Business Finance for the Poor in Bangladesh

FINAL REPORT

Innovative MSE Financing Products and Delivery Channels in Bangladesh: Opportunities and Challenges

10 January 2019

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Prepared by

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Acknowledgement

Economic Research Group acknowledges the commendable support it had received from the BFP-B team. Regular exchanges between the research team and several members of BFP-B during the study period make this report effectively an output of a collaborative effort between BFP-B and Economic Research Group.

Mr. Feisal Hussain, Team Leader, BFP-B, provided insights of BFP-Bs expectation with regards to the study and had shared his invaluable experience in working on financial inclusion for the poor. Mr Rashed Al Hasan, Policy Manager, BFP-B, played the anchor role from BFP-B for this study. Ms. Tanzila Tajreen, Policy Coordinator, BFP-B helped the research team engage in exchanges with Challenge Fund team and grantees. She had also joined us in our field investigation and several BFP-B members had supported the ERG team with critical review of the findings and observations. ERG acknowledge their supports for the smooth management of the study.

Md. Arafat Hossain, Challenge Fund Manager, and Muhymin Chowdhury, Deputy Manager of Challenge Fund, helped us by sharing their invaluable experience of working with grantees and understanding the projects relation to the study objective.

Special acknowledgment is for the contribution of all the respondents of this study. Without their time and input, this study would have been incomplete. There had been numerous such participants providing their input through the Focus Group Discussions (FGDs) and personal interviews, whose names are mentioned in the main report.

The Team acknowledges comments and suggestions made by several anonymous reviewers. In particular, the team remains in debt for the support received from the policy makers and regulators who made time for the interviews to share their valuable insights. In particular, the restructuring of the presentation has benefited immensely from comments and suggestions received from the members of the BFP-B Working Committee and PAC. It needs mentioning that the BFP-B team's persistent feedback helped the researchers recast their ideas in a manner more communicable to the policymakers. The report has been prepared in fulfilment of ERG's commitment to the Nathan Associate (London) Ltd and the limitations remain the responsibilities of the team members.

Economic Research Group
10 January 2019

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Acronyms

AIG	American International Group
AML	Anti-Money Laundering
API	Advance Passenger Information System
ASIC	Australia's Securities and Investment Commission
ATM	Automated Teller Machine
BB	Bangladesh Bank
BBS	Bangladesh Bureau of Statistics
BDS	Business Development Service
BFIU	Bangladesh Financial Intelligence Unit, BB
BRPD	Banking Regulation and Policy Department, BB
BSEC	Bangladesh Securities and Exchange Commission
BTRC	Bangladesh Telecommunication Regulatory Commission
CARD	Center for Agriculture and Rural Development
CBS	Core Banking System
CF	Challenger Fund
CFT	Combating the Financing of Terrorism
CIBA	Composite Insurance Brokers & Advisors
CSP	Content Service Provider
DFS	Digital Financial System
DOC	Directorate of Cooperatives
FCA	Financial Conduct Authority
FGD	Focus Group Discussion
FI	Financial Institution
FinTech	Financial Technology
GoB	Government of Bangladesh
ICMIF	International Cooperative and Mutual Insurance Federation
ICT	Information & Communication Technology
IDRA	Insurance Development & Regulatory Authority (Bangladesh)
IRDA	Insurance Regulatory and Development Authority (India)
IP	Internet Protocol
KYC	Know Your Customer
MAS	Monetary Authority of Singapore
MFI	Micro Finance Institution
MFS	Mobile Financial Service
MNO	Mobile Network Operator
MoF	Ministry of Finance
MoFin	Ministry of Finance
MRA	Microcredit Regulatory Authority
MSE	Micro and Small Enterprise
MSME	Micro, Small and Medium Enterprise
NBFI	Non-Bank Financial Institution
NPS	National Payment System
NPSB	National Payment Switch Bangladesh
OECD	The Organization for Economic Co-operation and Development
PAC	Policy Advisory Committee
PCI	Payment Card Industry
PCN	Payment Card Network
PKSF	Palli-Karma Sahayak Foundation

POS	Point of Sale
PSD	Payment System Department, BB
PSO	Payment System Operator
PSP	Payment Service Provider
SME	Small and Medium Enterprises
SIM	Subscriber Identity Module
SMEF	SME Foundation
USSD	Unstructured Supplementary Service Data
VAS	Value Added Services
VASP	Value Added Service Providers

Glossary of Terms

Agent Banking[1]	Agent Banking means the business of providing banking and financial services through agent's networks. A qualified third party can act as an agent on behalf of a bank to act as the customer interface on behalf of the bank. Agents may also act as a Master Agent; a Master Agent supervises and provides support to an agent.
Credit Rating[2]	Credit rating is an analysis of the credit risks associated with a financial instrument or a business or economic unit entity. It is a formal assessment and evaluation of a company's or stakeholder's creditworthiness, credentials and of its ability to meet payments on time. Credit rating information is obtained while taking decision on lending or offering credit to new customers. It may be obtained from specialised credit rating agencies or suppliers.
Content Provider[3]	CP refers to any kind of entity who provides VAS, contents and application pertaining to various services.
Crowd Funding[4]	The practice of obtaining funding typically for a new business by soliciting contributions from many people especially using online communication. Crowd funding is now considered a major and distinct funding modality in advanced countries for start-up entities especially those that have a social mission or aspect to their business concept as well. A few companies in Bangladesh have tried to and / in the process of setting up the infrastructure for starting crowd funding for small business entities.
Debenture[5]	It is a type of debt instrument that is not secured by physical assets or collateral. Debentures are backed only by the general creditworthiness and reputation of the issuer. Both corporations and governments frequently issue this type of bond to secure capital. Like other types of bonds, debentures are documented in an indenture.
Delivery Channel[6]	A distribution or delivery channel is a chain of operating points or intermediaries through which a good or service reaches the end consumer. For banking services, agents, ATMs are some of the end points in the delivery channel. Technological advancement has in the recent years resulted in large scale use of internet banking, and banks are also using mobile financial service (MFS) as a delivery channel.

[1] Bangladesh Bank (2017)
[2] India Times, https://economictimes.indiatimes.com/definition/Credit-Rating
[3] BTRC
[4] For definition, see, Hossain and Oparaocha (2017).
[5] Investopedia
[6] ibid

Digital Financial System (DFS)[7]	Digital financial system is a system that provides access to financial services using automated and digitised technology and processes. The challenge for providers of the service is to provide the service in an affordable way and maintain integrity and security to the process.
E-commerce[8]	Electronic commerce (ecommerce) is a type of business model, or segment of a larger business model, that enables a firm or individual to conduct business over an electronic network, typically the internet. Electronic commerce operates in all four of the major market segments: business to business, business to consumer, consumer to consumer and consumer to business.
Electronic Banking[9]	Banking service conducted through computerized systems intended to speed operations, reduce costs, and allows bank's customers to request information and carry out most retail banking and limited other banking services through computer, mobile phone, or other electronic means.
Electronic Fund Transfer or Electronic Payment[10]	Any transfer of funds or payments initiated through an electronic terminal, internet, mobile phone, telephone, computer, online payment gateway or magnetic tape for the purpose of ordering, instructing, or authorizing a financial institution to debit or credit a consumer's bank or e-money account.
Equity Financing[11]	Equity finance is a method of raising capital by selling shares of the company to private entities, the public, institutional investors, or financial institutions. The people who buy shares are referred to as shareholders of the company because they have received ownership interest in the company.
Factoring[12]	The business of collecting someone else's debt on their behalf. A company sells its receivable to a factor at a discount. The factor then sets out to collect the money owed. Its profit comes when it collects more than the discounted price that it pays for the debts. A company that sells its debt to a factor gets cash, does not have to work on collecting the debts.
Financial Inclusion[13]	Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs such as effecting transactions, savings, getting credit and insurance. Greater Financial Inclusion implies a greater number of people and business who are not necessarily high value entities in traditional sense and are often in rural areas have access to the services in a cost effective and socially responsive way.

[7] CGAP
[8] Gibson N., (2014)
[9] Alliance For Financial Inclusion (2012)
[10]ibid
[11]ibid
[12]ibid
[13] The World Bank

FinTech - Financial Technology[14]	Financial technology (FinTech) is the emerging technology that is delivering financial solutions in new and innovative ways utilising myriad technologies and platforms especially Information Technology platforms and applications. Many FinTech applications are now provided over mobile phone platforms.
Impact Investment[15]	Impact investing refers to investments made into firms, enterprises, companies, organizations, with the intention to generate a measurable, beneficial social or environmental impact alongside (or in lieu of) a financial return.
Innovative Finance[16]	Innovative finance is a way of creating new funding options, mitigating development challenges (i.e. financial inclusion to marginal and unbanked populations) which are not addressed by traditional financial system, and includes ways that enhances the efficiency of traditional financial services by reducing delivery time and cost applying new methods and technologies.
Internet Banking[17]	The practice of banking service (i.e. transfer of funds, payments) over the internet. Many banks set up banking over internet and online platform to provide real time banking service.
Invoice Financing[18]	Invoice financing is a general term used whenever a third party agrees to buy unpaid invoices. It is a type of factoring service. Richardson, J. (2016)
Leasing[19]	It is a form of financing through the application of leases. A lease is a contract outlining the terms under which one party agrees to rent property owned by another party. It guarantees the lessee, the tenant, and use of an asset and guarantees the lessor, the property owner or landlord, regular payments from the lessee for a specified number of months or years.
Microinsurance	There is no formal definition of “microinsurance” in current laws and regulatory space in Bangladesh. The term itself came into vogue since the turn of the century. A sketch of the historical evolution of the term may be found in Ingram and McCord (2011), which however suggests that a comprehensive definition of ‘micro-insurance’ is yet to be developed. The paper classifies ‘micro-insurance’ into three: consumer based, product based, and mixed. Operational definitions and sub-categories are said to vary with differences in levels in which societies are. Ahsan (2013) provides an analytical overview of micro-insurance market in Bangladesh; and more recent concepts on micro-insurance can be found in the website of micro-insurance network.

[14] ibid
[15] UNDP
[16] The World Bank; ACCA.
[17] Gibson N., (2014)
[18] Richardson, J (2016).
[19] Gibson N., (2014)

Mobile Banking[20]	Mobile banking is the act of doing financial transactions on a mobile device (cell phone, tablet, etc.). This activity can be as simple as a bank sending fraud or usage activity to a client's cell phone or as complex as a client paying bills or sending money abroad. Advantages to mobile banking include the ability to bank anywhere and at any time. Disadvantages include security concerns and a limited range of capabilities when compared to banking in person or on a computer.
Mobile Financial Service (MFS)[21]	A mobile phone based financial services using internet and mobile networks. The use of a mobile phone to access financial services and execute financial transactions. This covers both transactional and non-transactional services, such as viewing financial information on a bank customer's mobile phone. A mobile-based transactional service that can be transferred electronically using mobile networks.
Payment System Operator[22]	It refers to an entity licensed by the Bangladesh Bank for operating a settlement system for payment activities between/among participants of which the principal participant must be a scheduled bank or financial institution maintaining accounts with the Bangladesh Bank for meeting Cash Reserve Requirements;
Point of Sale (POS) Transfer	A method of electronic payment which allows money to be transferred from the account of the buyer to merchant at close-to real-time upon verification.
Regulatory Sandbox[23]	A Regulatory Sandbox is a way for regulators to give limited duration and scale approval to companies they regulate in order for them to test their innovative products (especially financial products) within a safe and controlled environment without unduly breaking the financial regulations and / stifling innovation.
Secured Lending[24]	Secured lending is a process of lending where a borrower has to pledge some asset to lender as collateral as a form of protection against defaulting on the loan. A secured business loan is backed up by security, valuable assets or items that a business entity owns.
Special Purpose Vehicle (SVP)[25]	A special purpose vehicle is a subsidiary company with an asset/liability structure and legal status that makes its obligations secure even if the parent company goes bankrupt. An SPV/SPE is also a subsidiary corporation designed to serve as counterparty for swaps and other credit-sensitive derivative instruments.

[20] Alliance For Financial Inclusion (2012)
[21] ibid
[22] BB (2014)
[23] Jenik. I., Lauer K. (2017)
[24] Investopedia
[25] ibid

Unbanked[26]	People who do not have an account at a financial institution and are not getting reasonable banking services and credits that they may need, for reasons of poverty, cost, travel and documentation requirements, etc.
Value Added Service (VAS)**[27]**	VAS usually refers to 'non-core' services provided by the service providers that add value to core services and generates revenue. BTRC defined Telecommunication Value Added Services (TVAS) as the telecommunication services (e.g. m-health, location based services, push marketing notification) that are provided other than the core services that are electronically consumable and deliverable through any ANS using direct operator billing and/or any approved payment method by central bank.
Venture Capital[28]	Venture Capital is a way of financing start-up firms that have long term growth potential. It may come with managerial and business expertise and limited form of monitoring and control. Venture Capital requires a higher than average return for a higher risk profile of the investment.

[26]The World Bank.

27 **ibid**

[28] Investopedia

Executive Summary

Micro and Small Enterprises (MSEs) play important roles in a country's quest for achieving inclusive economic growth. Like many business organizations, MSEs need affordable access to financial services for smooth functioning. Financial innovations facilitated by wider application of information & communication technology have opened up new avenues for delivering various types of financial service to the MSEs. If rightly regulated, such innovations can foster economic growth by ensuring more efficient allocation of financial resources and reduce inequity in access to finance as well. It is therefore desirable to have a regulatory environment, where financial innovations can flourish and contribute to growth and equity, and at the same time, preserves investors' rights, safety and interests.

Business Finance for the Poor in Bangladesh (BFP-B) programme, funded by UK Aid and implemented by the Bangladesh Bank, aims to foster increased access to finance for Bangladesh's micro- and small enterprises (MSEs), especially those that are currently un-served /underserved by the formal financial sector. The Policy Component of the BFP-B programme aims at facilitating collaborative approach to financial sector policy and regulatory reforms and creating opportunities for MSE sector in Bangladesh through increased financial inclusion for small business. In this backdrop, the study titled 'Innovative MSE Financing Products and Delivery Channels in Bangladesh: Opportunities and Challenges' was commissioned. Primary objectives were to understand the regulatory barriers in launching, operationalizing, pilot-testing and up-scaling of innovative financing products and delivery channels, by taking into consideration the regulators' views on the rationale of sustenance of existing regulations, or lack of any. BFP-B commissioned Economic Research Group (ERG) to undertake the study. ERG undertook extensive reviews of documents and research materials and consulted different groups of stakeholders during December 2017 till early March 2018. The present report went through several iterations of edits and feedbacks from BFP-B team and policymakers in the BDP-B Working Committee and Policy Advisory Committee (PAC).

After exchanges during inception, the study took cue from the experiences of the awardees of Challenge Fund (CF), and aimed at identifying the regulatory barriers the select group of initiatives under CF have been facing and assessing the rationale of bringing about changes in those areas. The assessment process involved conceptualization and review of literature on fast changing canvas of fintech ecosystem, consultation with CF awardees and other providers in the market to narrow down on selected themes, follow up with in-depth review of regulations and experiences in other countries and taking those to the respective regulators. All these are critically examined and presented with a set of recommendations. Though the focus of this assignment had been revised to address concerns of CF projects, there are issues pertinent for the MSEs and yet are outside the purview of the current engagements of the CF awardees.

Many MFIs have long been practising micro-insurance in one or the other form. Most of those falls under the category of general insurance, and where human life is involved, it is mostly confined to waiver of borrowers' liability. The MRA rules permit the MFIs to engage in such practices, but the Bima Ain 2010 (IDRA) authorises only the licensed insurance companies to do so. Recent Act (draft) permits insurance companies to collaborate with MFIs in extending insurance to the MFI clients. Though evidence on impact of insurance on financial inclusion is not obvious, the study noted that the insurance companies are keen to extend their nets by building new partnerships and some MFIs prefer to specialize in extending microfinance and leaving the insurance part to the specialised institutions. Stakeholders involved in one of the CF initiatives linking private insurance company with a group of MFIs raised concerns on a number of regulatory and market issues: (i) separation between general and life insurances create obstacles to innovations in composite product, (ii) ambiguities around who may or may not issue micro-insurance often deter designing of new products, and (iii) a serious shortage in availability of professional actuary services in Bangladesh (allegedly rooted in skewed market powers) acts as a barrier to developing innovative insurance products.

It is true that separation of general from life insurance is a common practice across the globe. However, there has been success with composite insurance under Sanasa Insurance Company Limited in Sri Lanka. **It is proposed that experimenting with composite insurance is worth pursuing**, and IDRA has provision for NOCs to allow such experimentation on a case-to-case basis. However, MRA is obliged to protect the interests of the MFI clients from arbitrary pricing and there is a need to create new regulatory space for 'micro-insurance' instead of treating it as another product with stringent rules applicable to insurance companies. **It is recommended that IDRA and MRA act together to work towards that objective. The study also recommends that regulators collaborate with educational institutions at home and abroad to increase skilled manpower in the market of actuary professionals, work towards reducing skewed market power of few actuaries and facilitate transfer of know-how in collaboration with foreign entities**.

A second set of CF projects took up initiatives to promote financial inclusion by involving MFIs in agent banking. Agent banking, as a substitute of branch banking (or, an extension beyond bank branches), is expected to facilitate financial inclusion. As far as financial transfers are concerned, there is stiff competition from MFS providers. Thus, banks, better equipped with technology to reduce cost of communication (information transfers) between agents and branches (often mediated through head office), have done well. While the future progresses in mobile banking will have important bearing on the efficacy of agent banking, current efforts allegedly face several regulatory difficulties. The service providers raised several concerns: stringent requirements on eligibility and location, limits on amount in each transaction as a fallout of moves against money laundering and 'terrorist financing', and complications in completing account opening forms and Know Your Customer (KYC) for extending loan operations through agents. **The study finds merit in the last allegation** and KYC along with MFS are discussed separately under payment digitisation. **However, there is no reason to suggest that current regulations in other areas constrain the expansion of agent banking**. Rather, the regulators are found to be responsive to needs of the market, particularly, in adjusting the limits on transfers, with a view to balance conflicting concerns with regards to money laundering and widening financial inclusion.

Most efforts towards financial inclusion, particularly of MSEs, operate through debt markets and/or through loan-providing institutions. In Bangladesh, experimentation with equity market has been limited, and the debacle in the regular capital market has dampened enthusiasm for the existing form of equity financing. In this regard, three initiatives are worth mentioning. First, DSEC is in the process of finalizing the rules to institutionalize a separate platform in DSE for small-sized companies (the Qualified Investor Offer by Small Capital Companies Rules, 2018), which was not addressed in this study. However, some aspects of the draft Rules have been mentioned because of the potential the platform holds in (equity) financing MSEs. The second is the alternative investment fund; and the existing Alternative Investment Rules, 2015, covers only venture capital, equity financing, and impact investment. The third is Crowd Funding ('crowdfunding'), which is allegedly not backed by any existing regulation. Since crowdfunding is a potential vehicle to mobilize small savings for financing specific MSEs, one of the CF projects (under BD Venture Limited) has been trying to develop a platform to connect entrepreneurs with a large group of small investors.

Current provisions in the Alternative Investment Rules 2015 restrict the number of investors (to 200) and set a minimum size of investment (to Tk. 5 million), which are not conducive for promoting crowdfunding. Moreover, there is no legal provision to tie in many investors to a single project (entrepreneur) and for an intermediary legal entity to play the role of intermediation. The regulators generally compartmentalise the scopes for financing into money market (short-term debt financing) or capital (equity financing) and bond markets (long-term debt financing). They are hesitant to open the space for new players on the presumption that the actions of these new players may increase instability in the financial markets. Although crowdfunding is a relatively new concept that has received regulatory attention even in the developed world only recently, it turns out that detailed guidelines for crowdfunding are available in many countries. While digital equity crowdfunding platform is illegal in India for the fear of money laundering, there are several successful crowdfunding platforms elsewhere, e.g., Kiva, the Spark Project, Gava and Upbuilds. Given some success stories around the world, and presence of a large number of small savers/investors in the country, **the study recommends that the regulators in Bangladesh further develop effective guidelines for alternative investments to define new forms of investment contracts that allow a 'third party' intermediary to bridge between large pool of small investors specific investments (entrepreneurs) remaining accountable to the regulators**.

Innovations in design of financial products as well as in the delivery mechanism have been possible largely due to significant adaption of ICT in the market of financial services, and MFS is an important manifestation of that adaption. Various cross-cutting issues therefore surfaced during review and consultation which directly relate to MFS, and the study addresses some of those. The study recognises that newly emerging technological platforms, initially developed to provide transfer or payment services, involve opening of a financial account and have the potential to accommodate deposits and implicit loans/advances!

MFS companies in Bangladesh, as one observes in neighbouring India, are not allowed to extend loans. While FinTech/MFS companies are permitted to extend loans in some countries such as Kenya and the Philippines, the volume of mobile lending in the world remains very small. Additionally, allowing FinTech/MFS firms to extend loans would imply a complete paradigm shift in terms of loan regulations and would need involvement of multiple regulatory bodies. Considering these issues, **the study recommends no change in current regulation barring MFS lending**. Rather than allowing FinTech/MFS companies to extend loans directly, policymakers need to encourage lending institutions to avail MFS for cost reduction and time-efficiency. The review notes success stories of mobile application-based Nano/micro loans in East Africa and Pakistan. The study also notes that some MFIs in Bangladesh already provide similar types of micro loans with short maturity periods in semi-urban market areas, and current MRA regulation does not prohibit MFIs from incorporating mobile application-based technology. Thus, **existing micro lending models can be made more efficient in terms of both time and cost, which however call for appropriate policy incentives and enforcement of contracts with MFS providers**.

It is perceived by many FinTech and MFS firms that they can store financial data only in Bangladesh Bank (BB) sanctioned digital storage facilities. It is however commonly recognised that cloud-based storage and management of data by third party is a lot cheaper option, particularly for smaller banks. There are diverse routes that countries comparable to Bangladesh have taken. The BangkoSentral ng Pilipinas (BSP), the Central bank of the Philippines, has moved cautiously, allowing banks to store their customer data in private (more secured) clouds provided all safety measures are followed. In order to protect the interests of BSP Supervised Institutions (BSI) and provide access to BSP as and when required, regulators have designed detailed guidelines, which emphasize the importance of having a well laid out contract between a BSI and the external cloud service provider. In contrast, most countries, including neighbouring India, do not permit storing data elsewhere. It is relatively flexible, but undefined in case of Bangladeshi bank or MFS. The latter require NOC (no objection certificate) to avail such facility, and the Regulators in Bangladesh want to ensure that contracts with Cloud-keepers or similar agencies are sufficiently explicit to allow regulators to access data as and when required, and local stakeholders do not turn captives of global powers. **The study recommends that BB, in collaboration with BTRC, take steps to**

gradually move out of the NOC regime by introducing permissible (inclusion) and non-permissible (exclusion) criteria which will reduce ambiguities and uncertainties with regards to investment on data storage. Those criteria are expected to ensure the transparency of the contracts between the local financial institutions and local/foreign third-party service providers, and the protection of local stakeholders' interests. It is also **recommended that necessary public investments be made to facilitate growth of in-country (i.e., within the regulatory jurisdiction of Bangladesh's sovereign) data storage facilities in the private sector**.

The MFS firms in Bangladesh allege that requirements for account opening and KYC are demanding and may hamper the growth of the digitization process of financial transfer in the country. The Indian regulators also issued similar guidelines in 2017 on stricter and mandatory KYC norms for users of mobile wallets in the country, and similar concerns were expressed by Indian FinTech/MFS industry players. However, as the experience with Aadhar e-KYC services introduced by the Unique Identification Authority of India (UIDAI) reveals, having database at the back-end with real time connection with the front-ends can quicken the process of opening a new trading account or bank account or availing a new mobile connection. It is **recommended that the process of developing robust back-end data at the Bangladesh Bank, identifiable by unique characterisation, be supported**. Along with it, a minimum requirement be placed (under eKYC) for those already included in the database.

The study finds presence of confusions around duplications in obtaining information through filling in forms during opening an account and for meeting the KYC requirements. Historically, account opening form preceded KYC and the earlier initiatives on KYC were focused on scrutinising borrowers. Much later, concerns with money laundering, particularly in cross-border financial flows, together with global initiatives against terrorist financing led to seeking more information on all account holders. It is understood that amidst involvements of multiple agencies, and due to possible biases in procurement related incentives, the banks continued to collect information on both counts. Drawing upon consultations with diverse groups of stakeholders and regulators, the study team finds that the primary responsible body, BFIU, is gradually developing a unified KYC and the agency appears to be open to ideas. Additionally, at present, substantial variation exists in KYC requirements, which creates confusion regarding which KYC requirements are to be followed in the case of collaboration between different types of entity, e.g., a collaboration between an MFS firm (relatively simple KYC requirements) and a commercial bank (relatively complex KYC requirements). **Setting up a tiered KYC requirements standard could be a solution, and focused study on it needs to be undertaken. There is however a need to establish unhindered and un-tampered information flow between practitioners and regulators, and it is the responsibility of the latter to establish appropriate norms and routes of communication**.

Information on customers as well as all financial transactions they engage in is meant to enrich the Big Data, which are in soft (digitised) form. There is however confusion with regards to retention of accounts and KYC-related information in hard copies. On the assumption that such retention is mandatory, some MFS firms voiced concerns. The same applies for banks as well. In-depth review of Acts and regulations, as well as extensive exchanges with regulators, revealed that hard copies are not mandatory other than for legal purposes. **The study identifies certain aspects of evidence Act which may be revised to allow digitised documents to be used as evidence. Till such changes are brought in, clarity in interpreting regulations may be made public that the requirements are not imposed by regulatory authorities -- rather, those are the discretion of banks who may feel the necessity to safeguard against fraudulence. In this regard, the study also recommends that a limit be imposed on banks collecting private information from their clients in order to protect the clients from undue harassment**.

The study is confined to financial services and delivery of those services and does not probe into the details of technology platform. Generally, regulations on payment system and other guidelines and regulations from Bangladesh Bank spell out the dos and don'ts of service providers, and reportedly, instruct the stakeholders to follow ICT guidelines when technology platforms are used. There are however grey areas which call for coordination across agencies. Increased dependence on technology and mobile operators in providing financial services, and the existence of various entry points for mobile operators to engage in financial services remain the basis for potential conflicts. Currently, establishing interoperability of MFS is urgent. The study recognises that there is a regulators' committee, comprising of BB, RJSC, MRA, BSEC, BTRC and IDRA, which is chaired by the Governor of BB. Such a committee, if adequately empowered, can promote innovations and scale up innovative products which involve multiple regulators. It does however need executive power to enforce policies. **It is recommended that the regulators' committee commissions studies to understand the current technological limitations as well as the incentive structure and find ways to establish interoperability**. Furthermore, following Tanzania's successful example, industry inputs need to be considered in order to make interoperability effective. It is expected that the new ICT Policy will address the issue.

The study recognises that taking cue from the CF projects had obvious bias, and many of the micro-enterprises may have been left out. Consultations with MRA, PKSF and many MFI representatives suggest that there has been little or no innovation in loan products and the technology adaption has been rather slow. There have however been important innovations in marketing of products/produce of micro-enterprises. Both uses of ICT (e-commerce) and establishment of links between primary producers and retail outlets at consumers' end have facilitated introduction of new forms of financing.

Finally, the study notes that **Bangladesh remains a country where regulators in the fields of development finance have shown adequate flexibility in accommodating experimentations**. It is expected that the practice will continue, be it in the guise of regulatory sandbox or any other name. With increased corporatisation and increased efforts to establish rule-based business practices, **it is desirable to gradually move out of arbitrariness involved in NOC-based decision regime. Introducing guidelines to deviate from norms, embedded in a regulatory sandbox approach, will provide a platform where firms will be allowed to experiment with innovative products within a (pre-defined) relaxed regulatory environment for a finite period**. This will have to be done under a controlled environment, and under the close supervision of the regulators. If the experiment is successful, it can be scaled up and some regulatory changes can be advised.

The report has four chapters and eight annexes. The introductory chapter discusses the conceptual issues that contextualise the objectives of the assignment. Chapter 2 outlines the methodology which also lists the major themes drawn from initial review and consultations, and which structures the subsequent discussion. While Chapter 3 details the regulatory issues, including concerns, rationale and experiences under each of the selected themes; Chapter 4 proposes recommendations. In both those chapters, the discussion is structured around several themes: Insurance-linked financing which deals with combination of micro-insurance and microfinance products; Agent Banking; Alternative Investment including crowdfunding; and Digitisation of Financial Transfers including issues on MFS and data storage.

Chapter 1: Introduction

1.1 Background to the Study

Role of finance in promoting economic growth is widely recognised. However, financial inclusion, particularly of those left out of the mainstream delivery of financial services, is perceived critical for promoting inclusive growth. Such inclusion may address households, enterprises, geographic locations, demographic groups, etc. Recognising the importance of the enterprise sector, Business Finance for the Poor in Bangladesh (BFP-B) programme, funded by UK-Aid and implemented by the Bangladesh Bank, aims to foster increased access to finance for Bangladesh's MSEs. The focus is reportedly those which are currently un-served /underserved by the formal financial sector. There are (as of 2013) 8.08 million micro, small and medium enterprises (MSMEs) in Bangladesh[29], 90% of which are micro and small enterprises (MSEs)[30]. While there are concerns with infrastructure and regular supply of energy, access to finance is one of the key constraints identified by 68.6% of microenterprises (Vila, 2013). Thus, financial inclusion remains a major concern in programmes of the Government of Bangladesh (GOB) as well as those of external development partners (EDPs).

Recognising the changing FinTech canvas in the country, the Policy component of the BFP-B programme actively engaged in identifying various financial products and delivery mechanisms, which may promote financial inclusion of the MSEs. Since BFP-B aims at improving the policy and regulatory environment for financial institutions to make long-term investments in growing their small business portfolio, the Policy component of the Programme commissioned the present study, titled, **Innovative MSE Financing Products and Delivery Channels in Bangladesh: Opportunities and Challenges**. The purpose was to understand the regulatory barriers in piloting, launching, implementing, and up scaling of innovative financing products and delivery channels, as well as to understand the regulators' views on the justifications of keeping regulations so that enabling regulatory environment is created to ease the financing constraints faced my MSEs and recommend areas of further improvement[31]. Economic Research Group (ERG), a not-for-profit research organization operating out of Bangladesh, was awarded the contract in mid-October of 2017.

This report, a revised after the meeting of the Working Committee on 27 June 2018, presents the researchers' triangulated perspectives drawn from review of existing regulations and of international experiences, as well as from consultations with practitioners and regulators.

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[29]Such estimates are based on Economic Census administered by BBS in 2013. The "Speech of the Governor of Bangladesh Bank in Launching of 'SME Banking Strategy' Seminar", April 28, 2013, mentions the figure to be 8.08 million.

[30]The MSME segment provides employment to more than 28 million people and generates about 25% of the country's GDP.

[31]The Terms of Reference is attached in Annex 1.

