

Editor's Pick

Is Mobile Banking Heading to Money Laundering Risk?

Faruk Ahmed

For any form of banking, transactions and its price should be regulated and its flow should be strictly supervised by the central bankers who control money supply to maintain financial stability. For mobile banking, it is more important, as its products are more sophisticated and complex and delivered via mobile channel, in some cases without face to face interactions like bank counters.

With the recent development in Mobile Banking Industry, the concern over money laundering is hitting the headlines. A new entity - Nagad from an unregulated regime - Bangladesh Postal service is poised to dislocate the growing payment territory strictly regulated by Bangladesh Bank with unregulated pricing offer.

And this rings warning bells on the mobile banking industry of Bangladesh where more than 50 million people mostly low-income and poor people are improving their standard of living with unique mobile banking services offered by 17 regulated banks with specified license from Central Bank. This is a gross violation of financial regulation by one unlicensed entity, which is posing threat of

money laundering and sparking gloomy signal to the growth of regulated mobile banking. So, the obvious question has been raised by many: Is the most promising mobile banking in jeopardy? Is it heading to money laundering risk?

The leading dailies at first brought this issue in their reports highlighting the concern over the possible risks of money laundering through this unregulated mobile banking channel. According to the reports, Nagad, a digital financial service, outsourced by Bangladesh Post Office to Third Wave Technologies has been setting up its operations to provide customers of services to send and receive cash and other payments through its digital channel. While Third Wave Technologies is defining its service as 'Digital Financial Services', in practice, it's virtually

same as a mobile financial service, without any valid license.

According to its announcement, Nagad customers can transact money in its different agent points named as Uddokta Points anywhere in Bangladesh even outside of post offices. One customer will be able to transact Tk 250,000.00 per day, which is 9 time higher than the limit set by the regulator for a customer of other operators of mobile banking for similar service.

Nagad is offering this service as a digital financial service provider of Bangladesh Post Office, which is ruled by the Postal Act primarily designed to operate Postal Savings Accounts, a department of the Ministry of Posts and Telecommunications and provide remittance services to rural people through postal accounts.

Services	Maximum amount per transaction (person to person)	Permitted daily total amount of transaction (person to person)	Cash out charge (per 1,000 taka)
Nagad	25,000	2,50,000	18
Other mobile financial services	15,000	15,000 (person to person)	20

The two big concerns

Innovation like Nagad is a welcome move. But industry experts are concerned over the business model of Nagad mainly for two reasons. Firstly, it has started operations without valid licence from financial regulator and secondly, it allows people to transact higher amount of money through its unauthorized channel. The question is how Bangladesh Bank, as the regulator of banking services industry will monitor money

Nagad, a digital financial service operated by Third Wave Technologies Limited, is allegedly violating the transaction limit by Mobile Financial Service (MFS). It allows people to transact in maximum Tk 250,000 per day, more than 16 times higher than BB's limit of Tk 15,000 per day. BB is worried for its unauthorized limit and channel,

BB worries over Nagad for violating transaction limit

Gazi Anowarul Hoque

country's financial system has sent a letter to the Anti Money Laundering Department to address the money laundering issues to give their views on the concerned issues.

Nagad, a digital financial service, outsourced by Bangladesh Post Office to Third Wave Technologies has been setting up its operations to help customers of postal services send and receive cash through its digital channel while Third Wave Technologies is defining its service as 'Digital Financial Services', in practice, it's virtually same as a mobile financial service, without any valid license, central bank officials said.

"Higher amount of transactions through MFS channel outside central bank's supervision may trigger money laundering, which ultimately will hit hard the economy and social security", one top central bank official told the New Nation.

He said the central bank's concerns centered mainly to mobile financial service offered by a non-bank service provider without valid license from the financial regulatory body and its transaction limit that exceeds the central bank's set limit for other MFS operators as it may encourage people to launder money.

"To reduce risks of money laundering, we have set limits of transactions through MFS channels. But Nagad is transacting higher amount of money beyond the regulatory limit, which will increase risk of money laundering", he said.

Nagad, operates under the Bangladesh Postal Act, is appointing agents in different points of the country to facilitate people send and receive money through the same agent network that 17 MFS operators use under the close supervision of Bangladesh Bank.

which may trigger money laundering.

The Payment System Department of Bangladesh Bank, responsible to supervise all payments under the

flow through Nagad channel since it governed by a different organization- not by the regulator?

The concerns are derived from risks of money laundering and financial instability. Firstly money transactions through a channel outside the regulatory boundary is risky and may destabilise the entire financial system. Secondly, higher amount of transactions through unlicensed channel may trigger money laundering in multifarious dimensions.

