# FIN-Biz

Finance for All

Issue 1 | June 2018

Change through Innovation

The Campaign for Financial Inclusion

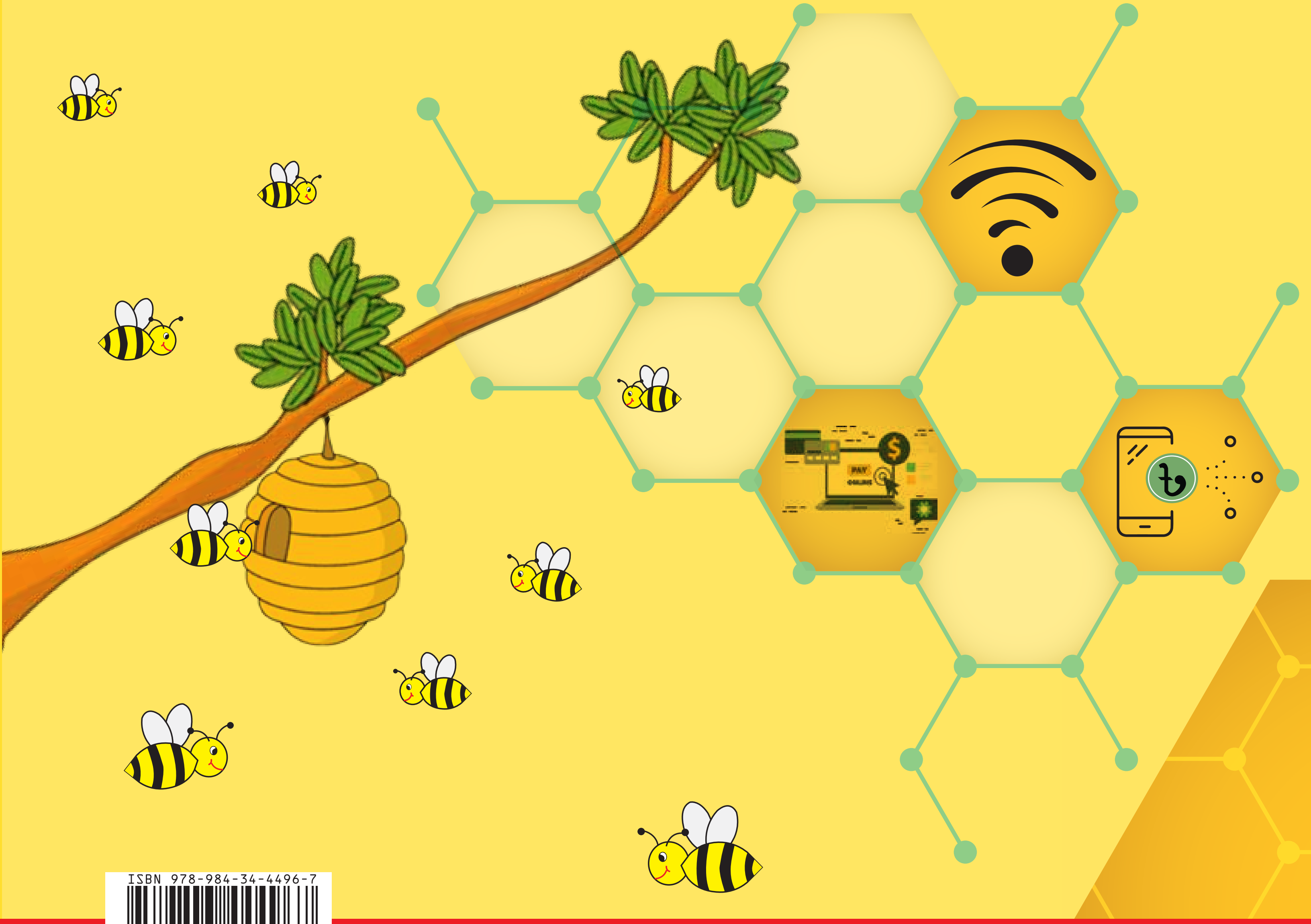
Mobile Financial Services & Beyond

The Road to Financial Inclusion

Financial Literacy & Education

# Going Digital

## MFIs in Bangladesh



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# বিকাশ অ্যাপ

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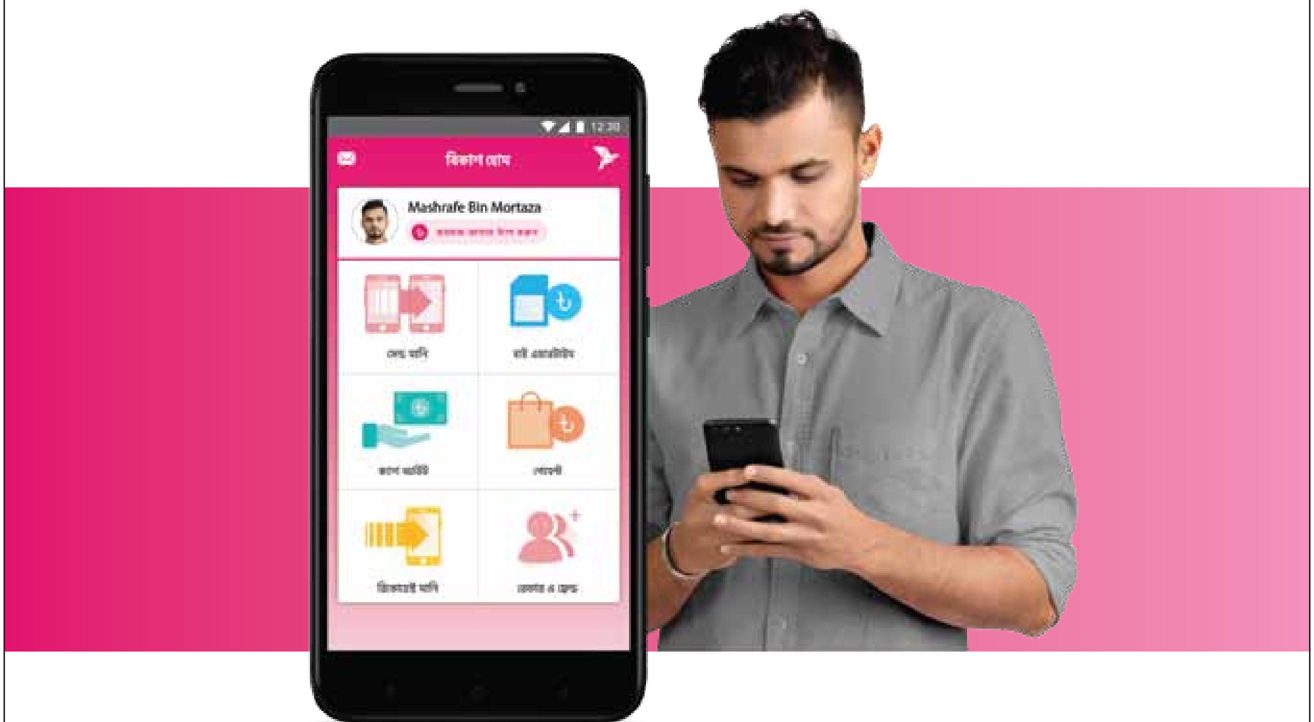


## নিজের একাউন্ট থেকে টাকা পাঠানো একদম ফ্রি*

## ক্যাশ আউট খরচ হাজারে ৳১৫*

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# FROM THE EDITOR

This is the inaugural issue of FIN-B's flagship journal, FIN-Biz. The Journal focuses on the principles and practices of 'financial inclusion for all' in a country like Bangladesh. It adheres to several guidelines such as, it should deal with practical issues and problems important to both demand and supply side stakeholders as well as the regulatory bodies; it must prove useful to a wide range of people in the community; and it should have the potential to impact financial inclusion.

FIN-Biz aims to become the leading Journal for the study of financial inclusion. It will provide the primary forum for advancement and dissemination of scientific financial inclusion knowledge and their management. Based on the feedback from the stakeholders and the obvious excitement around, the Journal is taking steps towards this goal already before its inaugural issue.

It plans to contribute to disseminating information on innovative financial products and validated delivery models, insights on financial inclusion, and the advances in digital financial services and technologies.

FIN-Biz would identify the opportunities to significantly impact new areas that have not traditionally been explored in advancing financial inclusion in our country. In this context, the Journal would play an important role in information sharing on successful risk management strategies associated with emerging business challenges; new business models driven by data, analytics and automation; impact of emerging technologies especially on the management of operations and supply chains; and expose the readers to some of the exciting developments in financial inclusion.

FIN-Biz provides a perfect opportunity to immerse oneself in the advancements of the fast growing field of financial inclusion from a Journal that has excellent reach and expectations of a significant impact. We believe mere invention is not enough to shift a paradigm; real disruption requires ingenuity in the service having a larger vision. Ingenuity is the theme of this issue. We want everyone not to have an opinion only, but a point of view as well.

Best wishes and thank you in advance for your support to FIN-Biz!

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FIN-Biz

INSIGHTS AND IDEAS
FROM FINANCIAL INCLUSION
NETWORK BANGLADESH (FIN-B)
(An initiative of InM)

JUNE 2018
VOLUME 1, ISSUE 1

Photos: Mohammed Abdul Baten

# FINANCIAL INCLUSION
## KEY ENABLER TO PROSPERITY

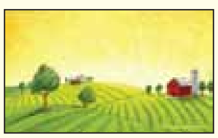
An estimated 40 million adults – more than half of Bangladesh's total adult population – do not have an account at a formal financial institution. Financial inclusion seeks to ensure that all households and businesses, regardless of income level and poverty status, have access to and can effectively use appropriate financial services they need to improve their lives and livelihoods.

### Bangladesh Formal Banking Snapshot

Active Scheduled Banks

**19%** of the total adults have access to banks

**14%** Among these 19%, belong to URBAN areas



Only **5%** of RURAL adults have access to banks

At present, the poor and deprived people mostly live and work in the informal economy. They have meagre incomes and assets, but still they save, borrow and manage daily expenses. But without access to a bank, savings account, debit card, credit and insurance, they rely on informal ways of managing money. This includes relatives and friends, cash-on-hand, moneylenders, or keeping money under the mattress. These choices are risky, inadequate, costly, and unreliable.

Inclusion in the formal financial system helps people to make daily transactions including sending and receiving money; ensure safe savings to help households manage cash flows, smooth consumption and build working capital; finance CMSE activities; invest in expanding businesses; effectively plan recurring expenditures such as children's educational expenses; mitigate economic shocks and manage expenses related to unexpected events such as health emergencies or natural disasters; and of course improve household welfare.

There is **5%** gender gap in financial literacy & **26%** gender gap in MFS; Only **16%** of women can make decisions on daily HH expenses & **88%** of Bangladeshis do not have a financial plan for unexpected events

The benefits of financial inclusion are not only significant for households but for the overall economy as well. Financial inclusion is deeply linked to Bangladesh's economic and social development, promotes inclusive growth, and reduces poverty and deprivations.

## Executing Financial Inclusion

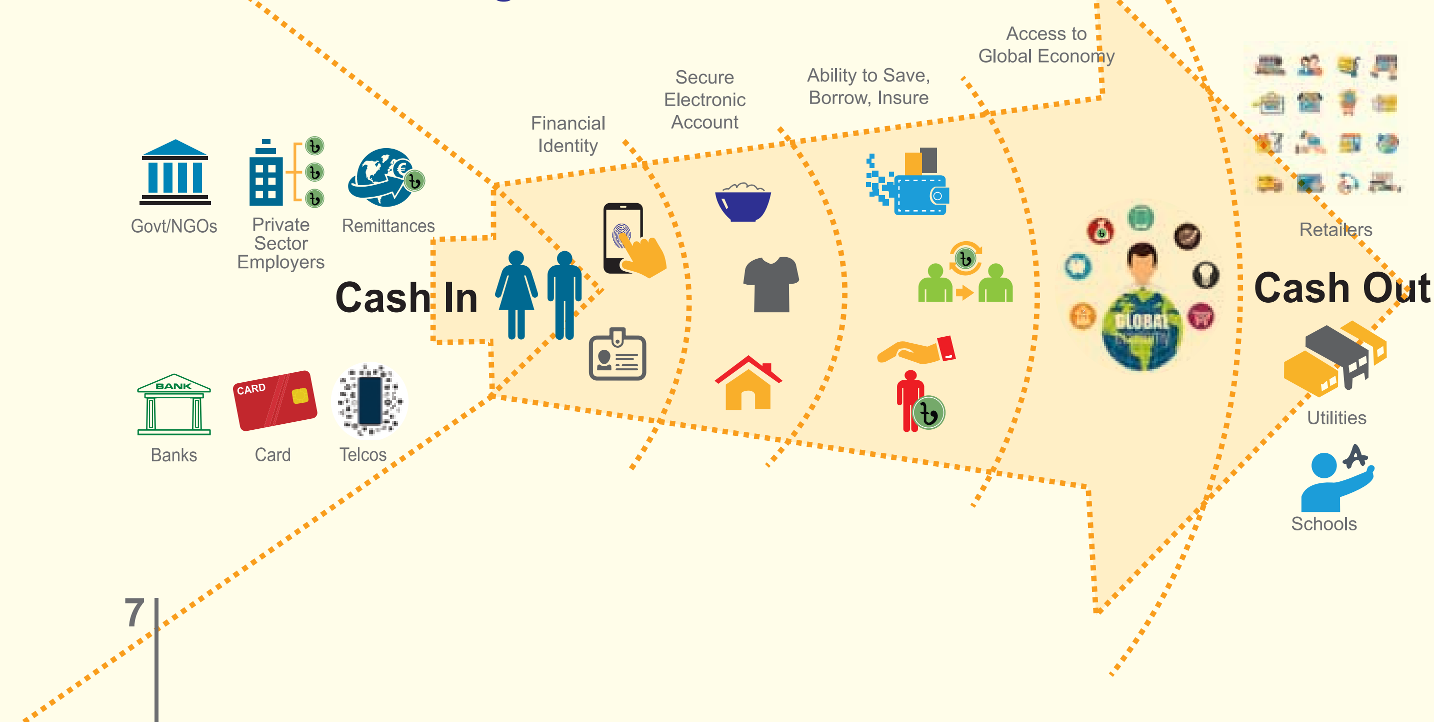


Photo: Mohammed Abdul Baten

# Change through Innovation: FIN-B's Inclusive Operational Model

The primary driver for FIN-B's operational model is social responsibility of ensuring 'financial inclusion for all'. The Network promotes the use of technology and services that enable financial institutions to realise the untapped potential to serve profitably more than 75 million of the country's adults who are currently under-served by or excluded from the formal financial system. According to Bangladesh Bank, 81 percent of the adults in Bangladesh are unbanked and only about a quater of farmers have access to formal credit sources. Non-credit related services are virtually non-existent in remote areas.

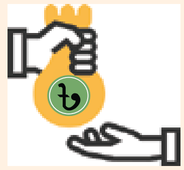
FIN-B aims to support innovations in payments systems that would enable financial institutions to lower transaction costs, increase efficiency and productivity, and improve transparency. The financial institutions would then be able to allocate greater staff time to account acquisition and scale up operations. FIN-B helps innovate financial institutions to offer customised products to their clients, provide digital financial services, and ensure timely and efficient payments. This would also help smaller institutions such as the microfinance institutions (MFIs) to attract more capital and adopt diverse products; and in turn offer financial services to more individuals especially to the poor and disadvantages groups.

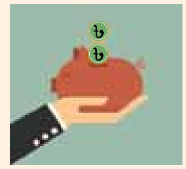
*FIN-B works to develop and adapt, through its members, a set of tools, approaches and strategies addressing the needs of the people who are financially excluded.*

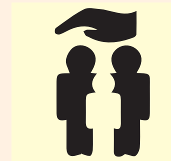
FIN-B specifically works to promote financial inclusion among people who currently lack access to financial services, particularly in rural areas and remote regions. Financial inclusion is critical to enabling these unserved individuals to increase incomes, build savings, and manage uncertainties such as sickness or financial mishaps. Without financial inclusion, individuals have to rely on themselves to invest in education or livelihood activities, greatly limiting their opportunities and perpetuating poverty and economic inequality. As a network, FIN-B works with its members to ensure that even poor individuals in remote regions of the country can access formal loans as well as insurance, savings, remittances, payments and other services. These activities also contribute to employment generation, especially for women and disadvantaged groups.

One key aspect of FIN-B activities is to develop and adapt, through its members, a set of tools, approaches and strategies addressing the needs of the people who are financially excluded. The purpose is to offer low-income people access to basic financial services such as loans, savings, microinsurance, bill-payments and money-transfer facilities, and financial advice. The aim is to provide fair, safe and ethical financial services for people who, because of their circumstances, are not able to access mainstream financial services under the existing delivery channels. The ultimate purpose is to alleviate and eliminate poverty.

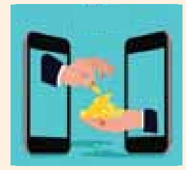
*Purpose of FIN-B is to offer low-income people access to basic financial services such as*


*Loans*


*Savings*


*Microinsurance*


*Bill payments*


*Money-transfer facilities*


*Financial advice*


*Safe & secured*


*Legal & ethical financial services*

FIN-B activities are targeted to ensure access to affordable, appropriate and fair financial products and services to all individuals and groups, with the result that their ability to participate fully in social and economic activities is enhanced, financial hardship is reduced, and poverty (measured by income, debt and assets) is eliminated. For the Network, addressing financial exclusion is not merely about service provision; it also includes capacity building and structural change. Sustainability is also an urgent consideration; for ensuring the continuity of services and programmes that make a positive and ongoing contribution to addressing financial exclusion. As such, it considers both financial and social objectives.