1.2 Context and Rationale of the Study

A recent study undertaken for BFP-B suggests that use of bank accounts for business transaction is still not universal among MSMEs - only 62% of the surveyed MSMEs were found to have company bank accounts. The study however noted that 68% of the latter group reported their preference to transact through cash, and found significant presence of mobile banking accounts which are price-sensitive. More robust findings on financial inclusion of households is found from nation-wide surveys, such as the HIES 2016. Using those data, an ERG study[32] finds hand-to-hand transfers to dominate transfers under social safety net programs even when actual disbursements may have been made through a formal route, such as the bank or post office. The study also mentions that less than 4 per cent of the survey households reported of borrowing from banks or GOB microloan programmes, and another 23 per cent of the households borrowed from MFIs (with or without informal lending). While the non-borrowing households accounted for less than a per cent, 72.3% are found to have borrowed from business and informal sources, without availing financial services of banks or MFIs. These evidences suggest of inadequate inclusion of people in the formal financial sector[33].

Yet, the same BFP-B study finds 46 per cent of surveyed MSEs using MFS for business purposes[34]. The persistent technological changes and their wider applications to allow introduction of new delivery mechanism as well as new products have opened up avenues for furthering financial inclusion. The present study is commissioned at a period when many consider Bangladesh to be at an inflexion point in the growth of MFS.

Importance of micro and small enterprises (MSEs) in promoting widely shared economic growth has long been recognized in Bangladesh, and along with it, the importance of ensuring their access to credit received increased attention over the years. Financial innovations facilitated by wider application of information & communication technology, have opened up new avenues for delivering financial services of various shades to the MSEs. If rightly regulated, such innovations can foster economic growth by ensuring more efficient allocation of financial resources, and reduce inequality in access to finance as well. However, improper management of financial products, asymmetric dissemination of information to end-users and underestimation of risks that involved with financial innovations may lead to increased volatility of investment climate and may result in delinquencies and bankruptcies.

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[32]Final report on Strengthening analysis and presentation of social security-related data in 2016 Household Income and Expenditure Survey of Bangladesh Bureau of Statistics - Chapter on Social Safety net in HIES 2016 Report, ERG, February 2018.

[33]One may raise issues with the functioning of the formal financial sector and the extra tax-related obligation an association with the sector may bring. Such concerns of clients are generally ignored when push or financial inclusion in the formal financial sector is pursued.

[34]Bangladesh is the ninth largest mobile market, with a current (2017) penetration rate of 51% (85 million) in terms of unique mobile subscription (GSMA 2018).

Recognising these, BFP-B has been supporting new initiatives in the field by administering a Challenger's Fund (CF), which ran into the initiation of the third round when the present study was commissioned. On the understanding that these and other experiences would allow one to identify regulatory barriers that the practitioners are facing at the entry, launching, pilot testing and up-scaling stages, the study was commissioned. It is commonly agreed that a regulatory approach that creates an environment where financial innovations can flourish and contribute to growth and equity, and at the same time, investors' rights[35], safety and interests are preserved, is desirable.

1.3 Conceptual issues

1.3.1 Defining innovative financing

The term 'innovative financing' is coined mostly in the context of inclusive financing and the latter often refers to extending the financial net to include the micro and small enterprises (MSEs)[36].There is, however, little consensus about the definition of innovative financing. The idea of innovative financing and interest in the subject was stimulated to foster sustainable and effective development aid, following the global economic and financial crisis (Sandor, Scott &Benn 2009). The most concise definition is provided by World Bank (2010), breaking up the idea into several parts:

> "Innovative finance refers to any financing that helps to generate additional funds by tapping new funding sources or mutual engagement of new partner agencies, enhance the efficiency of financial flows by reducing delivery time or costs, making financial flows more result oriented by explicit linkage of flow to measurable performance. Often this mechanism involves the combination of using new resources or existing resources in a new context by two-fold mechanism: to create new resources and using them effectively."

In a similar fashion, ACCA (2014) defines innovative finance as a solution that mitigates development challenges, not adequately addressed by traditional financial flows. Creating and nurturing micro, small and medium social enterprises, are identified by ACCA as the primary targets of innovative financing, and lending is considered the most obvious form of financing.

[35]The term 'investors' in the context of financial (particularly, capital) market refers to savers/depositors in banks and buyers of stocks, which should not be mixed up with 'entrepreneurs' (both actual and deceivers) who access the investors' fund through debt and/or equity instruments.

[36]According to National Industrial Policy 2016, Small Enterprise in the manufacturing sector is defined to include those having total fixed asset (TFA) between BDT 7.5 m to 150 m and engage 31 to 120 employees. In the Service sector, SEs are those with TFA between BDT 1m to 20 m and the number of employees is between 16 and 50. In cases of micro enterprises (mE) in manufacturing, TFA is between BDT 1 m and 7.5 m, and the band for number of employees is 16 to 30. For mEs in the service sector, TFA ought to be less than BDT 1 m and the number of employees is less than 15.

The list of ACCA solutions also includes packaging financing products with use of technology, either to reduce transaction costs, or removing the barrier in the way of reaching to previously un-served or under-served group. While being less exposed, having high interest rates and risks for MSEs– conventional banking system has advocated a pathway to create more diverse financial ecosystem through above-mentioned innovative mechanisms (SME Financing Forum 2012). Innovative financing benefits go beyond financial returns – it helps developing capacity, maximizing efficiency and social development. According to Pilot Group, innovative financing should be additional or complementary to official development assistance (ODA) not as a substitute to it. Suggestions are made to make it predictable and stable through multi-year commitments (Sandor, Scott & Benn 2009). For this purpose, they consider innovative financing to comprise of raising funds and stimulating actions to support international development that go beyond traditional approach of spending.

European Commission considers innovative financing as a way of arraying budgetary resources and complement grants and subsidies within a dedicated regulatory policy. According to EU, innovative finance instruments involve a range of activities that include participation of equity funds; guaranteed lending to a large number of final beneficiaries (SMEs), risk sharing with financial institution to boost investment in larger infrastructure. The aim is to boost the real economy through increasing the access to finance for enterprises and industry that are producing goods and services.[37]

1.3.2 Key Concepts

For the ease in communication between researchers, practitioners, regulators and policymakers, we need to reach common understanding on several key concepts. Some of those have been included in the glossary. Taking cue from the previous discussion, a selected number of key concepts is discussed in this sub-section.

Innovative Financing: Innovative is considered a strategy that has not been practiced before, or a financing strategy that has been practiced in other country but not in Bangladesh. At an operational level, the study uses the following attributes to identify an innovative financing:

(a) Financing tool that increases access of target group to financing, particularly those who were previously under-served and/or un-served,

(b) It involves innovative source of funding and applies innovative financing mechanism or delivery channel using information and communication technology (ICT).

While lending is the most often sought instrument in innovative financing, there are other instruments as well. Those include, insurance tied to finance, digitization of transactions,

[37]https://ec.europa.eu/info/business-economy-euro/growth-and-investment/financing-investment/innovative-financial-instruments_en

alternative finance such as impact investment, venture capital, crowd-funding, factoring, hybrid financial instrument, Special Purpose Vehicle (SPV), etc.

Stages of innovative financing: We consider four stages in the processes whereby a decision to deliver a financial service gets realized through identification of a delivery-contingent product and its marketing on a wider scale. These are distinguished with a view to contextualise specific regulations and/or regulatory barriers, and are noted below[38]:

(i) Pre-entry decision - to enter or introduce a new financial service;

(ii) Designing a product along with the delivery mechanism - which may involve negotiations with multiple actors (market and non-market agents). at an operational level, often involving multi-party negotiations;

(iii) Pilot testing of a product under one or more delivery mechanisms[39], and

(iv) Up-scaling, once the results of pilot-testing are found encouraging.

Regulations and Policies: We recognise differences between (policies) guidelines that are often indicative, and regulations (and directives) that define compliances and policies with financial and/or non-financial incentives to promote (or discourage) a financial product or activity. Beyond regulators, there may also be organization-level (actors in the financial market) policies to guide the actions of agents (employees) within those organizations. We exclude the last kind of policy for the present assignment. The study focuses on regulatory issues, and recognises the differences between regulations pertaining to promoting innovation process and those aimed at facilitating innovative products. Though the primary focus of this study is on regulations, addressing policies to incentivise or discourage one or the other activity may be unavoidable.

[38]The Terms of Reference mentions of four stages of innovative financing -- piloting, launching, implementing, and up-scaling. The Study takes cue from those ideas and reformulate to reflect the processes as were observed.
[39]In the latter case, there would be more than one delivery-contingent financial product.

1.4 Study Objectives

Following the extensive exchanges on scope of the study at the kick-off meeting, the overall objectives of this study are considered the followings[40]:

- Drawing upon experiences of the applicants and awardees of BFP-B's Challenges Fund (CF), identify the regulatory barriers observed by the financial service providers during different stages of innovations such as entry, pilot testing and up-scaling stages.
- Review existing regulations across relevant financial domains to identify the ones that may hinder progresses in innovations.
- Review global regulatory practices that were adopted in situations that CF applicants are facing in promoting specific innovative financial products and delivery channels.
- Consult the regulators to understand their views on presence, absence or lack of implementation of specific regulations identified earlier and assess the factors that discourage the regulators from addressing the above-identified problems and promote innovations. Along with it, assess how the regulators could promote innovations through creating enabling regulatory environment.
- Recommend changes in umbrella policies including regulatory Sandbox, as we determine, to promote innovation on some specific financial products.

Following this introduction, Chapter 2 discusses the study methodology. Since the subject involves multiple dimensions with several actors and regulators, which are distinct and yet have overlaps, the chapter tries to draw the canvas adequately prior to proposing the methodology. Chapter 3 presents the summary findings drawn from reviews, and from discussion with practitioners and regulators. While the concluding chapter proposes policy recommendations, details on various aspects are relegated to seven annexes.

[40]The objectives were reformulated in the Technical Proposal submitted, and further focus is brought in following the meeting at BFP-B on 30 October 2017.

Chapter 2: Methodology

2.1 Conceptual Framework – understanding the FinTech Canvas

ERG commenced the study in early December 2017 with a team of four researchers[41] and a number of Research Associates. The Study team undertook extensive reviews of documents and research materials, organized several individual-level consultations with the practitioners of several Challenge Fund winners to identify regulatory issues faced by them, and organized several group consultations after circulating revised briefs. The research team also met relevant regulators to understand the regulators' views on the issues identified. Moreover, the study team gathered substantial information on the global experience in innovative finance and perspectives in a selected number of countries.

2.1.1 Interfaces between stakeholder-technology, and product-delivery channel

Within a traditional regulatory setup, financing can be envisaged in either the money market, or by resorting to the capital market. The former, involving various lending instruments & products has been under the domain of the central Bank (Bangladesh Bank). And, the latter involves sourcing equity finance by enlisting in stock markets regulated by the Bangladesh Securities and Exchange Commission (BSEC).The insurance market stood independent, regulated by the Insurance Development and Regulatory Authority (IDRA), with marginal or no direct overlaps with the financial market.[42] With the introduction of ICT and with fast developments in its application, technology shaped the financial canvas in significant ways, particularly, the money and capital markets. Yet, important applications of the technology use platforms, such as, mobile network services and internet services, operating in a market of bandwidth and high frequency radio and/or satellite connectivity, which are regulated by a different authority called BTRC. In some important ways, the ICT Ministry that BTRC belongs to, influence the outcomes in the technology-driven financial market. The dynamics of changes in markets of financial products and the regulatory domains those trespass into are yet to settle down in Bangladesh.

The on-going changes noted above call for an adequate understanding of the Fin-Tech canvas to appreciate the complexities faced by regulators, often in conflicting policy environment.[43] Financial Technology or FinTech refers to the emerging technology that is delivering financial solutions in a new innovative way utilising technological platform especially information and communication technology platform and applications. The term 'FinTech' can be applied to

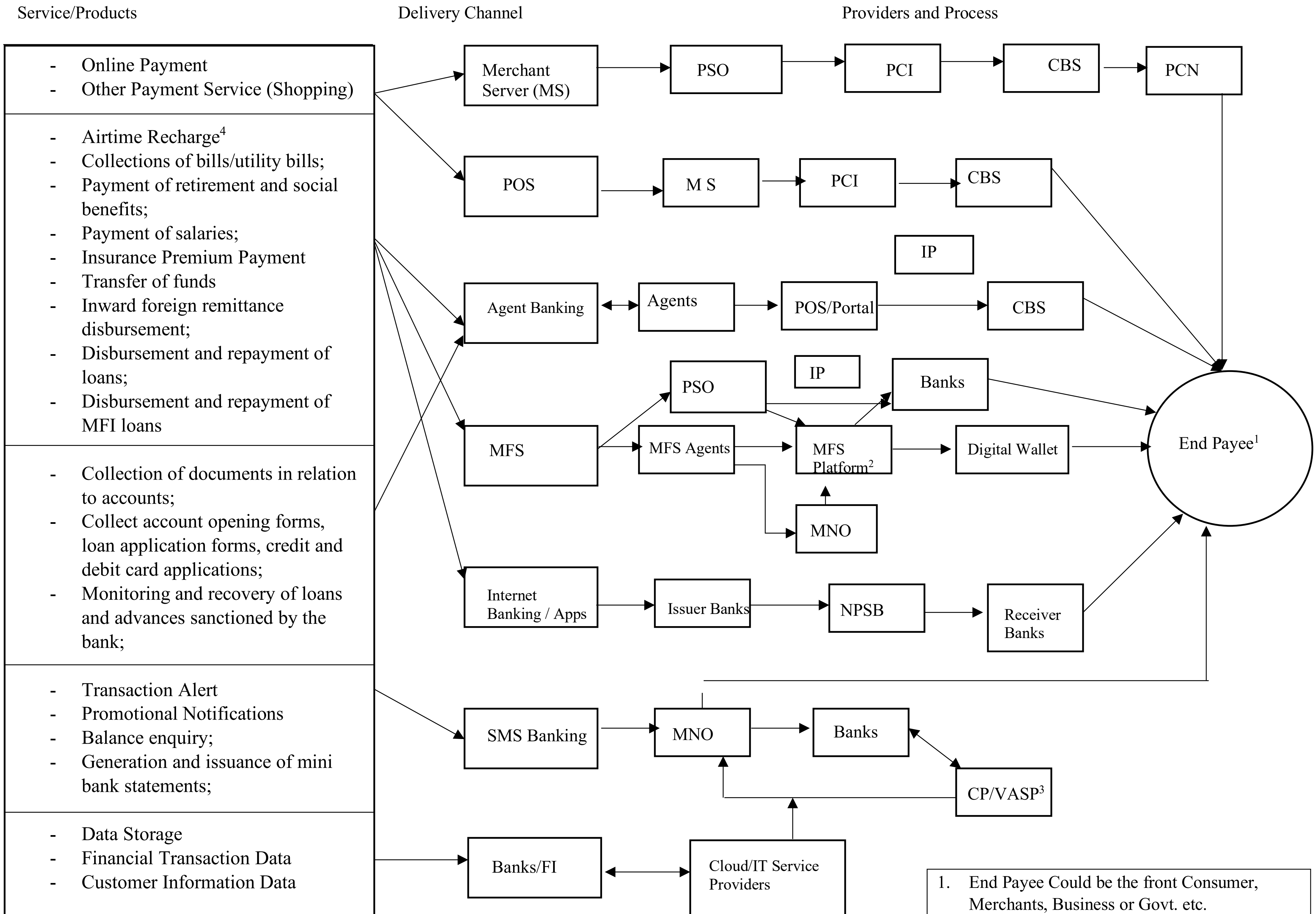
[41]One of the researchers is a Consultant having experience working in FinTech industry.
[42]Actors in the financial market created mutual funds and derivatives to address risk associated with individual financial asset, while insurance products addressed real sectors (such as, international trade, industries, etc) and human life and hazards.
[43]Details on the industry are provided in Annex 2.

any innovation in transaction from fund transfer readiness to data storage for bringing greater financial inclusion. Ever since the internet and mobile phone revolution, FinTech has brought versatile technological interventions into personal and commercial finance[44]. The use of technology has opened up new avenues in the financial sector of Bangladesh. However, the proper use of financial technology remains insignificant (see Annex 2). The technology is used in Bangladesh primarily for the digitalisation of fund transfers. Financial institutions are offering different financial services to reach the final recipient using the delivery channel such as mobile financial service, point of sale, agent banking where different types of technological and regulatory stakeholders are involved. The following diagram (Figure 1) captures the process(s) of providing financial services to customers using financial technology.

Figure 2 exhibits a general framework for identifying the two groups of stakeholders, regulators and service providers, in connection with innovations and marketing of innovative financial products for MSEs. While the traditional financial products were exclusively delivered by the financial institutions (banks, NBFIs and MFIs) who are regulated by financial authorities (BB, Ministry of Finance and MRA), delivery of innovative products require packaging of financial services with other products and activities. The latter brings in other service providers (insurance and non-financial) who are regulated by different set of agencies within the government. In addition, the requirements of an authority, unrelated to banking or other financial institutions, may affect regular financial transactions leading to adverse implication for inclusive financing. Current KYC requirement under the Money laundering Act is a case in hand, which is further discussed in later sections.

Figures 1 and 2 are self-explanatory. The former shows different service products, identifies the various delivery channels used to deliver those to end users, along with the providers and processes involved. The latter abstracts from the details and links the markets to two different set of regulators.

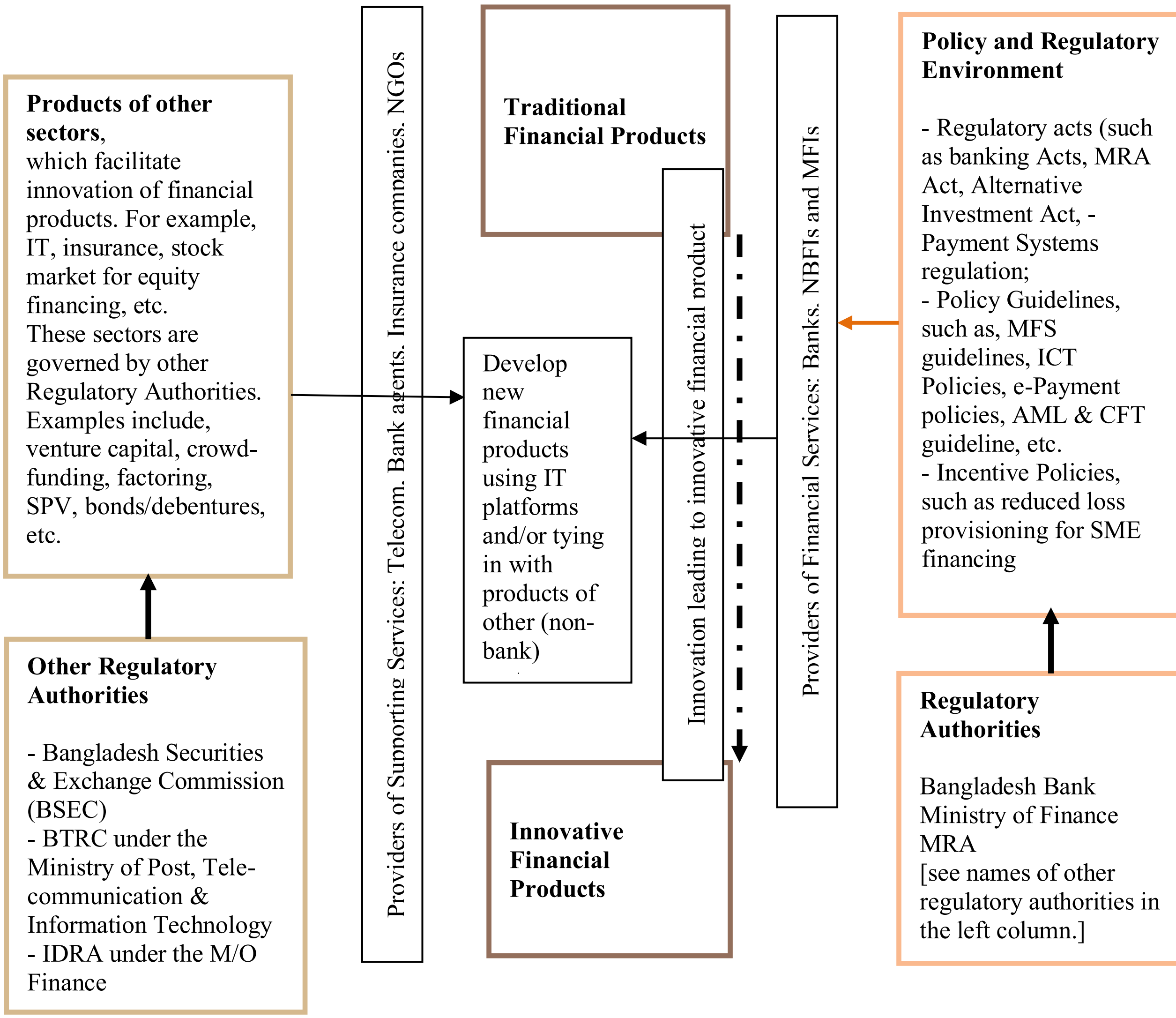
[44]Investopedia, https://www.investopedia.com/terms/f/fintech.asp



1. End Payee Could be the front Consumer, Merchants, Business or Govt. etc.
2. MFS Platforms include MFS and System Providers
3. CS/VASP= Content / VAS providers
4. Other than Agent Banking

Figure 1: The FinTech Canvas of Bangladesh

Figure 2: Sketch of the Canvas where Innovative Financial Products are delivered

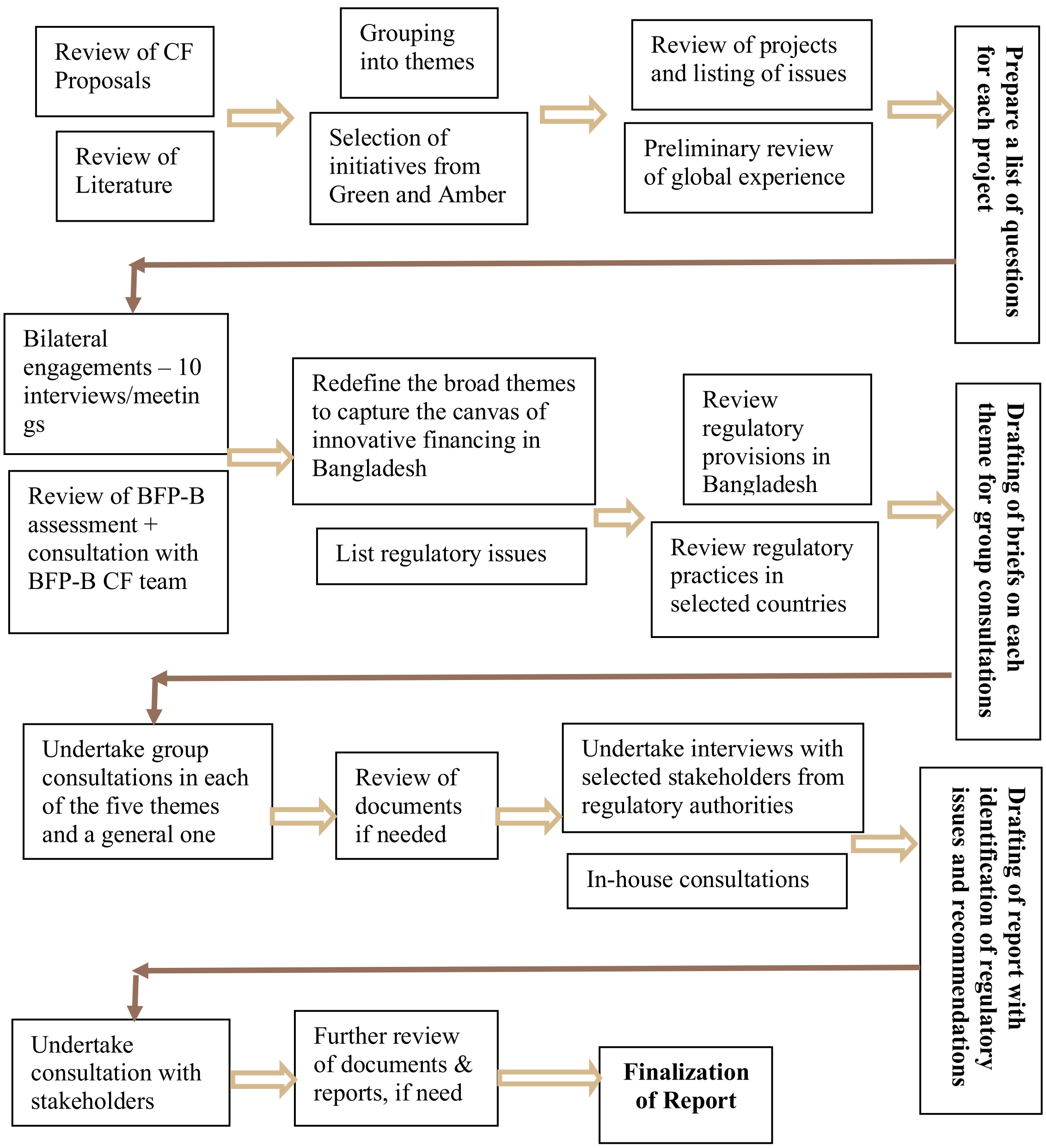


2.2 Study design

2.2.1 Sketch of the Consultation Process

The core research methodology is stakeholder consultation and document reviews. The following schema (Figure 3) provides a process followed to conduct this research.

Figure 3: Schema of Research Process



2.2.2 Study Methodology: selection of themes and stakeholders for consultations

Following the extensive exchanges on scope of the study at the kick-off meeting, there was an important reformulation of one of the key objectives of this study.[45] The first objective was restated as follows:

> "Drawing upon experiences of the applicants and awardees of BFP-B's Challenger Fund (CF), identify the regulatory barriers observed by the financial service providers during different stages of innovations such as entry, pilot testing and up-scaling stages."

Accordingly, the Study took cue from the CF proposals and by method of induction, arrived at a number of broad categories. Once BFP-B provided summary of proposals submitted in each of the three rounds, those were sorted to come up with mutually exclusive strata so that the Study could draw samples from each. Several strata identified in the process are presented in Table 1 below.

Table 1: Broad Category of Products from the Concept Notes[46]

Main/broad category of product	**Sub-category/description**
Lending	Lending with agent/mobile banking; digitization of process; alternative delivery channel, etc.
Insurance	Providing insurance product to the MSEs
Alternative finance	Venture capital, crowd-funding, factoring, community banking etc. (i.e. non-traditional financing)
Payment digitization/Ecommerce/ Web and App development	Digitization of the records of payment/transactions, developing e-commerce portal for target group etc.
Capacity development/ BDS/Investment readiness	Increasing the capacity of MSEs or providing BDS for investment readiness
Rating/evaluation activities	Through cloud; digitization of evaluation

Source: Own compilation.

Subsequently, all proposals (concept notes) were classified using the above category. The purpose was to construct a sampling frame with mutually exclusive groups. Firms submitting proposals during Rounds 1 and 2, considered under Green but not awarded, were contacted to

[45] The objectives were reformulated in the Technical Proposal submitted, and further focus was brought in following the meeting at BFP-B on 30 October 2017. The inception report of 19 November 2017 mentions those issues.

[46] Matching project proposals uniquely with activity groups was not possible since several projects had multiple focuses. Those were therefore categorized based on the primary focus reported in the proposals. Few of the concept notes dealt with issues outside the categories listed. Those were however found unimportant in the context and were left out.

know about the status of their projects.[47] It was learnt that almost 100% of the non-awardees' projects of Round 1 are not in operation, and only about 30% of 'Green' in Round 2 are reportedly being implemented. It was also learnt that several aspirants for CF in rounds 2 and 3, who did not get funds (or were not awarded yet), were not implementing projects that exactly matched the proposals they had submitted.

Following initial query, organizations were selected for preliminary consultations to understand their journey with innovative financing (Table 2). The selection was based on total number of applicants in each stratum (in all rounds) as well as to ensure diversity of the organization, with greater emphasis put on diversity than on proportional representation.

Table 2: Organisation Selected for Initial Consultations[48]

	Awarded Projects/Organisation		Non-Awarded Projects/Organisation		
	Num ber	Name of Organisation	Num ber	Name of Organisation	Total
Lending	3	Save & Grow, Diganta, Bank Asia, Finance Against Merchandise	1	EBL (automation of loan process)	1
Insurance Product	2	Pragati Insurance, Pragati Life Insurance & INAFI, and Green Delta Insurance (Weather Index Based Insurance)	0		0
Alternative Finance	2	BD Venture Ltd (crowd funding), Agribusiness Booster Bangladesh,	0	Factoring or Venture capital	0
Digitisation of Financial Transfer	2	Hisab, Aamra Payment Network	0		0
Rating/evaluati on digit	1	iSME	0		0
TOTAL	10		1		1

Note: More than a quarter of the proposals were on capacity development/BDS, which have been left out.

For initial consultation the Study selected wide range of participants from the CF winner projects. Since lending, and IT related issues seems to more pertinent towards innovative financing more organizations are included for the initial consultation from this group. After the issues are recognised under several themes, relevant stakeholders were identified for Focus Group Discussion upon consultation with expert in the field as well as in consultation with BFPB project persons.

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[47]Green, Amber/Yellow and Red are three categories that BFP-B uses for the purpose of initial grouping of proposals. Ones considered eligible for receiving awards are included in Green, those at the margin and having the potential of succeeding are included in Amber/Yellow, and those failing to claim a minimum merit are included in Red.

[48]The initial consultation was to identify the key factors/regulatory issues under several themes. These themes were discussed in the focus groups. The group includes more participants or organizations and if those individuals or organizations counted, then total number from each category is more than three.

Chapter 3: Regulatory Issues – findings from review and consultations

Each of the broad themes identified earlier is discussed in separate sections in this chapter. There may be several issues under a single theme, and the presentation is structured in a way to bring together findings from consultations and reviews of documents as well as international experiences under each of those issues.

3.1 Regulatory Issues in Insurance-linked Financing

3.1.1 Background

Insurance is regarded as one of the essential pillars of financial inclusion. Insurance can provide financial protection and safeguard the Micro and Small Enterprises (MSEs) from catastrophic expenditure or loss incurred due to unforeseen events. People who are vulnerable, needs insurance protection more than others. However, costs associated with marketing of the insurance products within the traditional delivery network allegedly outweigh the premium the poor and vulnerable can afford. Advancements in ICT are believed to have made ways for innovative insurance products which is very vital for the financial inclusion. Several insurance companies have already started many innovative products to include these segments of the society which are usually considered are not insurable.

One interesting innovation is offering a composite insurance product for members of Micro Finance Institutions (MFIs). MFIs have large client base and many MFIs collect premium from loans to provide limited 'insurance'. A partnership between an insurance company (Pragati Insurance) and one or more MFIs, mediated through a network of MFIs (INAFI in this case), is expected to successfully market an insurance product that address both life and assets.

According to Ingram and McCord (2011), three major groupings exist in the way microinsurance, or more specifically "micro," is defined. The first group defines "micro" as the level of society[49]; the second use "micro" to indicate the consumers of microinsurance,[50] while the third group defines "micro" in reference to the product itself. The product-based definitions have been the most recent to develop and are mainly used by countries as part of microinsurance regulation. Some examples include Peru, India, Mexico, and Taiwan. According to Khan (2008), microinsurance is defined (the product-based definition) as an insurance with low premiums and

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49 "'Micro' refers to the level of society where the interaction is located, i.e. smaller than national schemes, and 'insurance' refers to the economic instrument." -- Dror, D. M. and Jacquier, C. (1999), Micro-insurance: Extending Health Insurance to the Excluded. International Social Security Review, 52: 71–97.

