

Bank-FinTech collaboration is instrumental for holistic financial inclusion



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Policy makers and regulators have adopted financial inclusion as a unique tool to drive growth of financial account holders in Bangladesh. Banks alone can't include low income population without digital innovations particularly Mobile Financial Service (MFS) developed by FinTech

Traditional banking is at a crossroad and experiencing an interesting time. More and more, the banking services are offered through digitalized mode and customers are experiencing both comfort and convenience. It is happening because the FinTech is disrupting financial landscape and reshaping consumer mindsets in adopting technology driven financial services, which was out of imagination even in the near past. Such transformation in financial sector has been

accelerated through the entrance of innovations like e-commerce platform and mobile banking offered by FinTech.

To remain at par in the race, most banks are adjusting to the realities- by adopting technological innovations in its core processes or making partnership with FinTech; while regulators are also bringing in necessary changes to rules and regulations to maintain stability in the market. So, one of the panelist of this dialogue has focused on a most debated topic in the FinTech



MAJOR GENERAL SHEIKH MD MONIRUL ISLAM (RETD), CHIEF EXTERNAL & CORPORATE AFFAIRS OFFICER (CECAO) OF bKash LIMITED ATTENDED SEVERAL CONFERENCES, SYMPOSIUMS AND SUMMITS ON DIGITAL FINANCIAL INCLUSION ORGANIZED BY THE WORLD BANK, IMF, ITU, BILL & MELINDA GATES FOUNDATION AND APEC AND OBTAINED TRAINING ON 'RISK BASED APPROACH TO ANTI MONEY LAUNDERING AND COMBATING TERRORIST FINANCING' AT THE EUROMONEY LEARNING SOLUTIONS, HELD IN MIAMI, USA. MAJOR GENERAL MONIR HAS SERVED IN BANGLADESH ARMY FOR 34 YEARS WITH THE EXPERIENCE OF COMMANDING TWO INFANTRY DIVISIONS. HE ALSO SERVED AS THE DIRECTOR GENERAL OF NATIONAL SECURITY INTELLIGENCE (NSI), SPECIAL SECURITY FORCE (SSF) AND GOVERNMENT THINK TANK - BANGLADESH INSTITUTE OF INTERNATIONAL AND STRATEGIC STUDIES (BISS). IN ADDITION TO HIS PRIMARY RESPONSIBILITY, HE IS ALSO THE CHIEF ANTI MONEY LAUNDERING COMPLIANCE OFFICER OF bKash.



// Innovation is allowing people of Bangladesh to integrate themselves into financial services value chain. So, it's time for banks to shun traditional approach and think outside of the box. //

space – disruption versus collaboration. The big question that needs to be addressed is: will collaboration lead to confusion or a win-win situation?

Before presenting my opinion, I would like to recall a familiar African proverb: “If you want to go fast, go alone. If you want to go far, go together.” Therefore, Bank-FinTech collaboration is the essence of time– it’s about pursuing the business strategy for offering the financial services in the best and most efficient way to the ultimate satisfaction of the customers. Here, FinTech would complement banks, – rather FinTech contesting banks.

Collaboration in business is now order of the day and in financial sector, it’s of absolute essence. The good news is that banks, insurers, and payment companies are now considering FinTech as an appropriate compatriot. The Economist so subtly described the Bank-FinTech relationship as more symbiotic than combative. The capability and competency of the FinTech helps in healthy partnering, paving the way for traditional Banks and FinTechsto move from competition to collaboration.

To achieve its SDG goal, policy makers and regulators have adopted financial inclusion as a unique tool to drive growth of financial account holders in Bangladesh. It is axiomatic that banks

alone can’t include low income population without digital innovations particularly Mobile Financial Service (MFS) developed by FinTech that brought nearly 60 million people mostly low income people into the economic process well within a decade time. The emergence of radically innovative FinTech firms, technology adoption by traditional providers and the entry of FinTech are all factors behind this strategic move. Obviously, the central catalysts are customers, their rapidly evolving needs and expectations. In keeping with the strategy, Bank-FinTech collaboration is opening the door for millions of unbanked people to be connected to the economy of Bangladesh through formal channel.

Currently, Bangladesh is on a high growth path with its Vision-2041. Hence, it is highly desirable that most people of the country are taken on board to ensure sustainability of the economic emancipation of the nation. From that perspective, Bangladesh represents a unique example of inclusive banking, where the underprivileged are able to open bank accounts for as little as BDT10 (12 cents). Moreover, along with the low-income population and most blue collar workers, 85 percent of the rickshaw pullers in the capital city of Dhaka use MFS to meet their needs availing limited banking services. These successes could be achieved through collaboration between Banks and FinTechsthat ensure delivery of

financial services at the fingertips of customers in an affordable, convenient and secure manner in real time.

