

## Consumer Protection: A Key Driver for Financial Inclusion in Bangladesh

### Cover Story



Bangladesh--having a rich heritage in microfinance, rapid financial sector growth and unprecedented gains in digital financial services (DFS) under the government's 'Digital Bangladesh' initiatives--is experiencing unprecedented growth in the consumer financial services market especially using digital technologies and adopting digital platforms. This has also been raising increasing concerns regarding the protection of the consumers, with challenges emerging on how to safeguard the consumer trust, reduce the likelihood of fraud in DFS, and protect the consumers from abusive and unfair practices.

Bangladesh has been adopting measures towards establishing and strengthening legal and regulatory frameworks for financial consumer protection including setting up specialised supervisory departments in regulatory institutions (e.g. Bangladesh Bank), issuing guidance on financial consumer protection issues, devising ways to address new risks such as those arising from digital channels for delivery of financial products and services, and developing new approaches and tools including incorporating behavioural insights into the design of effective disclosure regimes and developing rules

regarding product suitability based on international best practices.

In the digital landscape, the potential risks emanate from a number of sources including risks arising from unreliable networks and DFS services (which can deny customers access to funds stored in their wallets or lead them to engage in unsafe behaviour e.g. giving cash and PINs for agents to transact once the service is back up), complicated and

confusing customer interfaces (which also contribute to high levels of agent-assisted and OTC transactions), agent misconduct including charging of unauthorised fees, fraud of various types, and inadequate complaints handling and data privacy and protection practices.

There can also be exploitations due to imperfect information and contractual arrangements including decision-making limitations. In reality, the underlying sources of risk may originate from multiple sources e.g. high and hidden prices, overindebtedness, post-contract exploitation, fraud, and discrimination covering both micro and macro-elements of the relevant markets. The key to addressing these issues is to define, diagnose and implement effective evidence-based financial consumer protection (CP) measures considering the specific situations of Bangladesh.

In the above context, it would be important for Bangladesh to learn from global experience on new frontiers in inclusive regulation, supervision and standard setting and integrate the regulator and academic perspectives into an operational framework

relevant to specific circumstances of Bangladesh. The need would be to generate a comprehensive overview of fintech and financial innovation in Bangladesh, approaches to fintech regulation in other countries, and how this should influence financial regulators' approach to regulating the fintech. In particular, operational risk can only be managed on an enterprise wide basis as it includes the entire process of policies, culture, procedures, expertise and systems that an institution needs in order to manage all the risks resulting from its financial transactions.

For ensuring effective integration of regulator and academic (global) perspectives in financial CP within an implementable operational framework relevant to Bangladesh, an integrated risk management approach is necessary covering credit risks, operational risks, and technology risks which are unique in financial inclusion initiatives especially in the digital landscape of Bangladesh. The framework should also be made comprehensive to address all crucial components e.g. risk identification, risk measurement, risk mitigation, risk reporting and monitoring, and risk governance within the integrated framework.

## Research and Knowledge Management Division

### Completed InM Research

#### **The Psychology of Covid-19 and Financial Behaviour: The Urban Middle Class in Bangladesh**

The economic effects of the Covid-19 pandemic are evident across all countries in the world including Bangladesh. While the impact of Covid-19 is no doubt dramatic, it is also an intrinsic human behaviour to adjust his/her financial behaviour to avoid falling prey to 'behavioural traps' during such a crisis situation. This study is based on an InM online survey to capture the impact of Covid-19 pandemic on the financial behaviour of the urban middle class in Bangladesh.



The prime objective of the study has been to analyse how the economic behaviour and the choice of financial instruments by the urban middle class have been affected by the pandemic. The study also focuses on how the patterns of income, expenditure and savings have changed due to the pandemic; especially its impact on the use of digital financial services including changes in the preference pattern for different financial products.

The study results highlight the need for elimination of

all sources of vulnerability of the country's middle class, specifically the challenges of the lower middle class. The rising expectation of the expanding middle class are the critical drivers of social change in Bangladesh, needed to overcome the low living standards of the majority of the population and reach the cherished goal of emerging as a high income country by 2041.

The study suggests that the key for such dynamic transformations is the creation of a more 'learning middle class'; that is, a dynamic middle class that would be ready to exploit the opportunities of the 'new normal' after the Covid-19 pandemic. It highlights that the time is now ripe to identify and focus on the drivers of change of the country's middle class and explore and understand the basic human needs and desires of the middle class to ensure its sustained expansion especially focusing on productive thrusts of the lower middle class and reducing the gaps in their competencies.

### New Research Proposal

#### **(Micro) Insurance Market Systems Analysis Study for Agriculture, Livestock & Any Potential Sector of Bangladesh**

With its extreme vulnerability to climate change events and natural disasters, the smallholder-dominated farming households in Bangladesh face repeated disasters and shocks that accentuate poverty, make

them more risk-averse and unwilling or unable to engage in risky but higher return activities.