50 Microinsurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved: CGAP, 2003.

low caps/coverage. In this definition, "micro" refers to the small financial transaction that each insurance policy generates. The Microinsurance Regulations, issued in 2005 by the Indian Insurance Regulatory and Development Authority (IRDA), adopted this definition in explaining "microinsurance products" as those within defined (low) minimum and maximum caps. The IRDA's characterization of microinsurance by the product features is further complemented by their definition for micro-insurance agents, those appointed by and acting for an insurer, for distribution of micro-insurance products (and only those products). The report however alludes to the idea of an alternative regulatory arrangement for promoting 'microinsurance' as composite and interlinked contracts, such as those observed in cases of insurance tied to lending by MFIs.

Another innovation is seen offering insurance product for the agricultural sectors. It is challenging to provide a traditional crop insurance product since it may have substantial moral hazard. A weather index-based insurance is expected to reduce moral hazard as well as cost of monitoring, thus, allowing insurance companies (e.g. Green Delta Insurance) to bring farmers within the insurance net.

3.1.2 Functional separation between Life and Non-life insurance companies

Problem: As per current regulation, a life insurance company cannot offer general or non-life insurance product, and similarly, a nonlife insurance provider cannot offer life insurance product. A composite insurance (combination of life and non-life) product can attract more clients and may provide strong incentives for the MSEs to participate. Moreover, it may reduce some administrative costs, and insurance company can enjoy economies of scope - lowered average cost by packaging two or more products in one. However, it is alleged that current regulation does not permit offering the composite insurance products.

Regulators' view: The two types of insurance are different in terms of risk attributes, requiring different approaches to identification of payoffs and calculation of premium. Thus, keeping them separate makes sense, which is claimed to be the universal practice. They recognize the need for packaging[51], and claims that most company/groups in the market own both types of insurance companies. Thus, partnership in undertaking both activities is internally realized.

International Experience: Life and non-life products are offered separately in many other countries in the world also. Countries that offer these insurance products separately include

[51]Microinsurance and mutual insurance provide alternative ways to address clients' demand for multiple services. Experiences with those are discussed in sub-section 3.5.1.

Australia, India[52], Chile, Denmark, Estonia, Germany, Iceland, Ireland, Japan, Korea, Netherlands, Norway, Poland, Sweden, Switzerland, Turkey and the USA[53] (OECD, 2014).

This is not the case for many other countries in the world, which allow composite insurance products. This is true for Austria, Belgium, Canada, Costa Rica, Czech Republic, France, Greece, Hungary, Israel, Italy, Mexico, Portugal, Slovak Republic, Slovenia, Spain, the UK, Argentina, El Salvador, Guatemala, Malaysia, Nicaragua, Panama, Paraguay, Peru, Singapore, South Africa, the Philippines, Uruguay, Kenya and Nigeria. (OECD, 2014; Torres 2015; Gikera et al., 2016; NAICOM, 2017)

An interesting case in this regard is that of the Sanasa Insurance Company Limited (SICL), an insurance company that offers both life and general insurance products for low income groups in rural areas of Sri Lanka (Kiriwandeniya, 2016). According to the Insurance Board of Sri Lanka (IBSL) regulation, insurers were required to separate their life and general insurance businesses before 1 January 2015 (Asia Insurance Review, 2017). SICL, however, is still offering composite insurance products to the rural population.[54] In addition to life and motor insurances, they offer agricultural insurance products such as indemnity-based crop insurance, weather index insurance and livestock insurance. The agricultural insurance products have proved to be very useful for the rural farmers and have performed very well (Kiriwandeniya, 2016).

Observations: The study team opines that restricting insurance companies to engage in one or the other product restricts innovative product design. And the interest groups associated with each line of specialization do not feel the urgency to converge, since clear division of revenue and burden is often cumbersome. The latter also explains why regulators (cum-enforcers) find it operationally convenient to deal with the two products separately. The systemic inertia is furthered due to widening of insurance-related contracts beyond borders. Yet the increased varieties in demands of business and general people to guard against risks, and with life increasingly perceived in terms of quality of living and not only by the length of human life, there are rationale for experimenting with alternative regulatory regimes. In particular, composite insurance products need to be introduced to reduce risk of borrowers as well as of MFIs. While current practice of forming committee of experts and issuing NOCs partially address the problem, a guideline with flexible criteria of product choice will encourage innovation. The piloting phase

[52]According to Tuli and Jenkins (2017), India has stand-alone health insurers and reinsurers in addition to Life and General insurance companies

[53]In USA, insurance companies are separated between Life/Health and Property/Casualty (Insurance Information Institute, 2016)

[54] http://www.sicl.lk/

will need close supervision, and the latter calls for capacity building within the regulatory authority, particularly, research capacity inside IDRA.

3.1.3 Regulation regarding the investment options of the insurance companies

Problem: Financial inclusion through reaching out to the uninsured people with acceptable and affordable insurance products call for partnering with other agencies, such as the MFIs, which already have established savings-credit network of members. The space for mutually gainful contracts in such partnership may be enhanced if there are scopes for the MFIs to access to the (specific premium) fund of insurance companies at favourable interest rates. That is, premium collected by MFIs will be deposited to insurance companies, and insurance companies usually invest those collected premium in several sectors as prescribed by the Insurance Development and Regulatory Authority (IDRA) guideline. If insurance company could invest (or give loan) to the MFIs at a favourable rate, it would offer incentive for the MFIs to engage in partnering with insurance companies.[55]

Essentially, the argument calls for internalizing transactions of two agencies that are regulated by separate authorities so that the cost of involving a third party (banks, in this case) may be avoided and scope of negotiations between the two (insurance company and MFI) may be widened. However, current regulations of IDRA do not permit investing in MFIs, even though MRA regulations reportedly do not bar MFIs to borrow. Insurance companies can only invest in some certain sources, and though there is an 'other category', the list spelled out for the latter does not include lending to MFIs. The latter, subsumed under loan issue, is within the jurisdiction of BB.

Regulators' response: Detailed asset management guideline is not developed yet. Regulators however, are currently working on developing a rigorous asset management guideline. However, insurance companies are said to have the option to propose alternative investment plans for IDRA approval. It appears from consultations that the regulators would want to give foremost priority to protection of clients' (insured MFI members, in this case) interests. Admittedly, adequate knowledge is lacking to assess the alternatives, particularly, in the language commonly understood by regulators of insurance markets.

[55]There are MFIs which are uncomfortable with intrusion of insurance companies to share the premium they deduct from their clients on account of one or the other form of micro-insurance. There are others, who are keen on specializing, but would like to see the insurance companies reciprocate with 'lending' at interest rates lower than the banks offer to those MFIs.

International experience: In an analysis of investment portfolio of selected general (non-life) insurance companies (13) in Bangladesh, Samina (2012) reports that between 1999 and 2010, the general insurance industry in Bangladesh increased its investments substantially with the ratio of investments to total assets increasing from only 28.53% in 1999 to 51.26% in 2010. She also reports that the majority of the firms had two basic streams of investment: government securities and shares, with most companies investing primarily in shares.

The study team did not find any concrete evidence to suggest that investment portfolios of insurance industries in other countries vary significantly or that regulations elsewhere are more relaxed in terms of what kind of investments these companies can make. In OECD countries in 2013, e.g., investment portfolios of insurance companies consisted of bonds, shares, real estate and other investments. Although the investment portfolios of insurance companies (for all three sectors: life, non-life and composite) in most of the OECD countries were dominated by government bonds, the non-life insurance sector in several countries exhibited a substantial shift away from bond investments towards shares. Share of investment in real estate was very small for most countries. While several countries reported substantial investments in "other assets", not much information was available to understand the nature of investments in this category (OECD, 2014).

Insurance Regulatory and Development Authority of India (IRDA) seems to provide even stricter guidelines compared to IDRA in Bangladesh as to what type of investments the insurance companies can make. As per IRDA regulations as of 2015, at least 50% of the investment portfolio of an insurance company in India must be made up of central government securities, state government securities, and other approved securities (all debt instruments) with at least 25% of the investments in central government securities (Kotakmoneywatch 2015). To promote expansion of the housing and infrastructure sector, at least 15% of the investments have to be made in these sectors. Investments across various industrial sectors are limited to a maximum of 20% with a maximum of 15% investment in the equity of an individual company. Overall, the approved investment instruments are very safe and generate low returns. The adherence to the stated guidelines is closely monitored by IRDA and any non-compliance results in a show cause notice followed by appropriate punishment or penalty, if proven guilty. In contrast, Bangladeshi insurance companies appear to be allowed to invest in much riskier assets and therefore can potentially earn a much higher return on their investments. For example, according to Samina (2012), in 2010, proportion of investments in the share market for some insurance firms in Bangladesh was as high as 98.24% (Eastern insurance), 97.83% (United insurance), 95.86% (Pioneer), 95.18% (Reliance) and 95.10% (Eastland).

Observations: Historically, regulations of institutional spaces in the financial sector have evolved in a way to define independent spaces for banks (and NBFIs as well as subsequently for MFIS), insurance and capital market. Accordingly, separate Acts have been promulgated. For obvious reasons, interest groups associated with each have also emerged that resist changes towards coordination and unified actions. To break away from the tradition in a smaller economy and (globally) a less powerful state is a difficult task. The same setting however provides opportunities for experimentation, which ought to be agreed upon conceptually within a larger community of academia, practitioners and policymakers. In particular, IDRA needs to work by taking MRA on board to create new regulatory space for 'micro-insurance' instead of treating it as another product with stringent rules applicable to insurance companies. Such guidelines need to go beyond the compartmentalised perspectives to assess 'general' and 'life' insurances, and consider composite insurances as not merely a mix of the two, but have flexibility to allow meaningful negotiations between partnering organisations.

3.1.4 Alleged strict actuary certification requirement

It was alleged that as per current regulation, in Bangladesh, any new life insurance product must be certified by an actuary. According to one of the interviewees only one actuary is currently living and working in Bangladesh. One solution could be getting certification from an external actuary. Since 2011, IDRA regulation requires an actuary to have a physical office in Bangladesh and be physically present during the time of the certification process making it almost impossible for an insurance company to get products certified by an actuary who is a foreign resident. This restriction, it is alleged, delays getting permission for new products, and makes innovations in the insurance sector difficult.

Regulators' views: Though regulators prefer local actuary, it is claimed that there is no apparent restrictions on hiring foreign actuary. Regulators keep some stringent requirement to ensure that a product is launched with proper estimation of risks, and the latter can be ensured through qualified actuary certifications.

International experience: According to A.K.M. Elias Hussain, the president of the Actuarial Society of Bangladesh, in 2014, there were only one fellow and two associate actuaries in Bangladesh (Hussain, 2014).[56] These figures, if true, are obviously negligible compared to other countries in the regions. According to Institute of Actuaries of India (2017) report, there were a

[56] There are others who contest the figure. After consulting several groups, we understand that there are quite a few actuaries in Bangladesh, most of whom are employees of large firms, and are not available to others for professional services.

total of 429 fellow and associate actuaries in India during 2014 (which increased to 504 in 2017). This number was 23 in Sri Lanka in 2013 (Krishnaratna, 2013).

Observations: Consultations with different groups of stakeholders lead us to believe that there is need to increase the pool of skilled actuary professionals, but there are other problems as well. There are professionals working in the country, but they are in the payroll of companies and their services are not available for others. For various reasons, one being the alleged oligarchic structure of the market, independent practice by professional could not get established in the country. Unfortunately, no prior research exists to draw firm conclusion and recommendation. The needs for capacity building within IDRA and BIA are well recognised in the World Bank supported 'Bangladesh Insurance Sector Development Project 2017-22'. Additional efforts to strengthen the insurance sector[57] may be aligned with the on-going work. However, till a significant capacity is in place, the alleged IDRA requirement of an office in the country and physical presence of the professional during the time of the certification process may restrict innovative financing that are linked to insurance products. The dilemma for IDRA appears to be genuine - the restriction may defeat the purpose by creating undue rent for the limited number of in-country professionals, and yet, the high rent may attract professionals to engage actively in the local market.

3.1.5 Other policy issues

Insurance premium also has VAT on it. VAT increases the effective premium, which may reduce the adoption. While agriculture and agricultural products are often kept out of the VAT, it is not understandable why insurance offers for farming have VAT compliance.

Regulators response: It is an issue of NBR and Ministry of Finance Policy which requires substantial changes in VAT acts.

Observations: If financial inclusion is justified on grounds of social benefits, fiscal incentives can be justified. Background work in support is however needed. Though there is no VAT on life insurance premium, if anything else is added with life then there would be a VAT on it which makes composite insurance pricier. With composite insurance, assessment of VAT may get further complicated and arbitrariness may creep in raising undue costs.

[57] Such undertakings may include, Qualification Training/Surveyors Insurance Diploma for Actuary/ACII holders/Agent.

3.2 Regulatory Issues in Lending (Agent Banking)

3.2.1 Background

Mere provision of ATM services, internet banking etc., may not in themselves increase the likelihood of the unbanked MSEs getting banking service and especially financing from the banks or the financial institutions. The most relevant service delivery for increasing the access to finance for the MSEs are admittedly agent banking and for agent banking to take off we will need to see high penetration and consequent usage of the accounts in the catchment area served by an agent. In particular, the account holders will have to utilize their accounts to effect payments, not just to save money and withdraw cash for hand to hand transactions. Unless transactions are at least to some degree generally and customarily through bank, the banks will not have a good and dependable idea on the transaction volume handled by its different clients and remain unable to provide financing and other customized product to increase lending to SMEs. Based on the consultation with CF winner related to agent banking, the Study identified few regulatory issues, which are discussed below.

3.2.2 Complex Account opening process

Background: The hindrances to opening accounts include at present, the unwieldy Biometric Account Opening Forms that run into several pages, and yet may not have fields or information filter for capturing information pertinent to banks' understanding and predicting a client's likely and eventual potential from the bank's perspectives.

Regulators' response: The issue was discussed at length with the responsible regulatory authority, the Bangladesh Financial Intelligence Unit (BFIU) of BB. The regulators however opine that individual banks are free to collect information they need for their assessment of clients. The requirements for the purposes of better AML/CTF compliance, is emphasized for improved branding of Bangladesh's financial sector. However, BFIU recognises the need to reduce load of excessive information requirement at the front-end and plans to pilot e-KYC and real time account opening with biometric verification, as early as August 2018.

Observations: The KYC issue surfaces in several fields of query in this assignment, all of which have a common root in BFIU. Many feel that the national authority should revisit the concerns and make the basic requirements simpler and stick to those which find uses in the authority's regular monitoring exercises. It is our understanding that there is no dearth of intent. However, there is a need to bring transparency and clarity regarding the minimum 'requirements' so that confidentiality is not compromised in the name of a non-transparent requirement![58] Verification of identity with National ID is already in practice by banks. It is apprehended that the banks are extremely risk averse and are keen on passing all liabilities to clients and therefore demand excessive information in the guise of KYC and during opening of a bank account.

3.2.3 Stringent requirement for the eligibility of being agent and complex agent licensing process

Background: There is now more and increasingly stringent requirements for the agents and master agents' credentials before banks can engage them as agents. These requirements are in the forms of character certificates, police verification, etc. Until recently Bangladesh Bank used to provide approvals for agents and agent banking premises on application by the banks. Now Bangladesh Bank is providing approvals on specific requests against agents, master agents and premise address. As the approval can and often does take some time, often several months, the banks have to keep the premises idle during the period between application and approval. This is a regulatory constraint; while it may not be by itself very onerous, it obviously adds to the costs of compliance for the banks.

Regulators' response: Initially, BB allowed bulk licensing for piloting the scheme. There was however lapses in compliance and the requirements for selecting agents were not adequately fulfilled. Hence, BB introduced the requirement of banks needing to request for separate licenses.

International experience: Regulators in some countries allow only a certain type of individuals and/or organizations to become an agent. For example, Indian regulators initially did not allow any for-profit organization to become agents assuming such entities may end up exploiting the poor. Although they have lifted this restriction recently, they still do not allow the largest microfinance institutions (MFIs) registered as nonbank finance companies (NBFCs) to become agents (Tarazi and Breloff, 2011). The Central Bank of Kenya on the other hand only allows for-profit entities to become agents and explicitly prohibits non-profit organizations such as faith-based organizations, NGO-s and educational institutions from becoming an agent (Central Bank of Kenya, 2015). The Kenyan regulators very likely believe that agent banking would operate more efficiently under a profit maximizing framework and engaging in such activities would steer the non-profit organizations away from pursuing their original social aspirations. Regulators in Brazil allow any legal entity to work as an agent but do not allow any individual to do so probably with a view to minimizing fraudulence and ensuring consumer protection (Tarazi and Breloff,

[58] In a recent circular (BRPD Circular No. 04), dated 21 May 2018, centrality of BFIU Circular No. 10, dated 28 December 2014, with regards to Customer Due Diligence and KYC, is noted. The BRPD circular also mentions of introducing biometrics, Iris recognition and facial recognition for those not literate!

2011). Additionally, in spite of there being no regulation against it, financial institutions in Brazil in practice do not offer agent-ship to businesses such as gas stations, night clubs, funeral homes and bars since these are likely to be more susceptible to robberies. In Mexico, in addition to being a qualifying business, agents must have a permanent address, the necessary infrastructure to complete banking operations, staff certified to operate the required equipment, an acceptable business and credit record and have no record of felony or fraud (Alliance for Financial Inclusion, 2012).

Observations: Comparatively, regulators in Bangladesh initially took a much more flexible approach in terms of agent eligibility. According to an earlier version of Bangladesh Bank (BB) guidelines (Bangladesh Bank, 2013), a vast array of entities including for-profit organizations, non-profit organizations including NGO-s and MFI-s and individuals (educated Individuals capable to handle IT based financial services, agents of insurance companies, owners of pharmacies, chain shops and petrol pumps/gas stations) were given permission to become agents in Bangladesh. In the most recent version of regulatory guidelines (prudential) for agent banking (Bangladesh Bank, 2017), however, BB has imposed several additional conditions with respect to the entity owner's/manager's experience (at least 1 year of experience in related field), entity's expertise (possess managerial, financial and technical expertise for managing agent banking outlet of a bank in addition to its regular operations) and minimum number of people required in the entity (must have at least 2 (two) persons (a manager and a teller) for this purpose). BB has also imposed restrictions on individuals who can become agents − agents of mobile network operators and insurance companies that fulfil the eligibility criteria – in this new set of guidelines. These new guidelines certainly have put limitations on a bank's ability to appoint agents. Given the widespread need of providing banking services to many underserved people in the country, reduction in cost and delivery time are important. It may therefore be worthwhile to revisit the issues to find the right balance between regulators' concerns and efficiency in banks' performance.

3.2.4 Low transaction (number) limit

Background: At present only two over the counter transactions can be made in a day by an agent banking client from the agent premise. This restriction does not go with the admittedly shared goal of ensuring quality banking service to SMEs and therefore merits a revisiting by the regulators. Though section 27.6. of the Guidelines provides the means for banks to increase the transaction limit on a case to case basis, the procedure laid down for that do appear to be onerous for both banks and the customers and are likely to result in a de facto rigid limit which in turn will constrain the SMEs from utilizing banking service at depth.

Regulators' response: The limits apply to P2P services, and there is no limit for B2B transfer. Moreover, agent can apply to increase the limit. Hence, it is not a problem.

Observations: Because of additional requirements for opening accounts as business entities, many micro and small businesses (MSEs), which are also under single proprietorship or self-employed, have their accounts as private individuals. It is alleged that businesses of this group of people are adversely affected by the limits, even when those are on P2P. Thus, the regulatory authority may like to find ways to encourage these people to open accounts as business entities, which may require relaxed fiscal measures; or, alternatively, to relax the limits with increased real time monitoring of purpose-specific transfers and retention of records on persons to who transfers are made. It is understood that the technology permits and programmes may be designed to set alarms whenever transactions through an account gets suspicious.

3.2.5 Requirement of specific dedicated premises

Background: There appears to be stringent requirements for the banks to vet the agents' business premise, the security of the premise and the equipment that needs to be there. However, it is doubtful if banks can set up stand alone or dedicated agent booths where the agents do not carry any other business in truly remote and / less vibrant economic areas. So, it is debatable whether it would be beneficial if it is made explicit if agents, at least in some locations, can operate the agent banking business with their existing business-like retailing etc.

Regulators' response: Since it is a financial transaction, it is important to maintain some level of security measure, and hence these regulations are in place.

Observations: This fits in well with a generic problem in the regulatory regime in countries such as Bangladesh. A requirement, if mandatory, ought to be complied with, and violation (non-compliance) ought to be severely dealt with. Unfortunately, pre-inspections, approvals and certifications are too often considered substitutes of compliance, and the processes demand more time and incur costs without necessarily ensuring compliance. Often policies to put the burden (costs) of thefts to the providers may force compliance, without calling for processes currently in place.

3.2.6 Other issues

The following additional issues came up while reviewing local and foreign regulations on agent banking.

3.2.6.1 Location of the agent's premise

Location of an agent's area of operation has been restricted by some countries in the past. Such restrictions, however, have often been lifted when regulators recognized the adverse effects of such regulations on financial inclusion. For example, initially, regulators in India required agents to be within 15 kilometres of a base branch of the appointing bank in rural areas and within 5 kilometres in urban areas. Later, this distance has been increased to 30 kilometres and banks can also apply for exemption in order to serve people living in remote areas where establishing a branch is not viable. In Brazil, on the contrary, regulators initially allowed banks to appoint agents only in municipalities that did not have bank branches with a view to protect bank branches from competition. Afterwards, they repealed this regulation in 2000 (Tarazi and Breloff, 2011).

An earlier version of BB regulatory guidelines for agent banking indirectly imposed limitation on an agent's service area by implying that the agent's activities remain within the designated area of a particular branch of the bank (Bangladesh Bank, 2013: see guideline 6.2).This seems to be counterintuitive as the core objective of agent banking is to provide banking and financial services to the underserved population, many of whom live outside the designated area of any particular branch of a commercial bank. In the newer prudential regulatory guidelines for agent banking, however, Bangladesh Bank has outlined specific set of guidelines addressing the location issue. Where it has prudently emphasized that while giving permission, it shall give preference to banks that establish new agent banking outlets in an area that does not have any bank branch or agent point within 1-kilometre radius (Bangladesh Bank, 2017). Bangladesh Bank has also urged banks to give priority to remote rural areas, chars, islands and other geographical areas with limited accessibility and suggested to maintain a minimum ratio of 3:1 for rural and urban agent banking outlets. From an equitability point of view and for promoting financial inclusion, this new set of direct "location" guidelines should be viewed in a positive light.

3.2.6.2 Agent compensation

In most countries, agent compensation depends on negotiations between the bank and the agent. However, almost in all the countries, regulation prohibits the agent from charging the customers directly for providing agent services (Tarazi and Breloff, 2011). Bangladesh is no different in this respect. Like most countries, in Bangladesh also, the bank has to establish a fees, charges and commission structure for the agent and ensure that agent collects fees, charges and commission payable to the bank as specified in the schedule of charges only (Bangladesh Bank, 2017). Although our interviews with Dutch-Bangla Bank Ltd and Bank Asia revealed that agents at present generally take 1% from the loans sanctioned by the banks, we did not find any regulation that imposes such restriction.

While charging fee for agent services is prevalent today, it was not always the case. For example, regulators in India initially did not allow banks or agents to charge any fee to the customers (Tarazi and Breloff, 2011). Later on, they realized that such prohibition would make agent banking nonviable and therefore, lifted the restriction in 2009 (Reserve Bank of India, 2009).

There are rare instances where agents are allowed some discretion regarding the fees they take from their customers. For example, in the Philippines, one electronic money service provider allowed agents to charge between 1 and 3 per cent of the transaction amount. While this practice rewarded the agents, the lack of uniform fees, in all likelihood, resulted in customer confusion and may have contributed toward a very limited success in spreading agent banking in the Philippines. (Tarazi and Breloff, 2011)

3.2.6.3 Agent exclusivity

As Tarazi and Breloff (2011) point out, countries vary in their regulations regarding agent exclusivity. Some countries prohibit agent exclusivity, e.g., Fiji, Pakistan and the Maldives. Regulators in these countries hold that such prohibition will allow agent banking to penetrate greater amount of remote areas, foster competition and prevent large banks from monopolizing the best agents and locations. Regulators in some other countries allow exclusivity because it provides greater incentives to the banks to enter into agent banking and prevents potential underinvestment by minimizing spill-over effects (later entrants getting the benefits of first mover's investments on identifying, screening, training and recruiting agents). For example, although regulatory frameworks in Brazil, Columbia and Peru do not explicitly address the question of exclusivity, exclusive contracts between banks and agents are prevalent in these countries. India's case on the other hand is a bit different. Although regulation permits an agent to serve multiple banks, at one retail point or outlet, only one bank can be represented. Regulators in Bangladesh initially imitated the Indian regulation (Bangladesh Bank, 2013: see guideline 6.1) but have come away from that practice more recently. According to the recent BB prudential regulation guidelines for agent banking, an agent is explicitly prohibited from entering into a contract with more than one bank (Bangladesh Bank, 2017: see guideline 15.1).

3.3 Issues in alternative investment

3.3.1 Background

Traditional financing systems often fail to deliver a product and financing need to the poor and under-severed, and so the alternative investment has been often considered as the route to financial inclusion. Until recently, there was no guideline so as to cover the alternative investment in Bangladesh. The alternative investment rules of 2015 include only three types of investments: equity financing, venture capital and impact investment[59]. However, there are more varieties out there. An example, cited by several CF awardees, is the equity crowdfunding. The regulatory issues relevant for the field are listed below.

a) There is currently no regulation (or, guideline) for crowdfunding in Bangladesh. Since ECF is a pilot project, the CF recipient (BD Venture) applied for No Objection Certificate (NOC) from BSEC. However, they have been waiting for about one year to get the NOC, which is allegedly hindering commencement of their operations.
b) The firm is trying to run it under existing Alternative Investment Rules, 2015. Under this rule, three types of investment are allowed: venture capital, equity funding, and impact funds[60]. The said organization has the license for venture capital, which may allow running alternative investment, but not crowdfunding.
c) The regulatory authority is alleged to be hesitant to allow crowdfunding due to the negative experience observed in the neighbouring countries.

Regulators response: The system allows for financing operations through money market (debt financing) or through the capital market (equity financing). There are also provisions for raising fund through bond market. Thus, allowing 'commission agents' to engage in crowdfunding activities will expose large number of small savers to fraudulence.

International experience: The study team's investigation revealed that crowdfunding is a relatively new concept that has received regulatory attention even in the developed world only recently. According to Cusmano (2015), e.g., it took till 2013 for a well-defined regulatory framework for crowdfunding to be established in USA. Italy was the first country in Europe to implement an *ad hoc* regulation on equity crowdfunding, which came into effect in July 2013. UK and France are the two other European countries to have established regulatory frameworks for

[59] In a gazette notification of 24 May 2018, the government announced formation of a high-powered committee to formulate a policy guideline regarding venture capital and investment eco-system in the country. The committee will also scrutinise the possibilities of forming an 'Impact Investment Fund' under BIDA for the small entrepreneurs, especially for the women entrepreneurs (*Financial Express*, 29 May 2018).

[60] Islamic fund is a fourth item in the list.

crowd-funding by 2014. The Study team was able to find out detailed guidelines for crowdfunding for several developed countries including USA, Canada, UK, Australia, New Zealand, Italy and France.[61]

An example of a successful crowd-funding platform is Kiva[62], an international non-profit organization, established in 2005 and based in San Francisco, with a mission to connect people through lending to alleviate poverty. Thus far, Kiva has raised $1.14 billion worth of loans from 1.7 million lenders, which has funded various kinds of projects involving a total of 2.8 million borrowers in 85 countries with an impressive repayment rate of 96.9%.

Although regulatory framework for crowdfunding is a recent phenomenon even in the developed world, we have identified detailed crowdfunding guidelines in our neighbouring country India. In India, digital equity crowdfunding platform is illegal and any form of equity crowdfunding that involves a large amount of money or is equity-based, is strictly monitored (Prabhu, 2016). As Murlidharan (2014) points out, the primary cause of this is the use of crowdfunding for money laundering, a glaring example of which is the Sahara case whereby the Supreme Court of India ordered Sahara Housing Investment Corporation Ltd and Sahara Real Estate Corporation Ltd to return about INR 25,000 crore to an astounding 2.96 crore investors reports. According to the Securities and Exchange Board of India (SEBI), the susceptibility of the digital market to security threats while funding businesses online is another reason for imposing the ban on digital equity crowdfunding.

The Securities and Exchange Commission (SEC) in the Philippines also provides comprehensive regulatory guidelines about crowdfunding. In a memorandum issued in November 2011, the SEC of the Philippines has provided detailed rules and regulations governing crowdfunding. In the memorandum, they have outlined guidelines on general provisions, issuer requirements, intermediary requirements, funding portal regulation, reports, and recordkeeping & other post registration/operational requirements.[63] Given the supportive regulatory environment, a number of crowdfunding platforms such as the Spark Project[64], Gava[65] and Upbuilds[66] are operating successfully in the Philippines. For example, the Spark Project, an online crowdfunding

[61] See, Cusmano (2015); Financial Conduct Authority (2015); Cormick (2016); U.S. Securities and Exchange Commission (2016); Australian Securities and Exchange Commission (2018); Financial Market Authority: New Zealand (2018).

[62]https://www.kiva.org

[63] https://www.sec.gov.ph/wp-content/uploads/2017/11/2017Notice_DraftRulesandRegulationsGvernmentCrowdv2.pdf

[64]https://www.thesparkproject.com

[65]https://www.gavagives.com/

[66] https://upbuilds.com/

platform, started its operations in 2013 where Filipinos can campaign to fund their creative, innovative, and passion-driven projects. The platform since its inception has raised about 5.8 million Philippine pesos (equivalent to about USD 112,000) for 63 projects.

Observations: It is that the current rules do not permit crowdfunding; and the existing rules on alternate equity financing conflict with the idea of crowdfunding for reasons stated below.

i. There is no legal provision to tie in many investors to a single project (entrepreneur), as is the case under crowdfunding. Moreover, there is no provision in the Alternative Investment Act for an intermediary legal entity to play the role of intermediation. In contrast, under the CF project, the role of the intermediary is that of a commission agent, not bearing any risk on either side of the transfers.

ii. The minimum investment size is 5 million TK, and a maximum 200 persons can invest altogether. But the particular organization would like to mobilize funds from a larger number of small investors, and total investment on an MSE project may be lot less that the minimum set in current regulations.

Review and consultations were also undertaken to assess if the practices of crowdfunding could be done under the umbrella of any other existing Act or regulation. It is apprehended that both investors (small savers) and entrepreneurs (borrowers) may be made members of a Cooperative to allow transfers. While this does not yet resolve the problem in giving the commission agent (so called crowdfund manager) a legal identity, there are ample case in the real estate sector, wherefrom lessons may be drawn. Clearly, there is a case for time-bound experimentation under close supervisions of BSEC and MOF (similar in concept to regulatory sandbox).

In this as well as several other instances, the arbitrariness and uncertainties associated NOC approvals have been mentioned. The business expects the decision time to be reduced and the practice gradually replaced by transparent rules of doing business. Mention has already been made of the high-powered committee to formulate a policy guideline. Given the risks involved and vulnerability of small investors, it is recommended that the guideline on crowdfunding confine to the norms to be followed during the experimental phase. This would reduce the uncertainty and arbitrariness associated with NOC-based practices.

