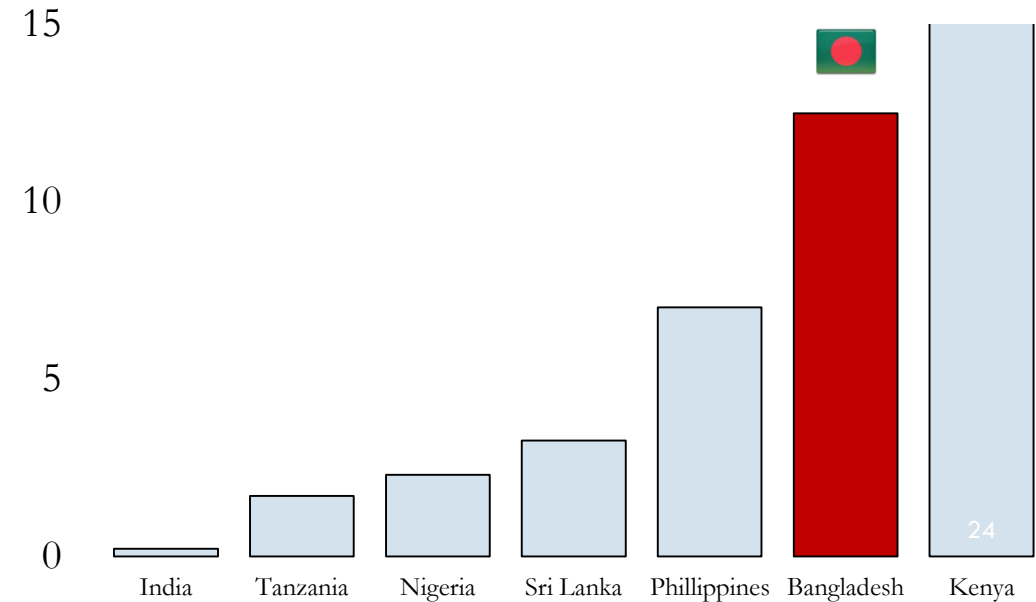
Borrowers

(In percent of population)