*FIN-B works, in collaboration with its Network partners, to innovate, build and implement technologies and services that enable financial institutions to serve the excluded and under-served populations with affordable, appropriate and fair financial products and services such that their ability to participate fully in social and economic activities is enhanced, financial hardship is reduced, and poverty is eliminated.*

## FIN-B Financial Inclusion Programmes

To begin with, the following focus areas are emphasised:

- **Personal credit**: Access to appropriate credit at fair and affordable rates, and with non-exploitative conditions.
- **Micro-enterprise credit**: Required amounts of start-up and growth capital with minimal or no security requirements.
- **Saving**: Incentives for starting and maintaining small savings plans.
- **Micro-insurance**: Affordable microinsurance policies to cover essentials (such as life, health, livestock, crop, dwellings etc.), with payment arrangements that suit people living on low incomes.
- **Remittance**: Affordable, safe and reliable options for remitting funds and depositing these funds
- **Financial literacy & education**: Financial literacy and education including counseling for crisis management, and financial management on low incomes.
- **Payment**: Mechanisms whereby people living on low incomes can make safe and easy payments

FIN-B analyses the hurdles that prevent low-income households from accessing quality savings, credit, insurance, remittances, and other financial services with emphasis on:

- **Filling in information gaps** (such as research about access to financial services for specific poor and disadvantaged groups).
- **Raising public awareness** (such as developing and implementing communication campaigns; organising meetings/workshops about the importance of promoting inclusive financial systems; celebrating the achievements of clients).
- **Expanding financial literacy and education.**
- **Building commitments** (from government to ensure that the legal, fiscal and regulatory systems encourage financial inclusion; and from the private sector, commercial banks, microfinance networks, civil society, and NGO-MFIs to provide financial services to the poor and low-income people primarily as a fair and equitable business concern).
- **Conducting case studies** on relevant topics on financial inclusion that may include: savings; micro-enterprise development; social impact analysis; community development finance institutions; financial inclusion for specific groups; climate change issues in financial inclusion.

A starting point for getting involved is through educating people with financial literacy and education programmes, and learning about financial inclusion. In this context, community organisations (including NGO-MFIs) tend to be very pragmatic, and are often involved in the delivery of financial inclusion programmes on their own. Commercial/professional organisations often provide funding and other means of facilitating the delivery of the programmes. Financial inclusion programmes may also be funded by the government.

## Bangladesh Financial Inclusion Factsheet

**WHAT do we know?**

- **75 Million** Bangladeshi adults are currentaly under-served by or excluded from the formal financial system.
- **24%** population is living below the poverty line.
- More than **84%** of women has to depend on others for taking HHs expenditure decisions.
- More than **59 million** adults population have mobile money account

**WHY does access matter?**

- Encourages self-employment
- Supports business activities
- Grows household savings
- Improves agricultural productivity
- Increases investments in education
- Helps people to manage risk and absorb financial shocks

**HOW do we get there?**

1. **INDIVIDUALS** — Enable the poorest people to access financial services.
2. **INSTITUTIONS** — Encourage financial service providers to develop client-centric products and services.
3. **MARKETS** — Establish and share best practices with the broader financial inclusion community.

*Knowledge Management Desk, InM*

Cover Story

# Going Digital

## MFIs in Bangladesh

*Mustafa K Mujeri*







*Photo: Khaled Mahfuz Saeef & Mohammed Abdul Baten*

Providing financial services via digital channels is opening up new opportunities to reach populations that previously were unserved by the formal financial institutions including the MFIs. In Bangladesh, more adults are financially included than digitally included, indicating that financial accounts are more often accessed through traditional means, such as bank branches, than through digital means, such as debit/credit cards or mobile banking. Moreover, although mobile money access has grown, product usage is narrow – in most cases customers use digital finance to send/receive money or buy airtime exclusively. It is now time for Bangladesh to embark on riding the mobile money rails to deliver services beyond payments to cover, say, mobile savings and mobile credit and other services.

How successful can be a solution through MFI-MNO partnership? As MFIs and MNOs enter into partnerships, two challenges may emerge. The first involves the difficulty of forging partnerships between two sets of institutions that span different industries, regulatory regimes, business and service models, and technology systems. Thus, there could be technical and integration challenges—the operation system of MFIs may be incompatible with that of MNOs, making reconciliation a challenge. There could be different ways of resolving these issues e.g. investing in own platforms, developing partnerships with third-party technical providers, or acquiring own mobile virtual network operator (MVNO) license. The other challenge is that most MFIs typically lack the resources for adopting the above approaches.

The need is to work out innovative solutions for reaching the poor using technology that can be used by the MFIs. For the MFIs, the process of connecting to the digital ecosystem involves several considerations:

- Realisation that 'going digital' is not a technological transformation alone; it needs full buy-in from the management and must be treated as a strategic decision.
- 'Going digital' creates a new business model of engaging with the MFIs' service customers which requires a re-modeling of engaging with the consumers and the service delivery mechanisms.
- Along with taking steps for 'going digital', MFIs also need to provide education and skills to the poor customers such that they acquire the capability of using the products to drive uptake and usage.

Despite many clear advantages of 'going digital' by the MFIs and, in the face of rapidly declining cost of hardware and connectivity, successful use of digital technologies by MFIs is still an exception rather than a rule in Bangladesh. Apparently, there exist several challenges that inhibit the widespread adoption of digital technologies by the MFIs:

- **Capacity of MFIs :** MFIs have limited capacity to absorb technology. Financial service providers of all types tend to focus on their own needs, rather than developing a solution that really works for their customers.
- **Infrastructure :** MFIs lack strong communications and electronic infrastructure so that they face hard times for implementing technology solutions that rely on internet connectivity—or even electricity.
- **Policy environment :** As electronic finance expands, the government and regulators struggle to sort out the implications; for instance, of neighbourhood shops (e.g. banking agents) taking deposits from the public without a formal license to do so. Conversely, the government can help expand access by issuing national identification systems (numerical-or biometric-based) or by distributing welfare payments, pensions, and salaries through electronic networks.
- **Consumer and staff literacy :** Low literate and uneducated customers do not always trust technology. MFI staff members may also be reluctant or ill equipped to adopt new technologies. Efforts to educate them may be necessary.
- **Sound information systems :** MFIs would benefit from investments in advanced delivery technologies only if their foundation--the information system--is sound. Yet, in MFIs market, these systems are not always available in the right form or they are costly to develop. Moreover, MFIs continue to struggle with integrating baseline technology into their operations for a number of reasons: (i) many MFIs lack the technological know-how to make informed investment decisions when it comes to technology; (ii) commercially available software products can be expensive and vendors often do not provide sufficient local support to ensure efficient implementation of the system; and (iii) MFIs perceive their operations as unique and, therefore, prefer to build custom applications which are difficult and costly to develop.

One critical element for success of MFIs in adopting mobile technology is the presence of a sufficient number of users and volume of transactions upon which MFIs can build their own services including the number of agents (or cash-in/cash-out points). The higher the maturity of the mobile money market, the better the chances of success for the MFIs. And the greater the penetration of mobile services in the services rendered by MFIs, there will be steady growth in the number of MNOs providing money-transfer services; number of service companies offering mobile money support platforms; number of users for salary payments to field workers or conditional cash transfers; and wider variety of social applications, such as health, education and vocational/skill training. The MFIs can profitably leverage these developments and ensure greater efficiency, cost savings and speed in delivering the microfinance products.

In particular, business models cannot be easily transferred, because there are spatial differences in the microfinance market. Each MFS package has to be tailored in line with the market demand and the profiles of the targeted customers. In this respect, five issues are important for the MFIs to move forward:

- Conduct an extensive feasibility study and seek partnerships with an MNO, a bank or a third party, especially to understand the limitations of the proposed services and products planned for offering and avoid mission drift.
- Develop internal capacity, new skill-sets and invest in training and raising awareness among both MFI staff and customers on mobile services.
- Conduct pilots to minimise troubleshooting and setbacks while introducing adjustments. It is highly unlikely that a new product will work perfectly from the beginning.
- Devise the right fee structure and incentive plans for ensuring well-performing distribution networks. If managed well, agents can become valuable promoters of MFI products and services. The agents should be trained on the products and services to ensure better customer service.
- Analyse the regulatory environment and build relationships with regulators and provide them with insights about the market. By creating alliances and associations, MFIs can emerge as a strong lobbying force for regulatory adjustments in the mobile financial market.

Research shows that availability and usage of mobile phones to provide financial services promote savings at the household level. Not only does access to MFS boost the likelihood to save, but it also has a significant impact on the amounts saved, perhaps due to the frequency and convenience with which such transactions can be undertaken using a mobile phone. Both forms of savings, that is, basic mobile phone savings stored in the phone and bank integrated mobile savings are likely to be promoted by use of mobile phones.

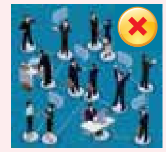
Further, for extending MFIs' outreach, redesigning of business model must also accompany investment in new technology. New markets would require innovative uses of appropriate technologies that can easily be scaled up. The infrastructure to support such a scale of investment may be beyond the capacity of the MFIs sector to bear alone. Hence, the government and other players also need to provide necessary support to the MFI sector to design and adopt relevant business models within the framework of MFS.

**MFI-MNO Challenges**


Forging partnership


Technical integration knowledge


Incompatible


Lack the resource for adoption

**Adopting Digitisation: Challenges for MFIs**

1. Capacity of MFIs
2. Infrastructure
3. Policy environment
4. Consumer and staff literacy
5. Sound information systems

In short, MFIs in Bangladesh must face three major challenges in the digital economy: (i) increased financial services regulatory requirements; (ii) compulsion for expansion of outreach to more poor customers, which in turn provides economies of scale and ultimately financial stability; and (iii) attract capital from savings and commercial investors. It is clear that MFIs able to implement and make use of digital technologies will be more likely to survive in the country's increasingly competitive microfinance market.

For healthy developments, it is important to examine at the level of the poor customers how MFS impact the use of credit, what types of activities are funded, and how effectively mobile technology is being used to reach and interact with the customers and similar other prominent issues. For the MFIs, the important issue is to focus on how MFS impact on MFIs' operations both in relevant markets and internally focusing on operational efficiency and risk management. Finally, for the microfinance industry as a whole, the key issues are to analyse the impacts of digital technologies on the structure of the industry in terms of strategic and outreach objectives, interest rates, and capability of the MFIs to operate sustainably in the financial market.

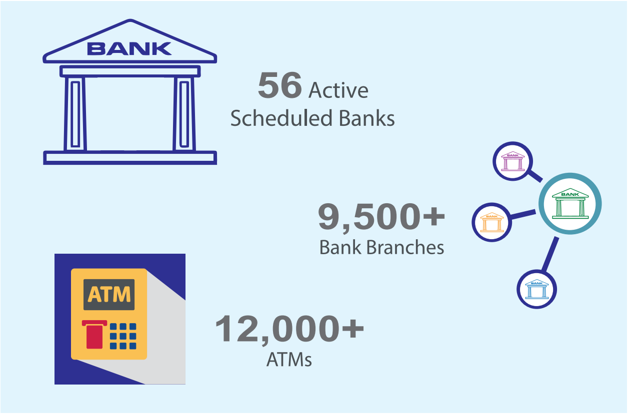
■ *Mustafa K Mujeri, Economist and Executive Director*
*Institute for Inclusive Finance and Development (InM)*

# Saying Goodbye to Cash

Banks in Bangladesh are quickly adopting the ATM network. But ATM is essentially yesterday's technology -- 50 years ago it was seen as a replacement for branches as they were cheaper than branches. The ATM is expensive; they need to recharge the cash cassettes regularly. Now more people are using alternatives such as paying through mobiles. Mobile payment platforms are becoming increasingly popular.

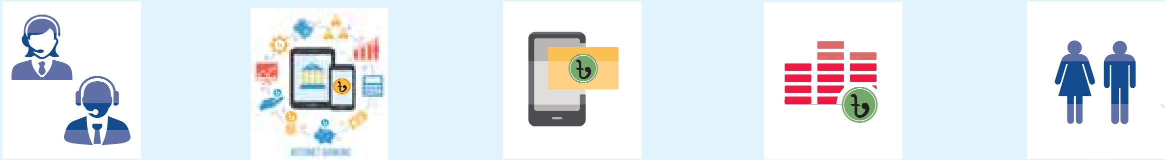
Globally, in countries where the economy is changing fast and which have less involvement in older technology like ATMs, people are flocking to mobile payment platforms. In China, many restaurants and shops no longer accept cash. Instead customers use apps like WeChat to look at menus, order food and pay their bill. While, for Bangladesh, the idea of a cash-free society may sound like a strange concept, some Scandinavian countries are moving away from cash and may become cash-free within the next five years.

WeChat has become so pervasive that people can do almost anything - make a doctor's appointment, access investment services, pay bills, buy cinema tickets, train tickets and interact with their friends and family. It's a future that is fast becoming a reality in many countries, although the change may be slower in countries more concerned about privacy. However, it is likely that the war may ultimately be won by the ease of payment. Young generations, growing up in a digital world, will be more prepared to trade away privacy for convenience who are extremely comfortable with mobile phones and probably do not see the point of cash.




Obviously, cash won't disappear overnight; but consumers love cashless payment because it is more convenient and there is a generational shift which is happening quite quickly in Bangladesh. Even many older people feel more comfortable using mobiles. Even credit card may lose much of its usefulness as a separate entity. It is a part of the digital revolution which cannot be stopped in Bangladesh as in other countries.

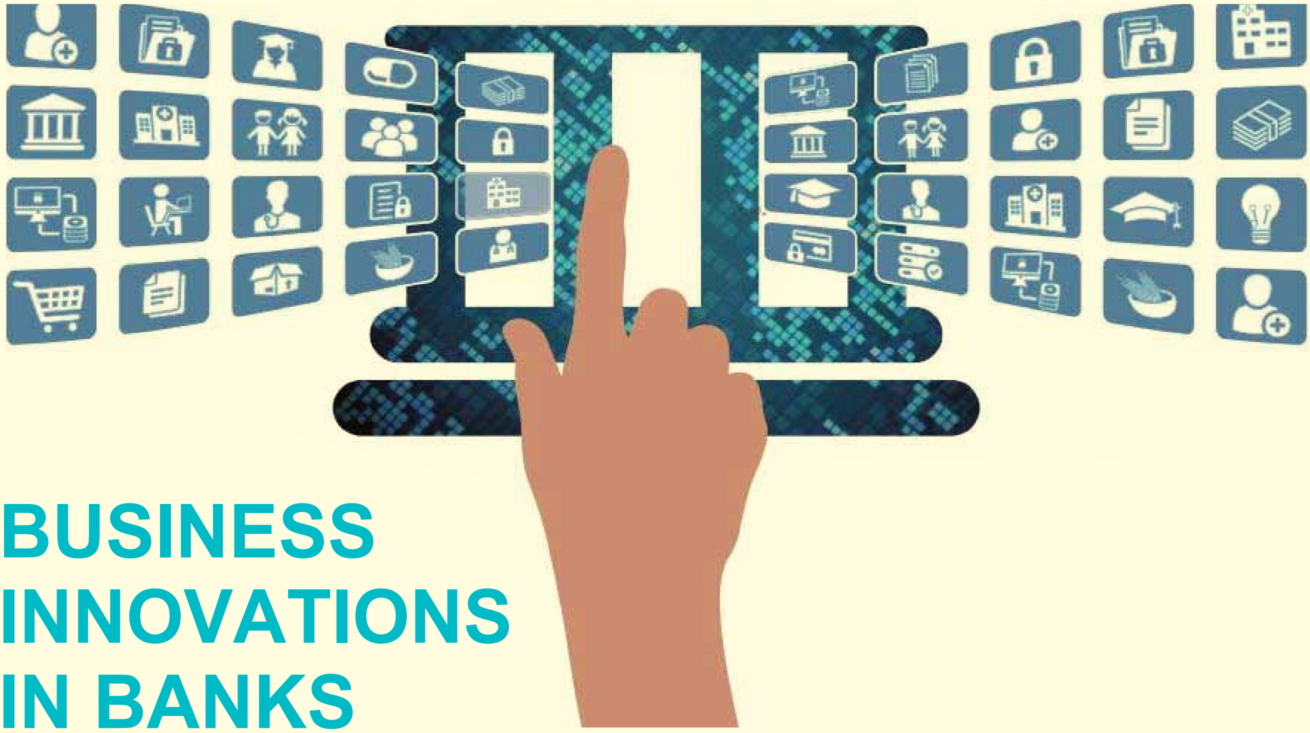
**State of Mobile Financial Services (MFS) in Bangladesh**



| | | | | |
|---|---|---|---|---|
| 0.79 million agents | 171.28 million daily transaction | 20.7 million active accounts | ৳303,960 million transaction value | 59 million registered clients |
| (0.21 million in 2014) | (33.25 million in 2014) | (7.0 million in 2014) | (৳71,489 million in 2014) | (14 million in 2014) |

*Source: Bangdesh Bank, January 2018*

■ *Knowledge Management Desk, InM*



# BUSINESS INNOVATIONS IN BANKS

## Financial Inclusion through BC Model

***Mustafa K Mujeri***

Bangladesh has been adopting multiple approaches to make the goal of financial inclusion for all a reality. One potential approach (which is widely used in India) is to make use of banking business correspondents (BC) and business facilitators (BF) to address access and service related issues for the unbanked. In India, 'not for profit' entities were initially eligible to become BCs but later on profit making entities were also allowed to become BCs. The Reserve Bank of India (RBI, the central bank) played a key role in providing enabling environment for BC model to flourish. RBI adopted a scheme for financial Inclusion by extension of banking services through BFs/BCs.