3.4 Issues on Payment Digitization/ Digitization of financial transfers

3.4.1 Background

Financial transfer involves movement of funds and/or asset from one account to another, which typically comes from but not limited to purchase, sales or receiving receipt. Unilateral transfers, such as, allowances from government to private individuals/households, is one example. Yet, people in the financial industry chooses to use "payments" to describe all kinds of financial transfers. Payments may involve transfers between persons, businesses and government — both intra and inter. These include, among other things, disbursement of remittances, salaries, loans, merchant payments, deposit into and withdrawal from financial institutions, insurance premium payment, pension payments, government allowances, tax, fee payments, etc. Within a larger canvas, payments also include intra-bank and inter-bank financial transfers, fund transfers within or outside brokerage accounts — both within a country and worldwide.

Digitisation is the process of converting analogue information in any form or process to digital form so that those can be processed, transmitted and stored through electronic mediums and networks. Payment can be made by using traditional ways of using physical cash transactions, lengthy paper works and/or simply by utilising digital means such as electronic fund transfer, crypto-currencies or interconnectivity between the mediums. Thus, payment digitisation is a process of altering traditional way of financial transfer by the integration of digital process such as interoperability, interconnectivity, use of internet and mobile phone, electronic fund transfer or making payments using e-currencies, electronic cheque and digital record keeping, etc. to reduce transaction cost, time, and the use of paper works involved in an effective manner. Use of digital payment via mobile financial service or internet banking enables greater financial inclusion to unbanked and marginal segments in the population, both private and business.

It is presumed that digital payments require platforms provided by land or mobile phones, internet connections provided by ISPs, or an extended LAN established with exclusive internal control of a financial institution (which may or may not combine internet and/or mobile-based connectivity).With the advances in mobile technology and fibre-optics communication, the standard platforms availed are mobile financial service (MFS),and the non-mobile financial services like payment card industry (PCI) based payments[67]. The important distinction is whereas hard cash is anonymous, digital payments are not. A record of who is paying whom is generated every time a payment is made, and the record remains with a third party for validation who is the PCI or MFS. Internet banking also can be seen to be digital payment, here the record is

[67]The latter may use dial-up based service or a wireless connection implying a dedicated mobile phone connection, or a wi-fi based router linking to internet.

maintained by the remitting and receiving banks or the bank of both the payee and the payer are transacting in the same bank.[68] The regulatory issues that seem to be a barrier to the development of this sector are given below.

3.4.2 Requirements on KYC and Storage of Information

Background: To our knowledge, various regulatory agencies place demands on KYCs from the agencies who engage in provisioning of services at retail level. The core objective of KYC requirement is to establish customer relationship and monitor transactions for decisions on future financial transactions. The importance and stringency around KYC increased when the urge to prevent money laundering and combating terrorist financing came to centre stage at policymaking. Thus, various stakeholders are advised to maintain the entire KYC requirement issued by Bangladesh Financial Intelligence Unit. Currently there are four sets of KYC forms issued by BFIU, separately for scheduled Banks, Financial Institutions, and Mobile Financial Service and for Insurance. The basic structure of KYC mostly similar among the institutions with the information about customer profile, nominee profile. The minimum KYC requirement is for MFS among the issued uniform KYC forms. If the MFS account of any customer is linked with Bank account then it is not required to maintain know your customer policy. For bank additional information is required such as tentative transaction limit, risk grading, source of income, reason of opening bank account etc. for both person and non-person account. However, the institutions can include additional information requirement if they think is necessary. BTRC requires a different set of KYC information with biometric verification for people purchasing mobile SIM cards. For internet service, the minimum KYC requirement is customer's name, address, contact and IP address.

Additionally, the MFS firms are currently required to maintain hard copies of the KYC documents. One MFS representative suggested that their firm is currently maintaining hard copies of 30 million KYC documents for which they need a physical area of 12,000 square feet. This imposes a substantial amount of cost burden on the firm (both in terms of rent and employee time), which in turn gets translated into higher transaction cost. The MFS representative also added that when asked to share KYC information of any client with a bank or a regulator, they have always had to only submit the digital record and never had to submit a hard copy.

[68]Reduced cost due to cash-less transactions is well-recognised. The significant additional fallout is the information generated on each transaction that allow transparency and informed decisions by regulatory authorities. For MSEs, such information generates credit profiles, which subsequently facilitate their financial inclusion.

Regulators view: Regulators understand that there is some avenue for rethinking regarding the revision of KYC. However, BFIU is the authority posting those requirements on KYC, and are guided by concerns that are trans-boundary in nature.[69]

International experience: The Fintech and MFS representatives also expressed concerns over the rigid and comprehensive KYC (Know Your Customer) requirements stating that these may hamper the growth of the digitization process of financial transfer in the country. Last year, Indian regulators also issued guidelines on stricter and mandatory Know Your Customer (KYC) norms for users of mobile wallets in the country, which according to Indian Fintech/MFS industry players would be a deterrent to the growing industry and might also destroy smaller transactions (Pani, 2017). However, the regulators in both the countries are enforcing these stricter KYC requirements as measures to counter money laundering and terrorist funding.

However, there are ways to reduce the amount of time required to complete the KYC process. Consider the Aadhar e-KYC services introduced by the Unique Identification Authority of India (UIDAI). UIDAI issues an Aadhar card to Indian residents, subject to a verification process, which any resident of India can voluntarily enrol to obtain.[70] The UIDAI has combined an electronic-KYC (e-KYC) service with the card, which enables an individual with an Aadhar number to allow UIDAI to disclose her/his personal information to service providers to instantly activate services such as mobile connections, bank accounts, etc. This e-KYC service can be used by customers to go through electronic verification of their identity. Although the entire KYC process still takes a relatively long period of time to complete due to documentation, this Aadhar e-KYC service does quicken the process of opening a new trading account or bank account, or availing a new mobile connection, etc. to a large extent. A recent study on KYC benchmarking and harmonisation conducted by MicroSave suggests that Aadhar-enabled e-KYC can potentially result in an estimated direct saving of over US$ 1.5 billion within the next five years. In addition to significant cost savings for banks and financial institutions, Aadhar e-KYC is substantially more efficient compared to the alternative paper-based KYC. According to the study, traditional customer enrolment processes pursued in commercial banks can take from two to four weeks before an account is activated, and all KYC details have been verified and stored for future retrieval whereas Aadhar e-KYC enabled bank accounts can be activated and prepared for transactions within a minute (Chopra et al., 2016). Something similar can be done in Bangladesh given that the Government of Bangladesh has introduced Smart National Identification (NID) cards for the citizens of Bangladesh.

[69]See discussion on the subject presented earlier in this report.
[70] https://www.uidai.gov.in/your-aadhaar/about-aadhaar.html

Observations: There have been persistent changes in the formulation of information required by BFIU showing responsiveness to changes in market conditions. While opening an account with MFS hardly requires a page of information, those MFS operating on behalf of a bank requires filling in more information. It is opined by many that an effective collaboration of MFS with banking sector to work, the KYC requirement needs to be revised and reduced. The general aspects and the need for reflections at BFIU have already been discussed. Since BB would like to promote bank-led digitisation, agent banking is expected to play an important role in financial inclusion. BFIU is planning to pilot e-KYC and real time account opening for MFS also for agent banking in 2019 for the account holders whose balance is less than 5 lacs (for agent banking customer).

3.4.3 Big Data, Data Storage, Reporting and Privacy Issues

The following issues were identified:

- Ambiguity in interpretation on hard and soft in reporting and information/data storage.
- Paragraph 17 of the Bangladesh Payment and Settlement Systems Regulations-2014 mentions that information supplied to another country should only be in summary or aggregate form.
- Since MFS is expected to play a supportive role to banking institutions, under current regulations, banks are presumed to be accountable for information storage for a period of 6 years.
- There appears to be confusion with regards to requirements on form in which data ought to be retained, among both MFS and regular banks/FIs.

3.4.3.1 Data Storage and Privacy Issues

Currently there is no clear regulatory restriction on monetising the big data that results from payment transactions that they process and record. As a matter of fact, such monetisation generates additional revenue, which may partly get transmitted in the form of reduced prices charged on the end clients of the MFS. The latter is expected to have positive impact on financial inclusion. However, it runs contrary to protection of clients’ privacy. There can be more clarity on the use of data in big data paradigm, and also the need for obtaining approval of the end clients in this respect may be made more explicit in the regulations.

During the interviews, Fintech and MFS representatives said that they can store financial data only in Bangladesh Bank (BB) sanctioned digital storage facilities and suggested that it would be cheaper and easier for them if they were allowed to store data in privately owned clouds such as Amazon and the like. BB does not allow these firms to do so due to concerns over security and accessibility. This is understandable given the regulators' strong position in countering money laundering and financing of terrorism.

Regulators' response: The regulators recognise that allowing companies to store data with global service providers may provide a cheaper option and may secure data from regular hacking. Such an option also reduces the demand for in-house capacity build-up, thus, reducing costs of operation. However, such arrangements raise problems with regards to contract enforcements, and increases risks associated with contract failures. Therefore, Bangladesh government or BB may face difficulty in accessing the data in case of AML and CTF. The regulators, however, are open to allow storing data in other countries if appropriate contract between entities can be established.

International experience: As far as digital storage outside of regulator's jurisdiction is concerned, in neighbouring India, a country where similar concerns are prevalent, Fintech/MFS companies are also not allowed to store digital data outside of RBI (Reserve Bank of India) regulated space.[71] Governments as well as donor agencies, realizing the benefits of cloud computing, have started to provide significant amount of financial support to develop the industry[72] while regulators have begun to formulate guidelines to facilitate cloud banking. The Bangko Sentral ng Pilipinas (BSP), the Central bank of the Philippines, e.g., allows banks to use private cloud technology. It is to be noted that to reduce the security risks associated with third parties handling bank data, the BSP's IT regulations framework requires that customer information be stored in private clouds, which are designed to be safer as the infrastructure remains under the control of the bank at all times. Banks in the Philippines are allowed to store other data such as marketing materials and other non-essential information in public clouds, which are relatively less secure as these are made up of servers shared by several clients (Montecillo, 2013).

In order to protect the interests of BSP Supervised Institutions (BSI) and provide access to BSP as and when required, regulators have designed detailed guidelines[73], which emphasize the

[71] As stated by, Mr. Devdutta Guha Roy, Assistant Vice President, Traditional Funds Services, HSBC – Global Banking and Markets, Kolkata, India.

[72] For example, in October 2011, the Chinese Government provided a grant of $225 million to cloud computing pilot demonstration projects (Li and Gao, 2018). Asian Development Bank (ADB) provided a grant of $150,000 to Cantilan Bank and Oradian (an award winning FinTech company) in order to promote cloud-based technology in southern Philippines (Asian Development Bank, 2017).

[73] The relevant guidelines for data storage in private clouds are compiled in BSP's "IT Risk Management Standards and Guidelines (2013)" covering the area of IT Outsourcing/Vendor Management under Appendix 75e as part of BSP's comprehensive "Guidelines on Information Technology Risk Management for All Banks and Other BSP Supervised Institutions".

importance of having a well laid out contract between a BSI and the external cloud service provider. BSP guidelines require that before signing a contract, BSI management must ensure that: costs and services are on terms that are substantially the same, or at least as favourable to the BSI, as those prevailing at the time for comparable transactions with non-related third parties; the most appropriate pricing method for the BSI's needs has been chosen; service provider's physical and data security standards meet or exceed the BSI's standards; and the contract contains the minimum provisions required under existing BSP rules and regulations, like access by BSP to systems and databases outsourced, and the same does not include any provisions or inducements that may adversely affect the BSI. [74]

Observations: While investigating this issue, we came across an UN-based organisation, Better than Cash Alliance (the alliance has 60 member countries including Bangladesh). It is a partnership of governments, companies, and international organizations that aims to accelerate the transition from cash to digital payments in order to reduce poverty and drive inclusive growth – provides a set of guidelines titled "Responsible Digital Payments Guidelines".[75] These guidelines are designed to protect clients from risks such as loss of privacy, exposure to fraud, and unauthorized fees. Among the eight guidelines reported in the document, guideline number 2 (keep client funds safe) and 7 (protect client data) deal directly with privacy.[76] Since Bangladesh is a member country of this alliance, regulators should not have too many difficulties in formulating their own set of regulations where the privacy guidelines will also be addressed.

Primary information on cost reduction in Bangladesh is not readily available, though the providers post encouraging figures of substantial cost reduction.[77] Review of international experiences with cost reduction are summarised below.

1. ME bank, a Melbourne-based financial institution shifted to cloud-based banking in 2012. It used the services of Amazon Virtual Private Cloud (AVPC) to facilitate its cloud-based banking needs, which allowed them to accelerate the provisioning of development and testing environments by up to six weeks and reduced the cost of delivering development and test environments for new applications and services by 75 per cent. (Global Data Financial Services, 2017)

[74] The guidelines include many other required attributes of the contract. Only the most important and relevant ones have been summarised.
[75] https://www.betterthancash.org/about
[76] https://www.betterthancash.org/tools-research/case-studies/responsible-digital-payments-guidelines
[77] Faith Regional IT Department reports that cloud as percentage of storage cost was around 10 during 2016-17 which went above 45% in 2018. Source: https://www.nasuni.com/cloud-storage-costs-less-than-traditional-file-storage/

2. Attijariwafa bank, a Morocco-based bank implemented a private cloud-based infrastructure offered by Atos and Dell EMC in 2016. According to Jallab (2016), this digital transformation would result in 35%+ direct savings in the coming years from efficiency gains with high annual gains in recurring activities and maintenance.
3. In 2013, Philippines-based East West Bank adopted HP Converged Infrastructure to build a private cloud designed to streamline IT operations and reduce costs. The technology helped East West Bank to reduce end-of-day processing times by 40% and decreased data recovery time for all mission-critical systems from up to four hours to only one hour. (Finextra, 2013)

There are disadvantages with cloud storages as well, some of which are listed in Box 1.

Box 1: Several Disadvantages of Cloud Storages

SMID's Security in Cloud Storage warns of several disadvantages with data storage in clouds, particularly for small companies. These are,

(i) since information is shared in clear texts (even when transfers done through encrypted communication tunnels, SSL), absolute confidence on the provider, his/her installation, security policies, and also the provider's workers is a pre-requisite;
(ii) Non-Accountable Accesses, implying that installations of one's cloud storage provider are private installations that one cannot access and monitor;
(iii) dependency on Network Connections;
(iv) difficulties with connecting peripherals;
(v) Data Ownership is one of the biggest issues that trouble cloud storage, data ownership is the major obstacle, especially if you have a great amount of data to deal with or if these data are sensible. There is no straightforward answer to the basic question of "who owns the data maintained by a cloud storage service, the uploader or the storage provider?" Cloud providers are used to establishing their own terms and conditions, which many times may seem arbitrary. Therefore, reading the small print is absolutely necessary when you deal with cloud storage providers, and especially with cloud hosting. Also note that, at times, you may not be allowed to upload a certain type of data.

Source: https://smidcloud.com/wp-content/uploads/2017/07/Cloud_Storage_Security_Whitepaper-2017.pdf

3.4.3.2 Additional Note on Data Retentions

The legal obligation to keep the customer record is outlined in MLP Act 2012, which states that, *the reporting organizations shall have to keep the transaction records of any close account at least for 5(five) years from the date of such closure and provide the information maintained under the clause of Bangladesh Bank. Subsequently, MLP Rules 2013 delineated that the transactions record shall be kept in a manner such that it should be adequate to permit reconstruction of individual transactions in order to provide requisite evidence for the prosecution of the criminal activity. Addition to that, the Rule also states that, the bank shall keep all the records obtained through CDD measures and transactions records for at least five years and shall ensure that the records are swiftly available to BFIU or investigation authority upon court order*[78]. Following the Act and Rules Bangladesh Bank published guideline titled Money Laundering & Terrorist Financing Risk Management Guideline 2015 where it instructs bank and other financial institution on record keeping, formats and retrieval of record. In the guideline, it is mentioned that the precise nature of the records required is not specified in the legal and regulatory regime; however, the idea is to ensure that the bank meets the obligations in any subsequent investigation in such way that it can provide the authorities with sufficient information. According to the guideline the records ideally should cover the information of customer, transactions, suspicion reports, report form agencies (e.g.: CCU/CAMLCO), monitoring etc. By the guideline, BB instructs the bank that, to satisfy the legal requirement and purpose of record keeping it is important that records are capable of retrieval without undue delay. It is not necessary to keep all the record related to customer identity and transaction in their original hard copy form, provided bank have reliable procedures for keeping in electronic form that can be reproduce without undue delay. The review of Acts, rules and guidelines reveal that the requirement of keeping data regardless of formats (original hard copy and electronic form) is only to present the information or documents as evidence for the prosecution of criminal activity or for the use of investigation if necessary or by the court order.

[78] Obligation to keep KYC record is stated under BFID Circular – 10; dated 28/10/2014: "All information and documents collected during CDD procedure along with KYC, account related documents, business correspondence and any report prepared on a customer has to be preserved for at least 5(five) years after closing the account."

The ICT Act 2006 establishes the legal recognition of electronic records[79]**,**

"*Where any law provides that information or any other matter shall be in writing or in the typewritten or printed form, then, notwithstanding anything contained in such law, such information or matter is rendered or made available in an electronic form: Provided that such information or matter is accessible so as to be usable for a subsequent reference*."

According to Evidence Act 1872 however, "Document means any matter expressed or described upon any substance by means of letters, figures or marks, or by more than one of those means, intended to be used, or which may be used, for the purpose of recording that matter." According to this law, writing is a document; words printed, lithographed or photographed are documents; an inscription on a metal plate or stone is a document; a map or plan is a document; a caricature is a document. Furthermore, The Banker's Book Evidence Act 1891, illustrates that, the legal authority may inspect or take copies of any entries in a banker's book[80] for any of the purposes of such proceeding or order bank to prepare or produce within a specific time. However, both the acts leave a little room for the electronic form as a record to be placed as evidence. Henceforth, the inconsistency among the ICT Act, 2006, Evidence Act, 1872 and The Banker's Book Evidence Act 1891 creates a provision for legal loopholes to not to recognise electronic form as a proper evidence to be submitted in front of prosecution. Apparently, these discrepancies preclude the option of keeping all the records only in electronic form. Hence, the banks are bounded by the legal requirement to keep the records both in original hard copy and in electronic format, which consequently impairs the effectiveness of using new technology, also causes proliferations of operational cost.

3.4.4 Point of Sale (POS) machines can only be sold by respective banks

Background: Establishing accountability is said to be difficult if information is routed through third party software, using POS machines (as in the case of PCIs). One would therefore think that the current Bangladesh Bank regulation of allowing only banks to sell the POS to the merchants is appropriate. However, concerns were expressed that banks were hesitant to establish POS-connectivity in new areas on the apprehension that there would not be enough customers to recoup the cost. On the contrary, suppliers of POS machines in Bangladesh expressed the view

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[79]According to ICT Act 2006, "Electronic form" with reference to information means any information generated, sent, received or stored in media, magnetic, optical, computer memory, microfilm, computer generated microfiche or similar device or technology. "Electronic record" means data, record or data generated, image or sound stored, received or sent in an electronic form or microfilm or computer generated microfiche

[80]"Bankers' books" include ledgers, daybooks, cashbooks, account-books and all other books used in the ordinary business of a bank.

that there is potential market that individual banks are unable to tap and removal of bank-monopoly over installation of POS machines will drastically promote financial inclusion.

Regulators' response: Banks are not willing to allow other organizations to sell the POS machines. Since the cooperation from the banks is required for an effective execution of the activities related to transactions, without their cooperation it is not possible to increase the penetration only by allowing other entities to sell the POS. Hence, it appears that no changes are coming anytime soon in this regard.

International experience: Evidence was found that suggests POS machines can indeed be purchased from non-bank firms in some other countries. For example, regulations in India allow business entities to purchase POS machines directly from non-bank entities. A merchant in India can avail a POS device from a list of dedicated companies or directly from banks. As of December 2016, a total of 14 non-bank Fintech companies were given permission to sale POS machines directly to business entities (Iamwire, 2016). Non-bank private companies are allowed to sell POS machines in Sri Lanka also although only one such private company had been issued a license to do so by the Central Bank of Sri Lanka as of 2017 (Central Bank of Sri Lanka, 2017).

Observations: The trade-off between accountability and gains through inducing competition needs to be weighed.

3.4.5 Regulatory issues around Value Added Services (VAS)

Background: By providing additional revenue at marginal or no additional cost, VAS allows reaching out to a wider net of MSEs, most of which are local, and more importantly, provide grooming to a young generation of IT operators and experts. It is alleged that the current revenue sharing norm ensures more 70% of the revenue for the MNOs. Increased marginalization of small or start-up enterprises due to latter's limited bargaining power, discourages innovation. Thus, many opine that having a clear guideline on CP and SP will reverse the trend.

Regulators' view: BTRC already sent a proposal to the ministry with detailed VAS guideline. They are waiting for the approval from the respective ministries.

Observations: Enforcing rules on revenue sharing may not be feasible in a market where power is skewed. While there are on-going initiatives to address prices and revenue sharing rules, we recommend probing into establishing patents for Contents so that the CPs is empowered. There may also be measures, pursued in collaboration with NBR, to protect a local CP market since growths in MSEs in IT sectors have high social benefits.

3.4.6 Interoperability of MFS

Interoperability among the MFS providers would be needed to make payment digitisation a reality. The National ICT Policy, 2015's objective 3.7.3 on Data security and interoperability needs to be realised through actions such as setting of encryption standards and international agreements on interoperability. While MFS companies would welcome interoperability, they would like to participate in discussion with the regulators to determine how it can be implemented to ensure that the process runs smoothly. One MFS representative shared the following story in order to highlight how regulations, not driven by industry needs, can create serious problems. In the initial stages, customers were allowed to deposit money to their MFS accounts only at the branches of a particular bank. Although this particular bank had many branches all over the country, given the remote locations many of the MFS customers lived in and the poor transportation facilities that were available to them, they would often need to walk many a mile to deposit their money. This put their security in jeopardy and many instances of robbery took place. After several such incidences the MFS providing company shared their experience with the regulators and the regulators, taking the safety issue seriously, amended the regulation such that the customers could deposit money to their MFS accounts at any bank branch. Following this amendment in regulation, the number of robberies with respect to MFS money deposits declined drastically. So that such unwanted situations can be avoided, the MFS representative put a lot of emphasis on taking industry inputs before deciding how interoperability would be implemented.

Regulators' response: Regulators claim of pressurising the MFS firms to make their technology interoperable ready. Since not all MFS providers use similar technology, some technological changes are required to introduce interoperability. Though previous deadline was June 2018, it appears that it may take longer than that since not all companies are, technology wise, ready yet. However, Bangladesh Bank representative was confident that interoperability can be established by the end of the year 2018, if the following three issues are dealt with in time:

1. Make the different technologies used by the different MFS providers compatible with each other
2. Reach agreement smooth functioning between MFS firms and the banks, and
3. Agree on ways to ensure smooth functioning among the various MFS firms.

International experience: Though the discussion regarding interoperability among MFS firms in Kenya – one of the most successful MFS markets in the world – started in 2015 (Mazer and Rowan, 2016), the process has just started being piloted (Muli, 2018). According to an IFC (2015) report, successful interoperability across firms within an industry has been rare outside of bank-to-wallet integrations which is largely because interoperability has either been made mandatory by the central bank or has only concerned with technical integration (e.g., in Indonesia). According to the same report, Tanzania is a rare success story when it comes to effective interoperability among MFS providers. In 2014, it developed and implemented guidelines for interoperable MFS transactions that proved to be effective. Registered users at participating MFS providers in Tanzania can carry out transactions directly to one another's wallets under a set of guidelines that were developed at the industry level rather than by country regulators. The success story is most likely due to the fact that instead of being imposed upon through regulation at an early stage, interoperability among MFS providers in Tanzania was allowed to evolve naturally in a mature and competitive market reported (IFC, 2015), which can be a useful lesson for Bangladesh.

Observations: All stakeholders, including the Bangladesh Bank are waiting to see the national ICT policy and guidelines. In the interim phase, the regulators' body appears to be less effective in enforcing interoperability through persuasion.

3.4.7 FinTech Companies /MFS providers cannot extend loans

Background/Problem: Bangladesh Bank does not allow Fintech or MFS companies to extend loans, which, according to these companies is a regulatory barrier that hinders financial inclusion.

Regulators' response: Very few countries allow MFS providers to lend, and the success story of MFS is also very limited. Only Kenya was successful in improving financial inclusion situation by allowing MFS providers or FinTech companies to lend but Kenya's banking sector is not well developed and that could be reason of success. Another apprehension is that if FinTech companies (e.g. MNOs) are allowed to lend, there could some long run market power issue. Since only MNOs are operating, allowing them run financing service may eventually go against financial inclusion because of having substantial market power.

International experience: An interviewee from HSBC, Kolkata, India, Mr. Devdutta Guha Roy, informed the research team that Fintech/MFS firms cannot yet extend loans. Sorrentino et al. (2017) terms mobile lending as the new frontier in mobile financial services involving a complex environment with no clear champion yet. In developed countries, Fintech companies such as Zopa in UK[81]and Lending Club in USA[82] have launched peer-to-peer (P2P) lending completely cutting out commercial banks whereas in developing countries, mobile operators such as

[81]www.zopa.com
[82]www.lendingclub.com

Safaricom in Kenya[83]and Globe in the Philippines[84]offer mobile lending as part of their mobile money solutions. While we do see Fintech/MFS companies being allowed to extend loans in various countries, the volume of mobile lending in the world still remains relatively small. According to Sorrentino *et al*. (2017), as of 2016, only 52 out of 277, i.e., only 19% of the mobile money providers in the world offered mobile enabled loans or pure mobile loans. Even in Kenya, which is considered to be the most active market for MFS lending, total value of mobile lending amounted to less than 1% of the total transaction value of mobile money in 2016 (basic P2P transfers contributed nearly 70% of total transaction value). In some countries, instead of extending loans directly, a FinTech/MFS firm has been used as a channel by lending institutions to offer loans to the unserved/underserved segment of the population. One example would be MFS facilitated micro/Nano loans – the very small instant consumer loans – that have experienced quite a bit of growth in recent years, with a particular concentration in East Africa.[85] Similar venture is observed in Pakistan where EasyPaisa, a project of Telenor Pakistan and Tameer Microfinance Bank, offers digital loan services to its customers with a view to reaching millions of unbanked residents of the country.[86] Generally, however, MFS platforms are used to transfer money from bank accounts to individuals, from individuals to bank accounts, and/or, from bank accounts to bank accounts.

Observations: As mentioned before, lending is a special privilege of the banking system (including NBFIs) and MFIs (under MRA), and any other agency may provide platforms to facilitate lending by one or more of these regular stakeholders. The basic principle of bank-based money transfers has increasingly received wider acceptance. There is however need for regular monitoring as well as piloting of operational research to assess every new form of 'money' that surfaces with technological development.

3.5 Issues on Secured Lending: value chain and invoice financing

The issue was raised from the banking community, who sees much prospect in expanding the net of finance by designing enforceable contracts. It is recognised that prosperity of MSEs lies in supporting sustainable sub-contracting arrangements. It is alleged that the risk lies in inadequacies in current laws (and practices) to ensure repayments, aggravated by lack of

[83]www.safaricom.co.ke

[84]www.globe.com.ph

[85] In just a few years, through models such as M-Shwari (Kenya), M-Pawa (Tanzania), Tala (Kenya) and Airtel Money (Malawi, Ghana), tens of millions of people have got access to micro/Nano loans over their mobile phones, which have addressed the critical need of lower income people for very short-term money management tools that enable them to deal with income and expenditure volatility: Rizzi, A., Barrès, I., & Rhyne, E. (2017, September). Tiny Loans, Big Questions: Client Protection in Mobile Consumer Credit. The Smart Campaign.

[86] Ansar, A. (2017, October 10). Sahara Loan Service: Easypaisa Digital Loan Service for its customers.

awareness among bank staffs, lack of readily available information and vulnerability of bank staffs to wrong-doings. Thus, regulatory measures that do not add extra stops in making payments, but reduce risk of lending under tripartite agreements, may go a long way to ensure access of MSEs to bank finance.

The issue was further probed, and a consensus among all stakeholders was reached that the problem does not lie in presence or absence of regulations, rather in enforcements. Since MSEs are likely to gain most with increased sub-contracting arrangements along the value chains, and reduction in risks associated with various instruments of collaterals are expected to encourage financial inclusion, there is a need to study on enforcement issues. This, however, is beyond the scope of the present study.

3.6 Additional Note on Innovative Financing outside CF projects

Most of the experimentation with innovative financing under CF deals with relatively more recent financial products whose delivery relies upon ICT. Following up on suggestions made at the WC meeting, the research team probed into two other potential areas of financial inclusion. The first involves the micro-enterprises that have grown over years of local initiatives of NGO/MFIs with supports from the government and external development partners (EDP)[87]. The second relates to equity financing of small enterprises through establishment of small capital platform in DSE. The regulation/rules related to the latter are at a final stage of vetting and is expected to take off soon. Consultations and reviews carried out focused on two questions; are there new financing products, and do we need regulatory changes to facilitate their promotion?

Reference was made earlier to use ICT by MFIs to promote nano loans. Discussion with the stakeholders in the sector suggests that the MFIs have refrained from partnering with MFS for their online data management. However, important changes are observed in case of e-commerce, whereby, the primary producers are linked with retail outlets through IT platforms. In some such instances, trade finance from retailers is reported to be extended to the producers. No instance of bank lending on the basis of work orders placed to micro-enterprises in the agriculture sector could be located. There are however such practices in the industry and trade. While tripartite arrangement/contracts allow fair distribution of benefits, enforcing contracts are often found difficult to enforce, particularly due to alleged corrupt practices in the banking sector. Since it is difficult to define (new) rules that will ‘make (old) rules work’, no recommendation is made. It is however desirable to monitor the dynamics of sub-contracting and its relations with financing so that inclusive growth and inclusive financing can go together.

[87]The focus is confined to MFI sector with supports from such intermediary agencies as PKSF and SMEF,

Two draft rules, called the 'Qualified Investor Offer by Small Capital Companies Rules, 2018' and the 'Alternative Trading Board Rules, 2018' are nearing finalisation under the regulatory authority of the Bangladesh Securities and Exchange Commission (BSEC). The former reduces the earlier cap of Tk. 300 million to Tk. 50 million on paid up capital for listing of companies. Thus, small enterprises are expected to avail equity finance through this soon-to-be introduced DSE (small cap) platform. The second rule will allow opening of a third platform, called the Other Trading Board (OTB), which will also allow trading of privately issued bonds. With a secondary market of bonds, it is expected that entrepreneurs will, mostly SMEs, will have greater opportunity to borrow from the market.

While the rules are yet to get nod from the cabinet, the study team feels that the rules of engagement for small cap firms ought to differ substantially from the norms of the 'Main Board', and not merely in the size of paid up capital. For example, restricting share of owners to 30 per cent may discourage genuine entrepreneurs[88], and the bookmakers may take undue advantage even when qualified investors are required to engage with a minimum of Tk. 0.2 million. Hopefully changes will be made to protect small investors in the capital market as well as the entrepreneurs from the speculators.

3.7 Summary of International Experience

International experiences have been cited for each of the specific cases discussed in this report. Without further discussion in the text, the compilation on experiences is presented in *Annex 08*.

[88] Interestingly, the requirement of a minimum of 50 million paid up capital, a minimum of Tk. 50 million worth of issue (of shares) and 30% cap on owners' share are not consistent.