A sustainable way of breaking the cycle of high vulnerability to climatic shocks induced poverty is to stimulate transformative growth and commercial production in crop and livestock sectors through ensuring their access to modern inputs and technology along with increasing their crisis coping capacity, reducing exposure to ex-post risks and building their capacities to access productive opportunities in the market systems.

In the above context, microinsurance is a potential means of minimising the risk of future poverty through providing an efficient way of mitigating the possible financial and societal impacts of unexpected events of the low income households (LIHs). In this context, the proposal intends to shed light on recent developments and contextual changes in the microinsurance market in Bangladesh focusing on agriculture, livestock and any emerging potential sector(s). In addition, the proposal seeks to identify appropriate technical approaches for promoting microinsurance market systems in Bangladesh.

#### InM Publications

- The Psychology of Covid-19 and Financial Behaviour: The Urban Middle Class in Bangladesh, InM Covid-19 Research No. 5, December 2020.
- Insights: InM Newsletter, Vol.: 05, Issue: 03, December 2020.

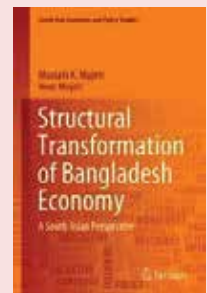
#### Newspaper Publications

- \* Enhancing Effectiveness of Monetary Policy in Bangladesh, The Financial Express, 22 January 2021
- \* Women's Economic Empowerment and Future Development of Bangladesh, The Financial Express, 05 January 2021
- \* Balancing Global and Regional Value Chains for RMGs Industry, The Financial Express, 25 December 2020

#### New Book

**Structural Transformation of Bangladesh Economy: A South Asian Perspective, Mustafa K. Mujeri and Neaz Mujeri, South Asia Economic and Policy Studies, Springer, pp. 315, March 2021.**

This book examines the theory and global evidence on structural transformation along with stylised facts and implications using, among others, a dynamic panel model, for South Asia. The characteristics of the structural transformation process in Bangladesh bring out the relevance of a comprehensive and inclusive South Asian 'brand' in view of the challenges of large population size, high burden of poverty, rising inequalities and its compulsion to achieve rapid and sustained inclusive development. The analysis highlights several distinct characteristics of Bangladesh's structural transformation including changes in value added, trade, employment, productivity, formal-informal jobs, and opportunities for low-skilled workers.



The book suggests that the manufacturing sector could not create the required number of jobs and generate rapid absolute and relative productivity gains in the Bangladesh economy. Although the services sector has largely led output and employment growth, services subsectors with strong labour absorptive capacity have low average productivity. Hence, growth enhancing structural transformation led by these subsectors is likely to be less dynamic than required for rapid employment-creating growth in the economy. The book's analysis on Covid-19 and cyclone Amphan shows that an integrated disaster and development paradigm is needed for Bangladesh.

## Education and Training Division

### 11th Batch Diploma in Microfinance Programme Starts

The 11th batch of InM Diploma in Microfinance Programme has started from 7 March 2021. Due to the Covid-19 pandemic, all courses are being conducted online with a total of 14 participants from different MFIs.

### Revised Course Materials for Microfinance Programme

For the 11th batch participants of the Diploma in Microfinance Programme, InM has made available the

newly revised 2nd edition of the course materials for the six modules of the Programme incorporating information and practices of the microfinance sector available until February 2021. The newly developed modules cover, among others, the innovative and up-to-date concepts and practices in the sector including the impact of Covid-19 and the adopted principles and strategies by the MFIs to mitigate the adverse consequences of the pandemic, latest regulations of MRA to cope-up with the pandemic situation and future options to meet similar situations in the post-pandemic world.

### Customised Training at the Field Level

InM designed and administered a 4-day long specialised training on 'Induction Training on Interest-free Microfinance Operations and Management' for the branch managers of Daridro Bimochon Prokolpo (DBP) of the United Trust (UT) at the UT Training Centre in Maloncha, Melandah in Jamalpur district during 15-18 February 2021. The training was organised for the newly recruited branch managers of DBP with a special focus on microfinance operations and best practices at the field level. The major issues covered in the training related to interest-free microfinance and poverty alleviation, role of branch managers in effective savings and credit management, appropriate selection of enterprises, assessment procedure for lending, techniques of effective risk management, effective monitoring and supervision of microfinance operations at the field level, maintaining and checking records, documents, registers, MIS reports, books of accounts and financial statements of microfinance operations, analysis of key performance indicators (KPIs) for the operational and

financial health of a branch, preparation of branch operational plan and reporting procedures, and motivation and positive attitude for organisational development. The core methodologies of the training covered classroom sessions and field practices. The participants acquired theoretical knowledge from the classroom sessions which were followed by practical sessions at the field for transforming the acquired knowledge into concrete actions. The process enhanced the practical skills of the participants. A total of 10 branch managers from different branches of the Jamalpur and Kishoreganj areas of DBP joined the programme.



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