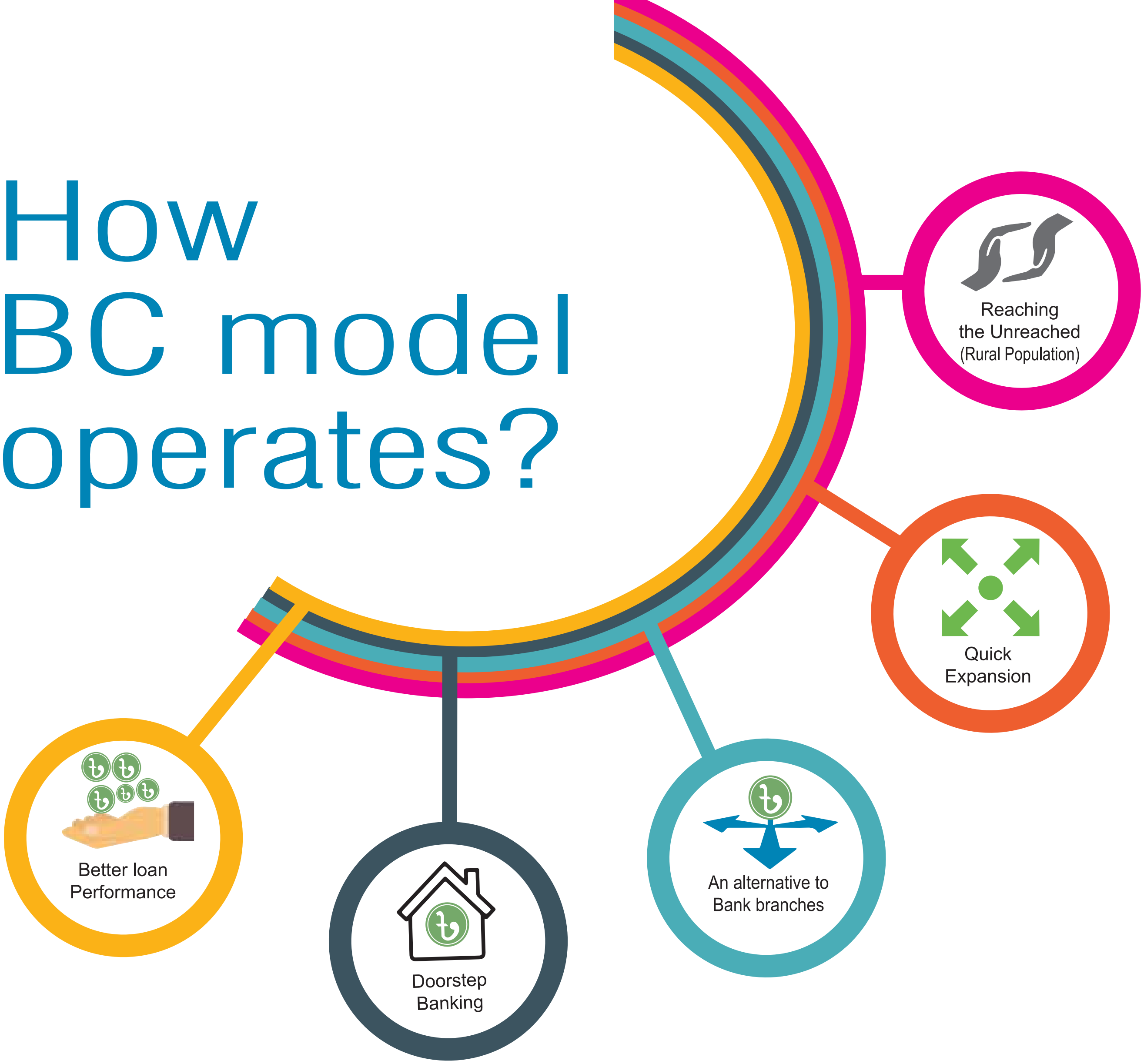
The BC model is a bank-led one where a technology driven banking agent manager (or individual agents) dovetails with a prudentially regulated bank. The bank brings trust and robustness whereas a BC brings low cost access, technology and new tailor made products mostly to the population at base of the pyramid and makes banking possible at their doorstep.

The agents appointed by the banks are one of the most important stakeholders of the BC model. The BCs help in obtaining the account opening forms, specimen signatures/biometrics of the customers, verification of identity of the beneficiaries and opening their accounts and in providing the relevant data of the customers to the banks. The providing bank's name is displayed on the card including relevant data belonging to the beneficiary card holder for the banking/financial and other services/products as provided by the bank.

The primary service of BCs remains to identify customers (individuals and neighbourhood groups) for opening 'no frills' savings bank accounts, term deposits and current accounts as per bank guidelines. BCs also create awareness about savings and other banking products and educate and advice the customers on managing money and debt counseling.

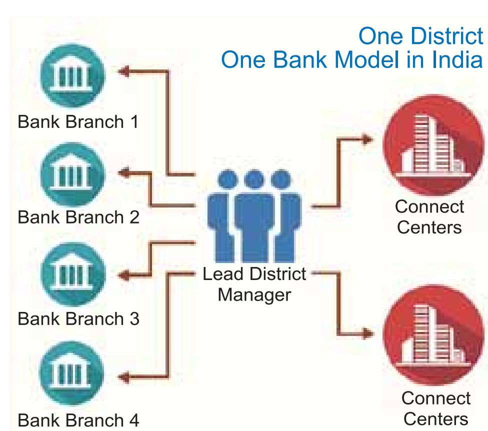
Further, one needs to be aware that although most households may have a bank account, these may hardly be used. In such a case, the financial inclusion policy may successfully address the access issue, but comprehensive financial inclusion including access to services like credit, savings, insurance, social assistance programmes and the like will not be achieved. Thus, the policy framework must aim 'usage' with better implementation and not mere 'access'.

# How BC model operates?




# One District One Bank Model

Financial Inclusion led by the 'one district one bank' model in India started off with disbursement of government grants. The most prevalent technology model is the Smart Card and banks are now moving on to integrated technology platforms that offer the flexibility of offering Smart Card, POS, Mobile and Biometric ATM based technology options. Banks are also taking care to ensure that their technology solution is compliant with the evolving Micro ATM standards set by NPCI (National Payment Corporations of India) and UIDAI (Unique Identification Authority of India) standards of user authentication and encryption. A Financial Inclusion Fund for developmental activities in the FI space and a Financial Inclusion Technology Fund to meet the costs of technology adoption has been created each with an initial corpus of Rs. 500 crores with initial fund contribution from the Central Government, RBI and NABARD.




■ *Mustafa K Mujeri, Economist and Executive Director Institute for Inclusive Finance and Development (InM)*

# The Campaign for Financial Inclusion in Bangladesh

## A Regulator's Tale

***Atiur Rahman***

Beginning in the late 2000s, Bangladesh's campaign for financial inclusion was led by the central bank as a strategic instrument for increasing savings habit, alleviating poverty, improving household welfare and promoting micro and small businesses, particularly for women. Financial Inclusion has now become one of the strategic instruments for achieving Sustainable Development Goals (SDGs) including Bangladesh's Seventh Five Year Plan's goals. The international community including the World Bank has appreciated Bangladesh's contribution towards its global strategy of Universal Financial Access (UFA) as reflected in its Findex. The evolution of Bangladesh Bank's financial inclusion policy goes back to the time when I was appointed as its tenth Governor.

I joined Bangladesh Bank on 3rd May 2009. This was a difficult time as the world was shaken by one of the deepest financial crises since the Great Depression of the 1930s, originating from the 2007 crisis in the subprime mortgage market in the United States developing into a full-blown international banking crisis in 2008 that claimed investment bank Lehman Brothers as one of its early casualties (September 15, 2008). Bangladesh with its increasing global outreach had good reasons to be concerned. The Bangladesh economy was depended heavily on the external demand for readymade garments. Therefore, slowdown of

*Photo: Khaled Mahfuz Saeef*

the global economy was a genuine reason for worry. With this development in the background, I immediately swung into action organising a retreat with high level officials of Bangladesh Bank to exchange views on all aspects of central banking with special focus on how to deal with the financial crisis that was knocking on our door as well.

The consensus view which emerged from this retreat was to go for massive financial inclusion taking advantage of digital technology. This also fit in well with the strategic vision of the newly elected Government of achieving 'Digital Bangladesh' by 2021. The objective was to create more demand within the country by providing greater financial access to the unbanked and under-banked, in addition to strengthening supply chains of produces consumed by the majority of the people, particularly food at an affordable and stable price so that their consumption remained stable as well. Indeed, the proposed drive for financial inclusion was much more than improving financial access to all as the policy makers underscored that the conventional monetary and financial policies were not addressing the inclusivity concerns, rather instead of bolstering productive outputs, the liquidity was flowing into profit-making speculative pursuits.

The Bangladesh Bank, stepped in with financial policies steering initiatives towards socially responsible productive pursuits. For this to happen, the central bank leadership had to have close interactions with both other central bankers as well as commercial bankers for changing their age-old mind-set to go for more inclusive banking. The motivational ethos initiated by the top regulator was fortunately well received by the banking community as it could see the logic behind it. Many of the bankers had burnt their fingers by providing finance to the big borrowers who were not always interested in repaying the loans in time.

Bangladesh had by then a rich history of formal small-finance initiated by some world-famous non-governmental organisations whose operations began to be well regulated by the newly established Micro-credit Regulatory Authority (MRA). The Board of MRA was chaired by the Governor of the Central Bank. This regulatory linkage could be used to bring microfinance institutions (MFIs) and banks closer in providing much needed agricultural credit to farmers and non-farm small entrepreneurs, mostly women, killing two-birds with one stone. The banks were finding it difficult to reach the poor borrowers who were hard to reach for geographical remoteness and at the same time the MFIs did not have enough liquidity to provide them required finance. Both the groups were motivated by the central bank to sign MoUs for a win-win interlinked programme. This worked out well as nearly a third of the total agricultural credit started flowing to remote areas through this innovative credit channel.

In addition, I started encouraging the central bank to go for a host of institutional reforms aiming at preparing the bank personnel to recognise financial inclusion as an integral part of implementation of monetary policy. During that period, monetary policy started incorporating socially responsible inclusive finance as an objective of innovative central banking. The central bank was restructured establishing new departments like those of Financial Inclusion, Agricultural Credit and Special Programmes, Small and Medium Enterprises (SMEs) with targeted focus on the development of entrepreneurship among women, Sustainable Finance and the like. Separate departments were set up for focused supervision of agriculture and SME credit. The central bank also initiated an 'immersion programme' for the new recruits during their foundation training so that they would spend a few weeks in the rural areas to get the field view of how farmers and small entrepreneurs were doing after getting the inclusive financial services including credit. This was, indeed, a game changer in transforming their mind-set towards becoming more motivated to go for inclusive finance.

The technology came in as a big support to this endeavor. The central bank immediately went for up-gradation of the payment system to initiate automatic clearing house, electronic fund transfer, national payment switch, real time gross settlement, automatic credit information bureau, guidelines for bank-led mobile financial services and agent banking. The bank also started using technology for off-site supervision of banking by innovative das-boards and use of available digital technologies. As a result, the transmission channels improved dramatically providing hope for a more inclusive and vibrant economy for Bangladesh.

The technological innovations including availability of POS (Points of Sales) and ATMs at grassroots through establishment of new branches of private banks in the rural areas as regulatory requirement helped increase financial inclusion by reducing the transaction cost reaching out to remote areas. The spread of mobile and agent banking like a wild fire reaching more than fifty million plus new customers, mostly from the disadvantaged groups, made financial inclusion almost a revolutionary move in Bangladesh.

The whole world has started recognising this tech-savvy innovative financial inclusion move of Bangladesh. World giant like Ali Baba has come forward to partner with one of Bangladesh's pioneering bank-led mobile financial service providers. The result has been eye-catching sustained inclusive growth rates along with massive reduction of poverty and increase in life expectancy at birth (at least four years more than that of India and six years higher than that of Pakistan).

In other words, indeed the achievement of Bangladesh's inclusive finance is gradually emerging as a key enabler to reduce extreme poverty and boost shared prosperity. Kaushik Basu, the former Chief Economist of the World

Bank, who saw Bangladesh's financial inclusion on the ground when I took him to the villages, noted a big hand of inclusive finance in making Bangladesh a booming economy in his recent article published by the Project Syndicate.

Bangladesh, of course, considers financial inclusion as a means of economic democratisation for social cohesion.

## The policy initiatives of Bangladesh Bank for adequate financing to agriculture and small entrepreneurs include:

1. mandatory minimum 2.5 percent of total credit to agriculture for all banks, irrespective of foreign or local
2. providing government interest subsidy on loans for specified high value crops, livestock and spices
3. linking banks with inadequate rural outreach to go for linked-programme for loan disbursement with regulated MFIs and as well as reducing dependence on non-institutional high cost credit
4. supporting credit needs of tenant farmers by refinanced lending by the central bank itself through a large reputed MFI
5. bank accounts for farmers and socially disadvantaged at nominal Ten Taka deposits (exceeding 172 million recipients as of now)
6. supporting refinance to SMEs including at least fifteen or more percent women entrepreneurs with support from development partners like IDA, ADB, DFID, JICA etc. and partly by Bangladesh Bank
7. providing refinance to small and medium green entrepreneurs including RMG factories in addition to encouraging banks to follow social, environmental and governance risk management guidelines; and finally
8. initiation of school banking and bank accounts for the street children with support from NGOs.

Despite a lot of laurels received from global well-wishers like The Financial Times and Euromoney, Bangladesh will have to remain on guard about a number of challenges for ensuring more robust financial inclusion to all as there is always the danger of complacence and opposition from the vested quarters. Indeed, the progress made so far was driven by well-motivated central and commercial bankers. This did not happen spontaneously. In order to bring in this spontaneity both regulators and participating banks should be made aware of the inherent strength of financial inclusion in promoting financial stability which can be affected from both demand and supply sides in absence of this. In fact, the demand side problem of financial inclusion deserves to be more exclusively followed by the regulators and the bankers to keep the momentum of financial inclusion going.

Digitisation of banking is a critical move. Given the availability of robust technology the banks should create digital apps for financial inclusion and reach the unbanked walking the last mile. The initial focus on women given by the central bank should be maintained at any cost. The central bank initiatives of financial literacy and opening help desk, road-show for mainstreaming financial inclusion must not be allowed to wane. In particular, the frontline branch managers and bankers dealing with the small customers must be motivated to remain focused on the drive for financial inclusion. There should a master circular from the central bank to all banks and financial institutions with detailed guidelines, not only the piecemeal ones given from time to time.

Furthermore, there is certainly a need for process documentation and independent impact assessments of the financial inclusion initiatives taken by the banks and other financial institutions to monitor the course of this innovative strategy of financial inclusion taken early on by Bangladesh Bank. This will help mend the gaps of the strategy, if any. This has been, indeed, a learning by doing campaign by the central bank of Bangladesh. It is high time that the Ministry of Finance joins hands with the central bank and helps include other regulators related to capital and insurance markets to design and implement a more robust national digital financial inclusion strategy as a part of national contribution towards implementation of sustainable development goals.

■ *Atiur Rahman, Former Governor, Bangladesh Bank*

Photo: Khaled Mahfuz Saeef

# Bundling mHealth Info and Microinsurance

Consider the case of Bangladesh- at present, less than 1 percent of the country's 165 million people are insured. This means that low-income people rarely seek health care because they cannot afford it. It is not too surprising therefore that health status of most people is low, maternal mortality is high, and a child under five has far greater chance of dying than if she were born in advanced countries.

One way to help the low-income people manage their health risks and lead healthier lives is through coupling a health insurance product with health information delivered over say the mobile phone. The idea is that if low-income people have access to an insurance product that enables them to access quality care along with information on healthier preventative behaviour, they will have fewer health shocks that drive them further into poverty. Moreover, by promoting healthier behaviour through targeted communication, one can reduce the risk of the customers for the insurer.

There are a number of reasons which make the formal insurers less interested in serving the mass market in a place like Bangladesh. Some of these are: lack of reliable data for accurate pricing and product development; high customer acquisition costs relative to small premiums; costly and complex administration, sales and education; and poor service quality by health providers, among others.

If people can be attracted to an mHealth service, there can be a pre-established channel to encourage healthier behaviour, and an opportunity to raise awareness and educate the potential customer about the insurance product. In effect, this can give an opportunity for 'below-the-line' marketing or advertising through non-traditional channels. Moreover, by using mobile technology, costs of administration like claims processing can be reduced.

To address the issue of poor service quality, partnership can be developed with quality affordable primary care providers. The insurance product would enable low-income customers to access high quality comprehensive primary care as well as women's health and family planning services through the provider. In addition, the clinics will serve as a channel for educating clients about the insurance product and registering them for the mHealth information service.