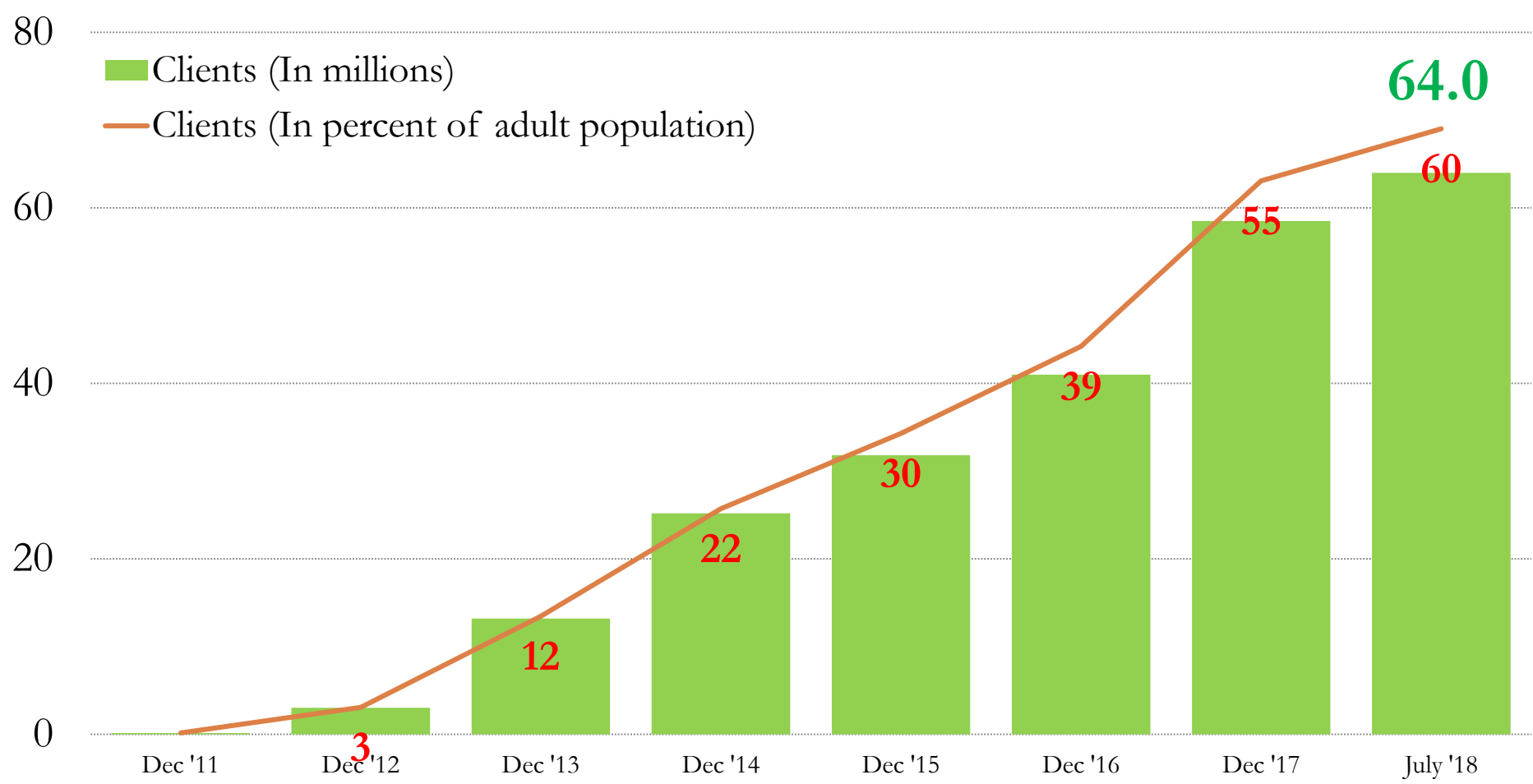


Depositors

(In percent of population)



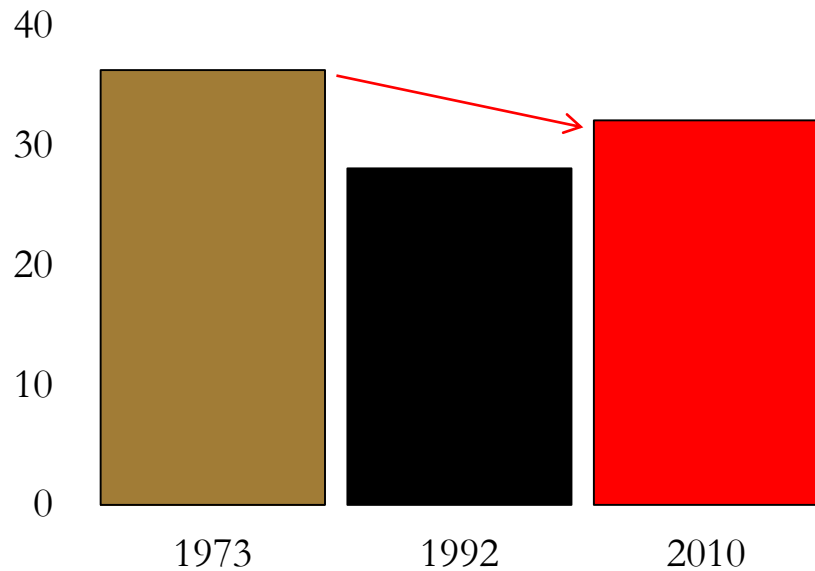
Financial inclusion through mobile financial services (MFS)