For mobile banking, it is more important, as its products are more sophisticated and complex and delivered via mobile channel, in some cases without face to face interactions like bank counters. And transaction limits must be consistent and transparent for the market as it encourages firms to compete on quality and

price, and lowers search barriers for consumers, facilitating their ability to exert competitive pressure on competing products.

For this purpose, Bangladesh Bank has already set revised limit of transactions for mobile banking and the existing players are doing business in line with the current limits. Industry experts fear that this will disrupt conducive market environment created by the financial

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Post office's digital transaction limit worries central bank

► **P R Biswas, AA** cial service, outsourced by Bangladesh Post Office to IT firm Third Wave Technologies has been setting up its operations to

Bangladesh Banks worried about operations of Nagad, a digital finan- the economy and social security hard", one top central bank official told The Asian Age. He said the central

MFS operations are set for 17 banks to check money laundering. Earlier, BB's limit for MFS transaction was maximum Tk 25,000 per day.

"Different service limits for different players for similar services will distort regulatory mechanism and business environment", a top central bank official said noting that this ultimately will hit hard the fast growing MFS industry where millions of poor people are beneficiaries.

The grave concern is high limit of transaction will encourage financial criminals to launder money", he said noting that any organization that facilitates financial transactions is increasingly coming within the scope of anti-money laundering (AML) legislation worldwide.

"Nagad should not be exceptional as it deals with money transactions in real time. So, fund flow through this

channel should be under central bank's direct supervision", he said adding that as a department of the Ministry of Posts and Telecommunications, the Bangladesh Post Office is not officially regulated.

In this regard, Mohammad Solaiman, Head of corporate and regulatory affairs of Third Wave Technologies said Nagad is operating business under the Postal Act and with no objection certificate from Bangladesh Bank. However, Dr. Lila Rashid, General Manager, Payment System Department of Bangladesh Bank said they didn't issue any letter or license to Nagad in this regard.

In different countries, post offices play vital role in boosting financial inclusion through encouraging rural people to receive remittance, save money in their accounts with post offices. But the outsourced business model of Nagad that

operates the postal service through a third party is unprecedented.

"The rapid progress made in the financial inclusion front of Bangladesh made over the years since 2011 was due mainly to impressive performance of MFS operators under strict regulatory supervision, consumer rights protections and conducive regulatory environment. So, we can't hurt this growth", a former central bank official said.

"A level playing field must be ensured to get benefits from innovations in financial inclusion", but, no real time financial operation is allowed in any economies without the direct supervisions of financial regulatory bodies," the former regulator asserted.

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regulator ensuring a level playing field for all innovative market players to boost financial inclusion.

Nagad: Different business model

In financial services industry, business model is important and it must be consistent with regulation where regulators ensure a level playing field for all market players. The concern is that Nagad has stood out with a different business model that stands outside the financial regulatory regime.

Industry pundits are of the opinion that post offices can boost account ownership by acting as cash-merchants for transactional financial services, such as electronic government and remittance payments, and that partnership between the post office and other financial institutions coincide with the possibility of higher bank account penetration. But more research is needed to better understand what regulations and under which business model post offices can most effectively and responsibly expand financial inclusion.

Different countries, however, adopted different

business models that are under the supervision and regulations of monetary authorities. India recently launched such service to boost financial inclusion through an independent payment bank regulated by Reserve Bank of India. As a department of the Ministry of Posts and Telecommunications, the Bangladesh Post Office is not official regulator of payment services.

The Universal Postal Union - a United Nations specialized agency that is the primary forum for cooperation between governments and postal sector players, created a database on post office business models around the world. According to its classification, the post offices in 7 economies in its sample have a postal bank license and are under the supervision of the banking supervisor and those in 24 economies offer financial services through partnership with a financial institution.