But it's not just about marketing or cost control, this is also about closing the loop for low-income people on their health – providing information that enables them to make better health choices together with a financial instrument that allows them to access quality care. The key question is: will it work? If conceived and implemented properly, the service may turn into a successful mobile microinsurance offering, and Bangladesh can benefit from its very high mobile penetration rate. But how it will take a definite shape and what the possibilities are cannot be predicted now. That is how innovation happens, after all.

*Knowledge Management Desk, InM*

Photo: Khaled Mahfuz Saeef & Mohammed Abdul Baten

# MOBILE FINANCIAL SERVICES AND BEYOND

***Kamal Quadir***

Every country has a few competitive advantages; Bangladesh has its fair share. It has fertile flat land that gets lots of sun light and water allowing it to grow up to four crops a year keeping people remain productive around the year and it has 165 million people in a relatively small place. Capitalising three of those above mentioned advantages—flat land, small size and a large population with certain level of affordability—mobile technology blossomed in Bangladesh since the late 1990s. In the early days, a favourable government policy also contributed, spectrum came free of charge. Along with these factors mobile technology spread its roots across Bangladesh with a drive to improve the socioeconomic challenges of the country through a unique combination of motivated entrepreneurs with global network, local institution and world-class mobile network operator. By 2018, with over 130 million mobile connectivity and with 99 percent territory covered, the country got a dependable digital infrastructure.

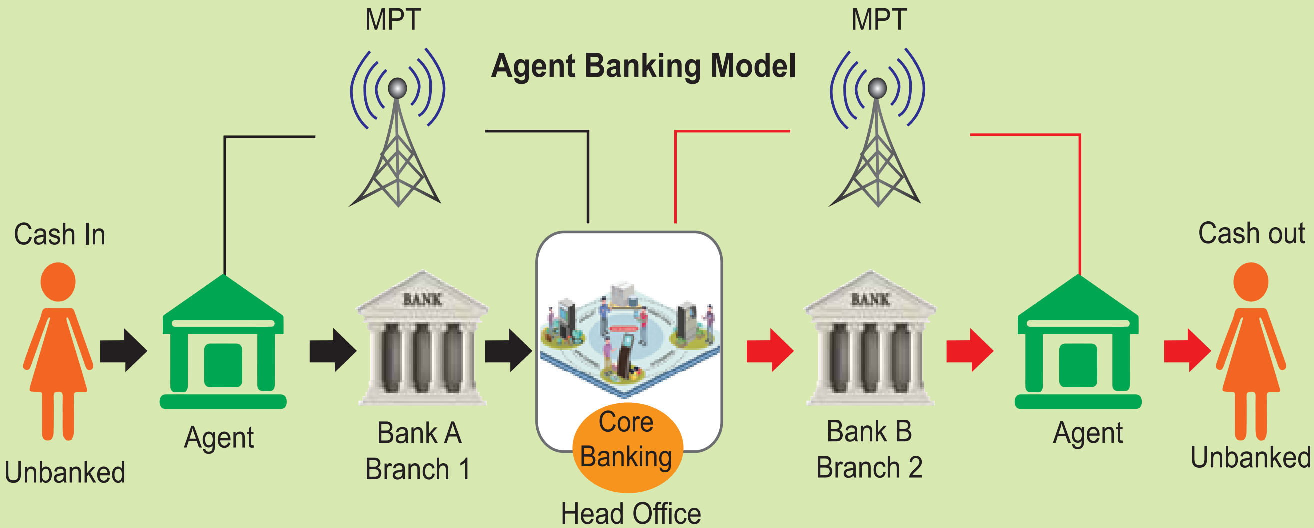
Mobile handset has been one of the most democratising tools in human history. It provides a universal scope for access that results in higher communication and more efficient utilisation of resources, saving time and money. That leads to advancement in all direction and empowers people, particularly the common people who earlier had no such tool. When such progress is multiplied by hundreds of millions, because millions of people are communicating with them everyday, the impact of this new efficiency becomes enormous. Moreover, the impact goes beyond communication. Fundamentally, those phones are powerful digital machines or computers; each has a screen, a keyboard, a battery, and by default is wireless. A poor person with a phone, then, can communicate just as well as a relatively wealthy person can with a computer and that opens up many new possibilities.

Applications that go beyond providing voice connectivity–services that support other human needs around market information, finance, heath care, education are opening new opportunities. For instance, in absence of conventional banking facilities, a mobile based financial service can connect a user-owned handset to the server of the financial service provider. Another way of seeing this would be to compare it with an ATM service where the user accesses her bank's server with an ATM and sends a withdrawal or deposit request in managing cash. A nationwide distribution of ATMs is difficult in Bangladesh, but, retail agents armed with mobile phones in the form of human ATMs are readily available and eager to offer services at low cost. In effect, a mobile phone becomes a mobile wallet that provides easy ways to make payments and transfer money. This kind of service dramatically expanded access to formal financial services for the people of Bangladesh. According to Bangladesh Bank, more than 50 million mobile wallets have been registered by 2017.

While the most common use of mobile financial services has been sending money home for domestic migrant workers, the value proposition goes far beyond. It would be used more and more as a payment medium, small traders will transfer mobile money among each other paying for goods and services; instead of traveling distant path to pay a supplier, traders will pay efficiently by mobile money, parents will pay school fees, fishermen will sell fish. The poor people are too used to putting their money under their mattresses and now there is a collective mattress for everyone to safe keeping their money. In addition, every use of mobile money generates a multiplier effect of the value. As the physical value of the money, preserved in a bank, is utilised as a capital resource for other purposes. There is nothing new in individuals contributing in a large pool of resource, but what is new here is that digital technology is allowing the common people with a $15 handset to take part in accumulating capital resources for commercial banks and in the nation building process.

As mobile technology unleashes new possibilities, regulatory bodies have important roles to play. Since the mobile network provider mainly provides the universal access and beyond that the result depends on other stakeholders who might be the service provider; while the network provider by virtue of providing an important necessary technology infrastructure have an advantage over the service provider. In the case of financial services, Bangladesh had an engaged central bank that ensured that the financial services were effectively under its surveillance. The central bank had developed effective guidelines defining different stakeholders and their roles; users use their own handsets, mobile network operators provide connectivity for fees, and, financial institutions provide compliant services. Such active engagement had provided order and discipline in the way for mobile payments initiatives could grow and flourish. The other mobile endeavours—be that in the space of agriculture, heath care, education—like mobile money, will have their complexities, however, once all the dots are put together it can bring immense benefit to Bangladesh.

▪ *Kamal Quadir, CEO of bKash, one of the leading mobile financial services in the world. Earlier he founded CellBazaar which was a pioneering digital marketplace.*




# AGENT BANKING

## Driver of Financial Inclusion in Rural Bangladesh

***Nahid Akhter***

Banks in Bangladesh are already adopting modern banking attributes like online banking and mobile banking services. As the majority in the rural areas are unbanked and characterised by lack of financial education, traditional banks often face hard times in reaching these customers especially in the rural areas. Further, opening and operating traditional bank branches are not cost-effective for serving low income customers in distant places. It is one of the reasons why banks are reluctant to open rural branches. Rural customers also have to travel long distances to visit respective bank branches.

In such situations, agent banking– comprising a network of banking agents who act as 'physical bank branches'— is a promising option. Banking agents can be various individuals/institutions such as telcos, e-wallet providers, retailers and so on. It is extremely convenient as the travel distance, for instance to a retailer, is likely to be much shorter for a bank customer.

The three stakeholders in the agent banking constellation are: the banks themselves, banking agents and the customers. The positive element is that all of them benefit from the agent banking network model. The banks are able to expand their customer base by on boarding new customers who were previously out of their reach. By having banking agents, instead of more physical bank branches, infrastructure and manpower, costs are reduced as well while revenues are increased.

The banking agents benefit since they generate additional income, including sales from additional walk-ins. They can also differentiate themselves from competitors as they are now affiliated with well-known banks. Last but not the least, the previously unbanked and under-banked customers can now have easy access to a financial institution near them. Apart from reduced travel time and expenses, the transaction fees are also lower.

The agent banking model is working successfully in India and many countries in Latin America, Africa, and the Far East. The model appears to be a win-win situation for all parties involved. The agents win as they can sell a greater variety of specialised products and services on behalf of the banks to customers in remote regions. The customers win by getting easy access to accredited financial services providers, and the banks win as they can increase their market share.

Agent banking is a newly initiated banking service distribution model in Bangladesh. Beginning in 2013, it is getting momentum and is being adopted by remote consumers where a bank branch is unavailable. Bangladesh Bank (BB) has issued 'Guidelines on Agent Banking for the Banks' in order to provide 'limited scale banking and financial services to the underserved population through engaged agents under a valid agency agreement, rather than a teller/cashier'.

Under the Guidelines, several services are covered within agent banking:

1. Collection of small value cash deposits and cash withdrawals (ceiling to be determined by Bangladesh Bank from time to time)
2. Inward foreign remittance disbursement
3. Facilitating small value loan disbursement and recovery of loans, installments
4. Facilitating utility bill payment
5. Cash payment under government's social safety net programmes
6. Facilitating fund transfer (ceiling would be determined by BB from time to time)
7. Balance inquiry
8. Collection and processing of forms/ documents for account opening, loan application, credit and debit card application from the public
9. Post sanction monitoring of loans and advances and follow up of loan recovery
10. Receiving of clearing cheque
11. Other functions like collection of insurance premium including micro-insurance etc.

After getting approval from BB, 14 banks (among the 18 agent banking licensed banks), have initiated agent banking activities through engaging local physical and human resources to cover the low cost savings into the banking platform.

Given the future possibilities, agent banking can play an important role in financial inclusion in Bangladesh. By acting as 'proxy banks', the agents are able to provide individuals and small businesses with the financial services they need to stimulate local development and economic growth.

■ *Nahid Akhter, Senior Research Associate*
*Institute for Inclusive Finanace and Development (InM)*

# FIN-B CAN SERVE AS A PLATFORM FOR PRACTICAL AND PRAGMATIC DISCUSSIONS

***Faisal Ahmed***

Dr. Faisal Ahmed is Chief Economist at Bangladesh Bank, where he joined as Senior Economic Adviser to the Governor in August 2015. Previously, he served as the IMF Resident Representative in Cambodia during 2011-15, a senior economist in the Asia and Pacific, Monetary and Capital Markets departments, and a core member of the emerging markets surveillance team at the IMF. He also led IMF technical assistance missions on foreign exchange reserve management and debt market development.

Prior to joining the IMF in 2003, Ahmed was a visiting scholar at the U.S. Federal Reserve Bank, an economist at the Central Bank of Turkey, and an actuary for four years for a global reinsurance company. He also taught at the University of Minnesota, the South East Asia Central Banks Research and Training Centre, and the Royal School of Administration in Cambodia. Ahmed has a PhD and an MA in economics from the University of Minnesota, an MFin from Princeton University and is a CFA Charterholder.

**"technology can and will have to further democratise and deepen inclusion and therefore remains an important priority**

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**1. Why, do you think, adopting a comprehensive strategy for financial inclusion is a priority agenda for Bangladesh?**

Bangladesh has been a pioneer in many financial inclusion initiatives going back to the 1970s. A lot of our programmes and efforts have historically been bottom-up and organic. Bangladesh Bank, along with the other regulators, have for some time now worked with many public and private sector agencies to push the inclusion agenda and nudge finance to address the needs of our rapidly evolving economy and society. But as the experience of other economies show, financial development often proceeds in a discontinuous and uneven fashion. A comprehensive financial inclusion strategy allows strategic stock-taking and planning by allowing all the stakeholders to develop a common and coherent sense of how to better plan, implement, and monitor initiatives and thus amplify the synergies among them. A national strategy also embodies a certain amount of ownership and commitment.

**2. What are the key areas where Bangladesh Bank can focus on for accelerating financial inclusion in Bangladesh?**

Financial inclusion is a multi-dimensional agenda. Looking ahead, technology can and will have to further democratise and deepen inclusion and therefore remains an important priority. In terms of priority sectors, we need to support both manufacturing and services, which can bolster the twin engines of growth - external and domestic demand. From an enterprise, job and productivity perspective, financing constraints for SMEs need to be further eased so that new firms can emerge and grow and create more and better jobs. As the most densely populated society in the world, environmental sustainability needs to be at the core of our strategic vision.

**3. What role do you expect the Financial Inclusion Network-Bangladesh (FIN-B) to play in taking forward the country's financial inclusion agenda?**

FIN-B can serve as a platform for practical and pragmatic discussions among the stakeholders on how best to push the financial inclusion agenda in Bangladesh. As with so many other things in life, strategy can be easy, but implementation is always difficult and often slow. Things are even more challenging for a rapidly evolving large, crowded country like ours. My hope is FIN-B would take a pragmatic and focused view of the implementation and coordination challenges of the financial inclusion strategy.

# THE ROAD TO FINANCIAL INCLUSION

Md. Arfan Ali


Photo: Khaled Mahfuz Saeef

Financial inclusion is a widely discussed issue in Bangladesh; as the majority of our population do not have banking privileges and it is crucial to have them on board. Having access to banking services needs to be one of the fundamental rights of these populations. The more people we include in our financial sector, the easier our economic emancipation gets.

Financial inclusion is one of the key drivers of economic growth and poverty alleviation, as it can encourage job creation, increase investments in human capital and reduce vulnerability to shocks. Without the exception of a few banks, many banks—both public and private--are still long apart from helping the unbanked population. Major reasons for persisting the distances lie in issues related to profitability and infrastructural ecosystem that come with serving the underserved. According to the Financial Inclusion Insights, just over four in 10 (43 percent) Bangladeshi adults are now financially included, meaning they have accounts at financial institutions offering at least one of the following services: savings, insurance, investments or money transfers.

However, only the banks are not at fault. There are many other barriers, e.g. lack of proper infrastructure such as roads and ICT development in remote areas and low literacy rates. One major obstacle is finding a business model suitable for these secluded regions in the country. Like in cities, branches cannot be built in these areas due to existing hindrances. Technological innovations in the financial sector, introduction of alternative business models, and accessibility of required data can certainly create a unique opportunity to resolve resolute financial exclusion.

Nowadays the scenario is changing, albeit gradually. The country is marching ahead, and so is the financial sector. More and more people are getting involved with banking services, which is also promoting individual growth. ICT development has now enabled bank digitisation, and thus we have come up with appropriate business models for these isolated regions.

One of the key developments of the present era is undoubtedly the commencement of 'agent banking'. It is a key distribution model where an array of quality banking services are offered through appointed agents for the underserved and unbanked population.

Agent banking has been initiated after ensuring that it meets all requirements of a financially inclusive medium. These requirements are:

1 Access to services or proximity is a major concern in financial inclusion. It helps to promote and easily provide banking services. People are more likely to visit banks closer to them rather than travel 5 km or 10 km to access these facilities.

2 Low-cost service consists of providing facilities at a lesser charge than usual. Considering the overall economic conditions of the excluded population, these people are not willing to pay high prices to access banking services. Therefore, organisations working for achieving financial inclusion have to consider the issue seriously before going to serve the unbanked.

For banks serving emerging markets, there has to be a balance to strike between providing customers with access to financial system, while managing potentially higher risks of accessibility to financial system. 3

4 Further, the range of appropriate services differs from segment to segment and area to area, from the urban cities to rural villages. Unlike the people in towns or cities, these people have small savings and take small loans. It must also be noted that most of these people are not highly educated, so banks should make sure that this is not a hindrance for them to have access to banking services through facilitating financial literacy.

These are the four factors which affect the evolution of financial inclusion. The agent banking model precisely follows these to provide banking services to people at their doorsteps. All agent booths are operated by an agent, who acts as the bank's representative. Thus, even though it is not a branch, customers enjoy branch-like facilities from the outlet. Agents are well-known people selected from the area where the outlet is located. The outlets are usually located at the union digital centres and markets - places more frequently visited by people - so they feel comfortable and the transactions that take place in the outlets can help them with their regular businesses and activities.

**Challenges of Advancing Financial Inclusion for Smallholder Farmers**

*Source: fhi360, 2017*

The agent banking outlets provide branch-like services at a lower cost. So, people feel comfortable in doing banking, as it suits their budget. Other than that, these agent banking outlets have an appropriate range of services according to the needs of the end customers. All kinds of banking transactions can take place, but within a limit. People can collect foreign remittances without any difficulty coupled with fund transfer facilities, pay their utilities that include electricity, water, and passport fee at one go.