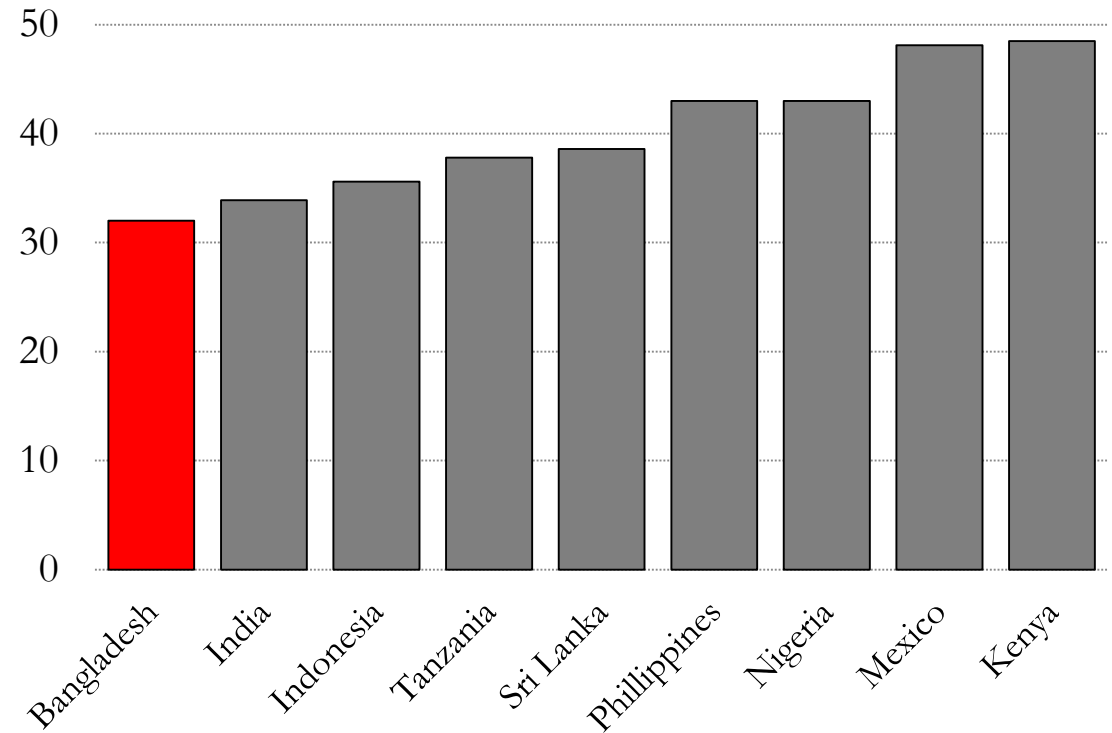
Financial inclusion improved the quality of growth

- Inclusion minimized inequality: lower than the start and lowest among the peers.