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Nagad under BB scanner

JANNATUL ISLAM

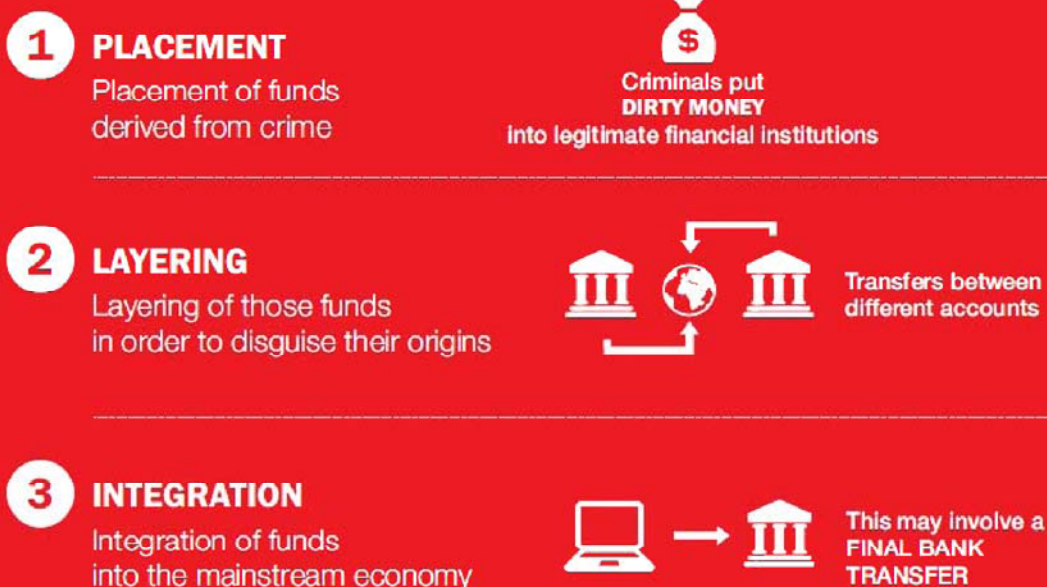
Bangladesh Bank (BB) is keeping a close watch on transactions of money through the digital financial service facilitated by the Postal Department, which is out of the purview of the central bank's supervision.

Central bank officials said the post office-based mobile banking service was launched without obtaining any valid licence.

"Any MFS transactions outside central bank's supervision may create scope for money laundering," a BB official said requesting anonymity.

Because of vulnerabilities of postal sector being used by money launderers and terrorist financiers, Bangladesh Bank (BB), as part of its supervisory process, formulated a clear guideline for postal remittance services. This guideline was designed to enable post offices to function in consistence with the Bangladesh's AML & CFT regulations and to ensure that appropriate identification

Money Laundering process



information is obtained in relation to the clients of post office and the payments made among them or remittances received on behalf of them.

So, industry experts say Nagad should come under the direct supervision of Bangladesh Bank play like other mobile banking services in a level playing field created by the regulator to boost financial inclusion. Otherwise, it may encourage illicit money flow and distort the level playing field that needs and has been created over the years to drive innovation to boost financial inclusion.

AML/CFT is the big concern

Mobile financial services or digital financial service, specially mobile money has the potential to expand access to financial services to millions of unbanked people. As such, it looks very promising in terms of financial inclusion, but concerns exist that mobile money can be detrimental to financial integrity since there are several proven risk factors linked to mobile financial services.

New technology of mobile telecommunication has enabled new economic relationships with unbanked as well as the banked. It also opened scope for bad actors to launder illicit funds or finance acts of terror. The concern is how can financial institution and financial crimes investors best position themselves to detect and deter misuse of this new technology medium?

The most important rationale for regulation in banking is to address concerns over the safety and stability of financial institutions, the financial sector as a whole, and the payments system. Recent regulatory actions have caused financial institutions to increase anti money laundering (AML) and counter terror financing (CFT) staff and big money at software providers like never before.

The Financial Action Task Force (FATF) sets international AML/CFT standards and oversees compliance monitoring and calls for national-level regulatory regimes. The six major financial integrity concerns in this regard, as identified by the World Bank, are unknown identity, false identification, smurfing, increased transaction speed, so-called phone

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Post office MFS under scanner

High transaction limits thru 'Nagad' mobile financial services raise question

RAFIQUL ISLAM AZAD

Bangladesh Bank is examining the operations of 'Nagad' of the Bangladesh Post Office that allows people to transact high amounts of money through its yet unauthorised mobile financial services (MFS).

Nagad was launched earlier this month to render 'digital financial services' in order to help people send and receive

action was maximum Tk 25,000 per day, which was later brought down to Tk 10,000 a day and now it is Tk 15,000.

According to a highly placed source in the Bangladesh Bank, Nagad, operated by Third Wave Technologies Limited (TWTL), has allegedly started operating as a mobile financial service (MFS) even though it did not take licence to operate MFS.

economy and social security, the source added.

"To reduce the risk of money laundering, we have set limits to transactions through MFS channels. But Nagad is transacting high amounts of money beyond the regulatory limit, which will increase the risk of money laundering," the source added.

Meanwhile, the Payment System Department of the Bangladesh Bank (BB),

"pooling" and phone "delegation", and a lack of regulation of providers of mobile financial services.