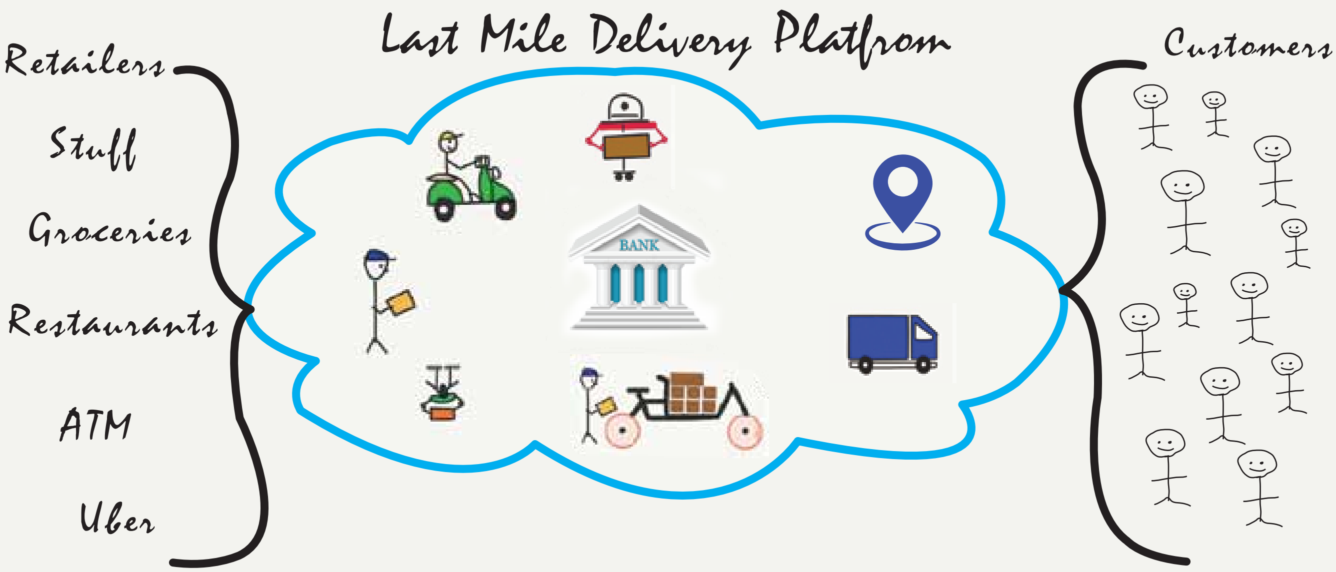
Receiving of social safety net payments is no longer a troublesome experience for the beneficiaries by turning it into a convenient experience through maximum availability of transaction points; even the school students are not left behind for availing financial services. To override the religious barrier, Islami agent banking is also a step forward to the local community.

From aspiring entrepreneurs to smallholder farmers, everyone is eligible for receiving small amounts of loan. Apart from the successful implementation of the four factors, agent banking also has suitable fingerprint recognition for the illiterates, which ensures that no one feels uncomfortable or hesitant about opening a bank account.

Beginning only a short time back, agent banking still has a long way to go. From 1971 till date, 9,800 formal bank branches have been inaugurated. Agent booths can provide the same facilities as these branches, but more advantageously for the rural people of the country, from providing insurances for individuals and farmers, to creating e-commerce opportunities for ambitious entrepreneurs.

Within the next five years, we expect to see that every village has a financial kiosk ready to serve the population who never had the opportunity to have a bank account and are left out because of lack of resources and proper attention. Bank accounts coupled with mobile financial services will usher a new horizon in financial inclusion. Bangladesh will emerge as one of the leading pioneers in achieving financial inclusion nationwide.

■ *Md. Arfan Ali, President and Managing Director*
*Bank Asia Limited*




# Last Mile Delivery

## Focus on Mobile Tech

For promoting financial inclusion, banks in Bangladesh need to focus more on mobile technology for last mile service delivery. There should be more ATMs, more emphasis on card transactions and simpler registration process for the customers. Besides, banks need to make special efforts to step up account opening for women, and special deposit schemes for the girl child.

With low penetration of ATMs, installing more ATMs in rural and semi-urban centres will create more touch points for customers. The banks may create a Financial Inclusion Fund (FIF) to encourage rural ATM penetration. The unique biometric identifier such as NID should be linked to each individual credit account and the information shared with the credit information bureau to enhance the stability of the credit system and improve access.

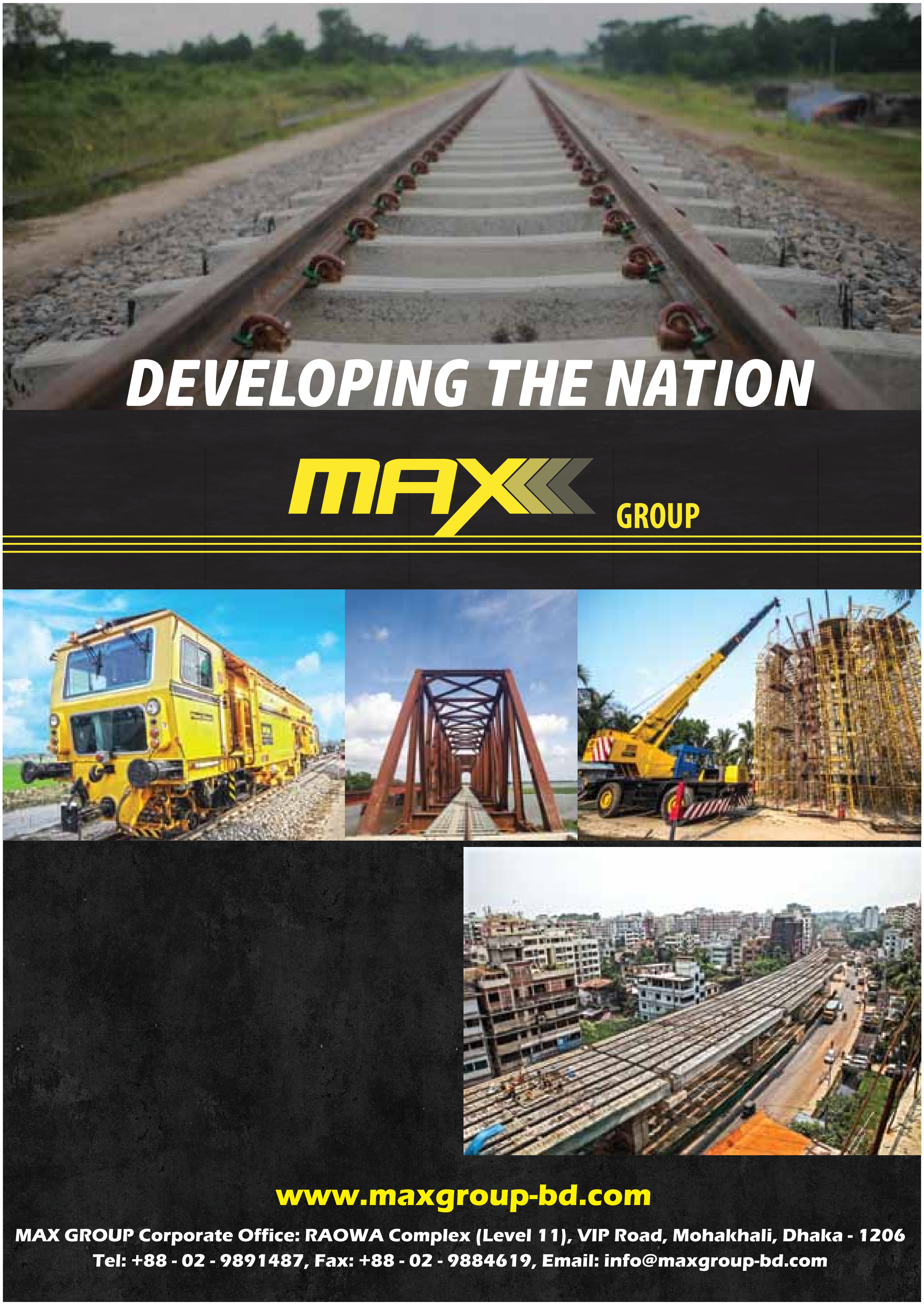
Since significant regional exclusion persists, banks should step up the inclusion drive in lagging areas to achieve universal access. This may entail a change in the banks' traditional business model through greater reliance on mobile technology for last mile service delivery. Obviously, in some areas, mobile connectivity may not be commercially viable to start with, but the telecom service providers may be encouraged to use their corporate social responsibility (CSR) funds for this purpose. The infrastructure issues need to be addressed in a collaborative manner. For the purpose, a collective fund may be created to support a variety of innovation initiatives.

For increasing formal credit supply to all agricultural activities, digitisation of land records is the easy way forward. This would enhance mechanisation and reduce input costs and raise returns to the farmers. The use of technology would make the crop insurance scheme more efficient. Satellite imagery can be used for crop mapping and to assess damage. Bangladesh Bank may also take the lead in creating a geographic information system (GIS) to map all banking access points.

Bank credit to MFIs may also be encouraged. The MFIs should provide credit information on their borrowers to credit bureaus having unique identification of individual borrowers. Along with a simple registration process for customers to seed their mobile number for alerts and financial services, mobile application for customers in Bangla should be promoted.

Banks must also realise that 'one size fits all' approach to financial education might be less than ideal as different target groups need different kinds of financial education. The contents should be customised for different target groups. Further, financial inclusion of the people at the bottom of the pyramid must be accompanied by building capacity to absorb credit in a productive manner. Similarly, technology and e-model could be used for improving businesses at remote centres.

■ *Knowledge Management Desk, InM*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**Doreen Power Generations and Systems Limited** having three Gas fired power plants at–Feni, Narshingdi and Tangail with

- ❖ Total Installed Capacity of **70 MW**
- ❖ Generating 66 MW

DOREEN POWER

**Dhaka Northern Power Generations Limited -**
Manikganj HFO fired Power Plant with

- ❖ Installed Capacity **59.5MW**
- ❖ Generating 55MW

DHAKA NORTHERN POWER

**Dhaka Southern Power Generations Limited –**
Nababganj HFO Fired Power Plant with

- ❖ Installed Capacity **59.5MW**
- ❖ Generating 55MW

DHAKA SOUTHERN POWER

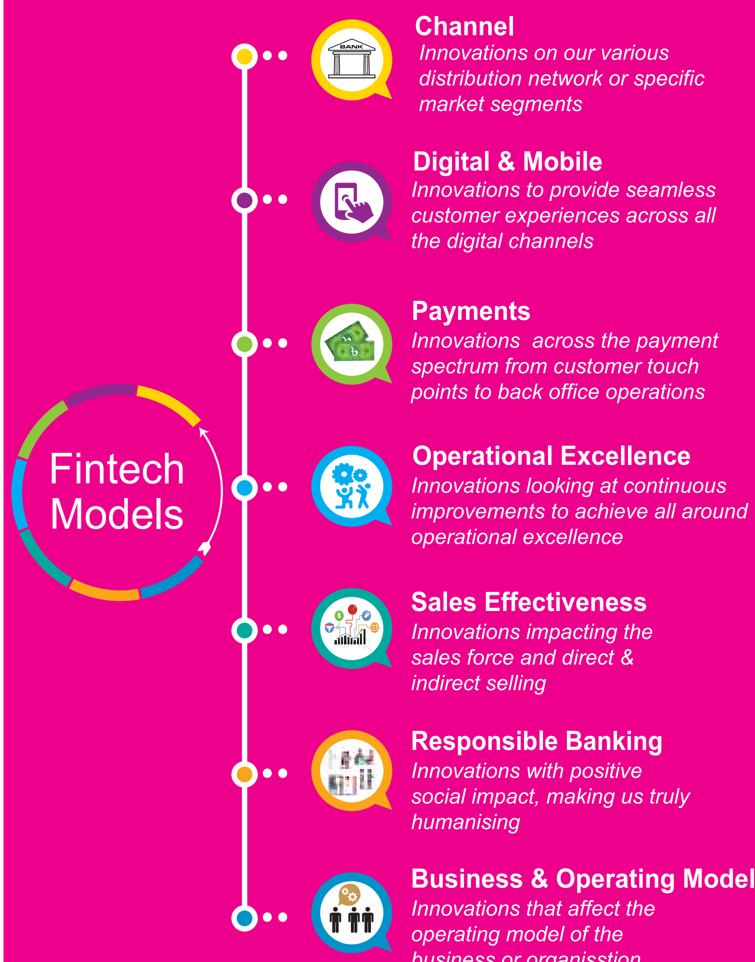
**Chandpur Power Generations Limited-**
Chandpur, HFO Fired Power Plant.

- ❖ Under Construction **115 MW**
  Power Plant at Chandpur

CHANDPUR POWER

# FINTECH MODELS PATHWAYS TO FINANCIAL INCLUSION

***Mustafa K Mujeri***
***Sifat-E-Azam***




Exploring the opportunities and risks of fintech are among the key issues for financial sector policymakers in Bangladesh these days. The experience in many countries undoubtedly demonstrates that fintech– e.g. new, technology-driven financial sector players--can transform how consumers make payments, save, borrow, invest, and insure themselves against risk. But the experience also comes with caveats and cautions.

Alibaba and Tencent emerged as an e-commerce and a social network company respectively. But both have now turned into major players in the retail financial services market. The transformation began with the integration of payments functionalities into their existing online networks. Alibaba's first venture into financial products was Alipay, launched in 2004, to facilitate transactions and build trust between buyers and sellers on Taobao– Alibaba's online marketplace. Similarly, the integration of a payments product into Tencent's social media platforms WeChat and QQ turned into a highly successful model that allows users to blend social and financial interactions, including sending gifts or remittances.

Hundreds of millions of customers now use payment services offered by nonbank digital providers like Alipay and Tenpay, as well as a broader range of financial products offered by Ant Financial, a group of companies of which Alipay is a member. Alibaba and Tencent are leaders in opening up digital payments to nonbank players. The result is a dramatic evolution towards cashless societies in many major urban areas in China. The Chinese experience shows that online, network-based business models can facilitate the design and delivery of innovative financial products by leveraging technology, network effects, big data, and cross-subsidisation opportunities.

In Bangladesh e-commerce services are also getting popular and faster in recent times. For example Daraz.com and pickaboo are expanding their services repidly. Downloading apps in the mobile is bringing the whole world in hand. Online bookshop Rokomari is providing varied and excellent services these days.

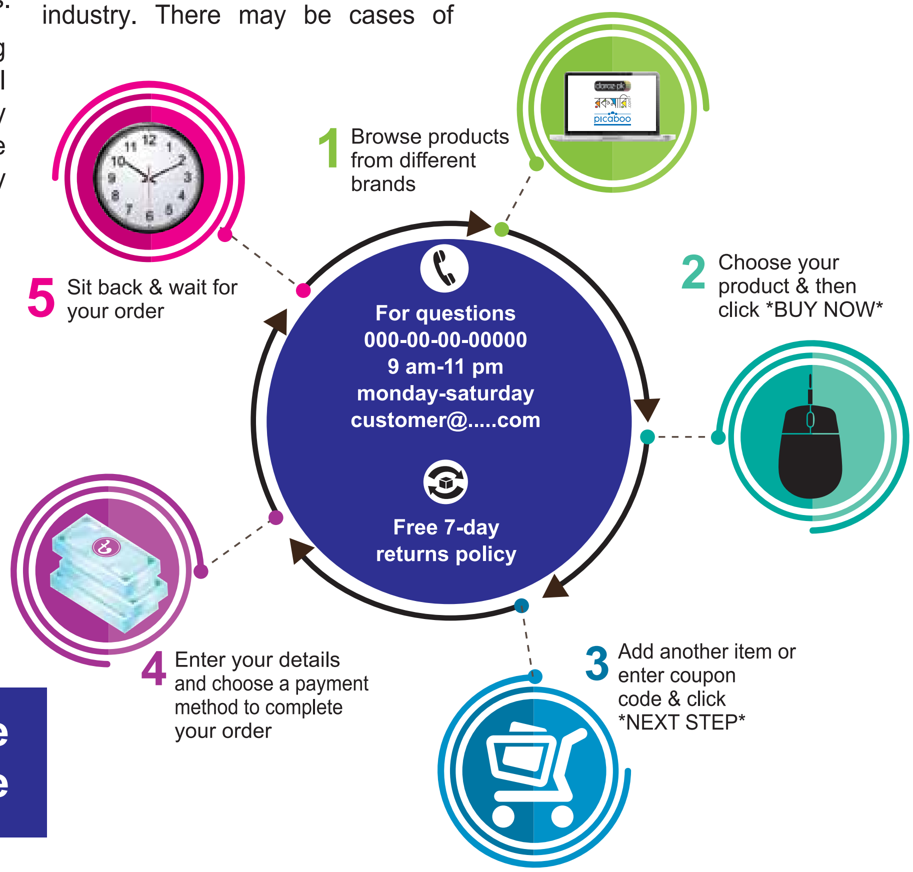
Although fintech certainly improves the availability, convenience, and affordability of financial products for consumers within large online ecosystems, one major issue that remains unresolved is the degree to which these providers can reach the unbanked, 'last mile' consumers. These are the consumers who do not use social media or e-commerce platforms-- the poor, rural residents, elderly and other disadvantaged groups--and receive limited financial inclusion benefits from these models.

In fact, much progress in reaching the 'last mile' with basic transactional products can probably be done by using traditional financial service providers. For example, third-party retail agents operating on behalf of the banks, with many agents operating in villages not otherwise covered by bank branches can be effective solutions. The channeling of social transfers through bank cards and via agents can also be a significant contributor in reaching the excluded adults.

In the credit space, new digital credit providers may also work including internet banks, online microfinance institutions (MFIs), and P2P platforms. In particular, P2P platforms can seize significant market opportunity to reach creditworthy retail customers neglected by banks focused on serving larger enterprises. P2P lending platforms may also serve the financially excluded borrowers.

However, there may be instances of consumer abuses in the P2P industry. There may be cases of outright fraud. These issues in new fintech innovations in the P2P space may exacerbate if left unattended by the regulatory authorities. What is needed is a more proactive stance towards regulating P2P platforms by the regulators, including prudent regulations for healthy expansion of these platforms.

While fintech can contribute to financial inclusion, fintech and financial inclusion are not identical. The need is to realise that robust financial consumer protection, proportionate regulation, and an active approach towards market monitoring are all vital towards ensuring that fintech would be leveraged to advance financial inclusion along with adequate management of its attendant risks.