Chapter 4: Recommendations

Some of the policy recommendations were alluded to under 'Observations' in the previous section. This section recasts those and groups all under nine broad challenges, which have further been assembled under four major themes. The last part of the section suggests several actions and identifies agencies who may take lead in those actions to realize the recommendations made in this Study.

Theme I: Pertaining to financial intermediation

Challenge 1: Financial inclusion involving MFIs may be vulnerable in the absence of appropriate insurance contracts, and development of micro-enterprises in the sector face high cost of funding.

Issue 1.1 Life Insurance Company cannot offer non-life product and vice-versa

Recommendation: Although separation of nonlife and life insurance may be justified from an efficiency point of view, some exceptions could be allowed if it is targeted towards financial inclusion. If any composite product indeed has the potential of enhancing financial inclusion, IDRA may collaborate with MRA and consider piloting it, and the new guideline under process may include such provision. Revise Insurance Act 2010, Chapter 2, Section 5 to allow inclusion of composite insurance products (life and non-life).

Additionally, given the increased varieties in individual as well as business demand for safeguarding against various kinds of risk, different types of composite insurance products may be needed in the coming days. This implies that there is a rationale for experimenting with alternative regulatory regimes that would allow for such composite insurance products, to be developed and delivered by agencies, all of whom do not belong to a single regulatory authority. It requires initiatives on multiple fronts: (i) formally endorse the concept in the new guideline on insurance; (ii) keep provisions for flexible composite products and contractual arrangements under the umbrella of 'micro-insurance', and not treating the latter as one other insurance product only; (iii) formally bring MRA on board on the last issue; and (iv) develop capacity within the regulatory authorities. With regards to the last issue, the study team notes the WB's on-going project on capacity developments in IDRA and BIA; and proposes to add the link program with local educational institutions.

Issue 1.2 Alleged strict actuary requirements especially in case of residency of a hired actuary

Recommendation: While shortages in availability of professional actuary services in Bangladesh, allegedly rooted in skewed market powers, need to be addressed in the medium to long term, the study team recommends that regulators collaborate with educational institutions at home and abroad to increase skilled manpower in the market of actuary professionals, work towards reducing skewed market power of few actuaries and facilitate transfer of know-how in collaboration with foreign professional bodies/institutions in the respective field. Regulators may also consider relaxing requirements on residency of an actuary, at least, until there is adequate number of in-country certified actuaries. More specifically, the stringent requirements in draft IDRA guideline Clause 3 for an actuary may be relaxed in light of an inadequate number of certified actuaries in practice.

Issue 1.3 Lack of detailed investment guideline (partnership with MFI)

Recommendation: In terms of insurance companies offering micro insurance for MFI clients, IDRA has provision for NOCs to allow such experimentation on a case-to-case basis. However, MRA is obliged to protect the interests of the MFI clients from arbitrary pricing and there is a need to create new regulatory space for 'micro-insurance' instead of treating it as another product with stringent rules applicable to insurance companies. It is recommended that IDRA and MRA act together to work towards that objective. The space for mutually gainful contracts in such partnership may be enhanced if there are scopes for the MFIs to access to the (specific premium) fund of insurance companies at favourable interest rates. That is, premium collected by MFIs will be deposited to insurance companies, and insurance companies usually invest those collected premium in several sectors as prescribed by the Insurance Development and Regulatory Authority (IDRA) guideline. If insurance company could invest (or give loan) to the MFIs at a favourable rate, it would offer incentive for the MFIs to engage in partnering with insurance companies. Although MRA Act 2006, Chapter 5, Clause 24 (h) and MRA Rules 2013, Clause 16 (a) allow MFIs to provide insurance, current regulations of IDRA do not permit investing in MFIs. According to IDRA guidelines, insurance companies can only invest in some certain sources, and though there is an 'other category', the list spelled out for the latter does not include lending to MFIs. The latter, subsumed under loan issue, is within the jurisdiction of BB. IDRA and MRA may jointly develop detailed investment guideline for the collected premium (i.e. asset management of the insurance company). Such guidelines can accommodate new areas of investment, not currently listed in the IDRA documents.

Issue 1.4 Opening up access to finance for micro-enterprises groomed by MFIs

Recommendation: Promote sub-contracting in the value chain and enhance financing scopes by (i) supporting trade finance facilitated by IT platforms; and (ii) pilot with work order financing in a secured manner.

Challenge 2: Potential for financial inclusion through Agent Banking may be restricted by stringent rules and regulations

Issue 2.1 Agent cannot open accounts; complex licensing procedure for agents; the requirement of dedicated premises

Recommendation: Based on interviews and FGDs with the stakeholders, it is understood that there has been low penetration under agent banking due to stiff competition with MFS firms and wider application of ICT making agent banking less attractive. Among the concerns raised by the service providers, the study finds merit in the allegation regarding complications in completing account opening forms and KYC requirements for extending loan operations through agents and recommendations about these concerns have been addressed separately as well as together with payment digitisation. However, the Study team does not consider the current regulations in other areas too constraining for the expansion of agent banking. Rather, the regulators are found to be responsive to needs of the market, particularly, in adjusting the limits on transfers, with a view to balance conflicting concerns with regards to money laundering and widening financial inclusion. However, constant dialogue to share experiences of agent banking with the regulators should continue.

Challenge 3: Bank finance is either inaccessible or too costly for MSEs, and regulatory changes may open alternative sources of finance

Issue 3.1 Except venture capital, equity financing, and impact investment, the SEC AI Rules (2015) precludes any other form of alternative investment

Recommendation: Given the debacles in the capital market, there is good case for finding alternative routes to mobilise small savings targeted to finance specific MSEs, and 'crowdfunding' is worth considering as an alternative. Current rules & regulations do not permit non-discriminatory engagement in such activities. It is recommended that piloting with crowdfunding be included by the newly formed Commission with the provision for intermediary agency to share risk. One possible way is to tie matching contribution from them and/or share extra-normal profit or loss. The regulators may also look into the prospects of tying crowdfunding to the OTC platform in the proposed BSEC Rules 2018.

Issue 3.2 Enhance opportunities of equity and bond financing by small enterprises, availing the new BSEC rules

Recommendation: Ensure that the rules on small cap platform at DSE are producer-friendly; Develop eco-system to reduce cost of small capital companies for engaging in capital market.

Theme II: Addressing financial inclusion in a world with increased security concerns

Challenge 4: Rule-based limits on transactions are restrictive for financial inclusion and demands for countering money laundering and terrorist financing may be better served through efficient monitoring.

Issue 4.1 Low transaction limit on P2P transactions

Recommendation: As discussed earlier, many MSEs open their accounts as private individuals because opening accounts as business entities involves additional requirements. As a result, businesses of this group of people are adversely affected by the limits, even when those are on P2P. The regulatory authority may like to find ways to encourage these people to open accounts as business entities, which may require relaxed fiscal measures; or alternatively, to relax the limits with increased real time monitoring.

Challenge 5: Regulators need assurance on safety and security of data stored (on clients and their financial transactions) as well as access to monitor, while the providers find cloud storage as a cheaper option in spite of potential contract failure

Issue 5.1 Financial data can be stored only in digital storage facilities allowed under ICT guidelines and approved by the Bangladesh Bank (BB).

Recommendation: Often the justification for restricting data storage in other countries is made on ground of countering money laundering and terrorism financing. The problem however lies in absence of appropriate contracts and inertia with regards to contract enforcements, leading to increased risks. The regulatory authority in Bangladesh, such as the BB, would like to ensure that they face no difficulty in accessing the data as and when required, particularly in cases of AML and CTF. The regulators claim to be open to allow storing data in other countries if appropriate contract between entities can be established. It is recommended that the ICT guideline being finalized, (i) clearly states if data storage in foreign clouds is permissible, (ii) if yes, makes regulators responsible for posting updated information on the performance and prices of various external providers, and (iii) states the do's and don'ts to be ensured in a contract with an external cloud agency. In addition, the guideline needs to lay out a road map for public investments to boost privately owned local clouds.

Theme III: On improving understanding and coordination

Challenge 6: Lack of common understanding on the requirements with regards to KYC and eKYC, actual practices are often restrictive for financial inclusion

Issue 6.1 Lack of consistency in KYC and presence of rigid/lengthy requirements.

Recommendation: Substantial variation in the KYC requirements often creates confusions regarding the specific one to be followed under a particular circumstance. For example, even though KYC requirement for MFS is small, if MFS collaborate with banks for loan disbursement or approval, then KYC requirements will be very small if MFS is regarded as standard but would be very long if banks KYC requirements are considered as the standard. Setting up a tiered KYC requirements standard could be a solution. The Study recommends a serious undertaking to develop a consistent KYC for different sectors/services, which will require minimum resources to meet most relevant demands. The Study recommends a serious undertaking to complete the on-going task of developing a consistent KYC for different sectors/services, which will require minimum resources to meet most relevant demands. More specifically, BFIU can modify the contents of circular letter numbers 01, 02 and 04 pertaining to KYC.

The MFS firms in Bangladesh also allege that requirements for account opening and KYC are demanding and may hamper the growth of the digitization process of financial transfer in the country. Having database at the back-end with real time connection with the front-ends can quicken the process of opening a new trading account or bank account or availing a new mobile connection. It is recommended that the process of developing robust back-end data at the Bangladesh Bank, identifiable by unique characterisation, be supported. Along with it, a minimum requirement be placed (under eKYC) for those already included in the database.

Issue 6.2 Retention of hard copies of KYC document

Recommendation: In-depth review of Acts and regulations, as well as extensive exchanges with regulators, revealed that retention of accounts and KYC-related information in hard copies are not mandatory other than for legal purposes. The study identifies certain aspects of evidence Act which may be revised to allow digitised documents to be used as evidence. Till such changes are brought in, clarity in interpreting regulations may be made public that the requirements are not imposed by regulatory authorities -- rather, those are the discretion of banks who may feel the necessity to safeguard against fraudulence. In this regard, the study also recommends that a limit be imposed on banks collecting private information from their clients in order to protect the clients from undue harassment. The study identifies certain aspects of Evidence Act which need to be revised to allow digitised documents to be used as evidence. More precisely, BFIU Circular No. 10 dated 28/12/2014, MLTF Risk Management Guidelines 2015: Section 7, Clause 7.9, Evidence Act, 1872, Chapter 1, Clause 2(e) all either impose obligations or ambiguities regarding maintenance of physical e-KYC forms. A circular with a uniform message is required.

Challenge 7: In a globalised economy where we are at the receiving end confined to applications, better comprehension of the concepts is necessary to build consensus around entry points for promoting innovations and innovative products.

Issue 7.1 Lack of clear privacy guideline

Recommendation: There is a lack of clear privacy guideline in terms of how data can be used or shared. The risks of breaching privacy during data storage ought to be dealt with by the BTRC in its ICT guideline. It is however the responsibility of the BB to ensure privacy of financial data as well as other information on clients. In this regard, it is recommended that BB be the custodian of back-end data to support demands at both ends of the chain – individual bank, MFS providers and other financial institutions, as well as, global demands to counter money laundering and terrorist financing. It is therefore necessary that BFIU works closely with BRPD to define multi-layered information sheet that may be uniformly filled in from all outlets. Since lending is at the discretion of individual authorised agencies, the latter ought to have flexibility beyond a minimum information requirement.

Issue 7.2 Lack of understanding of some innovative financing tools

Recommendation: In a dynamic setting, regulators in financial and FinTech sectors need to have the capacity to collect and process information for monitoring as well as for evaluation and for making informed decisions. Having a competent in-house research wing, which can spend more time in research activities rather than being in operations, is recommended as an essential first step towards that direction. Ideally, such a wing needs to house expertise of diverse backgrounds and provide supports to the committee of regulators.

Challenge 8: Coordination at two levels appears critical in FinTech sector for realising policy objectives of financial inclusion: between regulators and between operators (interoperability)

Issue 8.1 Lack of coordination among regulators and lack of effective set of rules to promote innovative products

Recommendation: Innovation may involve packaging a product with multiple interfaces and bringing the bests from the different segments of service provision options. Consequently, the innovation or innovative products may involve multiple regulators. There is no guideline regarding what sequence of the regulatory compliance need to be accomplished if some product involves multiple regulators. Currently, there is committee of several regulatory bodies, which includes BB, BSEC, RJSC, IDRA, MRA, DOC and BTRC. It is chaired by the Governor of Bangladesh Bank, and, to the knowledge of the study team, the Committee has no executive power. At the broad policy level and in exercises of power, regular exchanges are necessary. It is recommended that the Committee initiates serious engagements with subsets of the regulators, in particular, BRPD and PSD in BB with BTRC, to coordinate development of guidelines and policies at both ends.

Regulators can consider any alternative tool which will allow innovative financing mechanism to work without exposing the overall sector to higher risk. It will however require endorsing regulatory sandboxes, a buzzword for experiments to be done under close supervision of the regulators. One may view it as a transitional step away from NOC-based decision-making. It means FinTech innovators are allowed to experiment some innovative products under a controlled environment, and regulatory supervision. If the experiment is successful, it can be scaled up and some regulatory changes can be advised. Moreover, having regulators involved with the process ensures identification of many risks, and with appropriate technical inputs, mechanisms to mitigate these risks may be included in designs that go into scaling up.

Issue 8.2 Lack of interoperability among MFS firms

Recommendation: BB should make sure that interoperability of MFS is established within a specific deadline. A committee can be formed to understand the current technological and institutional limitations which are delaying the process. The study also recommends that industry inputs are seriously considered in order to make interoperability effective.

Theme IV: Protection of MSEs in the guise of Content Providers (CPs) – beyond financing

Challenge 9: Local agencies (CP) providing TVAS to Access Network Services (ANS)/ Cellular Mobile Phone Operators (CMPO) hold great potential for SE growth and need policy supports for expansion

Issue 9.1 VAS guideline

Recommendation: Bangladesh Telecommunication Regulatory Commission (BTRC) is reported to have finalised a guideline to bring the valued-added service (VAS) providers under its regulatory framework. The telecom ministry is said to have given its approval as well. From the little that the team could gather, the guideline has addressed the issues of revenue sharing MSEs and MNOs and introduced measures to counter undesired transfer payments across borders by telecom industry. We recommend probing into establishing patents for Contents so that the local Content Providers (CP) is empowered. There may also be measures, pursued in collaboration with NBR, to protect a local CP market with appropriate fiscal measures, since growths in MSEs in IT sectors have high social benefits. The study also recommends inclusion of software and content along with art, process and article to the definition of manufacture in Patent and Design Act, 1911, Definition Clauses (8), (10) to protect SMEs producing contents under patent law.

4.2 Suggested Action Plan and Responsibility to Implement Recommendations

Issues	Recommendations	Stages	Actions	Agency
Life insurance company cannot offer non-life product and vice-versa	If any composite product has the potential of enhancing financial inclusion, IDRA may consider piloting it within a regulatory sandbox approach, and the new guideline under process may include such provision. Additionally, to allow for experimentation with alternative regulatory regimes, capacity building within the regulatory authority (IDRA) is essential.	1st Phase of Designing a product	Revise Insurance Act 2010, Chapter 2, Section 5 to allow inclusion of composite insurance products (life and non-life). Develop separate guideline for micro-insurance that is composite in nature, allows for linking insurance with financial services.	IDRA; MRA; and EDPs
Alleged strict actuary requirements especially when it comes to hiring a foreign actuary	Regulators may consider relaxing requirements on residency of an actuary, at least, until there is adequate number of in-country certified actuaries practicing to provide the service.	2nd Phase of Designing a product (Negotiation Stage)	The stringent requirements in draft IDRA guideline Clause 3, for an actuary may be relaxed in light of an inadequate number of certified actuaries in practice. Add academic link programmes with institutions at home and abroad in respective fields.	IDRA, BIA; WB and other EDPs
Lack of detailed investment guideline (partnership with MFI)	Detailed investment guideline for (micro) insurance premiums (i.e. guideline for asset management of the insurance company) needs to be developed	Up scaling	MRA Act 2006, Chapter 5, Clause 24 (h) and MRA Rules 2013, Clause 16 (a) allow MFIs to provide insurance. This contradicts with the Insurance Act. Support reconciliation of this contradiction in the new Insurance Act.	IDRA &MRA

Issues	Recommendations	Stages	Actions	Agency
Agent cannot open accounts; complex licensing procedure for agents; the requirement of dedicated premises	Based on our interviews and FGDs with the stakeholders, we understand that the initial practice of bulk licensing was not an ideal policy, and the regulators are responsive to changes, Current regulations are not too constraining for the expansion of agent banking, and changes at the margin can be negotiated.	Up scaling	No change in regulation to be initiated. However, constant dialogue to share experiences of agent banking with the regulators should continue. Monitoring through systematic data collection and their meaningful analysis to feed into policies.	BB (BRPD)
Comprehensive and rigid KYC requirements	Regulators should revisit the concerns and make basic requirements simpler and stick to those which are useful in the authority's regular monitoring exercises. Use of e-KYC, collection of biometric information and real time access by authorities giving approvals/monitors.	2nd phase	Completion of the on-going task of unifying various KYCs and complete unification of KYC, account opening information and e-KYC within a multi-tiered structure. Amend circular letter number 01,02 and 04 pertaining to KYC and modify BRPD Circular No: 14, Clause (38) to reflect a unified, multi-tiered, consistent and transparent approach. Ensure that retailers do not impose excess burden on end clients of banks and MFS provider	BB (BFIU)
Low transaction limit on P2P transactions	The regulatory authority may like to find ways to encourage these people to open accounts as business entities, which may require relaxed fiscal measures; or alternatively, to relax the limits with increased real time monitoring	Up scaling	A public declaration from the NBR that no information on transactions will be used to impose tax.	BB (PSD) & BB (BRPD), NBR

Issues	Recommendations	Stages	Actions	Agency
Except venture capital, equity financing, and impact investment, the SEC AI Rules (2015) does not cover any other form of alternative investment	Given the debacles in the capital market, there is good case for finding alternative routes to mobilize small savings targeted to finance specific MSEs, and 'crowdfunding' is worth considering as an alternative. Current rules & regulations do not permit non-discriminatory engagement in such activities. A regulatory sandbox approach may be undertaken to test the viability of crowdfunding in an arrangement that ensures accountability of third party service providers.	1st Phase of Designing a product	Develop rules to make the intermediary agency accountable and pilot under strict supervision. Look into prospects of tying it to the OTC platform in the proposed BSEC Rules 2018	BSEC
MFS firms cannot lend	Given very limited number of success stories regarding MFS lending and the fact that allowing Fintech/MFS firms to extend loans would imply a complete paradigm shift in terms of loan regulations which would need the involvement of multiple regulatory bodies, ERG recommends no change in current regulation. However, the issues to be addressed in a tripartite contract between banks, MFS providers and the telecom/internet service providers need greater transparency and better enforcement.	1st Phase of Designing the rules of engagement	Clearly lay out the rules regarding the limits on deposits and advances that MFS may engage in while providing their services so that there overlaps of activities may be avoided.	BB (PSD) and BTRC in consultation with banks and MFS providers
VAS guideline (the guideline of 2018 is not publicly available)	Detailed Value-Added Service (VAS) guideline with special emphasis on revenue sharing issues between MSEs and MNOs has reportedly been approved by the Telecom ministry. We recommend probing into establishing patents for Contents so that the CPs is empowered. There may also be measures, pursued in collaboration with NBR, to protect a local CP market since growths in MSEs in IT sectors has high social benefits. [see Glossary for VAS.]	2nd phase & Piloting; 1st phase of design	Inclusion of software and content along with art, process and article to the definition of manufacture in Patent and Design Act, 1911, Definition Clauses (8), (10) to protect SMEs producing contents under patent law.	BTRC; BTRC & NBR in consultation with MFS providers and CPs

Issues	Recommendations	Stages	Actions	Agency
Lack of clear privacy guideline	It is strongly recommended that BB has a detailed privacy policy with regards to financial and client level data; and developing multi-tiered information sheets aligned with privacy policy. Identify clearly discernible minimum requirements on identification and verification of clients. Develop infrastructure and capacity at BB to act as back end service provider	2nd phase design and piloting; Up scaling with improved information structure	Complete the unification of KYC, account opening information and e-KYC within a multi-tiered structure; and ensure that retailers do not impose excess burden on en clients of banks and MFS providers	BFIU in collaboration with PSD (BB); BB (IT)
Only banks can sell POS machines	ERG does not think that this regulation needs to be changed since the usage of POS will very likely be limited in the long run with potential increase in online payments, MFS payments and with the advent of more modern technology-based payment systems such as QR based mobile payments.	Up scaling monitoring	No action recommended, other than monitoring	BB (PSD)
Financial data can be stored only in digital storage facilities allowed under ICT guidelines and approved by the Bangladesh Bank (BB).	In all likelihood, BB has this digital storage regulation in place to counter money laundering and terrorist funding. Such regulation seems justified and important in order to protect national security. Yet, recommendations are made along two tracks: (i) develop guidelines for safe storage to reduce cost; and (ii) invest to develop locally owned clouds for data storage.	1st stage design; Up scaling but in some cases may face this during piloting	Develop sample contracts and guidelines on do's and don'ts in storage contracts; Publish information on performance, costs, and terms of eligible cloud agencies. Invest to develop local secured clouds in private sector.	BB (PSD), ICT Division, BB (BRPD), BB (BFIU)
Retention of hard copies of KYC documents	While proper and complete KYC requirements are desirable to ensure national security, MFS firms should not need to maintain hard copy KYC records. Abolishing this requirement will reduce significant amount of rental cost and free up a lot of employee time, which in turn will help reduce transaction cost charged to the MFS clients.	Does not relate to any stage, but essential.	BFIU Circular No. 10 dated 28/12/2014, MLTF Risk Management Guidelines 2015: Section 7, Clause 7.9, Evidence Act, 1872, Chapter 1, Clause 2(e) all either impose obligations or ambiguities regarding maintenance of physical e-KYC forms. A circular with a	BB (BFIU) and BRPD.

Issues	Recommendations	Stages	Actions	Agency
			decision leaving no scope for ambiguity	
Lack of interoperability among MFS firms	BB should make sure that interoperability of MFS is established within a specific deadline. Following Tanzania's successful example, industry inputs need to be considered in order to make interoperability effective.	Up scaling	A joint decision by BB and BTRC, within the jurisdiction of the Committee of regulators, which is already functioning.	BB (PSD) and BTRC
Lack of consistency in KYC requirements	A consistent set of KYC requirements should be developed. It could be tiered, i.e. some basic KYC requirements for all services, and seeking additional information related to the services offered	Up scaling	BFIU can revise the KYC requirements. Completion of the on-going task of unifying various KYCs. Can amend circular letter number 01,02 and 04 pertaining to KYC.	BB (BFIU)
Lack of understanding some innovative financing tools	Some organs of regulators may consider establishing research cell which can spend more time in research activities rather than being in operations.	2nd Phase of Designing Product (Negotiation Stage)	Assess and strengthen research capacities within each regulatory authority	Regulatory authorities

Issues	Recommendations	Stages	Actions	Agency
Lack of effective set of rules to promote innovative products	To come up with an effective set of rules during the transition from NOC-based decision-making to a rule-based system, regulators can consider introducing guidelines for experimentation under close supervision and for a finite period. Such a regulatory sandbox approach will provide a platform where firms will be allowed to experiment with innovative products where certain regulations are relaxed within the platform.	1st Phase of Designing a Product	Decisions at levels of individual regulatory authority.	Relevant regulatory authorities
Opening up access to finance for micro-enterprises groomed by MFIs	Promote sub-contracting in the value chain and enhance financing scopes by (i) supporting trade finance facilitated by IT platforms; and (ii) pilot with work order financing in a secured manner.	2nd phase design and up-scaling; 2nd phase design	Monitor and pilot; Assess current bank practices to come up with a roadmap	MRA, PKSF and commercial banks under BB guidance
Enhance opportunities of equity and bond financing by small enterprises, availing the new BSEC rules	Ensure that the Rules on small cap platform at DSE are producer-friendly; Develop eco-system to reduce cost of small capital companies for engaging in capital market	1st phase design	If the closing time is extended, organise open consultations on the Rules; Support initiatives to develop the financial eco-system to make participation from small enterprises smooth	BSEC and DSE

Note: Actions are worth articulating only after the problems are commonly diagnosed and recommendations are agreed upon. Only few are included as examples to be finalised after the consultation meeting.

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ANNEXES

Annex 1: Terms of Reference and Scope of Work

Study on 'Innovative MSE Financing Products and Delivery Channels in Bangladesh: Opportunities and Challenges'

A1.1 Project Background

Business Finance for the Poor in Bangladesh (BFP-B) is a five year programme funded by UK aid from the UK government. The Bangladesh Bank (BB), the central bank of Bangladesh, is the implementing agency, and the Financial Institutions Division (FID) of the Ministry of Finance (MoF), Government of Bangladesh (GoB), is the executing agency. Nathan Associates London Ltd, in consortium with its partner, Oxford Policy Management, is appointed as the management agency for the programme. The programme aims to promote Innovative finance and financial services for micro and small enterprises (MSEs). It is designed to couple social and economic welfare objectives with a commercially-sound approach to increase access to finance for MSEs, especially those that are currently underserved by the formal financial sector. BFP-B has three components: a Challenge Fund, a CIB-Microfinance, and a Policy Component.

By identifying and, where possible, supporting improvements in the policy and regulatory environment, BFP-B aims to reduce the risks and costs for financial institutions and MSEs, improving the quantity and quality of access to MSE finance in Bangladesh. The Policy Component focuses facilitation of a collaborative approach to financial sector policy and regulatory reform in Bangladesh which is overseen by a Policy Advisory Committee (PAC), comprising of members of Bangladesh Bank, and a number of relevant financial sector stakeholders.

A1.2 Background and Context of the Study

In Bangladesh, Micro, Small and Medium Enterprises (MSMEs) contributed up to 25% of GDP in 2012 according to BB (2013). It is estimated that there are 8.08 million MSMEs in Bangladesh, which provided employment for just over 28 million people, 52 % of the total employment of the country reported by BBS (2013). 90% of all MSMEs in Bangladesh have 10 or fewer workers. Access to finance remains one of the key constraints for 68.6% of microenterprises with 10 to 24 workers reports Vila (2013). In Bangladesh, 26.5% of small firms and 22.7% of medium firms consider access to finance a major constraint according to World Bank (2013). The medium and large enterprises have more access to bank credit, while micro and small enterprises (MSEs) utilise microcredit[89].

Bangladesh Bank has been promoting innovative MSME financial products and delivery channels such as factoring, cluster and value chain based financing, mobile banking, agent banking, and partnership approaches with NGOs/MFIs for alternative delivery channels. Only a few banks and NBFIs are offering innovative MSME financial products and/or using alternative delivery channels. The main MSME products offered by banks and NBFIs in Bangladesh are working capital loans, cash credit, overdrafts, and medium

[89] ibid

term loans. However, for many MSEs, they often require a greater variety of products, which the current product mix cannot offer.

There are also regulatory risks and barriers hindering the promotion of innovative MSE financing and alternate delivery channels. The scope of regulatory environment can be strengthened and broadened for this purpose. Regulatory authorities like Bangladesh Bank (BB), Microcredit Regulatory Authority (MRA), Bangladesh Security and Exchange Commission (BSEC), Insurance Development and Regulatory Authority (IDRA) and other regulators are considering the need to promote innovations too. For example, BSEC investment parameters for alternative funding maybe reviewed considering the supply side issues.

A1.3 Rationale of the Study

It is evident from BFP-B policy studies that there is a demand for diversified credit, savings and insurance product among the MSEs located in the rural areas. The innovative financial products considered are factoring, venture capital, equity finance, purchase order and warehouse receipts finance, alternative debt financing (corporate bond, debt securitisation etc.), subordinated and convertible debt, crowd-funding and others[90] could play an important role for economic growth of Bangladesh. However, financial service providers (e.g. banks, NBFIs, MFIs, Mobile Financial Service providers, Venture Capital and Insurance Companies) sometime are not willing to develop and offer innovative financial products by considering the lack of enabling regulatory environment to launch or upscale the operations of the innovative products. The regulators sometimes do not promote innovations either by considering the systematic and other risks involved to offering innovative products or the regulators do not have adequate knowledge or information about the innovative products. An enabling regulatory environment could assist financial service providers to uptake innovative financial products and find out cost effective alternative delivery channels.

By considering the importance of innovative financing, the recent monetary policy of Bangladesh Bank has mentioned to develop an ecosystem comprising venture capital providers and angel investors Bangladesh Bank (2017). Besides, Bangladesh Bank would work with capital market regulator and other stakeholders in fostering start-ups and innovative financing ecosystem for MSMEs in Bangladesh.

The 7th Five-Year plan of the Government of Bangladesh (GoB) has mentioned that weak enabling regulatory environment is hindering the growth prospects of SME[91]. In facilitating investment in the SME sector, the 7th Five-Year Plan has suggested to create investment friendly legal and regulatory framework. Besides, the 7th Five-Year Plan also advised the financial institutions to develop loan products based on specific type of credit need of the SMEs.

Although the GoB is willing to create enabling regulatory environment to promote innovative financial products; however, no or only a few studies have been conducted to understand the role of regulators during different stages (e.g. product development, product pilot testing, up-scaling etc.) of innovations or innovation journey. An in depth study would help the regulators and high level policy makers to

[90]Innovative financing products refer here the financial products which are not very common in Bangladesh

[91]Government of Bangladesh (2015), Seventh Five Year Plan: FY 2016 to 2020, General Economic Division, Planning Commission.

understand how to create enabling regulation to promote innovative financial products and alternative delivery channels.

A1.4 Objectives of the Study

The overall objective of this study is to understand how enabling regulatory environment could incentivise and catalyse to uptake the innovative financing products for MSEs and to use alternative delivery channels. The specific objectives are to:

- Identify the regulatory barriers observed by the financial service providers during different stages of innovations such as entry, pilot testing and up-scaling stages.
- Understand the factors that discourage the regulators to promote innovations.
- Understand the regulators views on promoting specific innovative financial products and how the regulator could promote innovations through creating enabling regulatory environment.
- Explore how the enabling regulatory environment could up-take innovation.
- Bring global best regulatory practices in terms of promoting some specific innovative financial products and delivery channels.
- Provide policy recommendations and policy options to the regulators to promote innovation on some specific financial products.

A1.5 Key Research Questions

The key research questions of this study are:

- What are the regulatory barriers observed by the financial service providers to offer innovative financial products to the MSEs during different stages of innovations such as entry, pilot testing and scaling up stages?
- What is the cost of doing business observed by the financial service providers (in terms of time and money to get regulatory approval)?
- What are the regulatory risks discouraging regulators to promote innovative financial products and alternative delivery channels?
- How regulators could create enabling regulatory environment to promote some specific innovative financial products and contribute to up-take innovations?
- What are the drawbacks for failing some innovative financial products?
- What are the global best regulatory practices to promote some specific innovative financial products and delivery channels and how can it be exemplified in the context of Bangladesh?
- What policy recommendations can the regulators adopt to promote some specific innovative financial products for MSEs?