The latest Recommendations made by Financial Action Task Force (FATF) make provision for several anti-money laundering controls which are specifically applicable to mobile money, including controls regarding money or value transfer services and new technologies. One of such recommendations is that regulators must limit transaction through mobile banking channel to reduce risk of money laundering (ML) and counter terror financing (CFT) and monitor transactions through by enforcing KYC rules.

Because of vulnerabilities of postal sector being used by money launderers and terrorist financiers, Bangladesh Bank (BB), as part of its supervisory process, formulated a clear guideline for postal remittance services. This guideline was designed to enable post offices to function in consistence with the Bangladesh's AML & CFT regulations. As, Nagad is not regulated by Bangladesh Bank, the risk of money laundering through its channel is enormous as it allows higher amount of transactions through a channel not monitored by the financial regulator.

Regulatory Concerns

And these concerned have generated many questions in the financial services industry where AML/CFT is now a big concern for all. As the Bangladesh Post Office is not designed to regulate such payment services; the question remains - who will regulate the payment services to be delivered through Nagad digital channel? Where would the cash and digital money be stored and reconciled and which authority would supervise the money supply to control inflation and check money laundering? What model should we allow to boost digital financial services

Financial services like banks and insurance companies are highly regulated with laws and it important because it provides stability to the markets and serves inter alia to protect customers, workers and taxpayers from moral hazards that are inherent in certain decisions. And Nagad should not be exempted from regulatory supervision.

But the fact is that Nagad, operated under the Postal Act has a limitation to facilitate digital financial services to mass people, like mobile banking operators, regulated by the central bank. The primary difference between rules and regulation is that while the former does not as such have a legal binding, the latter have a legal binding. The other concern is that different model.

For any form of banking, transactions and its price should be regulated and its flow should be strictly supervised by the central bankers who control money supply to maintain financial stability. For mobile banking, it is more important, as its products are more sophisticated and complex and delivered via mobile channel, in some cases without face to face interactions like bank counters.

In Bangladesh, mobile banking is running on a unique bank led model under the close supervisory radar of Bangladesh Bank (BB) and the regulatory guidelines provide enabling environment for innovations in cost efficiency of

this off-branch financial services delivery along with putting system as per anti-money laundering and combating financing of terrorism laws and regulations.

Level playing field is imperative

As a source of innovation, an engine of our economy, and a unique tool for boosting financial inclusion, the mobile banking can only work if it's a truly level playing field. And business model and a conducive business environment are vital to reap the benefits of this innovative service without distortions. So, regulators across the globe tend to create a level

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Nagad under BB scanner

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Bangladesh Bank (BB) is keeping a close watch on transactions of money through the digital financial service facilitated by the Postal Department, which is out of the purview of the central bank's supervision.

Central bank officials said the post office-based mobile banking service was launched without obtain-

playing field for all market players, as there is evidence that regulatory ignorance can bring market distortions and harm consumer rights protection, slow down both market uptake and customer adoption.

Not only risk of money laundering, industry players fear that sudden entrance of Nagad from a different business environment to the highly regulated financial industry will hit the balanced growth of market players, destabilise conducive environment of financial services by breaking the level playing field. Industry experts say the government and regulators should create a level playing field and conducive environment for all market players so that transparency, efficiency and market dynamism are kept in uniform consonance and consumer rights are kept under due protection.

Regulatory action is urgent

In case of Nagad, therefore, regulatory intervention is urgent.

Industry experts say Nagad operations should come under the supervision of none other than Bangladesh Bank, if it remains in digital financial service operations similar to mobile banking operations rendered by other operators. And its transaction limit should be set in line with other market players to avoid any untoward situation.

Bangladesh has a great success story with fastest growth of its mobile banking which have brought millions of unbanked people to the mainstream of the economy. But this glory will fade out soon, many industry players said, if unregulated players are allowed to play with them with distorting pricing model and under a different environment.

An enabling environment and strict adherence of policy by service providers are urgent to sustain the success and make mobile banking a game changer for poor people. So, Bangladesh Bank should take necessary measures promptly to create a balance growth in digital payment landscape creating a level playing field for all market players to sustain industry growth momentum.

Bangladesh Bank and the Postal authority should work together to evaluate these issues keeping in mind the discipline, financial stability, consumer protection, fair competition and above all the integrity of the sector. Activities with similar levels of financial risks should have the same regulatory treatment, regardless of who performs them, in order to foment financial stability, consumer protection and the integrity of the system.

Otherwise, industry experts fear that the mobile banking would head to money laundering risk and face severe situation, putting financial inclusion into jeopardy.

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