**Bangladesh Online Purchase Lifecycle**


■ *Mustafa K Mujeri, Economist and Executive Director*
*Sifat-E-Azam, Deputy Director, Knowledge Management*
*Institute for Inclusive Finance and Development (InM)*

# Microinsurance in Bangladesh Which Way to Go?

Successful microinsurance requires a disaggregated understanding of the market. It is important to explore the perception of risks, strategies to manage risks, and potential gaps or burdensome strategies within adopted approaches by the poor. Such explorations can provide key information to allow for the development of successful microinsurance products.

In Bangladesh, there are gaps between the effects of various financial shocks and households' ability to cope with these shocks. The coping mechanisms are mostly painful and leave a household with often significantly reduced resilience. Insurance is typically not a part of the risk management toolkit of the low-income people.

People worry most about health-related risks, as well as their assets. Some analysis suggests that:

1. There could be benefit both to the market and the insurers in developing market-segmented products by gender, and by location (e.g. rural/urban) with improved uptake over segment-agnostic products.

2. In urban areas, risk management approaches that focus on supplemental health could be high in demand. Such products could have value-added linkages with inclusion of both accidental cover that provides medical assistance as well as disability benefits.

3. In rural areas, people tend to be concerned about crop/household animal losses, both for income and/or subsistence. Bangladesh has high levels of crop risks, and often it is difficult to get to scale with any traditional index type product. A broader approach to agriculture and livestock insurance cover is needed. When losses are experienced, they come at three levels: repaying an input loan, replanting (if early in the season), and in replacing lost incomes. The microinsurance product should address these components. Additionally, there are issues that require adaptation in agriculture, and insurance can be helpful in providing the space that might help the farmers in transition.

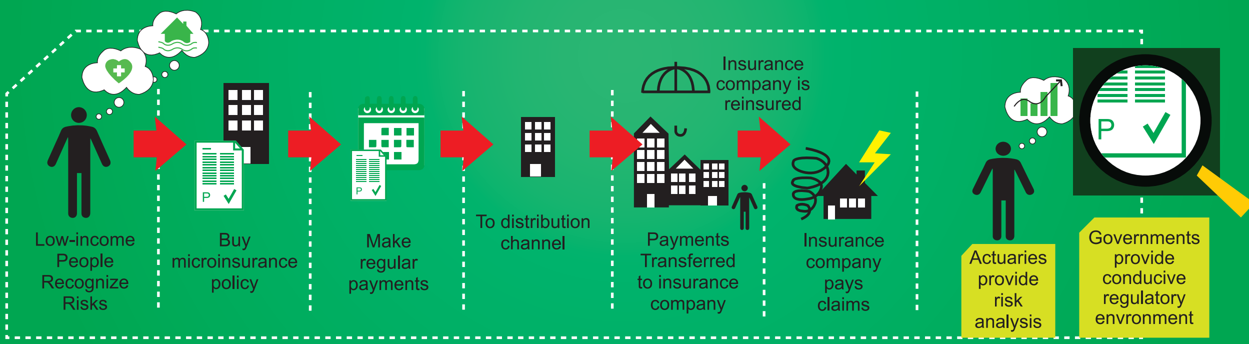
4. Gender segmented approaches may also be important. There are differences in women's approach to risk priorities, such as women prioritising health issues more than men. This shows that education and marketing of micro-insurance products in Bangladesh should be segmented by gender for greater effectiveness.

In fact, Bangladesh provides a significant opportunity to expand the microinsurance sector, improve the socioeconomic conditions of the low-income population, and stabilise their economic status. However, it is also clear that many things are necessary to make this happen. In-depth demand side analysis is needed to define the needs and potential risk management responses that could enhance the product design structure and delivery channels. There need also to be regulatory reforms that could improve the ability and motivation of insurers to enter and expand the microinsurance market.

On the supply side, one key issue is capacity improvements of the microinsurance industry. Financial education should cover important knowledge gaps and means of educating the microinsurance stakeholders. These are critical to implementing a comprehensive approach to improving risk management through microinsurance in Bangladesh. The key is to identify and include clients' needs, abilities, and priorities.

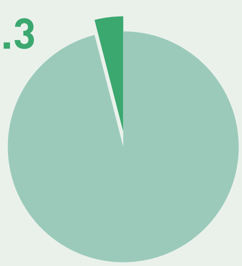
The low-income households are interested in microinsurance; but it would require the insurers, the government and other stakeholders to work together to develop microinsurance products that are accessible, affordable and appropriately designed for the poor people's needs. Other aspects related to extending the microinsurance market also need to be considered. These include adapting the regulatory framework to motivate insurers to enter the market and devise financial education programmes to educate the people on insurance.

# Microinsurance Functions Model




## THE STATE OF MICROINSURANCE N°1 - 2015

Source: Microinsurance Network 2015

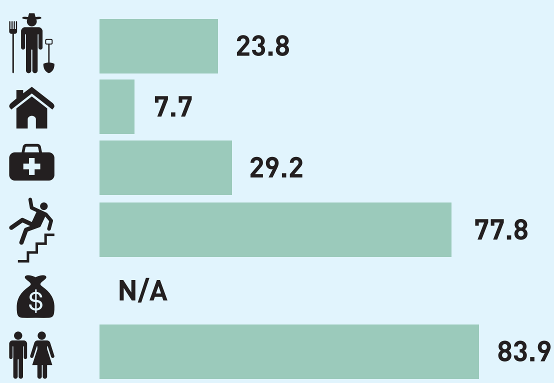

Lives covered

**170.4 M**

Gross written premium (USD)

**829 M**

**Types of products offered**
(millions of lives covered, including secondary covers) *




| | |
|---|---|
| Agriculture | Accident |
| Property | Credit Life |
| Health | Life |

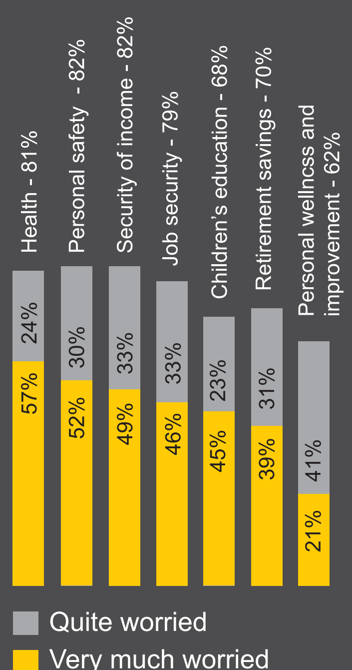
■ *Knowledge Management Desk, InM*

# WHAT KEEPS “RUMI” UP AT NIGHT?

**Rumi Rahman may be optimistic, but personal worrles such as health and his children’s education keep him from a good night’s sleep. What other things is he worried about?**

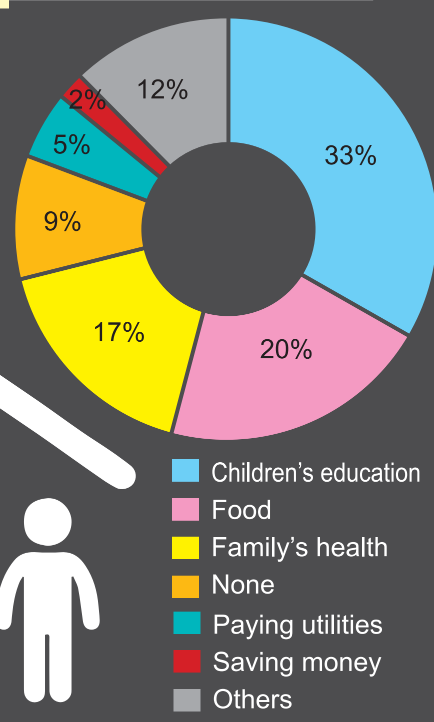

## PERSONAL WORRIES

How much do you worry about these personal issues?




## FINANCIAL WORRIES

Currently, what is your biggest financial concern when it comes to your family?




***Financial literacy and education is essential for everyone to be able to live without worries in today's world, succeed in today's society, make sound financial decisions, and—ultimately—be a good citizen.***

# FINANCIAL LITERACY AND EDUCATION

**FIN-B Vision**

***Mustafa K Mujeri***
***Sifat-E-Azam***

Without an understanding of basic financial concepts, people are not well equipped to make decisions related to financial management. Financially literate people can make informed financial choices regarding payments, savings, investment, borrowing, insurance and more. Financial knowledge is especially important in the present time when increasingly complex financial products are easily available to a wide range of the population. For example, with the government pushing to boost access to financial services, the number of people with bank accounts and access to credit products is rising rapidly. In a growing economy, financial ignorance carries significant costs. The 2014 S&P Global FinLit Survey shows that only 19 percent of the adults in Bangladesh are financially literate. Further, financial literacy rates differ in important ways when it comes to characteristics such as gender, education level, income, and age.

No doubt, the poor people in Bangladesh use many creative, sometimes complex, strategies to manage their money, which often emerge through a trial and error process rather than by design. The poor often tend to be more reactive than proactive. Unfortunately, for the poor who operate at the margin, reactive money management strategies can have severe repercussions when they deplete assets and/or place a future claim on income flows. In the context of few resources, persistent inequality and socioeconomic pressures, and complex financial landscapes, financial education can be critical in helping the poor people manage and preserve the few resources they have and work towards economic betterment. However, to date, not much opportunity has been created for financial education for these groups. A good financial education helps people to make sustainable budget plan which might later on help them to overcome many disasterous situation of life.

Creating a well-informed and literate customer base and ensuring adequate protection is critical to financial inclusion for all, especially for expanding financial inclusion to un-served and underserved markets. Since financial education and client protection are relevant to a broader arena of development, the framework for providing financial knowledge and client safety should be conceived within a holistic approach. The framework should focus on strategies to:

1. assist the customers to acquire knowledge;
2. develop skills to take rational and well-informed economic and financial decisions; and
3. be confident enough to exercise their rights along with responsibilities as financial decision makers.

Moreover, the approach to financial education should explicitly recognise the diversities of socioeconomic conditions and differential financial needs of various groups of population and enterprises. The key concern should be to develop internal capacity of the consumers to act in their best financial interest, covering knowledge, literacy, attitudes, skills and behaviour with respect to understanding, choosing and using financial services, and ability to access the right financial services that fit their needs. The priority should be to promote financial capability seeking to ensure beneficial financial inclusion to ensure financial stability and functioning financial markets.

For moving forward, the key is to adopt multiple strategies for designing appropriate actions in regard to promoting financial literacy and education:

1. Adopt financial education strategy and action plan to address key challenges, develop and implement a wide range of programmes (including mass media, trusted intermediaries, comic books, etc.) to enhance financial knowledge, financial product awareness and change attitude and behaviours; combine financial capability-enhancing programmes with available financial products and services; and encourage financial institutions to develop products with design features tailored to meet client requirements.

2. Develop effective partnerships and collaborative approaches among all relevant stakeholders to initiate and sustain actions, maximise effective resource utilisation, and broaden the effective reach of financial education and consumer protection activities. The efforts should also focus on institutionalising the collective and individual responsibilities across all relevant stakeholders.

3. Utilise a flexible approach towards developing and delivering financial literacy and education programmes keeping in view the differential needs of different groups, expanded requirements of technical and core competencies in financial transactions, and adopting effective capacity building activities through sharing resources and good practices.

4. Explore, keeping in view the diversity of the financially excluded population groups and enterprises, pragmatic and differentiated approaches and delivery mechanisms, new and innovative methods and techniques as well as print, electronic and other media to disseminate materials for achieving comprehensive financial literacy and education covering all relevant dimensions including awareness, attitudes, behaviour and skills.

5. Install a comprehensive framework for monitoring and evaluation of financial education and consumer protection programmes in terms of their efficiency, effectiveness and impact in improving financial knowledge and well-being of the population.

6. Develop fair and ethical norms, standards and practices for observance by different stakeholders in implementing financial education and consumer protection programmes.

For effective financial education, umbrella programmes are needed for economic and financial education consisting of different types of learning sessions targeted to specific audiences, such as school children, secondary and tertiary students, informal sector participants, small farmers, CMSEs, overseas workers, microfinance clients, and different excluded groups. One of the key objectives of these programmes should be to promote greater public awareness on economic and financial issues and provide information to enable households and businesses to make well-informed economic and financial decisions.

The Government, Bangladesh Bank, IDRA and MRA will have to oversee financial education; covering microinsurance and microfinance issues as well. Similarly, the providers of financial services e.g. banks, insurance companies and MFIs should be encouraged to conduct financial education training, seminars, workshops and use well-designed financial education modules covering relevant aspects such as rights and responsibilities; prudential, market conduct and good governance requirement; and other aspects of finance and microinsurance markets.

In particular, the banks should take a greater interest in financial education to help expand outreach, improve the quality of financial services and devise new and innovative financial products and services designed for specific groups. For effective delivery of financial education to a wider audience, all feasible delivery structures including the school system, MFIs network and other channels should be used.

To be effective, consumer protection should be taken as an essential element of the country's inclusive financial system; first, to ensure that current users of formal financial services get transparent and fair treatment in the market; and second, to instill overall confidence regarding formal financial services and providers among potential consumers. The important objectives of consumer protection should include:

**Transparency:** consumers understand prices, terms and conditions, and risks associated with intended use of financial services.

**Fair treatment:** financial products offered in the market are not deceptive or unsafe and the conduct of financial service providers and their employees and agents is not abusive or aggressive, reflects appropriate ethics, and is respectful of consumers' rights.

**Risk mitigation:** financial service providers take reasonable steps to identify, monitor and mitigate

“there should be appropriate strategies for financial advocacy which would be applied in designing and implementing different financial advocacy programmes...

Photo: Khaled Mahfuz Saeef

customer risks such as fraud or inadequate handling of customer data, which evolve with innovations in products and business models and with the entry of new market actors

**Effective recourse:** when customers have queries, complaints or other problems, financial service providers have access and effective systems in place to address them.

The measures to achieve effective consumer protection and develop responsible financial markets fall under three broad categories:

1. The regulator(s) would frame and enforce the rules of the game to safeguard financial consumers' welfare and ensure the fulfillment of the above objectives through consumer protection regulations and supervision;
2. Retail financial service providers would contribute to responsible market development by offering appropriate services and observing standards of business conduct;
3. Industry associations and private standard-setting bodies would take the lead in setting collective 'self-regulatory' measures, such as codes of conduct or technical service standards.

In this respect, the consumers also have an important role to play e.g. by choosing the providers and products carefully, taking action to self-protect such as handling of PINs carefully, and meeting their obligations for which financial education will play important roles. Further, interventions to improve consumers' 'financial capability' and interests would contribute to an enabling but protective environment and stronger client value from use of formal financial services. The efforts should also put emphasis on developing responsible digital finance and framing consumer protection regulation and supervision that would respond to rapid innovations in financial inclusion products, channels, and business models.

In addition, there should be appropriate strategies for financial advocacy which would be applied in designing and implementing different financial advocacy programmes to encourage. On the one hand, financial and related institutions to increasingly come forward to provide appropriate financial products and services to the financially excluded while, on the other, encourage the financially excluded to access formal financial services through raising awareness regarding rights and benefits and developing public-private partnerships on financial inclusion issues.

For the purpose, several strategies are important:

1 Adopt social marketing techniques to promote and popularise financial inclusion as a key development issue with significant potential of providing benefits to the financially excluded groups and transforming the society at large.

2 Identify and implement programmes, targeting policy makers, providers and excluded groups and sectors, for raising awareness on financial inclusion and designing products and services to meet the wide range of financial needs of the excluded groups, especially the poor households and marginalised sectors (e.g. MSMEs) in the economy.

3 Create partnerships and institutional arrangements among the government institutions (especially the local government units), financial institutions, civil society organisations (including NGO-MFIs), and private sector stakeholders to design and implement innovative advocacy programmes.

4 Develop institutional mechanisms for designing and implementing advocacy programmes disseminating knowledge products based on solid evidence and using proven techniques of knowledge sharing.

In an environment where the range and the complexity of financial products are continuously deepening the financial market in Bangladesh, it is imperative that individuals have a good understanding of the world of finance in order to make better choices that are most appropriate to their financial goals and needs. Research shows that inadequate financial literacy raises serious concerns about the ability of individuals to secure their financial well-being. In this context, the term financial literacy is interpreted as 'the ability to make informed judgments and to take effective decisions regarding the use and management of money' while personal financial literacy is taken as 'the ability to read, analyse, manage and communicate about the personal financial conditions that affect material wellbeing'.

Financial education is therefore 'the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.' Where, Information includes providing consumers the facts, data and specific knowledge to make them aware of financial opportunities, choices and consequences. Such a concept highlights the need for continual updating of financial literacy across all age groups because of the dynamic nature of financial products and services as well as the changing needs and circumstances of individuals with time. In particular, exposing young people to financial concepts is particularly important as they are vulnerable to the temptations of taking excessive debt.

In short, the importance of financial literacy and education cannot be overruled, especially in the context of financial inclusion for all. Financial literacy and education is of particular relevance to Bangladesh in its fight against poverty, in providing decent employment opportunities, in helping to improve the financial well-being of the people through sound financial decision making, in assisting to understand the risk and return related to the funds invested in different financial products, and in looking into financial investment from various angles, and evaluating various alternatives.

In recent years, innovations in financial products and service delivery especially through digital financial services have dramatically increased the availability of financial services for the poor and unbanked in Bangladesh. Yet, low financial literacy and education limits their ability to fully access these services. It is also seen that low financial literacy is associated with poorer financial decisions about cash, asset, and debt management. This shows the urgency of investing in training programmes that aim to improve financial knowledge and skills among the poor and those with low financial literacy. Such training could potentially allow these individuals to benefit from the available financial services, and in turn boost their economic opportunities.