A1.6 Scope of the Study

The scopes of this study are as follows, but not limited to:

1. **Supply-side:** To understand the supply-side, the key focus areas include-
   i) identify the financial service providers offering innovative financial products and using alternative delivery channels from the 311 concept notes of BFP-B Challenge Fund (for 1st, 2nd and 3rd round applications) and also identify some other financial service providers which are offering innovative financial products,
   ii) understand the regulatory barriers observed by the financial service providers to offer innovative financial products to the MSEs during different stages of innovations such as entry, pilot testing and up-scaling stages,
   iii) explore the cost of doing business observed by the financial service providers (in terms of time and money to get regulatory approval),
   iv) identify the factors that discourage regulators to promote some specific innovative financial products and alternative delivery channels, v) explore how enabling regulatory environment could contribute to up-take innovations, vi) explore the reasons for failing some innovative financial products,
2. **Policy / Regulation:** Review policies of Bangladesh Bank (BB), Microcredit Regulatory Authority (MRA), Bangladesh Security and Exchange Commission (BSEC), Insurance Development and Regulatory Authority (IDRA), government ministries and other regulators to understand the regulatory barriers and risks discouraging the promotion of innovation. Identify the global best regulatory practices to promote some specific innovative financial products and delivery channels and how can it be exemplified in the context of Bangladesh. Identify the policy enablers that will help to promote innovations. Explore and recommend the policy options for the regulators to promote some specific innovative financial products for MSEs.

A1.7 Guidelines of Research Method

The consulting firm is expected to propose an appropriate methodology to meet the objectives, research questions and scope of the study and also to achieve the expected outputs. While designing the methodology, following guidelines is expected to be covered:

- List of supply-side actors to be consulted and the selection criteria of the financial service providers (banks, NBFIs, MFIs, venture capital investment companies, MFS and insurance companies). In understanding new approaches being tested in Bangladesh, the study will also include a review of existing challenge fund projects (implemented in the first and second rounds) to understand the opportunities and regulatory / policy constraints that are moderating and holding back the expansion of these technologies. In this regard the initial entry point could be 311 concept notes of BFP-B Challenge Fund component. However, the list of other financial service providers which are offering innovative products and using alternative delivery channels should be included.

- It is expected that at least 70% of the financial service providers would be identified from BFP-B Challenge Fund applications and the rest could be identified through secondary sources and stakeholder consultation. However, the ratio of service providers identified from Challenge Fund applicants and other sources can be changed based on discussion but consulting firm need to justify the ratio proposed and selection process.

- The innovative financial service providers could be categorised into different categories such as product and platforms (crowd funding, equity, loan and insurance products), investment readiness (technology/data enabled investment readiness to link the MSEs with financial service providers), last mile distribution (agent banking and mobile banking products) and FinTechs (facilitating financial service with financial service providers).
- The consulting firm will provide the list of financial service providers to be consulted from each category. However, it is expected that at least 10 financial service providers (if required the number of financial service providers could be further reviewed upon consultation with BFP-B) would be selected from each category.
- List of other relevant stakeholders such as government agencies, policy makers, regulators, apex foundations, chambers of commerce, financial service provider's associations etc. to be consulted.
- Data / Information collection methodology with justification.
- List of literature to be reviewed in the area of policies, regulations, global best practices on innovative MSE financing products and delivery channels.

A1.8 Expected Output

The consultancy will have following major outputs:

i) Policy Analysis: Analysis of potential impact of policy changes or enabling regulation to uptake and upscale innovation. Provide policy options and identify the possible quick-win option. Also, assess the regulatory risks hindering promotion of innovative products.

ii) Regulatory barrier and enabler analysis: Analysis of the regulatory barriers observed by the financial service providers to offer innovative financial products to the MSEs during different stages of innovations such as entry, pilot testing and up-scaling stages. Besides, it is also required the analysis of cost of doing business observed by the financial service providers and MSEs (in terms of time and money to get regulatory approval) and how the enabling regulatory environment could incentivise and catalyse to uptake the innovative financial products and delivery channels. Detail analysis of the policy enablers that could help financial service providers to invest in innovation.

iii) Gather global best practices on innovation: Gather best regulatory practices on innovative MSE financing products and delivery channels from the region and also from the other countries that would help the regulators and policy makers in Bangladesh to understand about the potential impact of enabling regulatory environment to uptake MSE financing.

Provide action oriented recommendations: Provide action oriented recommendations that would help the regulators decide and take strategic actions to promote innovation.

Annex 2: Brief on Digital Financial Services in Bangladesh

Digital Financial Services is an emerging tool for making online[92] financial transactions in Bangladesh which is mostly regulated by the Bangladesh Bank. Bangladesh Bank has promulgated the enabling statute for the sector namely, Bangladesh Payment and Settlement Systems Regulations, 2014. Other than the Bangladesh Bank; BTRC, Ministry of Post and Telecommunication have also regulatory oversight on the industry.

A2.1 Industry Configuration

Bangladesh has opted for a bank led model in DFS. The entities providing DFS are banks, payment system operators or PSOs and payment service providers (PSPs). The PSPs are entities that can operate a range of financial transaction services. In an ideal world with tech-supported real time flow of information and connectivity across all operators, those financial services may be captured in the idea of a digital wallet, where value can be stored independently of other monetary mediums with storage value. They have to be at partly owned by a scheduled bank. A ramification of the bank led model may be that the money value is always in reference to the money deposited with the DFS provider either directly through cash to digital balance or through reference to the balance at the bank accounts. This precludes or has at least precluded until now the value stored and measured through balances carried with MNOs.

A2.2 Intra-Industry Configuration

The PSOs have limited areas of operation in terms of the services they can provide. It may be said that the distinction or the boundary conditions between the PSO and the payment service providers (PSPs) is not that concrete and nor is it well understood by the industry operators. The payment service providers have retail outlets consisting of their service supply chain made up of retail agents and the dealers and distributors who provide services to the end customers in face to face interaction. There is significant overlap in the regulatory requirements that PSOs and the payment service providers are subject to especially as pertaining to AML and ATF regulations. It

[92]Both mobile and internet services

may be useful to characterize the PSOs as a subset of payment service providers. In other words, the payment service providers can provide the services that PSOs can but the reverse cannot be said to be true.

There are at present two types of payment service providers: those having banking interface and the other without a banking interface. With the former, the balances or the digital money has to come through the agents who process the paper money from the end customers and convert that into digital money, in a process colloquially known as cash-in. In the latter category the end customers can credit their balances through instructing there banks to transfer the funds from their transaction accounts maintained with the bank to the mobile wallets. So in one case handling paper money is a given, whereas in the other case, handling paper money is an option that can be exercised by the end customer in lieu of or in conjunction with bank transfer mechanism. The bank transfers can and are indeed done over internet that is through internet banking.

A2.3 Parties to the Transactions

In all DFS transactions, there has to be at least one party with a DFS account. The DFS accounts are made or opened by the DFS entities after they acquire the KYC information from the would-be account holder and after they make the limited triangulation on the data that resides with disparate data sources including the MNOs and the national ID card repository.
The transactions can be between the account holder and the e-merchant, between two account holders (P2P or B2B) or between an account holder and a non- account holder. In the latter case, the non- account holder receives the fund through an agent, the modality being applicable in the case of payment service providers only. DFS providers are enabling person to business or P2B payments by acquiring or registering businesses known as e-merchants.

A2.4 Delivery Channel

In terms of reach, the PSOs can offer service to entities who/which have bank accounts maintained with banks that have CBS and issue bank cards, whether through international PCI or their own local cards. In the early stage of the industry, the service was almost exclusively focused on enabling customers to send money to their peers. This addressed the absence of bank accounts to the unbanked population. And in any case the bank branches in rural areas are often miles away from their residence or business of the receiving or remitting person. Now foreign remittance is being channelled through the DFS, and this appears, at least to be a grey area in terms of regulatory cover.

Dependence of people on the agents is admittedly coming down, as customers become confident in carrying out DFS transactions on their own. Many services provided by the agents like payment of utility bills can be done by the account holders using MFS, Mobile Apps, though at present many customers continue to depend on the agent for availing these services. Using the SMS Banking services, the customers can avail mini bank statements, alerts and promotional offers.

In the absence of retail agents, the PSOs can popularize their service through promotion and advertisements. The digital wallet operators also can and indeed have been seen to offer promotional rates in conjunction with e-merchants and / banks and / PCI.

Mainstream person to business transactions have started to come under the DFS. Whereas previously merchants only accepted POS payments other than cash, now they often have DFS in addition to POS option for the customers. These e-merchants are most often retail customers in upscale urban metropolitan areas. To what extent merchants in rural and semi–urban areas are accepting DFS payments is not well known. Here we can see a graded or duality of e-merchants. In one category are the menu based e-merchants, where the payment modality are admittedly more defined and secured. In the other category are the e-merchants that are receiving payments as a “transfer” mechanism, as like any other P2P transaction. In the latter case, some human interaction are admittedly required and the payer doesn’t have the electronic invoice as he gets in the case of POS, internet based transactions settled through PSOs. The payer would see the transaction reflected in his account statement and also get a text confirmation though.

The payments received by the PSO companies are held by them for a period and they release the funds to the e-merchants from time to time, depending on the policy of the PSO Company and the terms of the contract entered into by the e-merchants and the PSO. There appears to be a gap here in regulatory clarity and / the resources available to the e-merchants to enforce the terms. There appears to be hesitation on part of merchants as to what assurance they may have that their sales proceeds lying at the hands of the PSO companies would be forthrightly handed over to them. The payments made to the e-merchants by the digital wallet operators are credited to their accounts on real time basis.

A2.4 Technology Interface

The payment service providers work through MNOs. The customer interface is through USSD mechanism. Whereas the PSOs' customer interface is the internet, customers interface through PSOs' web portals or the mobile applications installed at the mobile handsets, tablets used by the customers. There is a layer of operators invisible to the users who provide access to the MNOs between the DFS and the MNOs. These are a very limited number of specialized server operators who play a crucial role in maintaining round the clock secure access to the MNOs' servers.

A2.5 Current Market

The most prominent of the e-merchants as defined by number of transactions and transaction volumes in terms of taka are probably the public sector utility companies, and some government services like passport and ID card fees payment portals. The utility companies have opened up to a wide array of payment mechanisms and their individualised bills or invoices can be settled by either PSOs or the payment service providers in addition to more traditional modes. The government's fees mechanism where they are open to DFS, are limited to PSOs only. One emerging application is in disbursing salary through DFS accounts. Some entities including those in the public sector are piloting the mechanism, but by and large, salary disbursement through DFS has not achieved scale.

Another area, where DFS is becoming popular, is paying the MNOs for their service charge. As the majority of the population actively use MNO services, this is a very large market affording the DFS opportunity for further penetration. At the same time, as MNOs are providing more services especially internet coverage, the market itself is expanding steadily at least in terms of unique users and services accessed by the users.

A2.6 Emerging Market Segments

On the financial service market, all major insurance companies have provided the DFS option for their customers to pay their premiums. Some NGOs are piloting microfinance loan disbursements through payment service providers, but they have not been very popular. One reason for hesitation of the loanees is the fees that they have to pay for the digitized transaction. Most of government's receipts and payments from and to the individuals, at national or local stage, are still outside DFS mechanism. New entrants in finance providers, who can provide the loans through DFS or new investment platforms where cash surplus individuals can invest over the internet though DFS have not taken off in the country.

The relative market size of the PSOs and the payment service providers at the present is quite lopsided. The combined turnover of the PSOs is a tiny fraction of the combined turnover of the payment service providers. It is moot that publicly available vetted information on the turnover and key business indicators like number of unique clients acquired and serviced in a given period by the DFS providers are hard to come by.

A2.7 Cost side of the equation

The PSOs are able to make the transactions through their interface with the payment card industry actors. International or global PCI actors predominant in the market are, the MasterCard, Visa and American Express. There are local cards that some banks have brought out but the local PCI actors have not gained the traction that global PCI counterparts have. The PCI actors get a pro rata amount on the transactions. Between the PCI and the issuing Bank the transaction cost to the end user can come between 2.0% to 3.5%. The PSOs have been able to provide a lower transaction charge on some transaction types depending on the end user characteristics like students transacting with his education institute. The transaction charges in the country are admittedly high in relation to their counterparts operating in the advanced economies.

The payment service providers on the other hand have to provide cash handling mechanism which has its substantial antecedent complexity, and admittedly for that reason are having to bear high operational costs. Their high operational costs are being passed down to the end users.

A2.8 Future Outlook

The Bangladeshi DFS users have to pay high transaction charges, which have ramifications for the development of the ecommerce sector and the realization of the digital transformation goal that the government is committed towards. On the brighter side, the transactions volume of the PSOs are increasing, number of e-merchants, e-commerce transactions are all increasing and there is more active operators in the DFS industry. Some payment service providers have started to provide interest on the e-wallet balance which in the long term will likely make the wallets more popular and that in turn bring economy of scale to the operators, which one may expect to benefit the users, by providing more product options and lower price. In some cases like traffic ticket transactions the payments now are only made through DFS, which brings transparency to the payments movement. Operators are experimenting and piloting with wider technology platforms including Block Chain. Overall, there can be significant growth in the DFS industry in the coming years.

Rest of this annex presents selected summary statistics on progresses made in DFS.

Table A2.1 Mobile Financial Service

Mobile Financial Service	2014	2015	2016	2017
Total No. of Banks with License	28	28	25	28
Total No. of Banks Started Operation	20	20	18	18
No. of Agents (in thousand)	410	561.2	710.03	786
No. of Registered Customers(in million)	16.7	31.8	41.08	58.8
No of Transactions (in million)		114.8	133.73	166
Transaction Amount(in billion)	85.23	161.2	232.1	285.70

Source: Bangladesh Bank Annual Reports

Table A2.2 Number of ATM & POS

Delivery Channel	2014*	2016	2017
ATMs (in Thousand)	6.2	8.3	9.2
POS (in Thousand)	22.1	30.4	34.9

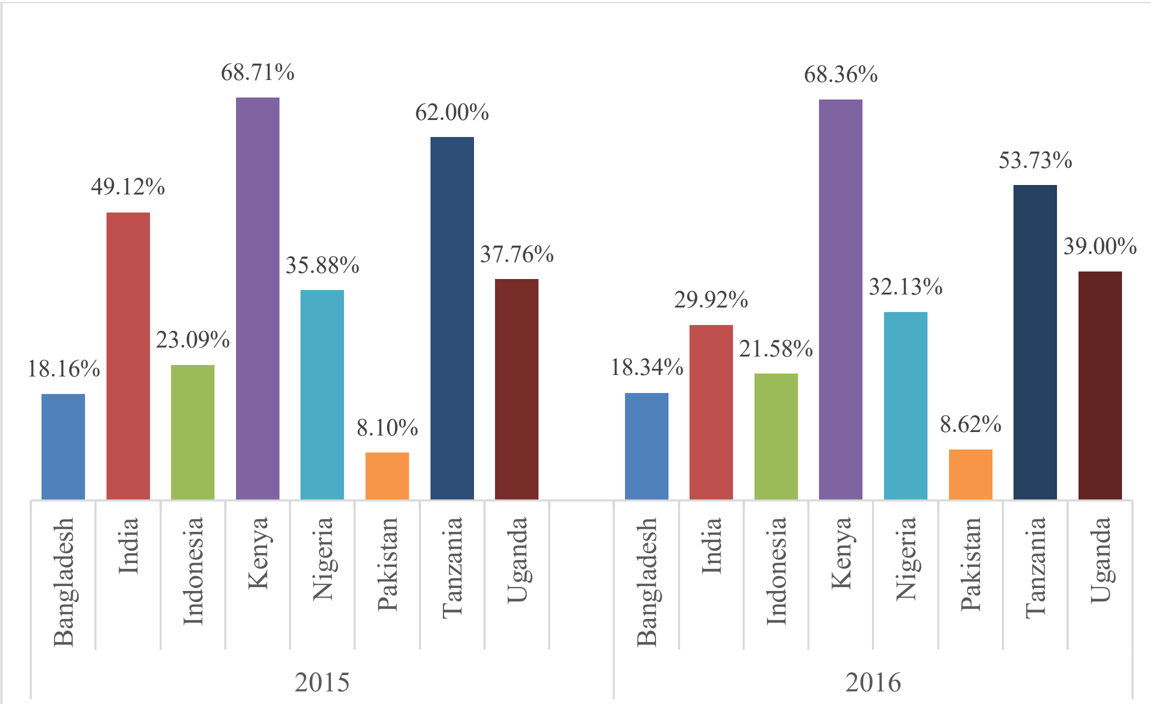
* As of December
Source: BB Annual Reports

Table A2.3 Agent Banking

Agent Banking	2015	2016	2017 (June)
Total No. of Banks with Agent Banking Approval	9	12*	17
Total No. of Banks Started Operation	4	10*	13
Agent Outlets	118	2601**	3224
No. of Accounts (in million)	N/A	0.54**	0.87
Balance (in billion)	N/A	3.8**	6.5

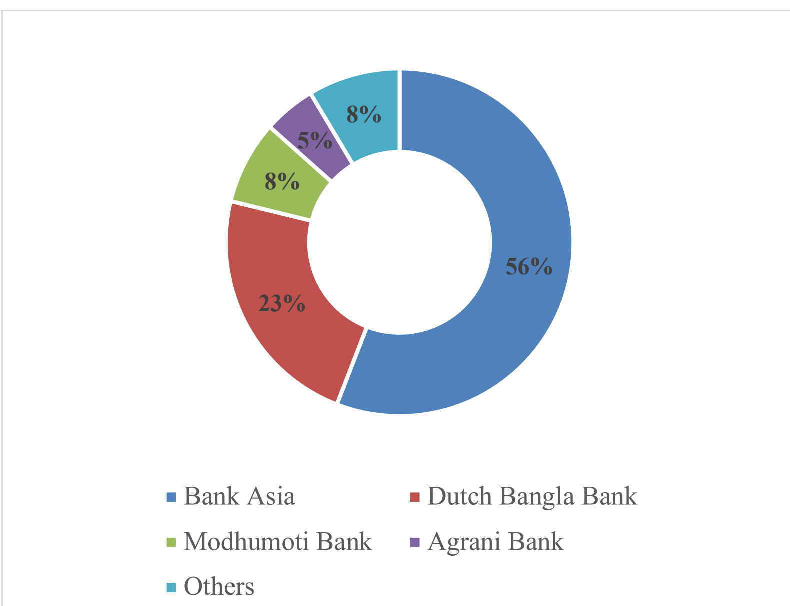
Note: * as of June 2016, **as of December 2016
Source: BB Annual Reports

Figure A2.1 Percentage of People covered by Digital Inclusion



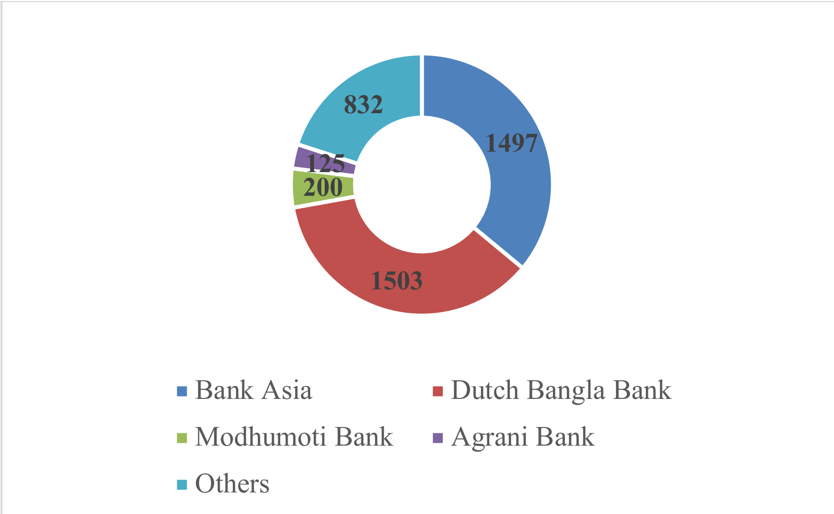
Source: Intermedia

Figure A2.2 Bank's share in total Number of Agents



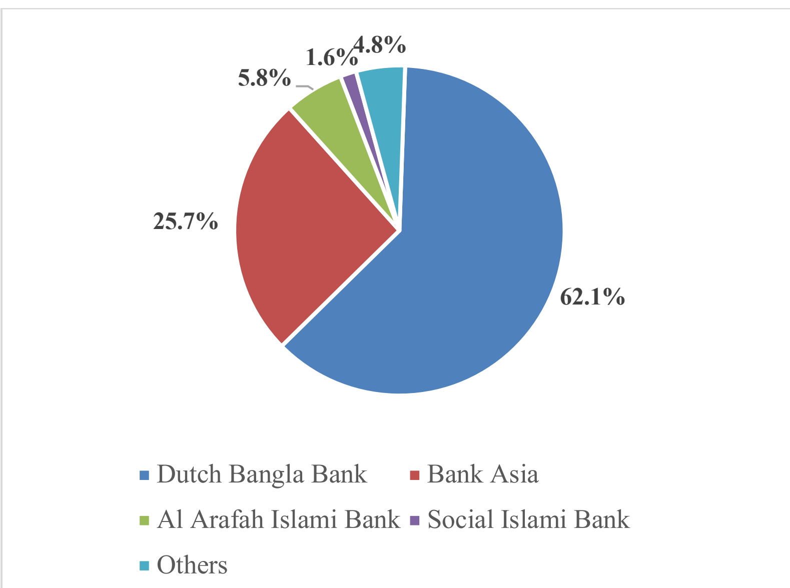
Source: Financial Inclusion Department, Bangladesh Bank (as of Oct- Dec 2017)

Figure A2.3 Bank's share in Number of Outlets under Agent Banking



Source: Financial Inclusion Department, Bangladesh Bank (as of Oct- Dec 2017)

Figure A2.4 Bank's share in Number of Accounts (Agent Banking)



Source: Financial Inclusion Department, Bangladesh Bank (as of Oct- Dec 2017)

Table A2.4 Number of Agents and Outlets (Agent Banking)

Serial	Bank's Name	Agent			Outlets		
		Urban	Rural	Total	Urban	Rural	Total
1	Dutch Bangla Bank	170	421	591	229	1274	1503
2	Bank Asia	69	1371	1440	75	1422	1497
3	Al Arafah Islami Bank	9	73	82	11	101	112
4	Social Islami Bank	0	6	6	1	65	66
5	Modhumoti Bank	0	200	200	0	200	200
6	Mutual Trust Bank	7	43	50	7	43	50
7	NRB Commercial Bank	1	2	3	30	485	515
8	Standard Bank	1	17	18	1	17	18
9	Agrani Bank	6	119	125	6	119	125
10	First Security Islami Bank	0	15	15	0	15	15
11	Midland Bank	0	5	5	0	5	5
12	The City Bank	3	9	12	3	17	20
13	Islami Bank	0	29	29	0	29	29
14	Premier Bank	1	0	1	1	1	2
	Total	267	2310	2577	364	3793	4157

Source: Financial Inclusion Department, Bangladesh Bank (as of Oct- Dec 2017)

Table A2.5 Trends in ATMs and Online Banking

Online Banking Summary	No of ATM		No. of Total Branches	No of Branches with Online Coverage	Percentage of Online Branches
	Own	Shared			
2015*	7749	77601	9458	7100	75.06
2016*	8870	87596	9760	7054	72.27
2017**	9296	101232	9876	7750	78.47

* As of December; ** As of September

Source: Review Report of Banks & FI, BB

Table A2.6 Use of Internet Banking

Internet Banking Summary	No. of Total Accounts	No. of Accounts facilitated with Internet banking	% of Accounts facilitated with Internet Banking
2017**	99,047,968	1,996,480	2.02
2016*	95027335	1932178	2.03
2015*	79114396	1629772	2.06

* As of December; ** As of September

Source: Review Report of Banks & FI, BB

Annex 3: Circulars, Guidelines, Documents, and Regulations Reviewed

A3.1: Act, Guidelines and Circulars Reviewed

Table A3.1.1: List of Act, Guidelines and Regulations Reviewed

Serial No	List of the Guidelines	Date Issued	Reference No.	Type
1	Amendment of Guidelines on Mobile Financial Services for the Banks	20.12.2011	DCMPS (PSD) Circular Letter No.11	Guideline
2	Anti-Terrorism Rules, 2013	09.04.2015	BFIU Circular Letter No. 03	Rules
3	Anti-Terrorism (Amendment) Act 2013	12.06.2013	Act No. 22 of 2013	Amendment
4	Anti-terrorism Act, 2009	24.02.2009	Act No. 16 of 2009	Act
5	Bangladesh Bank Guidance Notes on Prevention of Money Laundering	16.09.2012	BFIU Circular No. 04	Guidance Notes
6	Bangladesh Payment And Settlement Systems Regulations, 2014	15.05.2014	PSD Circular No. 02	Regulation
7	Bangladesh Securities and Exchange Commission (Alternative Investment) Rules, 2015	22.06.2015	No. BSEC/CMRRCD/2015-343/171/Admin/59	Rules
8	Financial Institute Regulation, 1994	09.11.1994		Regulation
9	Financial Institution Act, 1993	30.08.1993	Act No. 27 of 1993	Act
10	Guideline on ICT Security for Banks and Non-Bank Financial Institutions	May 2015.	DFIM Circular No. 11	Guideline
11	Guidelines on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh	08.02.2017	SFD Circular No. 02	Guideline

Serial No	List of the Guidelines	Date Issued	Reference No.	Type
12	Guidelines on Prevention of Money Laundering & Combating Financing of Terrorism for Capital Market Intermediaries	Not Dated		Guideline
13	ICT Act 2006	08.10.2006	Act No. 39 of 2006	Act
14	Information Security Policy Guideline	06.04.2014		Guideline
15	Insurance Act	18.03.2010	Act No. 13 of 2010	Act
16	Micro Credit Regulatory Authority Act, 2006	16.07.2006	Act No. 32 of 2006	Act
17	Money Laundering & Terrorist Financing Risk Management Guidelines	10.09.2015	BFIU Circular Letter No. 05	Guideline
18	Money Laundering Prevention (Amendment) Act 2015	26.02.2015	Act No. 25 of 2015	Amendment
19	Money Laundering Prevention Act 2012	20.02.2012	Act No. 5 of 2012	Act
20	Money Laundering Prevention Rules, 2013	09.04.2015	BFIU Circular Letter No. 03	Rules
21	National Insurance Policy	2014		Policy Paper
22	Prudential Guidelines for Agent Banking	18.09.2017	BRPD Circular No. 14	Prudential Guideline
23	Regulatory Guideline for Issuance of Registration Certificate for Providing Telecommunication Value Added Services (TVAS) in Bangladesh	Not Dated	Draft	Draft Guideline
24	Regulatory Guidelines for Mobile Financial Service (MFS) in Bangladesh (Revised: Version 03)	July 2015.	Draft	Regulatory Guideline

Serial No	List of the Guidelines	Date Issued	Reference No.	Type
25	The Insurance Corporation Act	23.06.1973	Act No. 06 of 1973	Act
26	The Insurance Corporations (Amendment) Act,	11.08.1984	Ordinance No. 51 of 1984	Amendment
27	The Insurance Corporations (Amendment) Ordinance	13.02.1990	Act No. 06 of 1990	Amendment
28	Evidence Act 1872	15.03.1872	ACT NO. I OF 1872	Act
29	Bankers' Books Evidence Act, 1891.	01.10.1891	ACT NO. XVIII OF 1891	Act

Table A3.1.2: List of Circulars Reviewed

Serial No	Circular No.	Date Published	Reference No.	Department	Remarks
1	BFIU Circular Letter No. 01	16.01.2017		BFIU	Issuance of "Uniform Account Opening Form &KYC Profile Form" for Banks
2	BFIU Circular Letter No. 01	16.01.2017	BFIU Circular No. 10; 28.12.2014	BFIU	Issuance of Uniform Account Opening Form &KYC Profile Form for Banks
3	BFIU Circular Letter No. 02	15.03.2015		BFIU	Introduction of Uniform Account Opening Form &KYC Form for Financial Institutions
4	BFIU Circular Letter No. 02	15.03.2015		BFIU	Introduction of Uniform Account Opening Form &KYC Form for Financial Institutions
5	BFIU Circular Letter No. 04	20.09.2017		BFIU	Issuance of "Uniform KYC Profile Form" for Insurance Companies
6	BFIU Circular No. 16	10.09.2015		BFIU	Master Circular regarding Instructions to be followed by the Insurance Companies on preventing Money Laundering & Terrorist Financing
7	BFIU Circular No. 18	19.10.2015		BFIU	Master Circular regarding Instructions to be followed by Capital market Intermediaries on preventing Money Laundering & Terrorist Financing.
8	BFIU Circular No. 20	17.09.2017		BFIU	Instructions to be followed by the institutions engaged in the mobile financial services for prevention of money laundering, terrorist financing and proliferation financing.