Gini Coefficient : Bangladesh

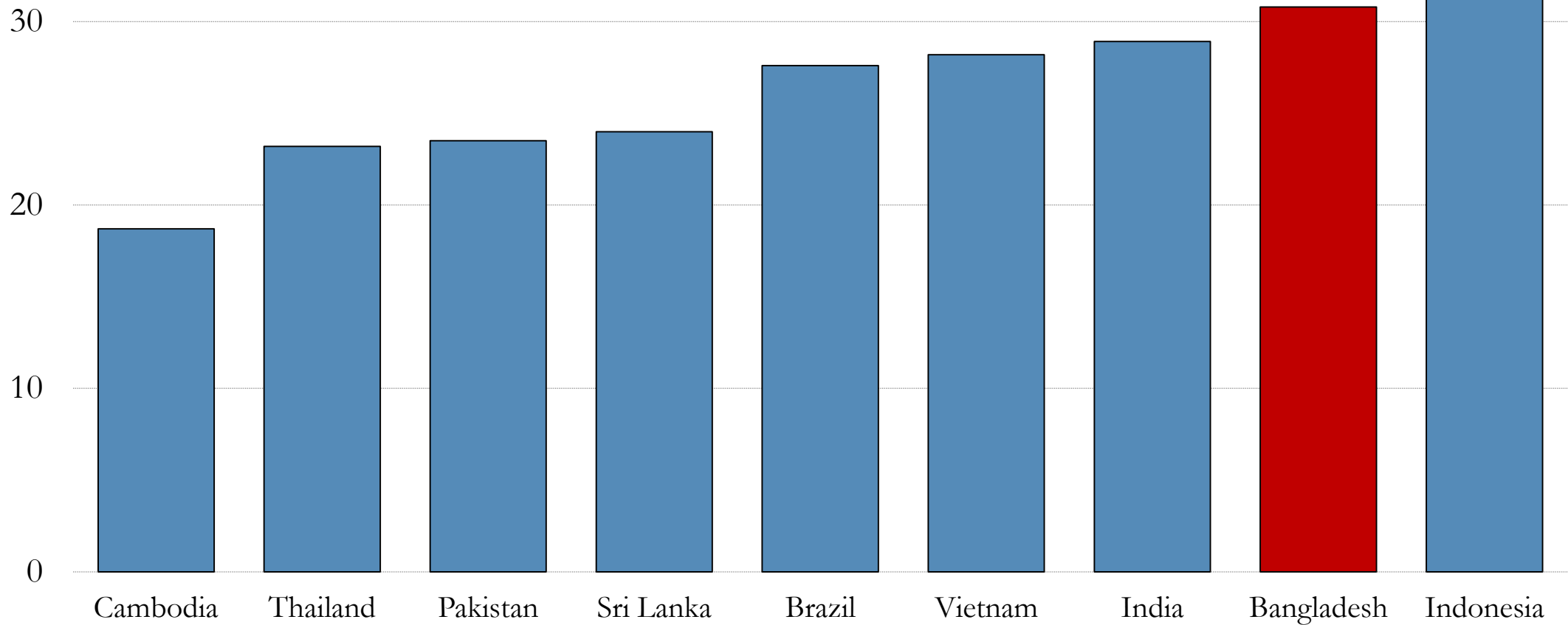


Cross-Country Gini Coefficients



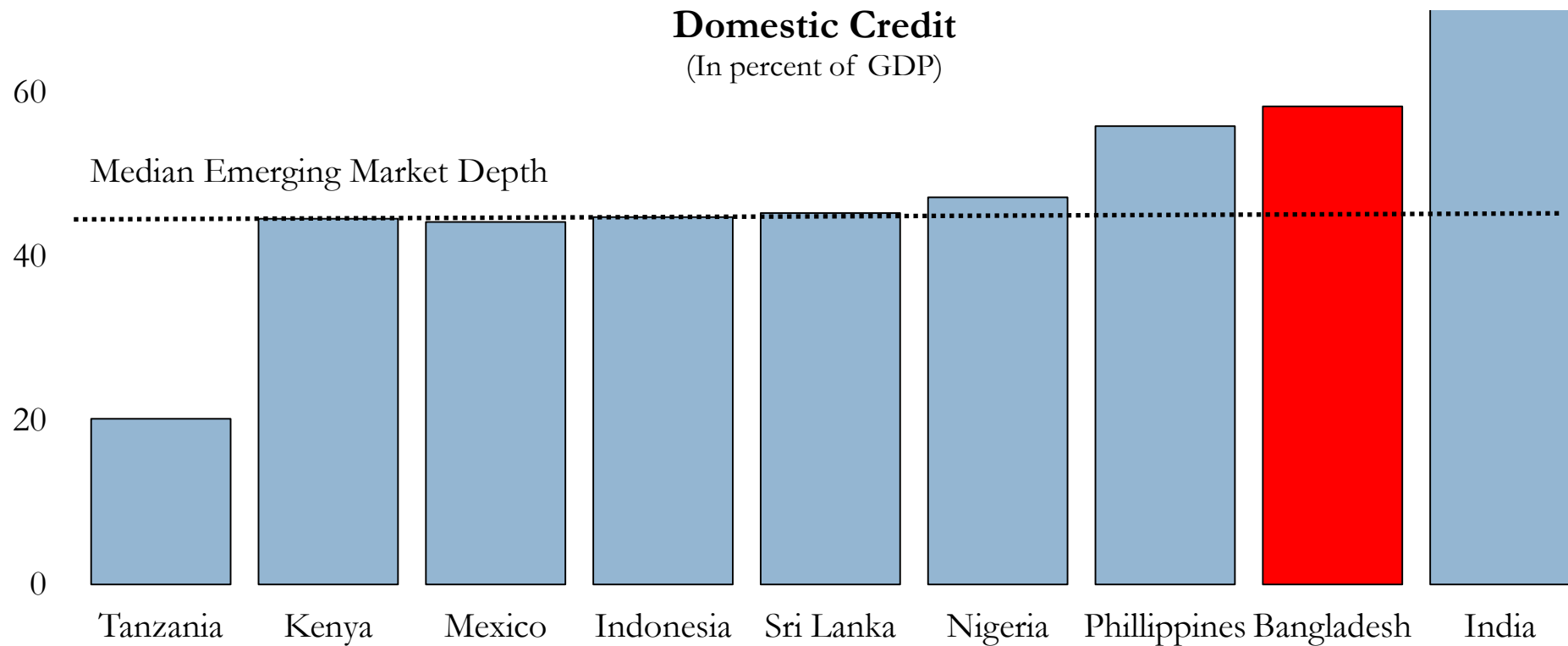
Bottom-up growth and financial inclusion boosted savings

Savings
(In percent of GDP)



...and supported financial deepening.