In order to be effective, financial education training courses should be comprehensive and designed to improve participants' financial knowledge and skills, target common misconceptions about money management and financial institutions, and improve participants' ability to understand financial concepts. The training should cover different financial products and services, financial planning, budgeting, debt management, and investing, digital financial services and other relevant issues.

■ *Mustafa K Mujeri, Economist and Executive Director*
*Sifat-E-Azam, Deputy Director, Knowledge Management Division*
*Institute for Inclusive Finance and Development (InM)*

# Digital Credit Revolution in KENYA
## What Can We Learn?

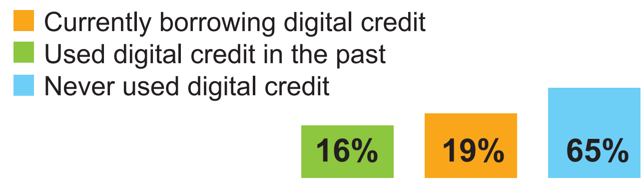
Since the launch of M-Shwari in 2012--which offers a savings account and access to digital credit--the market for digital credit has expanded rapidly in Kenya. Digital credit is now offered by three largest Kenyan banks (Kenya Commercial Bank, Equity Bank, and Co-operative Bank), as well as a growing number of FinTechs and non- bank institutions.

Digital credit providers have developed different models to score and deliver credit to customers. The largest players M-Shwari and KCB Mpesa partnered with the largest telecommunication provider (Safaricom) to score customers and manage loan disbursements and repayments through the M-Pesa platform. Equity Bank established an independent MVNO called Equitel, and utilises a combination of bank account data and credit bureau data to score customers. FinTechs such as Branch developed a standalone smartphone app that collects phone usage information to score customers. As a result, ihe digital credit market has grown rapidly over the last few years in Kenya.

While digital credit may represent a big step forward in financial inclusion, lot more needs to be done to create real economic and social impact of digital credit on low income borrowers. Despite growing market competition, digital credit may remain ill-suited for the majority of the poor whose livelihoods are characterised by irregular cash-flows. Reaching these segments requires deeper understanding of their financial lives, key risks that they face, their daily liquidity needs and other financial and economic characteristics.

**Usage of digital credit providers among phone owners**

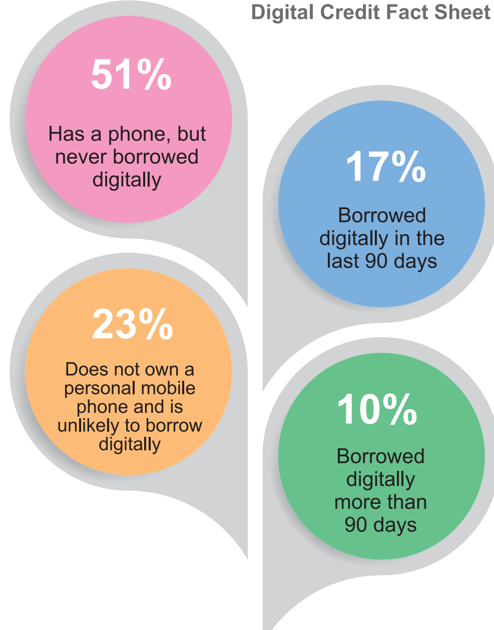
| Provider | Used to have a loan | Currently have a loan |
|---|---|---|
| MShwari | 14.8% | 14.0% |
| KCB Mpesa | 6.3% | 5.7% |
| Equity Eazzy | 2.7% | 1.2% |
| Tala | 0.9% | 0.9% |
| MCoop Cash | 0.9% | 0.4% |
| Branch | 0.3% | 0.2% |




Further, it is important to ascertain that the borrowers are able to graduate to larger and more affordable loans. The digital borrowers should not remain stuck with low-value, short-term and rather 'expensive' credit despite building positive credit histories.

It is also important to monitor transparency and consumer protection in the digital credit market. Along with effective monitoring of this growing market segment, the regulatory and oversight body must ensure that all players respond to laws and regulations. Similarly, better tools need to be developed to track over-indebtedness and multiple borrowing so that the borrowers are not forced to cut essential consumption to repay their loans and dip into their meagre savings.

**Digital Credit Fact Sheet**




■ *Knowledge Management Desk, InM*

## আর এফ এল
## সমৃদ্ধির পথে

আর এফ এল, একটি ব্র্যান্ড, একটি আস্থা ও বিশ্বাসের নাম। যাত্রা শুরু সেই ১৯৮১ সালে কাস্ট আয়রনজাত পণ্য দিয়ে। তারপর সাফল্যের সাথে ৩ যুগের পথচলা। গৃহস্থালি পণ্য, কৃষি পণ্য, বাড়ি নির্মাণ সামগ্রী, মেলামাইন, স্টেশনারি, ইলেকট্রনিক্স সহ নিত্য প্রয়োজনীয় সকল সামগ্রীর সেরা প্রতিষ্ঠান আর এফ এল-এর পণ্য আজ দেশের সীমানা ছাড়িয়ে বিদেশেও রপ্তানি হচ্ছে।

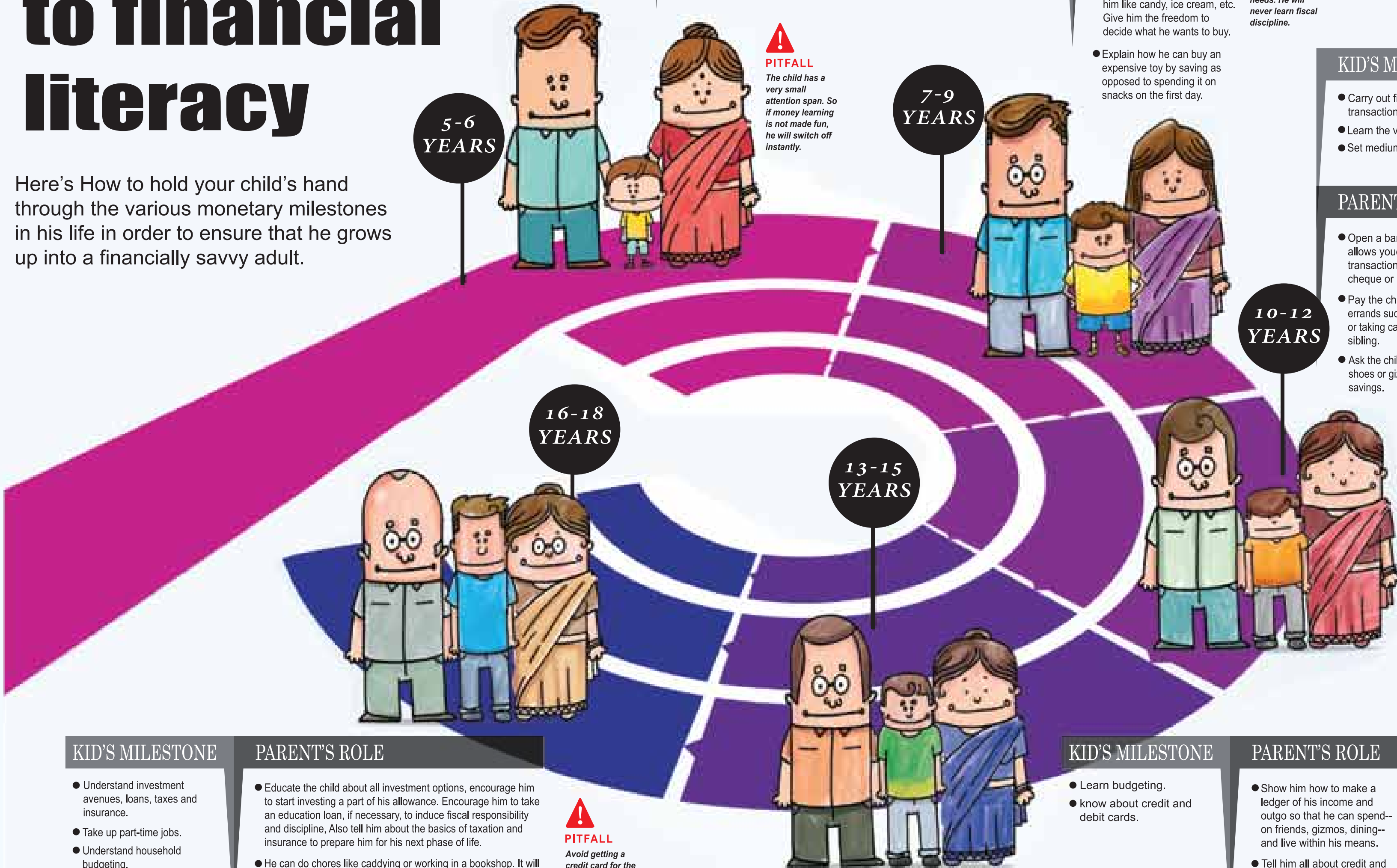
সমৃদ্ধির পথে আমাদের এই অগ্রযাত্রা চলছে, চলবে।

PRAN-RFL Center, 105 Pragati Sarani, Middle Badda, Dhaka 1212, Bangladesh

Source : The economic times **Wealth** , October 22-28, 2012

# A kid's road to financial literacy

Here's How to hold your child's hand through the various monetary milestones in his life in order to ensure that he grows up into a financially savvy adult.




## 5-6 YEARS

### KID'S MILESTONE

- Understand the concept of money
- Know that money buys things, services.

### PARENT'S ROLE

- Help the child identify various denominations, sort coins by sizes, p0lay money-based games.
- Take him shopping, make him pay for small things.

**PITFALL**

*The child has a very small attention span. So if money learning is not made fun, he will switch off instantly.*

## 7-9 YEARS

### KID'S MILESTONE

- Start the saving habit.
- Shoulder fiscal responsibility and make spending decisions.
- Set short-term goals.

### PARENT'S ROLE

- Buy him a piggy bank to collect change Open a bank account for depositing monetary gifts.
- Start a weekly allowance. Fix the things you will not buy for him like candy, ice cream, etc. Give him the freedom to decide what he wants to buy.
- Explain how he can buy an expensive toy by saving as opposed to spending it on snacks on the first day.

**PITFALL**

*If the kid finishes his allowance before the stipulated time, do not offer him an advance or pay for things he needs. He will never learn fiscal discipline.*

## 10-12 YEARS

### KID'S MILESTONE

- Carry out financial transactions.
- Learn the value of money.
- Set medium-term goals.

### PARENT'S ROLE

- Open a bank account that allows youe child actual transactions like signing a cheque or making deposits.
- Pay the child for minor errands such as washing a car or taking care of a younger sibling.
- Ask the child to buy things like shoes or gizmos from his own savings.

**PITFALL**

*The child is likely to lend money to his friends. Stress the importance of getting it back.*

## 13-15 YEARS

### KID'S MILESTONE

- Learn budgeting.
- know about credit and debit cards.

### PARENT'S ROLE

- Show him how to make a ledger of his income and outgo so that he can spend--on friends, gizmos, dining--and live within his means.
- Tell him all about credit and debit cards, even get the latter for him, but have him use it only under your supervision.

**PITFALL**

*Make sure the kid does not share his personal information on the Net.*

## 16-18 YEARS

### KID'S MILESTONE

- Understand investment avenues, loans, taxes and insurance.
- Take up part-time jobs.
- Understand household budgeting.

### PARENT'S ROLE

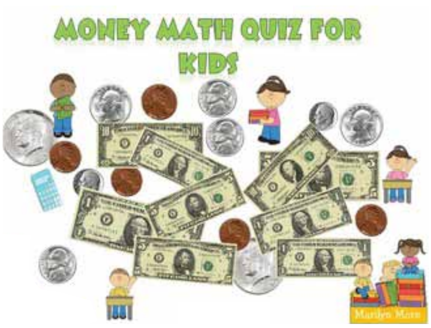
- Educate the child about all investment options, encourage him to start investing a part of his allowance. Encourage him to take an education loan, if necessary, to induce fiscal responsibility and discipline, Also tell him about the basics of taxation and insurance to prepare him for his next phase of life.
- He can do chores like caddying or working in a bookshop. It will keep his ego in check and teach him the value of labour.
- Include the child in family's financial discussions on budgeting and take his inputs.

**PITFALL**

*Avoid getting a credit card for the child as he is too young to balance its virtues and risks.*

# Teaching Financial Literacy in Schools

Rapid development and proliferation of the market makes financial literacy and education increasingly important in everyday life of all people. The impact of advertising on spending, increasing volume of financial decisions necessary to lead daily lives, and the current digital era in which payments are increasingly made with 'plastic money' mean that financial affairs are becoming more complex. It is necessary to prepare the school children and the adolescents for this.




There is a great importance of financial education, so that children learn to deal with money sensibly. Making them financially aware at a young age forms the basis for financial independence and inclusion in adult age. Banks can undertake efforts to improve the financial knowledge and skills of the children and adolescents.

### Banks in the Classroom

'Banks in the classroom' may be organised as a financial guest lesson programme by the banks for primary schoolchildren in their 5th grade. The aim should be to teach schoolchildren to deal with money. On the basis of different subjects relating to the theme of money (such as saving, pocket money and borrowing), school children can be made more financially aware. This would lay the foundation for financial self-reliance in later years.

For financial conduct, 'Cash Quiz' may be organised for the children to teach how to deal with money during the guest lessons in a playful fashion, under the supervision of enthusiastic bank employees.

The Cash Quiz could cover four learning targets focusing on making learning a fun. These are:

1. know how much money you have;
2. know your financial limits;
3. know your financial possibilities;
4. know the world of money.

The aim of the programme should be to provide improved financial knowledge and awareness among the children.

### Me and My Money

'Me and My Money' teaching programme may be developed for secondary school children. The teaching package may consist of five interactive lessons of about 50 minutes each, on themes such as 'my lifestyle', 'my income', my spending', 'my banking affairs' and 'my future'. This will meet the need of managing finances. The design should be consistent with the economics of finance and the perceptions of young school children.

Through these and similar efforts the banks can make a major contribution to financial education, as it is important for the banks for their customers to become aware financially. On their part, the banks will benefit from financially educated customers in future.

**"Childen are never too young to start learning about how money works**

Photo: Sifat-E-Azam

■ *Knowledge Management Desk, InM*

# DESIGNING ALTERNATIVE DELIVERY CHANNELS

***Mustafa K Mujeri***

Financial inclusion requires addressing the challenge of delivering appropriate and affordable financial services to the excluded individuals. This involves designing of products such as microloans, low balance savings accounts, microinsurance, and mobile money transfer services that are specifically tailored to meet the needs of the low-income and excluded markets. Delivering these products and services on a large scale requires accessible channels that lower the cost of service and increase the reach.

In almost all countries including Bangladesh, alternative delivery channels (ADCs) have emerged to expand the reach of services beyond the traditional bank branch channel in response to innovations in information and communication technology and changes in consumer expectations. ADCs are conceived as transformative in nature, which can accommodate the demand for access to financial services 'anytime, anywhere, anyhow'. These channels rely heavily on information and communication systems and devices ranging from ATMs to mobile phones, all of which enable the instant transmission of financial and non-financial information between the customers and financial services providers. These new technologies increase efficiency through automation, reduce operational costs, and improve service quality by reducing waiting times and offering more convenient access and reduced cost to the end-consumers.