Serial No	Circular No.	Date Published	Reference No.	Department	Remarks
9	BFIU Circular No. 20	17.09.2017		BFIU	Instructions to be followed by the institutions engaged in the mobile financial services for prevention of money laundering, terrorist financing and proliferation financing.
10	BRPD Circular Letter No. 07	24.03.2014	PSD Circular No. 05; 09.12.2013	BRPD	Directives on Agent Banking Operation
11	BRPD Circular Letter No. 11	02.06.2014	BRPD Circular Letter No. 07;24.03.2014	BRPD	Directives on Agent Banking Operation
12	BRPD Circular No. - 35	29.12.2010	BRPD Circular No. 24; 03.08.2010	BRPD	Amendment in Guidelines on Risk Based Capital Adequacy (RBCA) for Banks
13	BRPD Circular No. 08	15.04.2014	BRPD Circular No. 35, 29.12.2010	BRPD	Mapping of SME Rating Scales of the External Credit Assessment Institutions (ECAIs) with Bangladesh Bank's SME Rating Grades
14	BRPD Circular No. 08	01.11.2011		BRPD	Bank account for small life insurance policy holders
15	BRPD Circular No. 09	22.06.2017	BRPD Circular No 05; 14.06.2016	BRPD	Re-fixation of Rate of Interest on Agricultural and Rural Credit
16	BTRC/SS/GP-Others(446)/2013-612	04.11.2013		BTRC	Directives for Airtime uses of Mobile Financial Services (MFS)
17	DFIM Circular No. 02	31.01.2012	DFIM Circular No. 11; 19.09.2011	DFIM	Investment in Capital Market by Financial Institutions
18	FID Circular Letter No. 01	28.02.2017	GBCSRD Circular No. 01; 14.05.2014	FID	Incentive Rebate Policy for "200 Crore Taka Refinance Scheme

Serial No	Circular No.	Date Published	Reference No.	Department	Remarks
19	FID Circular No. 01	15.11.2017		FID	Second Small and Medium Sized Enterprise Development Project (SMEDP2)
20	PSD Circular No. 01	11.01.2017	PSD Circular No. 07; 27.11.2014, PSD Circular Letter No. 01; 01.09.2013	PSD	Instructions regarding Mobile Financial Services Operation
21	PSD Circular No. 06	05.11.2017	PSD Circular No. 01; 11.01.2017	PSD	Instructions regarding Mobile Financial Services Operation
22	SMESPD Circular Letter No. 03	30.10.2017		SMESPD	Allowing Grace Period against Short, Medium & Long Term Loan in favour of Cottage, Micro & Small Entrepreneurs
23	SMESPD Circular Letter No. 05	06.09.2010	SMESPD Circular Letter No. 05; 15.02.2010	SMESPD	Group Lending to SME Women Entrepreneur

Notes:

1. BFIU = Bangladesh Financial Intelligence Unit
2. BRPD = Banking Regulation and Policy Department
3. DFID = Department of Financial Institutions and Markets
4. FID = Financial Inclusion Department
5. PSD = Payment System Department
6. SFD = Sustainable Finance Department
7. SMESPD = SME& Special Programs Department

A3.2: Existing Regulations Related to Identified Issues

A3.2.1: Insurance

Issue A3.2.1.1: Life insurance companies cannot offer non-life and non-life cannot offer life insurance product

<<According to Insurance Act 2010 (13th Act of 2010), Chapter: 02, Section: 05, Page 1595- 1596, >>

> “(১) এই আইনের উদ্দ্যেশ্য পুরন কল্পে লাইফ ইন্সুরেন্স ও ননলাইফ ইন্সুরেন্স নামীয় দুই শ্রেনীর ব্যবসা থাকিবে
> (২) এই আইনের অধীনে লাইফ ইন্স্যরেন্স বলতে মানবজীবন সংক্রান্ত বীমাচুক্তিকে বুঝাইবে এবং উপধারা (৪) ও (৫) এর বিধান সাপেক্ষে লাইফ ইন্সুরেন্স ব্যবসাকে কার্যকর ভবে পরিচালনা করার জন্য, বিধিদ্বারা, বিভিন্ন উপ-শ্রেনীতে শ্রেনীবিন্যাস করা যাবে
> (৩) এই আইনের অধীনে ননলাইফ ইন্স্যরেন্স বলতে মানবজীবন সংক্রান্ত বীমাচুক্তি ব্যতীত অন্য সকল শ্রেনীর বীমাচুক্তিকে বুঝাইবে এবং উপধারা (৪) ও (৫) এর বিধানসাপেক্ষে ননলাইফ ইন্সুরেন্স ব্যবসাকে কার্যকর ভবে পরিচালনা করার জন্য, বিধিদ্বারা, বিভিন্নউপ-শ্রেনীতে শ্রেনীবিন্যাস করা যাবে।
> (৪) এই চুক্তির অধীনে যে চুক্তির অন্যতম মুখ্য উদ্দেশ্য লাইফ ইনস্যুরেন্স ব্যবসা পরিচালনা করা, সেই চুক্তিতে যদি নন-লাইফ ইনস্যুরেন্স সংশ্লিষ্ট বা উহার সম্পূরক কোন বীমা ব্যবসার বিষয় অন্তর্ভুক্ত হয়ে থাকে, তাহা হইলেও উক্তরুপ চুক্তি লাইফ ইনস্যুরেন্স ব্যবসা পরিচালনার জন্য সম্পাদন করা হইয়াছে বলে গন্য করা হইবে”*<<According to Insurance Act 2010, Chapter: 2, Section: 13, Page No: 1602 >>*

“একই বীমাকারি কর্তৃক লাইফ ইন্সুরেন্স ও ননলাইফ ইন্সুরেন্স ব্যবসার নিবন্ধনে বিধি – নিষেধ। - কোন বীমাকারী–
(ক) নন – লাইফ ইন্সুরেন্সে ব্যবসার কোন শ্রেনীর জন্য নিবন্ধিত হইলে লাইফ ইন্সুরেন্স ব্যাবসার জন্য; এবং
(খ) লাইফ ইন্সুরেন্স ব্যবসার জন্য নিবন্ধিত হইলে নন–লাইফ ইন্সুরেন্স ব্যাবসার জন্য, নিবন্ধিত হইবে না।"

Issue A3.2.1.2: Regulation regarding the investment options of the insurance companies

<<According to Insurance Act 2010 (13th Act of 2010); Section 41(সম্পদ বিনিয়োগ), Page 1616:>>

> “(১) প্রত্যকে বীমাকারী উহার সম্পদ প্রবিধান দ্বারা নির্ধারিত পদ্ধতিতে ও স্থানে বিনিয়োগ করিবে এবং অনুরুপ বিনিয়োগ নিয়ন্ত্রণ করিবার ক্ষমতা কর্তৃপক্ষের থাকিবেঃ
> তবে শর্ত থাকিবে যে, কোন বীমাকারীর কোন পরিচালক বা অনুরূপ পরিচালকের পরিবাবের সদস্যের স্বত্বাধিকারী, অংশীদার, পরিচালক, ব্যবস্থাপক বাব্যবস্থাপনা এজেন্ট হিসেবে কোন স্বার্থ সংশ্লিষ্ঠ কোন কোম্পানি, ফার্ম বা ব্যবসায়িক প্রতিষ্ঠানের প্রথম মূলধন ইস্যুতে বিনিয়োগ অনুমোদিত হইবে না।”

*<<According to Insurance Act 2010 (13th Act of 2010); Section: 44 (*ঋণ, অগ্রিম ও আর্থিক সুবিধা প্রদানে বিধিনিষেধ*); Page 1616>>*

> "(১) কোন বিমাকারী তার নিজের শেয়ারের জামানতের বিপরীতে কোন প্রকার ঋণ, অগ্রিম ও আর্থিক সুবিধা প্রদান করিবে না।
> (২) কোন বীমাকারী উহার কোন পরিচালক, ব্যবস্থাপক, একচুয়ারি, নিরীক্ষক বা কর্মকর্তাকে বা তাহাদের পরিবারের কোন সদস্যকে বীমাকারী কর্তৃক ইস্যুকৃত লাইফ ইন্সুরেন্স পলিসির সমর্পণ মূল্যের মধ্যে সীমাবদ্ধ ঋণব্যতীত বন্ধ কবা ব্যক্তিগত জামানত বা অন্যভাবে কোন ঋণ বা সাময়িক অগ্রিম প্রদান করিবে না।
> (৬) উপ-ধারা (১) বা (২) এর কোন কিছুই কোন ব্যংককোম্পানী বা বীমাকারীর স্বরুপ কোন সাবসিডিয়ারি কোম্পানি বা ঋণ ও অগ্রিমপ্রদানকারী কোন বীমাকারীর সাবসিডিয়ারি বীমাকারী কর্তৃক প্রদানকৃত ঋণ বা অগ্রীমের ক্ষেত্রে প্রযোজ্য হইবে না।"

Issue A3.2.1.3: Alleged strict actuary certification requirement

*<<According to Insurance Act 2010 (13th Act of 2010); Section 16 (*লাইফ ইন্স্যরেন্স এর জন্য প্রিমিয়াম হারের যথার্থতা*), Page 1604:>>*

> "(২) কোন বীমাকারী কর্তৃক নিয়োজিত একচুয়ারী কর্তৃক পলিসিতে বর্ণিত প্রিমিয়াম হার, সুবিধা ও শর্তাবলি গ্রহনযোগ্য ও যথার্থ বলিয়া প্রত্যায়িত করা না হইলে উক্ত বিমাকারী কোন লাইফ ইনস্যুরেন্স পলিসি ইস্যুকরিতে পারিবে না।
> (৩) লাইফ ইনস্যুরেন্স ব্যবসা পরিচালনাকারী কোন বীমাকারী নুতন কোন বীমাপরিকল্প চালু করিতে চাহিলে নিয়োজিত একচ্যুয়ারির প্রত্যয়নপত্র সহ কর্তৃপক্ষের নির্দেশনা অনুযায়ী পূর্ণ বিবরন সম্বলিত প্রস্পেক্টাস বা প্রচারপত্র ও পলিসির নমুনা পরিকল্পটি বিপনন করার অন্যূন ৩০ (ত্রিশ) দিন পূর্বে কর্তৃপক্ষের নিকট দাখিল করিতে হইবে"

A3.2.2: Digitisation of Financial Transfer

Issue A3.2.2.1: Restrictions on MFS (MFS or Tech Firms Cannot Finance)

<<Regulatory Guidelines for Mobile Financial Services (MFS) in Bangladesh (Revised version, July 2015):>>

> "Section 4.0: Mobile Financial Services (Page 01-02)
>
> 4.1 Bangladesh Bank may allow the following mobile financial services –
>
> I. Disbursement of inward remittances

II. Cash in/out using mobile phone account through agents/banks/ branches/ATMs/Mobile Operator outlets

III. Person to Business Payments – e.g., Utility bill payments, merchant payments, deposits into savings accounts/schemes with banks, loan repayments to banks/NBFI/Microfinance Institutions. Insurance premium payments and so forth.

IV. Business to person payments - Salary disbursement, dividend/refund/ warrant payments.

V. Loan disbursement to borrowers, vendor payments etc.

VI. Governments to person payments. Pension payments, old age allowances, freedom fighter allowances, input subsidy payments to farmers etc.

VII. Person to Person payments

4.2: In extending the broad range of financial services through MFS platforms the primary role of the MFS platform will be as Payment Service Provider (PSP), with secondary engagement in deposit taking, loan disbursement and recovery, insurance premium collection etc. as duly authorised agent of banks, NBFI, MFIs, insurance company etc. concerned."

Section 5.0: Permissible Model (Page 02)

5.1 MFS platform will be sponsored and led only by the payments system member of scheduled commercial banks with prior approval of BB.

5.2 The scheduled commercial bank led MFS platforms may have both bank and non-bank entities including mobile network operators (MNOs) as equity holders subjects to:

i) banks holding majority beneficial ownership in total equity;
ii) no bank or non-bank entity holding more than fifteen per cent beneficial ownership in equity, and

iii) Beneficial ownership of MNOs in an MFS platform not exceeding thirty per cent of its total equity.

Section 6.0: Approval, commencement of business, operational modalities for MFS platforms: (Page 03)

6.5 MFS Platform will handle inward remittances only if received through credits in Nostro Accounts abroad of scheduled commercial banks in Bangladesh, paying out only in Taka to Mobile accounts of the beneficiaries. No outward cross border transactions shall be undertaken by MFS Platform.

6.6 MFS platforms <u>will not engage in any lending</u> from their own funds, but will be free to act as agents of BB licensed banks and financial institutions in disbursing loans and in accepting repayments on behalf of the principles concerned."

Issue A3.2.2.2: Transaction Limit

<<According to "Guidelines on Mobile Financial Service (MFS) for the Banks", DCMPS (PSD) Circular Letter no.11, Published on 20 /12/2011 >>

"7.3 Transaction Limit (Page 02)

Bangladesh Bank will fix the transaction limit as well as overall cap for person to person payment as and when needed.

<<Through PSD Circular no. 01/2017, dated: 11/01/2017, Bangladesh Bank has reset the transaction limit in the following manner>>

1. Cash in: 15,000 BDT Per day (max 2 transactions); BDT. 100,000/- Per month (max 20 transaction)

2. Cash out: BDT. 10,000 Per day (max 2 transaction); BDT. 50,000/- per month (max 10 transaction)

NB: For any Cash in transaction in a certain a/c, not more than BDT 5,000/- can be withdrawn from that a/c within next 24 hours.

3. Person to person: BDT. 10,000 per day (no limit on transaction); BDT. 25,000 per month (no limit on transaction)

<<According to PSD Circular No. 06, dated 5/11/2017>>

"১. আগামী ০১-০১-২০১৮ তারিখ হতে একজন MFS গ্রাহক তার ব্যক্তি মোবাইল হিসাবে সর্বোচ্চ ৩,০০,০০০ (তিনলক্ষ) টাকা পর্যন্ত স্থিতি রাখতে পারবেন;

২. যেসকল ব্যক্তি মোবাইল হিসাবে ৩,০০,০০০ (তিনলক্ষ) টাকা এর অধিক স্থিতি রয়েছে, সে সকল হিসাবের স্থিতি আগামী ৩১-১২-২০১৭ তারিখের মধ্যে উপর্যুক্ত সীমার মধ্যে নিয়ে আসতে হবে। এক্ষেত্রে হিসাবধারী MFS হিসাবের সাথে সংযুক্ত ব্যাংক হিসাবে অর্থস্থানান্তরের মাধ্যমে তা কয়রা যেতে পারে।"

Issue A3.2.2.3: Interoperability

<<Regulatory Guidelines for Mobile Financial Services (MFS) in Bangladesh (Revised version, July 2015), Section 12, Page 5-6>>

“12.1 MFS platforms shall proactively foster linking of the Mobile Accounts of customers with their existing or new accounts in banks and financial institutions; maximizing access of customers to credit, deposit and other financial services through the Mobile Accounts, simultaneously expanding the business and income bases of the MFS platforms.

12.2 All MFS platforms shall cooperate and work together in promoting interoperability between the platforms towards ensuring widest possible access by customers. To this end they shall develop linkages with the upcoming integration platforms like the National Payments Switch (NPS) through their equity partner payment system member scheduled commercial banks.”

Issue A3.2.2.4: Data or Information Storage (Record Retention)

<<According to Money Laundering & Terrorist Financing Risk Management Guidelines (September 2015) :>>

“7.9. Formats and Retrieval of Records:

To satisfy the requirements of the law and to meet the purpose of record keeping, it is important that records are capable of retrieval without undue delay. It is not necessary to retain all the documents relating to customer identity and transaction physically at the premises of the branch of a bank, provided that they have reliable procedures for keeping the hard copy at a central archive, holding records in electronic form and that can be reproduced and recollected without undue delay.

It is not always necessary to retain documents in their original hard copy form, provided that the bank has reliable procedures for keeping records in electronic form, as appropriate, and that these can be reproduced without undue delay. In addition, a bank may rely on the records of a third party, such as a bank or clearing house in respect of details of payments made by customers. However, the primary requirement is on the bank itself and the responsibility is thus on the bank to ensure that the third party is willing and able to retain and, if asked to, produce copies of the records required.

However, the record requirements are the same regardless of the format in which they are kept or whether the transaction was undertaken by paper or electronic means. Documents held centrally must be capable of distinguishing between the transactions relating to different customers and of identifying where the transaction took place and in what form.” – Clause 7.9, Section 7, Page 55.

<<According to Evidence Act 1872, (Act No: I of 1872)>>

“3. In this Act the following words and expressions are used in the following senses, unless a contrary intention appears from the context:-

"Fact" means and includes-

(1) Anything, state of things, or relation of things capable of being perceived by the senses;

(2) Any mental condition of which any person is conscious."
"Document" means any matter expressed or described upon any substance by means of letters, figures or marks, or by more than one of those means, intended to be used, or which may be used, for the purpose of recording that matter.
Illustrations
A writing is a document:
Words printed, lithographed or photographed are documents:
A map or plan is a document:
An inscription on a metal plate or stone is a document:
A caricature is a document.
"Evidence" means and includes –
(1) All statements, which the Court permits or requires to be made before it by witnesses, in relation to matters of fact under inquiry: such statements are called oral evidence;
(2) all documents produced for the inspection of the Court; such documents are called documentary evidence.

<<The Bankers' book Evidence Act, 1891>>

"Definitions:
(3) "bankers' books" include ledgers, day-books, cash-books, account-books and all other books used in the ordinary business of a bank. Inspection books by order of Court or Judge:
6. (1) On the application of any party to a legal proceeding the Court or a Judge may order that such party be at liberty to inspect and take copies of any entries in a banker's book for any of the purposes of such proceeding, or may order the bank to prepare and produce, within a time to be specified in the order, certified copies of all such entries, accompanied by a further certificate that no other entries are to be found in the books of the bank relevant to the matters in issue in such proceeding, and such further certificate shall be dated and subscribed in manner hereinbefore directed in reference to certified copies.
(2) An order under this or the preceding section may be made either with or without summoning the bank, and shall be served on the bank three clear days (exclusive of bank holidays) before the same is to be obeyed, unless the Court or Judge shall otherwise direct.
(3) The bank may at any time before the time limited for obedience to any such order as aforesaid either offer to produce their books at the trial or give notice of their intention to show cause against such order, and thereupon the same not be enforced without further order."

<<ICT Act 2006>>
"Chapter I, Preliminary
2. Definitions.-- In this Act, unless the context otherwise requires –
(3) "electronic" means electrical, digital, magnetic, wireless, optical, electromagnetic or any technology having equivalent such capability;

(4) "electronic data interchange" means transferring data from one computer to another computer electronically by following a standard for the purpose of organizing information;

(5) "electronic form" with reference to information means any information generated, sent, received or stored in media, magnetic, optical, computer memory, microfilm, computer generated microfiche or similar device or technology;

(7) "electronic record" means data, record or data generated, image or sound stored, received or sent in an electronic form or microfilm or computer generated microfiche;

(10) "data" means a representation of information, knowledge, facts, concepts or instructions which are being prepared or have been prepared in a formalized manner, and is intended to be processed, is being processed, or has been processed in a computer system or computer network, and may be in any form including computer printouts, magnetic or optical storage media, punch cards, punched tapes or stored internally in the memory of the computer;

6. Legal recognition of electronic records.--

Where any law provides that information or any other matter shall be in writing or in the typewritten or printed form, then, notwithstanding anything contained in such law, such information or matter is rendered or made available in an electronic form: Provided that such information or matter is accessible so as to be usable for a subsequent reference.

9. Retention of electronic records.--

(1) Where any law provides that any document, record or information shall be retained for any specific period, then such requirement shall be deemed to have been satisfied if such documents, records or information, as the case may be, are retained in the electronic form if the following conditions are satisfied--

(a) the information contained therein remains accessible so as to be usable for a subsequent reference;

(b) the electronic record is retained in the format in which it was originally generated, sent or received, or in a format which can be demonstrated to represent accurately the information originally generated, sent or received;

(c) such information, if any, as enables the identification of the origin and destination of an electronic record and the date and time when it was sent or received, is retained:

Provided that this sub-clause does not apply to any information which is automatically generated solely for the purpose of enabling and electronic record to be dispatched or received."

<<According to Bangladesh Payment and Settlement system Regulations 2014>>

"17 Obligation of Confidentiality of Information:

1) Persons authorized to oversee Payment Services and Systems shall be obligated to respect professional confidentiality regarding facts acquired during such functions. On the basis of information acquired by oversight activities, the Bangladesh Bank may provide information summaries to a third person, in which the specific System or Service and the specific person must not be identified;

3) The Bangladesh Bank shall be authorized to provide a body to oversee National information acquired during the oversight process. Other bodies and persons may only be provided with information under the condition that such bodies and persons have an obligation to protect the information and to respect confidentiality. Information provided shall only be used for the specific purpose or for the proceeding for which this information was made available. Information supplied to another country should only be in summary or aggregate form. No transaction details should be disclosed unless the affected Participants, Payment Service Provider and Payment System Operator have been notified." – Paragraph 17, Page 15 – 16

<<According to Guideline on ICT Security For Banks and Non-Bank Financial Institutions (2015,>>

"5.5: Data Centre Controls:

As critical systems and data of a Bank or NBFI are concentrated and housed in the Data Centre (DC), it is important that the DC is resilient and physically secured from internal and external threats.

5.5.1 Physical Security

5.5.1.1 Physical security shall be applied to the information processing area or Data Centre. DC must be a restricted area and unauthorized access shall be strictly prohibited.

5.5.1.2 The Bank or NBFI shall limit access to DC to authorized staff only. The Bank or NBFI shall only grant access to the DC on a need to have basis. Physical access of staff to the DC shall be revoked immediately if it is no longer required.

5.5.1.3 Access authorization procedures shall be strictly applied to vendors, service providers, support staff and cleaning crews. The Bank or NBFI shall ensure that visitors are accompanied at all times by an authorized employee while in the DC.

5.5.1.4 Access authorization list shall be maintained and reviewed periodically for the authorized person to access the Data Centre.

5.5.1.5 All physical access to sensitive areas must be logged with purpose of access into the Data Centre.

5.5.1.6 The Bank or NBFI shall ensure that the perimeter of the DC, facility and equipment room are physically secured and monitored. The Bank or NBFI shall employ physical, human and procedural controls for 24 hours such as the use of security guards, card access system, mantraps and surveillance system where appropriate.

5.5.1.10 Where DC is operated by an outsourced service supplier, the contract between the bank and supplier must indicate that all the requirements of Policy regarding physical security must be complied with and that the Bank or NBFI reserves the right to review physical security status at any time.

5.5.1.11 Where DC is operated by an outsourced service supplier, the responsibility for physical security lies with the supplier, but access to such facilities dedicated to bank use must be reviewed and authorized by the Bank or NBFI." – Section 5, sub Section 5.5, Clause (5.5.1), Page 20."

<<According to Prudential Guidelines for Agent Banking Operation in Bangladesh (September, 2017); (BRPD Circular No. 14, Dated: 18/09/17) >>

"39. Customer Protection Measures

39.1. Banks shall establish appropriate customer protection measures in its agent banking policy against risks of fraud, loss of privacy and loss of service for establishing trust among customers.

39.2. Banks shall put in place systems which provide sufficient protection and confidence to customers." – Page 23

A3.2.3: Lending (Agent Banking)

Issue A3.2.3.1: Agent Cannot Open Bank Account

<<According to Prudential Guidelines for Agent Banking Operation in Bangladesh (September, 2017); (BRPD Circular No. 14):>>

"15: Prohibited Activities for Agents: (Page 08)
15.9. Open accounts, grant loans or carry out any appraisal function for purposes of opening an account or granting of a loan or any other facility;
15.10. Make debit or credit transactions using cheque;"

Issue A3.2.3.2: Stringent requirement for the eligibility of being agent and complex agent licensing process

<<According to Prudential Guidelines for Agent Banking Operation in Bangladesh (September, 2017); (BRPD Circular No. 14) >>

"5. Engagement in Agent Banking Activity
5.1. Banks willing to offer banking services through agent banking operation shall obtain prior approval from Bangladesh Bank. Banks also have to take prior approval for new

agents and agent banking outlets separately. Banks shall ensure that all policies and procedures relating to its agent banking activity are in place" – page 03
"10. Eligibility for an Entity to become an Agent (Page 5 -6)

10.1. An entity should fulfil the following conditions to be eligible for entering into contract with banks:
10.1.1. It should be a juristic person;
10.1.2. Agent banking shall not be in ultra vires to the parent, statute, memorandum and articles of association or other constitutive document or objects of the juristic person; and
10.1.3. The agent, in the case of a proprietorship, or the agent's directors, significant shareholders, and/or senior officers, as the case may be, is fit and proper.

10.2. Eligibility for Master Agent:

10.2.1. It shall be an entity having multiple branch offices or outlets, either owned or otherwise engaged legally by it.
10.2.2. If the entity is a private sector organization, it shall possess a business license or permit for any lawful business activity.
10.2.3. The owner or manager of the entity or the juristic person shall possess at least 1 (one) year of experience in the related field.
10.2.4. It shall be carrying out the business activity on on-going basis.
10.2.5. It shall possess managerial, financial and technical expertise for managing agent banking outlets in addition to its regular operations.
10.2.6. It shall have willingness and capacity to invest in managing liquidity, risk management, security management and continuous capacity development of agent banking outlets of a bank.
10.2.7. The agent banking outlet must have at least 2 (two) persons (a manager and a teller) with required managerial and financial expertise for this purpose and 1 (one) counter for cash transaction.
10.2.8. In cases where the master agent provides agent banking services through third party outlets, which are engaged legally, the outlets and outlet owners/managers shall fulfil the eligibility criteria for unit agent.

10.3. Eligibility for Unit Agent:

10.3.1. It shall be an entity having valid business license or permit for any lawful business.
10.3.2. The owner or manager of the entity or the juristic person shall possess at least 1 (one) year of experience in the related field.
10.3.3. It shall be carrying out the business activity on on-going basis.
10.3.4. It shall possess managerial, financial and technical expertise for managing agent banking outlet of a bank in addition to its regular operations.
10.3.5. It shall have willingness and capacity to invest in managing liquidity, risk management, security management and continuous capacity development.

10.3.6. The unit agent must have at least 2 (two) persons (a manager and a teller) for this purpose and 1 (one) counter for cash transaction.

10.4. Eligibility for Support Service Provider:
10.4.1. It shall have a valid business license or permit for any lawful business.
10.4.2. It shall be carrying out the business activity on on-going basis.
10.4.3. It shall possess managerial, financial and technical expertise for managing the support service(s) it is contracted for.
10.4.4. It shall possess at least 1 (one) year of experience in the related field.
10.4.5. Selection of support service provider should follow the outsourcing guidelines of Bangladesh Bank."

Issue A3.2.3.3: Low Transaction Limit

<<According to Prudential Guidelines for Agent Banking Operation in Bangladesh (September, 2017); (BRPD Circular No. 14):>>

"27. Operational Limit:

27.3. Agent shall open current account(s) with the bank and deposit such amounts as agreed between bank and agent. Initial limits should not be less than BDT 2.00 lakh per agent banking outlet. Such limits shall be revised based on demand and transaction profile of the agent.

27.6. In general, the maximum number and volume of transactions for client at agent banking outlet should not exceed the limits specified in the following table:

Amount in Lakh BDT

Daily Number of Transactions and Amount Limit						
Nature of Accounts	Cash Deposit		Cash Withdrawal		Transfer/BEFTN/ Inter-bank/Intra-bank	
	No. of transactions	Total Volume	No. of transactions	Total Volume	No. of transactions	Total Volume
Current Account	4	6.00	2	5.00	4	15.00
Savings Account	2	4.00	2	3.00	2	5.00
Special Notice Deposit (SND)	4	6.00	2	3.00	4	10.00

<<According to BRPD Circular Letter no 07, Published on 24.03.2014, >>

“এজেন্ট ব্যাংকিং কার্যক্রম পরিচালনার জন্য সংশ্লিষ্ট ব্যাংকের সাথে প্রত্যেক এজেন্ট এর একটি চলতি হিসাব রাখতে পারে। উক্ত হিসাবের সর্বোচ্চ স্থিতি হবে ১০ (দশ) লক্ষটাকা”।

Issue A3.2.3.4: Requirement of Specific Dedicated Premises

<<According to Guideline on Agent Banking for Banks (PSD Circular No: 05, Published on: 09.12.2013)>>

“4. Agent Banking Service
4.2 An agent must provide services in a designated business premises.” – Page 02

Issue A3.2.3.5: Lack of consistency among KYC requirements

<<According to Prudential Guidelines for Agent Banking Operation in Bangladesh (September, 2017); (BRPD Circular No. 14, Dated: 18/09/17):>>

“38. AML/CFT, KYC Requirements:
38.1: Banks and its agents shall have to comply with the prevailing AML/CFT related laws, regulations and guidelines issued by Bangladesh Financial Intelligence Unit (BFIU) from time to time.
38.2: Banks shall have to follow KYC format issued by BFIU for the agent and customer. Banks will be responsible for authenticity of the KYC of all the customers and agents.
38.5. Banks shall ensure that agents:
38.5.1. Identify customers with at least two characters like ID, PIN, password, ATM card, secret code or secret message while performing any transaction requiring identification; and
38.5.2. Conduct agent banking strictly as per the transactional limits prescribed by the bank and the regulations.” – Clause 38 (38.1, 38.2, 38.5), Part IX, Page 22.

<<According to Regulatory Guidelines for Mobile Financial Services (MFS) in Bangladesh (Revised version, July 2015):>>

“10.0 AML/CFT Compliance
10.1 MFS Platforms, their technology partners and agents shall have to comply with prevailing AML/CFT laws and regulations/circulars issued thereunder by the Bangladesh Financial Intelligence Unit (BFIU) at BB. To this end BB shall interalia put in place risk proportionate KYC, CDD drills for mobile account holders, technology partners, wholesale and retail field level service delivery agents.
The MFS platforms shall remain responsible for authenticity and timely updating KYCs in their records. In conducting KYC and CDD drills on mobile account holders who also have accounts in bank branches the MFS platforms may usefully liaise with the concerned bank

branches for obtaining and corroborating necessary information." – Clause 10.1, Section 10, Page 5.

Issue A3.2.3.6: Other issues

IA3.2.3.6.1 Cheque Book

<<According to Prudential Guidelines for Agent Banking Operation in Bangladesh (September, 2017); (BRPD Circular No. 14):>>

"15. Prohibited Activities (Page 08)
An agent shall not:
15.10. Make debit or credit transactions using cheque;"

<<According to Guideline on Agent Banking for Banks (PSD Circular No: 05, Published on: 09.12.2013)>>

"4.3 Agents *are not allowed* to provide following services on behalf of the banks: (Page 02)
III. Encashment of cheque
IV. Dealing with foreign currency"

Issue A3.2.3.6.2: Commission

<< According to Prudential Guidelines for Agent Banking Operation in Bangladesh (September, 2017); (BRPD Circular No. 14):>>

"16. Mandatory provisions for Contract (Page 9)
Every contract between a bank and an agent shall at a minimum, contain the following information:
16.16. Fees, charges and commission schedule for agent;"

"28. Fees, Charges and Commission (Page 15)

28.1. Banks shall establish a fees, charges and commission structure for the agent banking services. Such structure shall specify fees, charges and commission payable to agent for each services category.
28.2. Banks shall ensure that agent collects fees, charges and commission payable to the bank as specified in the schedule of charges only.
28.3. Any deductions from customers' account must be informed by sending SMS to customers' registered mobile number."

