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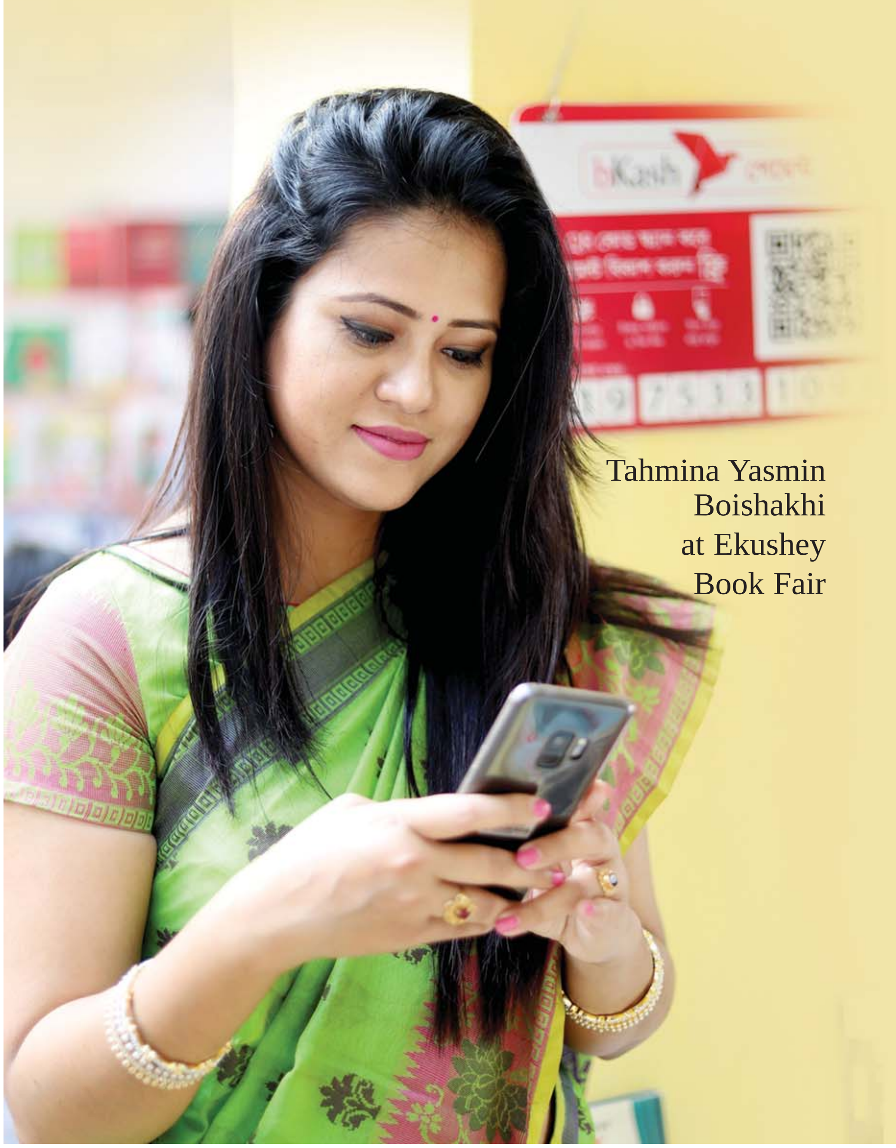
Editor's Pick

The Role of Innovations & Regulations Under Scrutiny

Moving Towards A Less Cash Society

Faruk Ahmed



Tahmina Yasmin Boishakhi at Ekushey Book Fair

The world is awash in cash, with major country central banks pumping out hundreds of billions of dollars worth each year mainly in large denomination notes. But people in some nations are now just dumping cash in mobile wallets or plastic cards. The benefits are enormous: No cash handling fees, no trips to the bank, shorter queues, quicker transactions, less chance of fraud and robbery and seamless transactions for the retailer and the customer. As a result, the use of cash has been steadily declining around the world and some experts predict that cash payments will fall by as much as 50 percent over the next ten years.

And Bangladesh is not far behind from this race as payment business here is at the cusp of a revolution, thanks to the well perceived vision of 'Digital Bangladesh'. With this spirit, the nation is moving fast towards a less cash society with the exponential growth of Digital/Mobile Financial Services (DFS/MFS) encompassing rural and remote areas and urban areas equally. The government is facilitating conducive environment to promote innovations in payments while the regulator is providing appropriate regulations and strict supervision. At present, a great percentage of the government-to-business payments have been shifted to the digital channels, while more than 50 million people are using MFS innovation in their daily transactions across the country under a secure and business-friendly financial environment. With the day by day increase of smartphone penetration along with 4G networks and deployment of QR technology, the use of mobile wallet has turned more convenient. With the growing number of payment innovation, more people in Bangladesh are becoming digital consumers who are using mobile payment as way of life and more and more as common practice.

