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## Innovate, Implement, Impact: How the i3 program complements Bangladesh's strides towards digital financial inclusion

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Rozina is 30 years old and a mother of two, a boy and a girl. She lives in a village at Dinajpur, far north in Bangladesh, with her mother-in-law. A decade ago, Rozina had to travel more than 200km every month to Dhaka from Dinajpur to collect money from her husband, who worked as a rickshaw puller in the capital city. It used to take two days for her to complete the journey. However, when Bangladesh's first mobile financial service (MFS) launched in late 2011, everything changed.

As of [December 2018](#), there are more than 880,000 agents<sup>1</sup> in the country who conduct 6.7 million transactions worth USD 100 million every day. This is the result of the increased mobile phone penetration, financial infrastructure development, and participation from both the public and the private sectors. To put this in perspective, by the end of 2017, there were more than [85 million](#) unique mobile subscribers, which is around half of the total population. Moreover, nearly [92% of the population](#) lived within 5km of a financial sector access point.

While Bangladesh has made significant progress in accelerating financial inclusion, challenges persist on both the access and usage fronts. Around [50% of Bangladeshis](#)—mostly women—remain unbanked. Policymakers and government officials, thus, face a new set of problems: how to expand financial inclusion for the remaining unbanked population, and how to use technology for meaningful financial inclusion.

MSC (MicroSave Consulting) flagged off the [i3 program](#) in Bangladesh at a country launch event in September 2018. The 36-month long i3—“Innovate, Implement, Impact”—program is supported by the MetLife Foundation, which shares the belief that everyone needs access to the right financial tools to achieve their financial goals. The program will work closely with implementation partners to improve the financial health of low- and moderate-income clients (LMI) through interventions in both the demand- and supply-sides. It seeks to use digital technology and uncover the needs, aspirations, perceptions, and behaviors of LMI segments. MSC will implement the i3 program in Bangladesh with

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<sup>1</sup> These agents are non-exclusive and are likely to work for multiple MFS providers.

the support, cooperation, and partnership of leading financial service providers and FinTechs in the country. By the end of three years, MSC will make a “direct impact” on at least 250,000 underserved LMI clients across Bangladesh.

The launch event brought together over 100 industry experts, including regulators, banks, microfinance institutions, MFS providers, and FinTechs. The event included an engaging panel discussion among representatives of key institutions in Bangladesh’s financial inclusion arena, including bKash Ltd., Bank Asia Ltd., iPay Systems Limited, UNCDF Shift, Dutch Bangla Bank Ltd., MasterCard Bangladesh, Access to Information (a2i), and Bangladesh Bank. The event showcased the vision of the i3 program and new perspectives on the role of technology in achieving financial inclusion.

In case if you missed it, you can watch a video of the event [here](#).

**The launch had three overarching takeaways, which we think are worth remembering.**

### **Takeaway 1: The value proposition of digital financial services**

**What is financial inclusion and why it is important for the lower and moderate-income segments of society?**

[The Center for Financial Inclusion](#) defines financial inclusion as a state in which all people who can use financial services have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner. This is crucial because financial access is central for people to be able to [manage the ebb and flow of their daily lives](#). It helps people save money for future requirements or to manage unforeseeable risks, get loans to start businesses, and access insurance services—all of which eventually result in an improvement in their overall well-being.

Financial inclusion has accelerated globally in the past decade. The overview of [National Financial Inclusion Strategies by the World Bank](#) observed that many developing countries, such as Bangladesh, Indonesia, and Pakistan either have or are implementing national strategies on financial inclusion for their unbanked populations. These strategies focus largely on the use of MFS and agency banking, which have brought millions of people into the formal financial system.

Speaking at the event, the Minister of Post, Telecommunication and Information Technology, Mr. Mustafa Jabbar said:

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“Bangladesh is now a role model for the world in terms of using digital financial services to improve the lives of lower- and moderate-income segments.”

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Bangladesh reached a lower middle-income country status in 2015. It has demonstrated an extraordinary ability to fight rural poverty through inclusive financial services. At [7.3% GDP growth](#), Bangladesh is also one of the fastest growing economies of the world. In order to achieve sustainable [middle-income status by 2021](#), it is imperative to ensure that the LMI segment is financially included and digitally empowered.

## Takeaway 2: Create an enabling digital ecosystem

### What ecosystem-level infrastructure improvements are needed for DFS to be delivered effectively to the last-mile customer?

The path to greater financial inclusion depends on the establishment of a more comprehensive financial system that tackles specific demand- and supply-side barriers that the unbanked population face.