- Bangladesh ranks well in terms of its financial depth.



**Fintech replicates population density and
aggregates through connectivity**

Fintech and Financial Inclusion

- Fintech and upgrades of financial infrastructure – BACH, BEFTN, NPSB and RTGS;
- Bangladesh Bank provided two types of DFS licenses to serve the customers:
 - Mobile Financial services (MFS) [unbanked, bottom-of-pyramid];
 - Payment Service Provider (PSP) [banked, affluent/middle-class];

Fintech for upgrading MFIs (savings, credit, insurance)

- Over 700 MFIs including Grameen Bank, BRAC
- Only credit and savings facilities, some insurance, no payment service
- Cash-intensive and labor-intensive, so efficiency is constrained
- 17,000 branch network all over the country
- Reached 20% adult and 38% poor HH

MFS Market Status



18 banks
provide
MFS service



8.4 lac
agents



6.4 mn
transactions daily



64 mn
registered
accounts



30.6 mn
active accounts

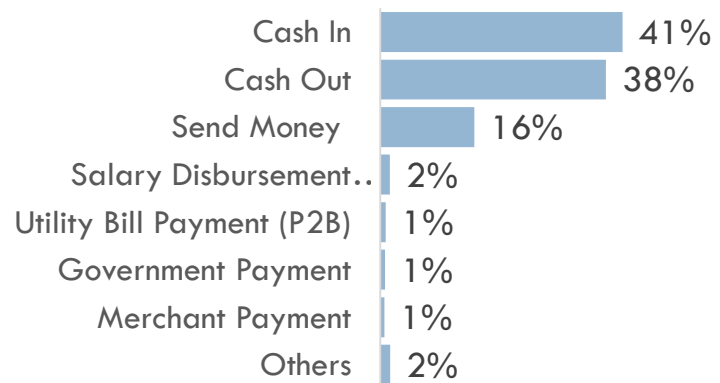


994 crore BDT
average daily
transactions



94%
local
remittance

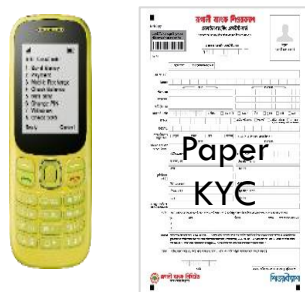
MFS Transaction Mix



Source: Bangladesh Bank, Intermedia (June 2018).

MFS and PSP License Comparison

MFS = PSP + cash in/out (using agents)



Mobile Financial Services (MFS)

Digital Wallet (PSP)

Target customer

Unbanked (bottom of pyramid)

Banked customers (middle-class, affluent), stores/merchants

Account opening

Paper KYC

Electronic KYC (secondary KYC) based on bank account or credit card

Primary usage

Basic financial service: cash in/out, P2P, mobile recharge, bill pay

Digital payments: add money from bank account/card, retail payment, P2P, bill pay, online purchase

Retail agents and cash in/out

✓

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Business ownership

Bank-led (bank subsidiary with at least 51% shareholding)

Fintech companies

Designing the MFS Regulations

- Bank-led Model; Guidelines in 2011
- 18 MFS providers, two have lion share
- Interoperability among MFS and with other payment systems;
- Client can open an account by filling up a short KYC
- Used to transfer money/remittance, pay bills, get salaries, pay merchant, and to get social benefits.
- Used by other financial organizations like Banks and MFIs to disburse credits and get repayments.

Lessons and Challenges ...

- Behavioral shifts for DFS adoption, innovation and risk management;
- Co-ordination among various related stakeholders i.e.
 - collaboration between public and private sectors;
- Careful regulatory and oversight framework-both from BB and from internal control and compliance of bank/non bank DFS;
- Finding the right balance to encourage innovation and to ensure consumer protection by right regulations (especially for insurance);
- Financial literacy in all layer of Payment systems-for regulators, for participants and also for end-users.

Thank You