Annex 4: List of Stakeholders Consulted

Table A4.1: List of Stakeholders of Initial Consultation

Name	Designation	Institution	Date of Consultation
Mr. AtiqunNabi	Executive Director	INAFI Asia	03.12.2017
S. M. ZiaulHoque	General Manager, Operation	Pragati Life Insurance Limited	05.12.2017
M. J. Azim	Managing Director and CEO	Pragati Life Insurance Limited	05.12.2017
Zubair Ahmed	CEO	Hishab Co.	10.12.2017
Shawkat Hossain	Managing Director	BD Venture Limited	14.12.2017
Hridoy Islam	Research Analyst	Bangladesh SME Corporation Limited	17.12.2017
NabaNashitTareque	Lead	Agri Business Booster Bangladesh	17.12.2017
Md. FirozKabir	Head of Agent Banking - FID	Dutch Bangla Bank Limited	18.12.2017
Ali TareqParvez	Deputy Senior Vice President	Green Delta Insurance	19.12.2017
KaziTanvir Hussain	Assistant Vice President	Green Delta Insurance	19.12.2017
Md. Rezaul Karim	Executive Vice President	Green Delta Insurance	19.12.2017
Maruf Hossain	Assistant Vice President	Green Delta Insurance	19.12.2017
Md. Arifur Rahman Noyon	Senior Executive Officer	Green Delta Insurance	19.12.2017
Mr. Sarder Akhter Hamed	SEVP & Head of MSME	Bank Asia Limited	20.12.2017
WahidaAnjum	Senior Manager, Consumer Banking	Eastern Bank Limited	20.12.2017
MohiuddinRastiMorshed	Chief Executive	Mind Initiative Ltd.	21.12.2017
Md. Al Beruni	Portfolio Manager, Corporate Finance	Mind Initiative Ltd.	21.12.2017
Sinha IbnaHumayun	Manager, Brand & Product Development	aamra Payment Network	27.12.2017
Akhter ZahirShamim	Senior Manager, R&D and Pre-Sales	aamra Payment Network	27.12.2017

Table A4.2: Focus Group Discussion

Name	Designation	Institution	Date of FGD
Md. AtiqunNabi	Executive Director	INAFI Bangladesh	24.01.2018
Aftabur Rahman Jafree	CEO	Ghashful	24.01.2018
S M ZiaulHoque	General Manager	Pragati Life Insurance	24.01.2018
KaziTanvir Hussain	Assistant Vice President	Green Delta Insurance	24.01.2018
Md. Rafiqur Rahman	Company Secretary	Phoenix Insurance Limited	24.01.2018
Faizul Hamid	Managing Director	Cloud Well	05.02.2018
Ashish Chakraborty	COO	SSL Wireless	05.02.2018
Hridoy Islam	Research Analyst	Bangladesh SME Corporation Ltd.	05.02.2018
Zubair Ahmed	CEO	Hishab	05.02.2018
Shahadat Khan	CEO	Surecash	05.02.2018
Zahirul Islam	Assistant Vice President	Surecash	05.02.2018

Table A4.3: List of Regulators Consulted

Name	Designation	Institution	Date of Consultation
Md. Moniruzzaman	Deputy Governor	BB	Over phone, July ‘18
Abu Farah Md. Naser	General Manager	BRPD	25.02.2018
MD Iqbal Hossain	Joint Director	BRPD	25.02.2018
Lila Rashid	General Manager (G)	PSD	25.02.2018
Shah Zia UlHaque	Joint Director	PSD	25.02.2018
Gokul Chand Das	Member	IDRA	25.02.2018
Abul Kashem Md. Fazlul Hoque	Director-3 (Law, Innovation and Project)	IDRA	25.02.2018
A.K.M Shahiduzzaman	Director General (Law and Licensing)	BTRC	26.02.2018
Lt. Col. Mohammad Azizur Rahman Siddiqui	Director (Systems and Service)	BTRC	26.02.2018
Prof. Dr. Swapan Kumar Bala	Commissioner	BSEC	14.03.2018
Md. Zakir Hossain Chowdhury	General Manager and Operational Head	BFIU	23.05.2018
Kamal Hossain	Joint Director	BFIU	23.05.2018
Khandakar Asif Rabbani	Deputy Director	BFIU	23.05.2018
Mohammad Yakub Hossain	Deputy Director	MRA	Via email
Sutapa Chowdhury	Deputy Director	MRA	Over phone and email

Table A4.4: List of Experts Consulted

Name	Designation	Institution	Date of Consultation
K A M Majedur Rahman	Managing Director/CEO	Dhaka Stock Exchange	10.03.2018
Fazlul Kader	Deputy Managing Director	PKSF	July 2018

Annex 5: Sampling Frame

Broad Category	**Round 1**				**Round 2**				**Round 3**		
	Green		Amber	**Total**	Green		Amber	**Total**	Green	Amber	**Total**
	Winner	Non-Winner			Winner	Non-Winner					
Lending	2	6	12	**20**	0	6	10	**16**	17	10	**27**
Insurance Product	0	0	0	**0**	2	1	0	**3**	2	1	**3**
Alternative Finance	1	3	12	**16**	3	5	7	**15**	6	6	**12**
Transaction Digitization	1	2	1	**4**	2	3	5	**10**	4	4	**8**
Capacity Development/ BDS	3	1	14	**18**	1	5	4	**10**	7	15	**22**
Credit Rating/Evaluation Digitisation	1	1	3	**5**	0	1	0	**1**	4	0	**4**
Total	8	13	42	**63**	8	21	26	**55**	**40**	36	**76**

Annex 6: Notes on Product Classification

Main Category	Sub Category Description	Notes
Lending	Bank/NBFI through Digitization of Services	Will ensure digitisation of transaction and record keeping and provide access to formal financing.
	Agent Banking & Mobile Financial Service	Providing banking service through authorised agents focusing rural areas.
		Providing banking service through authorised agents and mobile financial services
	Through formalization of target group with ICT	Targeting the different demographic groups (ex: Cobbler) or geographical location (rural, hill tracks, char areas) and introducing them ICT or MF such as providing information or giving them access to technological platform
	Digitization and process re-engineering (i.e.: Automation of loan approval)	Digitization of loan approval or banking operations, re-structuring the lending process for efficiency and mitigating time and cost.
	Payment/Transaction Digitization	Introducing fast transaction and payment system such as mobile wallet, e currency, and digital record keeping system.
Insurance product	Weather Based	Providing weather index based insurance for agricultural products
	Micro Group Based	Providing micro insurance to a small group of people and insurances such as life insurance, cattle insurance etc.
E-commerce	Developing an e-portal	Providing online marketplace to SME's in order to sell, promote, and brand the products. This also includes online pooling platforms to collaborate with other SMEs.
Capacity development/BDS	Capacity development / Business Development Service (includes training and education)	Developing capacity through formal training, providing relevant information, education, business planning, development strategies (such as marketing), introducing new technology and digital platform to SMEs

Main Category	Sub Category Description	Notes
Credit rating/ Evaluation Digitalization	Credit Rating, Evaluation or Reporting with cloud or digital process	Providing information, assessing firm's credential by analyzing data in digital method
Impact Investment and Alternative finance	Social Impact, Individual Level Impact (CDS, BDS and Investment)	This includes investing and financing tied with capacity development. The firm will provide proper training to the target group and then it will invest or finance the projects.
	Crowd funding	Pooling small amount of money from a larger group in a platform and then financing to SMEs
	Factoring and Leasing	Rather than giving direct bank loans backed by collateral, it includes providing assets and liquid money that does not require collateral
	Others	Includes financing through risk diversification and financing that doesn't included in other sub categories
	Bulk SMEs etc.	Make a cooperative platform and pool a large number of SMEs for financing. Financial Intermediaries such as insurance companies will pool a bulk loan from bank and provide them to SMEs.

Annex 7: Additional regulatory issues concerning agent banking discussed in connection to international experience

Issue: Agent compensation

In most countries, agent compensation depends on negotiations between the bank and the agent. However, almost in all the countries, regulation prohibits the agent from charging the customers directly for providing agent services (Tarazi and Breloff, 2011). Bangladesh is no different in this respect. Like most countries, in Bangladesh also, the bank has to establish a fees, charges and commission structure for the agent and ensure that agent collects fees, charges and commission payable to the bank as specified in the schedule of charges only (Bangladesh Bank, 2017). Although our interviews with Dutch-Bangla Bank Ltd and Bank Asia revealed that agents at present generally take 1% from the loans sanctioned by the banks, we did not find any regulation that imposes such restriction.

While charging fee for agent services is prevalent today, it was not always the case. For example, regulators in India initially did not allow banks or agents to charge any fee to the customers (Tarazi and Breloff, 2011).Later on, they realized that such prohibition would make agent banking nonviable and therefore, lifted the restriction in 2009 (Reserve Bank of India, 2009).

There are rare instances where agents are allowed to practice some discretion regarding the fees they charge their customers. For example, in the Philippines, one electronic money service provider allowed agents to charge between 1 and 3 percent of the transaction amount. While this practice rewarded the agents, the lack of uniform fees in all likelihood resulted in customer confusion and may have contributed toward a very limited success in spreading agent banking in the Philippines (Tarazi and Breloff, 2011).

Issue: Agent exclusivity

As Tarazi and Breloff(2011) point out, countries vary in their regulations regarding agent exclusivity. Some countries prohibit agent exclusivity, e.g., Fiji, Pakistan and the Maldives. Regulators in these countries hold such prohibition will allow agent banking to penetrate greater amount of remote areas, foster competition and prevent large banks from monopolizing the best agents and locations. Regulators in some other countries allow exclusivity because it provides greater incentives to the banks to enter into agent banking and prevents potential underinvestment by minimizing spill-over effects (later entrants getting the benefits of first mover's investments on identifying, screening, training and recruiting agents). For example, although regulatory frameworks in Brazil, Columbia and Peru do not explicitly address the question of exclusivity, exclusive contracts between banks and agents are prevalent in these countries. India's case on the other hand is a bit different. Although regulation permits an agent to serve multiple banks, at one retail point or outlet, only one bank can be represented. Regulators in Bangladesh initially imitated the Indian regulation (Bangladesh Bank, 2013: see guideline 6.1) but have come away from that practice more recently. According to the recent BB prudential regulation guidelines for agent banking, an agent is explicitly prohibited from entering

Annex 8: Review of International Experience

Theme	Issues	Country/Region	Experience
Insurance	Functional separation between Life and Non-life insurance companies	Multiple countries	Countries that offer life and non-life insurance products separately include Australia, India[93], Chile, Denmark, Estonia, Germany, Iceland, Ireland, Japan, Korea, Netherlands, Norway, Poland, Sweden, Switzerland, Turkey and the USA[94]. Separation of life and non-life products implies higher efficiency in service delivery since different companies can focus on a single area of operation.
		Multiple countries	Countries that allow composite insurance products include Austria, Belgium, Canada, Costa Rica, Czech Republic, France, Greece, Hungary, Israel, Italy, Mexico, Portugal, Slovak Republic, Slovenia, Spain, the UK, Argentina, El Salvador, Guatemala, Malaysia, Nicaragua, Panama, Paraguay, Peru, Singapore, South Africa, the Philippines, Uruguay, Kenya and Nigeria. Allowing composite insurance provides more flexibility in product design.
		Sri Lanka	Sanasa Insurance Company Limited (SICL) is an insurance company that offers both life and general insurance products for low income groups in rural areas of Sri Lanka. According to the Insurance Board of Sri Lanka (IBSL) regulation, insurers were required to separate their life and general insurance businesses before 1 January 2015. SICL, however, is still offering composite insurance products to the rural population. In addition to life and motor insurances, they offer agricultural insurance products such as indemnity-based crop insurance, weather index insurance and livestock insurance. The agricultural insurance products have proved to be very useful for the rural farmers and have performed very well.
	Regulation regarding the investment options of the insurance companies	OECD countries	In OECD countries in 2013 investment portfolios of insurance companies consisted of bonds, shares, real estate and other investments. Although the investment portfolios of insurance companies (for all three sectors: life, non-life and composite) in most of the OECD countries were dominated by government bonds, the non-life insurance sector in several countries exhibited a substantial shift away from bond investments towards shares. Share of investment in real estate was very small for most countries. While a number of countries reported substantial investments in “other assets”, not much information was available to understand the nature of investments in this category.

[93]India has stand-alone health insurers and reinsurers in addition to life and general insurance companies.

[94]In USA, insurance companies are separated between Life/Health and Property/Casualty.

Theme	Issues	Country/Region	Experience
		India	As per Insurance Regulatory and Development Authority (IRDA) of India regulations (as of 2015), at least 50% of the investment portfolio of an insurance company in India must be made up of central government securities, state government securities, and other approved securities (all debt instruments) with at least 25% of the investments in central government securities. To promote expansion of the housing and infrastructure sector, at least 15% of the investments have to be made in this sector. Investments across various industrial sectors are limited to a maximum of 20% with a maximum of 15% investment in the equity of an individual company. Overall, the approved investment instruments are very safe and generate low returns. The adherence to the stated guidelines is closely monitored by IRDA and any non-compliance results in a show cause notice followed by appropriate punishment or penalty, if proven guilty.
		Pakistan	In Pakistan, the investment portfolio of insurance companies typically consists of listed shares, corporate debt bonds and money market instruments as these companies are prohibited from investing in National Savings Schemes. About 80 percent of investments of Pakistani life insurance companies are in risk-free government securities, while around 19 percent are in the equity market.
	Alleged strict actuary certification requirement	India, Pakistan, Sri Lanka	According to A.K.M. Elias Hussain, the president of the Actuarial Society of Bangladesh, in 2014, there were only one fellow and two associate actuaries in Bangladesh. These figures, if true, are obviously negligible compared to other countries in the regions. According to Institute of Actuaries of India (2017) report, there were a total of 429 fellow and associate actuaries in India during 2014 (which increased to 504 in 2017). This number was 40 in 2008 in Pakistan (Jamal, n.d.) and 23 in 2013 in Sri Lanka.
		Bhutan, Hong Kong, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Thailand, Vietnam	On the basis of a survey conducted in 2007 to assess the development of the Actuarial Profession in Asia and the Pacific, the number of qualified (fully and partly) actuaries in Bangladesh was among the lowest in the region.

Theme	Issues	Country/Region	Experience
	Absence of guideline for innovative insurance product	UK, Singapore, Australia, Hong Kong, Canada	When it comes to innovation in insurance products, clear-cut regulations are not always in place and often existing regulations can become prohibitive in fostering innovation. Very few InsurTech start-ups have managed to gain insurance underwriting licenses because of the existence of potentially prohibitive regulatory requirements. While it's sensible to have such requirements to ensure consumer protection, these could potentially prevent entities with innovative ideas from entering the industry. In order to address such issues, regulators in some countries have established a regulatory sandbox approach (platforms where certain regulations are relaxed for innovative tech-based insurance projects within the platform). The UK Financial Conduct Authority (FCA), Monetary Authority of Singapore (MAS), Australia's Securities and Investment Commission (ASIC), the Hong Kong Monetary Authority and Canada's Ontario Securities Commission have all established such platforms with a view to understanding the effectiveness of the innovative projects as well as helping the innovative firms understand the regulatory requirements.
		India	According to a study (published in 2017) by the International Cooperative and Mutual Insurance Federation (ICMIF) in association with the Insurance Institute of India (III), a total of 15 mutuals and cooperatives operating out of 13 states in India were providing insurance-like services to approximately one million low-income people using risk retention or risk sharing models. In spite of not having the desired scale, these mutual, cooperative and other community-based organizations (MCCOs) were able to demonstrate noticeable impact in protecting the lives and livelihoods of the poor by bringing insurance services to them. Surprisingly, the Indian Insurance Laws Amendment Act of 2015, instead of creating enabling regulations to foster the growth of this sector, excluded them from its scope altogether. ICMIF viewed this lack of regulation and recognition by the Government as one of the biggest threats to the spread of necessary insurance services for the unserved/underserved segment of the population. The ICMIF-III study strongly recommended specific enabling legislation leading to recognition (if not regulation) of MCCOs as a viable alternative risk management (ARM) mechanism for achieving inclusive growth. They also suggested collaboration between MCCOs and commercial insurers (e.g., commercial insurers offering reinsurance to mutual micro insurers) in providing efficient risk management to the low-income population.
		Philippines	An example of a successful innovative product targeted towards the low-income segment of the population which is well supported by an enabling regulatory environment is the Center for Agriculture and Rural Development Mutual Benefit Association (CARD MBA), which is part of the system of CARD Mutually Reinforcing Institutions (MRI) that also includes CARD Bank, CARD Inc. (a NGO), and the CARD Training Center. The MBA, based in the Philippines, offers life and disability insurance, a mandatory provident fund to CARD Bank and CARD Inc. members and a loan redemption scheme for CARD borrowers. The mutually reinforcing nature of the relationships makes the operations of the MBA extremely efficient. The regulators in the Philippines offers an enabling regulatory environment for MCCOs which has allowed CARD and others to offer insurance to their members successfully. As of February 2018, CARD MBA provided insurance coverage to nearly 15.8 million low-income Filipinos.

Theme	Issues	Country/Region	Experience
Agent banking	Stringent requirement for the eligibility of being agent and complex agent licensing process	India	Indian regulators initially did not allow any for-profit organization to become agents assuming such entities may end up exploiting the poor. Although they have lifted this restriction recently, they still do not allow the largest microfinance institutions (MFIs) registered as nonbank finance companies (NBFCs) to become agents.
		Kenya	The Central Bank of Kenya only allows for-profit entities to become agents and explicitly prohibits non-profit organizations such as faith-based organizations, NGO-s and educational institutions from becoming an agent. The Kenyan regulators very likely believe that agent banking would operate more efficiently under a profit maximizing framework and engaging in such activities would steer the non-profit organizations away from pursuing their original social aspirations.
		Brazil	Regulators in Brazil allow any legal entity to work as an agent but do not allow any individual to do so probably with a view to minimizing fraudulence and ensuring consumer protection. Additionally, in spite of there being no regulation against it, financial institutions in Brazil in practice do not offer agent-ship to businesses such as gas stations, night clubs, funeral homes and bars since these are likelier to be susceptible to robberies.
		Mexico	In Mexico, in addition to being a qualifying business, agents must have a permanent address, the necessary infrastructure to complete banking operations, staff certified to operate the required equipment, an acceptable business and credit record and have no record of felony or fraud.
	Location of the agent's premise	India	Initially, regulators in India required agents to be within 15 kilometres of a base branch of the appointing bank in rural areas and within 5 kilometres in urban areas. Later on, this distance has been increased to 30 kilometres and banks can also apply for exemption in order to serve people living in remote areas where establishing a branch is not viable.
		Brazil	In Brazil, regulators initially allowed banks to appoint agents only in municipalities that did not have bank branches with a view to protect bank branches from competition. Afterwards, they repealed this regulation in 2000.
	Agent compensation	General practice globally	In most countries, agent compensation depends on negotiations between the bank and the agent. However, almost in all the countries, regulation prohibits the agent from charging the customers directly for providing agent services.
		India	While charging fee for agent services is prevalent today, it was not always the case. For example, regulators in India initially did not allow banks to charge any fee to the customers for agent services. Later on, they realized that such prohibition would make agent banking nonviable and therefore, lifted the restriction in 2009.
		Philippines	There are rare instances where agents are allowed to practice some discretion regarding the fees they charge their customers. For example, in the Philippines, one electronic money service provider allowed agents to charge between 1 and 3 percent of the transaction amount. While this practice rewarded the agents, the lack of uniform fees in all likelihood resulted in customer confusion and may have contributed toward a very limited success in spreading agent banking in the Philippines.

Theme	Issues	Country/Region	Experience
	Agent exclusivity	Fiji, Pakistan and the Maldives	Agent exclusivity is prohibited in these countries. Their regulators hold that such prohibition will allow agent banking to penetrate greater amount of remote areas, foster competition and prevent large banks from monopolizing the best agents and locations.
		Brazil, Columbia and Peru	Regulators in some countries allow exclusivity because it provides greater incentives to the banks to enter into agent banking and prevents potential underinvestment by minimizing spillover effects (later entrants getting the benefits of first mover's investments on identifying, screening, training and recruiting agents). For example, although regulatory frameworks in Brazil, Columbia and Peru do not explicitly address the question of exclusivity, exclusive contracts between banks and agents are prevalent in these countries.
		India	India's case is a bit different. Although regulation permits an agent to serve multiple banks, at one retail point or outlet, only one bank can be represented.
Alterative investment (crowd funding)	Except venture capital, equity financing, and impact investment, the SEC AI Rules (2015) does not cover any other form of alternative investment such as crowd funding.	USA, Canada, UK, Australia, New Zealand, Italy and France	Crowdfunding is a relatively new concept that has received regulatory attention even in the developed world only recently. It took till 2013 for a well-defined regulatory framework for crowdfunding to be established in USA. Italy was the first country in Europe to implement an ad hoc regulation on equity crowdfunding, which came into effect in July 2013. UK and France are the two other European countries to have established regulatory frameworks for crowdfunding by 2014. We were able to find out detailed guidelines for crowdfunding for a number of developed countries including USA, Canada, UK, Australia, New Zealand, Italy and France.
		USA-based crowdfunding platform with lending activities in 85 countries	An example of a successful crowdfunding platform is Kiva, an international non-profit organization, established in 2005 and based in San Francisco, with a mission to connect people through lending to alleviate poverty. Thus far, Kiva has raised $1.14 billion worth of loans from 1.7 million lenders, which has funded various kinds of projects involving a total of 2.8 million borrowers in 85 countries with an impressive repayment rate of 96.9%.
		India	Although regulatory framework for crowdfunding is a recent phenomenon even in the developed world, we have identified detailed crowdfunding guidelines in our neighbouring country India. In India, digital equity crowdfunding platform is illegal and any form of equity crowdfunding that involves a large amount of money or is equity-based, is strictly monitored. The primary cause of this is the use of crowdfunding for money laundering, a glaring example of which is the Sahara case whereby the Supreme Court of India ordered Sahara Housing Investment Corporation Ltd and Sahara Real Estate Corporation Ltd to return about INR 25,000 crore (about US 3.7 billion) to an astounding 2.96 crore investors. According to the Securities and Exchange Board of India (SEBI), the susceptibility of the digital market to security threats while funding businesses online is another reason for imposing the ban on digital equity crowdfunding.

Theme	Issues	Country/Region	Experience
		Philippines	The securities and exchange commission (SEC) in the Philippines also provides comprehensive regulatory guidelines about crowdfunding. In a memorandum issued in November 2011, the SEC of the Philippines has provided detailed rules and regulations governing crowdfunding. In the memorandum, they have outlined guidelines on general provisions, issuer requirements, intermediary requirements, funding portal regulation, reports, and recordkeeping & other post registration/operational requirements. Given the supportive regulatory environment, a number of crowdfunding platforms such as the Spark Project, Gava and Upbuilds are operating successfully in the Philippines. For example, the Spark Project, an online crowdfunding platform, started its operations in 2013 where Filipinos can campaign to fund their creative, innovative, and passion-driven projects. The platform since its inception has raised about 5.8 million Philippine pesos (equivalent to about USD 112,000) for 63 projects.
Digitisation of financial transfer	Requirements on KYC	India	Last year, Indian regulators, with a view to countering money laundering and terrorist funding, issued guidelines on stricter and mandatory KYC norms for users of mobile wallets in the country, which according to Indian Fintech/MFS industry players would be a deterrent to the growing industry and might destroy smaller transactions. However, there are ways to reduce the amount of time required to complete the KYC process. Consider the Aadhar e-KYC services introduced by the Unique Identification Authority of India (UIDAI). UIDAI issues an Aadhar card to Indian residents, subject to a verification process, which any resident of India can voluntarily enrol to obtain. The UIDAI has combined an electronic-KYC (e-KYC) service with the card, which enables an individual with an Aadhar number to allow UIDAI to disclose her/his personal information to service providers to instantly activate services such as mobile connections, bank accounts, etc. Although the entire KYC process still takes a relatively long period of time to complete due to documentation, this Aadhar e-KYC service does quicken the process of opening a new trading account or bank account or availing a new mobile connection to a large extent. A recent study suggests that Aadhaar-enabled e-KYC can potentially result in an estimated direct saving of over US$ 1.5 billion within the next five years. The study also suggests that traditional customer enrolment processes pursued in commercial banks can take from two to four weeks before an account is activated, and all KYC details have been verified and stored for future retrieval whereas Aadhaar e-KYC enabled bank accounts can be activated and prepared for transactions within a minute.
	Big Data, Data Storage, Reporting and Privacy Issues	Better than Cash Alliance: the alliance has 60-member countries including Bangladesh	While investigating this issue, we found out that a UN based organization, Better than Cash Alliance (the alliance has 60 member countries including Bangladesh) – a partnership of governments, companies, and international organizations that accelerates the transition from cash to digital payments in order to reduce poverty and drive inclusive growth – provides a set of guidelines titled “Responsible Digital Payments Guidelines”. These guidelines are designed to protect clients from risks such as loss of privacy, exposure to fraud, and unauthorized fees. Among the eight guidelines reported in the document, guideline number 2 (keep client funds safe) and 7 (protect client data) deal directly with privacy. The document provides detailed suggestions and examples regarding how to achieve each of the guideline objectives and is meant to help the regulators in developing their rules.

Theme	Issues	Country/Region	Experience
		India	In neighbouring India, although the government has specific set of guidelines when it comes to protecting Sensitive Personal Data or Information (SPDI) of the clients, according to practitioners, electronic financial data protection in India is founded upon rudimentary regulations with inadequate enforcement and the regulatory framework is in need of major upgrades. As far as digital storage outside of regulator's jurisdiction is concerned, Indian Fintech/MFS companies are not allowed to store digital data outside of RBI (Reserve Bank of India) regulated space.
		Philippines	The Bangko Sentral ng Pilipinas (BSP), the Central bank of the Philippines, allows banks to use cloud technology, i.e., the BSP allows Filipino banks to avail third party services provided over the Internet. These services include the storage of data and the processing of transactions, among others. This permission provides a cost-effective way for smaller banks in the Philippines to store and manage their data without the need to invest in infrastructure where instead of buying their own servers, they can just pay a third-party service provider to manage their customer information. To reduce the security risks associated with third parties handling bank data, the BSP's IT regulations framework requires that customer information be stored in private clouds, which are designed to be safer as the infrastructure remains under the control of the bank at all times. Unlike most countries, the BSP allows banks to store their customer data in private clouds that are outside the country as long as all safety measures are followed. Banks in the Philippines are allowed to store other data such as marketing materials and other non-essential information in public clouds, which are relatively less secure as these are made up of servers shared by several clients.
	Point of Sale (POS) machines can only be sold by respective banks	India	Regulations in India allow business entities to purchase POS machines directly from non-bank entities. A merchant in India can avail a POS device from a list of dedicated companies or directly from banks. As of December 2016, a total of 14 non-bank Fintech companies were given permission to sale POS machines directly to business entities.
		Sri Lanka	Non-bank private companies are allowed to sell POS machines in Sri Lanka although only one such private company had been issued a license to do so by the Central Bank of Sri Lanka as of 2017.
	Interoperability among MFS providers	Kenya, Indonesia	Though the discussion regarding interoperability among MFS firms in Kenya – one of the most successful MFS markets in the world – started in 2015, the process has just started being piloted. Successful interoperability across firms within an industry has been rare outside of bank-to-wallet integrations which is largely because interoperability has either been made mandatory by the central bank or has only concerned with technical integration, e.g., in Indonesia.
		Tanzania	Tanzania is a rare success story when it comes to effective interoperability among MFS companies. In 2014, it developed and implemented guidelines for interoperable MFS transactions that proved to be effective. Registered users at participating MFS providers in Tanzania can carry out transactions directly to one another's wallets under a set of guidelines that was developed at the industry level rather than by country regulators. The success story is most likely due to the fact that instead of being imposed upon through regulation at an early stage, interoperability among MFS companies in Tanzania was allowed to evolve naturally in a mature and competitive market reported.

Theme	Issues	Country/Region	Experience
	FinTech companies /MFS providers cannot extend loans	India	In India, FinTech companies /MFS providers cannot yet extend loans directly.
		UK, USA, Kenya, Philippines	In developed countries, Fintech companies such as Zopa in UK and Lending Club in USA have launched peer-to-peer (P2P) lending completely cutting out commercial banks whereas in developing countries, mobile operators such as Safaricom in Kenya and Globe in the Philippines offer mobile lending as part of their mobile money solutions. While we do see Fintech/MFS companies being allowed to extend loans in various countries, the volume of mobile lending in the world still remains relatively small. As of 2016, only 52 out of 277, i.e., only 19% of the mobile money providers in the world offered mobile enabled loans or pure mobile loans. Even in Kenya, which is considered to be the most active market for MFS lending, total value of mobile lending amounted to less than 1% of the total transaction value of mobile money in 2016 (basic P2P transfers contributed nearly 70% of total transaction value).
		Kenya, Tanzania, Malawi, Ghana, Philippines, Mexico, India	Rather than allowing Fintech/MFS companies to extend loans directly, which poses significant regulatory barriers, policymakers can think of using these firms as a channel that lending institutions can use to offer loans to the un-served/underserved segment of the population at a lower cost. One example would be MFS facilitated micro/Nano loans – the very small instant consumer loans – that have experienced quite a bit of growth in recent years, with a particular concentration in East Africa. In just a few years, through models such as M-Shwari (Kenya), M-Pawa (Tanzania), Tala (Kenya) and Airtel Money (Malawi, Ghana), tens of millions of people have got access to micro/Nano loans over their mobile phones, which have addressed the critical need of lower income people for very short-term money management tools that enable them to deal with income and expenditure volatility. M-Shwari working in conjunction with the Commercial Bank of Africa and Safaricom has issued more than 60 million loans in Kenya while M-Pawa working with the Commercial Bank of Africa through Vodacom made loans to nearly 5 million borrowers in Tanzania within its first two years of operations. Tala, Kenya's first smartphone-based lending app – launched in 2014 – has experienced substantial growth in recent years and has expanded to Tanzania, the Philippines and Mexico. The company has recently entered the Indian market with new offices in Mumbai and Bengaluru where it is currently developing its local team and testing its product with a small segment of customers with a view to adapting its app to the Indian market. The company does not work with any particular bank; rather it obtains funds from a number of (around 30 at present) venture capital firms. Till date, Tala has delivered more than 6 million loans worth $300 million to nearly 1.3 million customers.

Theme	Issues	Country/Region	Experience
		Pakistan	EasyPaisa, a project of Telenor Pakistan and Tameer Microfinance Bank, offers digital loan services (also called EasyPaisa Sahara loan services) to its customers with a view to reaching millions of unbanked residents of the country. Users of the service can get short-term loan for 7 to 14 days of amounts varying from Rs. 850 (about US $7) to Rs. 10,000 (about US $86)[95] at a service charge of 10%-25% of the loan amount for 7 days and 12%-35% of the loan amount for 14 days with 2.5% penalty of the outstanding amount in the case of late payments. The amount of the loan is directly deposited to the EasyPaisa mobile account of the user and takes only about 5 minutes to process. The loan, however, needs to be approved by the bank before it is disbursed. Customers benefit from quick processing times with a simplified payment plan and fixed pricing. Those who make timely repayments are given the opportunity to obtain loans of higher denominations. Easypaisa Sahara loans create additional value for the customers by providing them with a credit history that can potentially be used to apply for bigger loans in the future, even from the traditional banking sector.

[95]The reported data are based on the work of Ansar (2017); according to the latest Telenor Pakistan Website, the lower limit of the allowable loan amount has been increased to Rs. 1050 (about US $9) while the maximum maturity has been extended to one month.

About BFP-B Project

Business Finance for the Poor in Bangladesh (BFP-B) is a £25m facility to create economic opportunities for small businesses by changing the behaviour of market actors in the financial sector. BFP-B is improving the policy and regulatory environment for financial institutions, inducing private sector investment in expanding the frontiers of finance, and enhancing the credit worthiness of small businesses. BFP-B programme funded by UKaid from the British Government. The Bangladesh Bank and Microcredit Regulatory Authority (MRA) are the implementing agencies, and the Financial Institutions Division of the Ministry of Finance, Government of Bangladesh, the executing agency of this programme. Nathan Associates London Ltd, in consortium with Oxford Policy Management, is the management agency for the programme.

BFP-B Partners

Bangladesh Bank

Bangladesh Bank, the central bank and apex regulatory body for the country's monetary and financial system. The key functions of Bangladesh Bank are formulation and implementation of monetary and credit policies, regulation and supervision of banks and non-bank financial institutions, promotion and development of domestic financial markets, management of the country's international reserves and issuance of currency notes.

www.bb.org.bd

Microcredit Regulatory Authority (MRA)

The Microcredit Regulatory Authority (MRA) has been established by the Government of the People's Republic of Bangladesh under the "Microcredit Regulatory Authority Act 2006" to promote and foster sustainable development of microfinance sector through creating an enabling environment for NGO-MFIs in Bangladesh. MRA is the central body to monitor and supervise microfinance operations of NGO-MFIs.

www.mra.gov.bd

UKaid

BFP-B Project is funded by UKaid from the UK government through the Department for International Development (DFID) which leads the UK's work to end extreme poverty that includes ending the need for aid by creating jobs, unlocking the potential of girls and women and helping to save lives when humanitarian emergencies hit. The UK government is currently among the largest bilateral development partners to Bangladesh.

www.gov.uk

Management Agency

Nathan Associates London Ltd.

Nathan Associates is a private international economic and analytics consulting firm established in 1946 that works with government and commercial clients around the globe to deliver practical solutions through building frameworks for economic growth or navigating regulatory hurdles, securing infrastructure financing or evaluating and assessing disputes. Nathan Associates London has been awarded the contract by DFID to deliver technical and financial assistance under the BFP-B Project.

www.nathaninc.com

Technical Assistance

Economic Research Group (ERG)

Economic Research Group is a not-for-profit organisation established for promoting education and research with a view to improving economic justice in society. Founded under Section 28 of the Companies Act of 1994 (in Bangladesh), ERG remains committed to the rules of transparency, and to democratic values. Activities of ERG are guided by the broad principle of promoting socially responsible market economy. ERG also emphasises on networking across generations, agencies, space (countries), and disciplines.

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