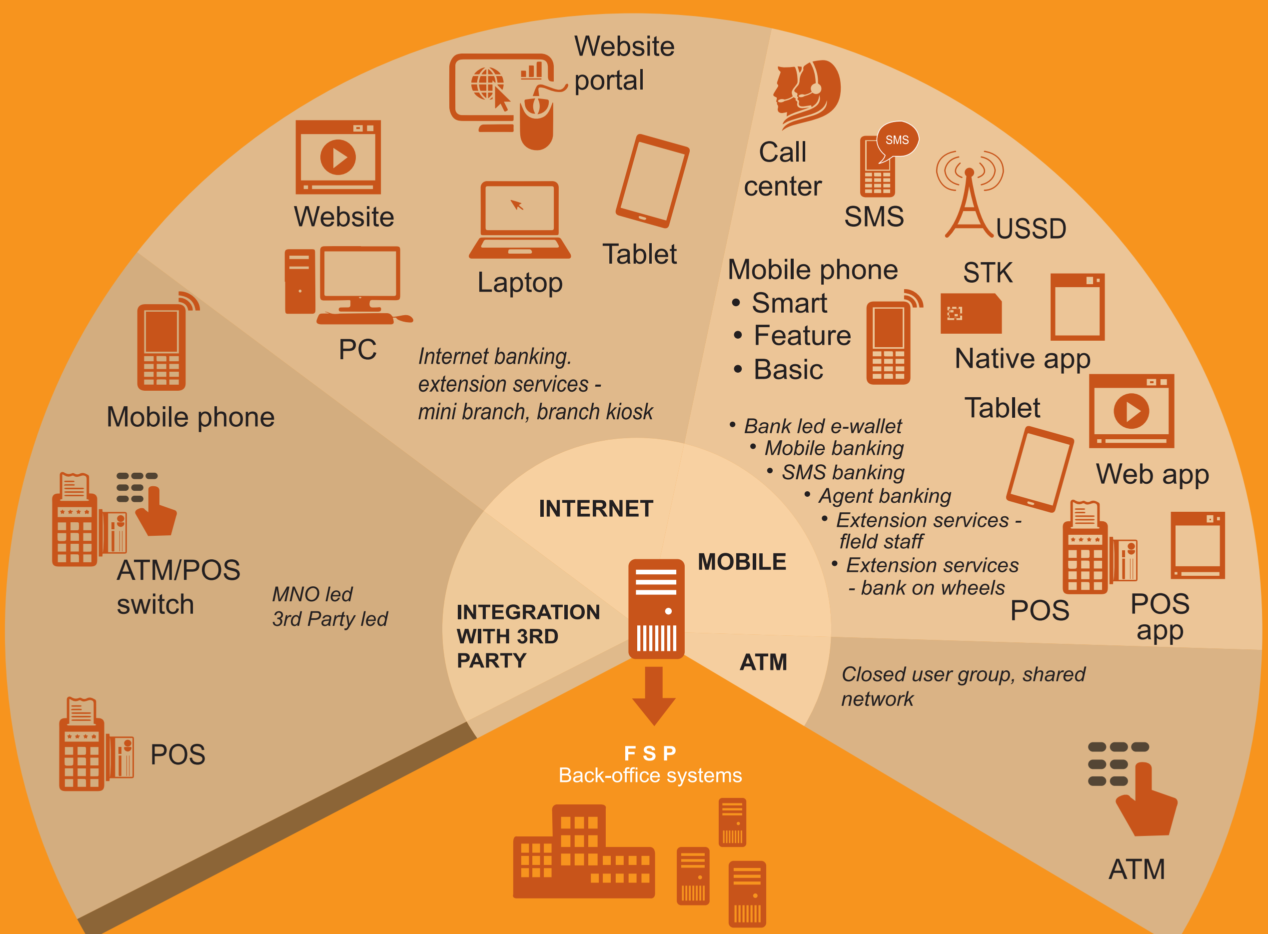
For financial services providers (FSPs), especially microfinance institutions (MFIs), ADCs can contribute towards improving operational efficiency and expanding outreach in a cost-effective manner. For success, technical knowledge and skills to implement ADCs are critical. This includes both skills to manage the detailed implementation of selected ADC and skills needed to design and implement the ADC strategy to navigate through the financial market. It is also important to remain conscious of other factors beyond skills, such as budgetary and regulatory constraints.

The ADC technology space is expanding rapidly; with the availability of a wide range of delivery channels, technology platforms, and communications and device options. It is always easier to build on existing networks. This may mean looking for integrations to third-party networks/providers such as ATMs, agents or m-wallets. Integrations to existing networks also help in review of responses from the market to see if the uptake warrants larger investments.

To derive benefits from ADCs, business process reengineering of FSPs is an integral part of the implementation process. In this context, change management is critical so that key users and decision makers are involved in the process and buy into the need to change the status quo. ADCs mostly require partnerships between FSPs and other parties, such as m-wallet providers, USSD aggregators, MNOs, or a technology vendor. The strength of these partnerships and the business model for the delivery channel must sustain all parties involved and the forces work for the greater good of the partnerships.

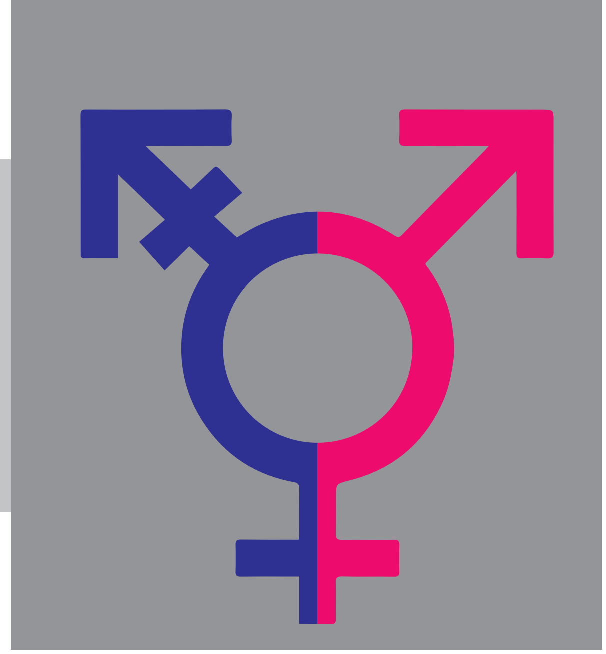
Flexibility is extremely important in designing ADCs, so that parameters can be altered over time in response to feedback from the market. There is no 'one size fits all' in terms of channels. FSPs need to take into account both external and internal environments, and should not presume that what was successful in one context will necessarily be successful in another context.

FSPs should also adopt a change strategy evolving from changing needs and expectations of the consumers and the market. The key is to adapt to changes in technology, demand, and competition. The technology that underlies the ADCs should be dynamic and flexible enough to support this evolving channel strategy.




■ *Mustafa K Mujeri, Economist and Executive Director*
*Institute for Inclusive Finance and Development (InM)*

# Financial Inclusion of Excluded Community TRANSGENDER People



*Ifrat Jahan*

'Financial inclusion for all' is the goal of Bangladesh; and this requires special emphasis on the excluded groups like the hard-core poor, street children and youth, differently able people, elderly people/senior citizens and others. Unfortunately, one disadvantaged group which is often forgotten in the financial inclusion discourse is the transgender people. Our mainstream policies leave limited space for accommodating transgender and similar disadvantaged groups in social and financial inclusion. This contradicts the goal of leaving no one behind.

Bangladesh is among the few countries which have officially recognised the rights of the transgender people. These people are officially identified as the third gender group and are locally known as 'hijra'. We frequently find them in the streets roaming as beggars and/or asking for financial assistance (but not hijackers per se). Very little is known regarding their lives and livelihoods.

According to national statistics, the number of transgender people is at least 10,000 in Bangladesh. In November 2013, the government formally recognised the hijras as a third gender category. But the society and the social systems are yet to acknowledge them as rightful citizens eligible for enjoying all human rights and basic services. Most transgender people face discrimination in the workplace and in accessing public services and healthcare. In many places, they are not protected from discrimination as well.

Our journey towards financial inclusion must not exclude the transgender community from enjoying the benefits of financial services. Their inclusion process needs to be multiple in nature covering education, health and other essential services along with access to financial services and awareness building in society. There are many examples of transgender people in Bangladesh and in other countries who have turned into successful innovators in society.

The Bangladesh NGOs Network for Radio and Communication (BNNRC) has developed partnerships with sixteen community radio stations to create awareness on third gender issues and ensure their human dignity. The government is also implementing special programmes for these people; but long-term and sustainable solutions for their livelihoods require integrated approaches e.g. area based specialised schools for the third genders only; specialised technical training centres for educating the growing, aged and middle aged transgender people; hiring transgender people in public services like traffic policing, community cleaning, rail communication and security services; developing partnerships with private and NGO sector to work with these people; and motivating financial institutions so that they invest on transgender people to become entrepreneurs. Further, the government can easily set examples by hiring transgender people in different positions in its workplace. They can avail opportunities in many sectors, including in fashion and magazine industries.

Bangladesh's third gender community is relatively small in size; they basically form a homogeneous and united community and follow the instructions, rules and ways of their 'guru', the leading hijra. The gurus can be involved to jointly plan their development and capacity building activities for ensuring access to and use of financial services. The main challenge will be to create awareness both among the hijras and the mass people. The government can act as the convener, coordinator and the regulatory body; whereas the NGOs and private organisations can be the implementing partners. The financial institutions can act as the sponsoring agency and development partners for bringing the transgender/hijras into the mainstream of financial inclusion.

■ *Ifrat Jahan, Deputy Director*
*Institute for Inclusive Finaace and Development (InM)*


# Tailor Made Financial Literacy and Education Programmes

Financial literacy and education encompasses population's knowledge about financial concepts, inflation and investment risks, financial numeracy, ability to make informed judgments and take effective decisions regarding the use and management of money, as well as awareness on financial products and services. Bangladesh Bank has a formal mandate to promote financial education and literacy as well as provide consumer protection. That, in itself, is a key element for promoting financial inclusion in a sustainable way and, in turn, making monetary policy tools more effective.

For efficient and effective financial planning, a person should be financially literate and be able to understand the importance of preparing household budgets, cash-flow management and asset allocation to meet financial goals. The foundation of financial literacy needs to be laid by inculcating financial prudence through education at the earliest level of the life cycle.

Financial literacy together with financial inclusion and consumer protection form a triad which has a vital bearing on the stability of the financial system. When we talk about financial literacy, we usually refer to a set of skills that allows people to manage their money wisely along with basic understanding of essential financial concepts, not least an appreciation of the trade-off between risks and returns. Financial literacy is not just about markets and investing, but also savings, budgeting, financial planning, basics of banking and most importantly, about being 'financially smart'.

The need is to inculcate financial prudence through financial literacy and education at all levels including children, youth and women. For the purpose, FIN-B vision is to help create a financial system that ensures 'financial inclusion for all' and brings together all stakeholders including public and private sector institutions, NGO-MFIs, professional bodies, think tanks and civil society organisations having interest in the financial inclusion agenda.

Providing financial literacy and education is a continuous activity since the country's financial sector is changing rapidly and there exists a large segment of the population who are financially excluded. Further, financial education programme needs to vary across different segments of the population (e.g. school children, working street children and youth, women's groups, digital financial services for all, farmers, informal sector participants, MSMEs, etc.). Financial needs and preferences of these groups are different requiring tailored financial products and services.

■ *Knowledge Management Desk, InM*

# CHINA'S FINANCIAL INCLUSION EXPERIENCE: SOME LESSONS

China provides one of the world's finest financial inclusion success stories. Along with rapid innovation and massive scaling of Chinese fintech companies, China's successes in financial inclusion reach beyond fintech. Account ownership has increased significantly and is now on par with that of other G-20 countries. One of the largest agent banking networks in the world has been established and a robust financial infrastructure has been developed that underpins these successes.

What can we learn from China's experience? Obviously, China is in many ways provides a unique environment, but still there are valuable lessons for others. These lessons point out three critical areas that are fundamental to addressing financial inclusion in all countries:

1 Agent-based models

2 Fintech and digital financial services

3 Role of government in financial inclusion.

For reaching underserved consumers in remote and rural areas in a cost-effective manner, China established one of the largest agent banking networks in the world through a combination of enabling regulation, subsidies, directives to providers, and funneling the distribution of social transfers through bank cards. By the end of 2016, 983,400 agent-based service points were established covering more than 90 percent of the administrative villages across China.

However, many agent-based service points have low traffic and provide a limited range of services. This highlights the need to consider sustainability and commercial viability when expanding access points. Further, there should be development of more sustainable and innovative agent-based business models.

China's fintech industry has grown rapidly to reach millions of new consumers with a range of digital financial products and services. One of the key factors behind China's success of digital finance is the regulatory space provided for innovations in digital finance. Chinese regulators created scope for entry of innovative new providers, products, and business models, such as the use of online, network-based business models integrating financial services into existing e-commerce or social media platforms (e.g. Alipay, Tenpay, Ant Financial).

The Chinese experience shows both risks and rewards. Millions of Chinese consumers now have access to innovative, low-cost, and easily accessible digital financial products and services tailored to the needs of retail consumers. But instances of fraud by fintech companies also cause harm to the consumers, particularly in the P2P lending industry. Thus striking the right balance between allowing for innovation and managing risks is the critical task in seeking digital financial inclusion.

For the purpose, new 'test and learn' approaches such as the use of regulatory sandboxes and active monitoring of innovative providers and products hold good promises. There is also emerging an improved understanding of what adaptations should be done to financial consumer protection frameworks to address the risks of digital finance.

The Chinese experience further illustrates the inherent tensions regarding the appropriate role of the government in financial inclusion. At both national and local levels, the Chinese government extensively supported financial inclusion through a mix of direct and indirect measures. Some of these are considered as success, while others had less impact or even created distortions in the market.

The change in the government's mindset from a 'promoter' to an 'enabler' has been uneven, which is common in many other countries as well. In this context, a common misconception is promoting credit to the rural poor using subsidised approaches and preferential policies.

The Chinese policymakers explicitly recognised the need to shift towards more market-based, commercially sustainable approaches to financial inclusion, as outlined in China's Plan for Advancing the Development of Financial Inclusion (2016-2020). Such a shift needs also to be accompanied by a corresponding recalibration of appropriate role of the government, with greater emphasis on improving the enabling environments and a more nuanced approach to identifying instances where direct measures are warranted.

■ *Knowledge Management Desk, InM*

# New Generation Banking
## Financial Inclusion for Children

***Farah Muneer***

When I was a child, I remember saving coins in a pickle jar to buy a bottle of Fanta. My father used to reward me with coins in return for doing small household chores to make me realise the value of hard earned money. Back then, I used to save money to buy my choice of toys or snacks. I am talking about the 1990s when metal coins were easily available; only few people had bank accounts even in the urban areas; satellite channels were accessible in very few houses; and the idea of mobile phone was unimaginable.

Although with globalisation, everything around us seems to have changed quickly, I still find the children of the 21st century share expenses of video games with their parents by saving their pocket money just like the kids of my generation. Children or young adults do have financial needs and demands; and they manage their financial needs at a limited scale from a very young age.

Recognising these needs, the governments in many countries have policies to embrace the children and youth under financial inclusion. The countries establish children saving account (CSA) for children's education through special accounts that are registered with the government. In some countries, children receive a government deposit at birth in a lifetime savings account. In others, parents who open a child development account (CDA) receive a

Photo: Khaled Mahfuz Saeef

dollar-for-dollar government match for their contributions. In several developing countries, children below 18 pay zero taxes and service charge (or minimum service charge) on savings account.

The Bangladesh Bank has taken initiatives to include the school going children under financial services through the banking system and developing their saving habits. The programme has been in operation since November 2010. Children can open savings accounts with a minimum deposit of Tk.100 and no maintenance fee is charged. At present, 56 banks are running this programme where private commercial banks dominate (with around 55 percent of total school banking accounts opened). So far, more than 1.2 million school banking accounts have been opened which are mostly opened by the children living in urban areas. Although the programme targets all school going children, in practice children from high and middle income groups are observed to open the accounts.

Recognising the specific needs of the low income group children, 'Banking for Working Children Advocacy Group (BWCAG)' has been formed as a coalition in advocating for establishing mainstream banking services for working and street children. A significant change in procedural requirements is that it drops the earlier requirement of co-signature of a parent or guardian since there are significant numbers of cases where the child is an orphan or has been forced to leave home. To resolve the issue, the accounts for the working or street children require a co-signature from an NGO staff, who retains the control of it until the child turns 18. The NGO participation is aimed at making certain that children's money is used in meeting their major needs like education, urgent needs and planning for the future.

InM research on financial inclusion of working and street children shows that children having formal savings account utilise their money more in productive activities than children not having savings account. Children involved in informal savings have a higher tendency to spend their savings for consumption purposes. Children's saving accounts have a great impact in improving their well-being; be it for upper or middle income or low income working children. It builds their skills in numeracy and savings; and promotes financial planning for the future.

On the other hand, banks also get the opportunity to establish relationships with potential adult customers. Ensuring a proper regulatory framework is a key challenge to operate these accounts smoothly. Bangladesh Bank has already initiated the process of bringing the children under the net of financial services covering even the most disadvantaged groups. For strengthening these initiatives, savings products should be designed and implemented in a manner that can increase financial literacy of children, build comprehensive incentives, and ensure technology-based low transaction costs.

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*Institute for Inclusive Finance and Development (InM)*

# FIN-B Financial Inclusion Network Bangladesh

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## *Be a Member*

FIN-B membership is open to national/international institutions (both public and private), academia and research organisations.

Interested individuals may also join the Network as associate members.

**FIN-B Membership Information Form and other details**

finb@inm.org.bd

http://inm.org.bd/financial-inclusion-network-bangladesh-fin-b

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Finance for All

Financial Inclusion Network, Bangladesh

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আপনার দোরগোড়ায়

# সবার জন্য সবখানে ব্যাংকিং সেবা

## সেবাসমূহ

| | |
|---|---|
| * সঞ্চয়ী ও চলতি হিসাব | * বৈদেশিক রেমিট্যান্স-এর অর্থ প্রদান |
| * মাসিক ও মেয়াদী সঞ্চয়ী হিসাব | * পাসপোর্ট ফি গ্রহণ |
| * চলতি হিসাব (আস্থা) | * ইউটিলিটি (পল্লী বিদ্যুৎ সহ) বিল গ্রহণ |
| * এসএনডি হিসাব | * এসএমই ঋণ প্রদান |
| * ইসলামী ব্যাংকিং | * কৃষি ঋণ প্রদান |
| * স্কুল ব্যাংকিং | * ব্যক্তি (পার্সোনাল) ঋণ প্রদান |
| * নগদ জমা ও উত্তোলন | * ডেবিট কার্ড প্রসেসিং |
| * ফাণ্ড ট্রান্সফার | * সামাজিক নিরাপত্তা ভাতা প্রদান |
| * ই.এফ.টি.এন. (যে কোন ব্যাংকের হিসাবে) | * প্রতিষ্ঠানের বেতন প্রদান প্রক্রিয়ায় সহায়তা |


সামাজিক সুরক্ষাভাতা প্রদান


এ-কার্ডে কৃষিপণ্য ক্রয়


মৃৎ শিল্প ক্লাস্টার


কৃষি ঋণ প্রদান


তাঁত ক্লাস্টার

উন্নয়ন সহযোগী

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