In Bangladesh, these barriers range from something as basic as the lack of financial literacy to higher-level restraints, such as the lack of interoperability among the wallets and tedious account opening requirements. The event's panel discussion reiterated these barriers, in which panelists, such as representatives from FinTechs like iPay, stressed that one of the biggest challenges is the lack of interoperability:

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“One of the biggest challenges that we are facing right now is a lack of interoperability among wallets. I request the industry stakeholders and regulators to solve this issue to take the country ahead.”

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Interoperability gives mobile money service providers the opportunity to increase digital transaction volumes, improve the sustainability of their mobile money services, and contribute towards an open digital ecosystem that promotes financial inclusion. Electronic Know Your Customer (e-KYC) is a critical infrastructure to drive low cost and almost instant on-boarding of the masses. In the latest [MFS regulations](#) published in July 2018, Bangladesh Bank also encourages providers to enter into partnerships to build and promote interoperable ecosystem. [e-KYC, as a service](#), is also promoted for reaching the unbanked, by the regulator, policy advisors, and think tanks. The *Nagad* digital financial service of the Bangladesh Post Office has already [introduced the country's](#) first ever e-KYC registration process.

## Takeaway 3: Innovation and partnership-driven business case

### What drives the business case for the private sector and the government to use digital solutions to serve low- and moderate-income (LMI) customers?

Information technology [is one of](#) the main drivers of innovation in financial services. Digital payments, e-wallets, and point-of-sale (POS) terminals demonstrate how technology can broaden the growth of financial services. Innovations in financial technologies can increase client outreach and reduce transaction costs to nearly zero. Stressing the importance of technology and innovation, Mr. Syed Hammadul Karim, the CEO of MetLife, said:

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“Bangladesh is looking for innovative solutions to address the challenge to the financial health of low-income Bangladeshis. I am proud to say that MetLife Foundation is aligned entirely with that vision. We hope to create a positive impact on the lives of millions of people in Bangladesh through the i3 initiative.”

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Mr. Manoj Sharma, the Director of MSC, explained that technology and innovation is a driver towards the uptake of meaningful financial inclusion. He said:

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“Basic access to banking services and products still remains a challenge in Bangladesh. Financial service providers and FinTechs can use technology and find the right product mix to reach the remaining half of the adult population who do not have an account at a financial institution.”

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On the point of technology and innovation, panelists spoke about different innovations that are taking place in Bangladesh. MasterCard, for instance, explained how it continues to promote innovation:

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“MasterCard is a company that does not only talk about innovation for the affluent, but also for the masses. Aligning with that, our global CEO has given a commitment that by 2020, MasterCard will include 500 million unbanked people under the banking umbrella.”

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Additionally, representatives from Bank Asia and Dutch Bangla Bank explained the merits of agency banking and how it has been able to gain such popularity, mainly for its simplicity to reach the clients at the grassroots level and cost-effectiveness.

The representative of BRAC Bank, which received its [agency banking license in 2018](#), noted that the bank looks forward to entering the market and hopes to utilize its existing SME business network across the country.

However, in the panel discussion, representatives of bKash highlighted the lack of innovation in use-cases. The evolution of digital financial services in Bangladesh has not progressed much beyond the cash-in and cash-out transactions.

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“To tap beyond the money transfer market, the financial product has to have lots of other use-cases for the general mass, such as bill payments. People will only adopt the system if they find the product to be convenient and affordable.”

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Interoperability and e-KYC are some of the initiatives that can help private sector players and the government reach the LMI segments and cater to the 50% unbanked population of Bangladesh. With partnership-driven business cases, such as [BankAsia-a2i-Mastercard](#), [bKash-BankAsia](#), and [BracBank-bKash-Rocket](#), the industry has been looking to synergize to create business opportunities and cater to these segments.

### **Other highlights from the event**

The event also included a memorandum of understanding (MoU) signing ceremony between MSC and BASIS (Bangladesh Association of Software and Information Services) as a partner in the i3 program.

The aim of the partnership is to support the growth of FinTechs in Bangladesh. The other partners in the i3 program—bKash, SureCash, and a2i—also expressed their enthusiasm for it and reiterated that their vision matches its core objectives.

MSC will be publishing a series of posts that focus on examining in detail the barriers highlighted here and the role of technology in bringing meaningful financial inclusion in Bangladesh. We look forward to continued dialogue, learning, and doing more to support the financial inclusion space of the country. For more updates, stay tuned on [www.i3program.org](http://www.i3program.org)