The initial impression about FinTech was as standalone disruptors of the financial ecosystem. Now, the consensus within the financial sector is shifting as FinTech companies have succeeded in offering in-demand financial services to this new breed of customers. While traditional banks are benefiting from the game-changing technologies, FinTech companies are getting newfound access to funding and expansion opportunities. So, banks are now tending to collaborate than compete with FinTech, with some estimates suggesting that 82% of incumbent financial service providers expect to increase their FinTech partnerships in the next three to five years, according to Deloitte.

Where does the biggest market opportunities lie upon? How could a bank find the balance between touch and technology? How domestic scheduled banks can explore opportunities from FinTech collaboration under a win-win situation?

The answer lies on future trends and changing customers demand. Changes in consumer behavior, artificial intelligence, block chain, advances in cloud-based technology, the growing power and availability of mobile devices, and the emergence of data science are challenging the business models of traditional financial institutions. Consumers are increasingly demanding flexible and convenient services in their day to day lives - whether requiring a cash withdrawal through a mobile banking app by going to the closest agent point; or scanning a QR code to make payment and receiving an instant cashback offer at the point of sale. Recent studies suggest that both factions believe that the opportunity in collaboration is perhaps bigger than the opportunity in pure disruption, especially in the era of Open Banking that is taking hold elsewhere around the globe.

Many consumers have turned to their mobile phones for basic banking needs, such as transferring money between accounts, paying whole range of bills, receiving monthly wages and inward foreign remittance, making payment for goods and services. Both feature and smart

cellphones offer people the convenience to perform these tasks whenever and wherever they please. Building a mobile banking infrastructure and managing large agents' network is not an easy task where big investment is necessary. Banks, therefore, can leverage benefits from partnership with MFS providers.

Bangladesh is experiencing a steep rise in the use of smartphones owing to competitive and affordable price. The smartphone allows its owner to download application as like bKash App and carryout all the offered financial services in most speedy and secure manner. Industry experts say consumers in near future will increasingly use their smart phones to do all financial transactions from shopping to depositing money, paying bills to buying goods and even booking tickets to travel and enjoy cinema. People will also have option of self-registration for opening mobile account instantly as currently offered by bKash in complete conformity with the Know Your Customer (KYC) requirement of the regulator.

MFS accounts now surpass bank accounts and greater financial inclusion has benefited large segment of the population all across the globe. In Africa, therefore, most banks are partnering with M-Pesa to deliver their customers seamless financial services through mobile phone. In Bangladesh, bKash has partnered with some leading banks and having discussion with few more. Through the partnership, the banks can now reach out to larger number of customers mostly belonging to the low income group. A significant volume of inward foreign remittance of small ticket size are now received by the banks and disbursed to individual beneficiaries to their respective bKash account in real time. The ever increasing volume of foreign remittance of small amount settling into national exchequer aptly defines the instrumental role Bank-FinTech collaboration can achieve by making life easy for Bangladeshi diaspora working abroad and their loved ones living in different parts of Bangladesh.

It needs to be considered that mobile banking, on the whole, is more secure than many other activities online, including certain types of shopping. That's partly because FinTechs often have strong security by necessity, and partly



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because consumers tend to be more careful when their money is at stake. As a result, the volume of transactions through mobile financial services is increasing day by day. The UK based Juniper Research estimated that consumer spending through digital wallets would rise 40% in North America and Europe to \$790 billion in 2019. So would be the case in Asia with increased usage of MFS. This increase would be experienced due to a continued migration of consumers from using cash, the transition by banks to digital transactions as well as a surge from smart consumers who operate banking with their smart phones. The value proposition will surely change, as mobile wallets are increasingly being used for online purchases and in-app payments that allows

consumers to view, buy and make payment through banks and different MFS operators under a unique interoperable environment facilitated by Bangladesh Bank, the central financial regulatory authority of the country.

Innovation is allowing people of Bangladesh to climb up the financial services value chain. Hence, banks trailing behind in collaborating with FinTech may find them left in the cold. Like time and tide, technological innovations wait for none. Hence, the leadership in banks needs to have flexible mindsets to rapidly adapt to what their customers value.

So, it's prudent for banks to think outside the box.

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