Besides, mobile wallets, plastic cards offered by banks are also accelerating the Bangladesh's journey towards a cashless society. Millions of young consumers are now using cards to buy food in restaurants, grocery and clothing items in shopping malls, which has pushed up credit card transactions to Tk. 1007.1 crore as on September'18, according to Bangladesh Bank. As the demand for cards is increasing day by day commercial banks are installing more booths in every corner across the country to attract more digital customers. E-commerce business is also growing rapidly in Bangladesh as more than 30 percent banks have 'Online Payment Gateway Service' for e-commerce payment processing, while more than 928 online shop owners and merchants are selling products using bank's payment gateways. The volume of e-commerce has exceeded Tk 3000 crore in 2018 thanks to the 'state of the art' payment services offered by MFS operators like bKash, Rocket, U-Pay, i-Pay under a conducive yet stringent regulatory environment. According to the Goldman Sachs, Bangladesh's e-commerce market will surge to USD 20 billion by 2020. Nearly 80 percent of online users use the Internet for online purchase and 50 percent of them go online to purchase products more than once, which pushed up fund transfer through internet by 30.84 percent in September 2018 from the previous month.

So, Bangladesh is moving towards a less cash society at a steady speed. Industry experts say this shift is a big boon for the country which is willing to become a middle-income economy by 2030. Cashless transaction still has huge potential in Bangladesh, as only 1 percent of the country's transactions are made through digital platforms. The big advantage for the nation is that its people are accustomed to innovations and quick learners - receiving benefit the soonest with all the people follow suit. That is why bKash, the leading MFS

operator of Bangladesh has become the largest MFS operator across the world in terms of customer number, which has surpassed 31 million across the country within just seven years. With its expanding DFS/MFS industry, that has experienced an astronomical 120 per cent growth a year since 2011, Bangladesh has a bright opportunity to leverage the advantages of a cashless society.

Though the reality of a cashless society is still more of a long distant dream, it is not very hard to become a less cash nation especially for Bangladesh, which has a golden history of Victory after a nine-month blood bathed war of independence and now a global role model for economic growth. But there's still a long way to go to replace paper money or coins with digital solutions. Here the role of innovation and regulation is crucial. When incidences of money laundering and fraudulence are the big concern and powerful players are coming to invade the fast-growing payment landscape, then the roles of innovations and regulations are crucial.

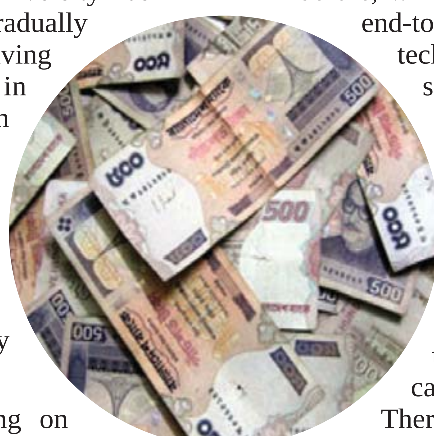
But the roles of innovations and regulations have come in the scrutiny as two different regulators are working in the country's payment industry with two different innovations. Industry experts say time has come to create a level playing field for all innovations and define the roles of regulators to accelerate Bangladesh journey towards a less cash society.

Why We Need A 'Less-cash Society'

The world is awash in paper currency as major country central banks are pumping out hundreds of billions of dollars' worth each year mainly in very large denomination notes such as the $100 bill. The $100 bill accounts for almost 80% of the US's stunning $4,200 per capita cash supply. The ¥10,000 note (about $100) accounts for roughly 90% of all Japan's currency, where per capita cash holdings are almost $7,000. And, most

economists around the world arguing for two decades, all this cash is facilitating growth mainly in the underground economy, not the legal one.

In his book, The Curse of Cash, Kenneth Rogoff, Thomas D. Cabot, Professor of Public Policy and Professor of Economics, Harvard University has offered a plan that involves very gradually phasing out large notes, while leaving small notes ($10 and below) in circulation indefinitely. The plan provides for financial inclusion by offering low-income households free debit accounts, which could also be used to make government transfer payments. This last step is one that some countries, such as Denmark and Sweden, have already taken.



However, a debate has been going on regarding the cashless economy or less cash economy among economists around the world. But most experts believe that the fairer and safer place for the economy would be a less-cash society or a cashless society for many reasons. Cash may seem like a small, unimportant thing in today's high-tech financial world, but the benefits of phasing out most paper currency are a lot larger. And it can be anonymous and untraceable, allowing it to play a large role in crime, including bribery, tax evasion, money counterfeiting, corruption and terrorist financing.

With technologies such as voice and face-recognition, digital transactions are traceable, more secure than ever before, while payments can also be protected by end-to-end encryption and fraud-preventing technology. There are billions of untaxed shekels around the world and the public is missing out on use of these funds. On the other hand, digital money is truly traceable, allowing the authority to stop tax evasion, money counterfeiting, corruption and terrorist financing.

Reducing use of cash saves employee time and payroll costs by eliminating cash registers and visits to the bank. There is no need of guards for armored cars. Recent data from the Higg Index from nearly 3,000 factories across 58 countries, representing 85 brands and retailer supply chains shows that 67% of the factories pay workers digitally through bank accounts. The rest still use cash or check distribution - which is not safe for workers or businesses. Across the globe, the study shows factories that pay workers digitally are five times more likely to follow exemplary social and labor practices than those that pay with cash or checks. There are also significant discrepancies between the countries.

The cost of using cash handling is one of the main reasons that encourages the people to dump cash in digital wallets. On the other hand, it is considerably cheaper to process card payments than to handle and manage cash. According to study of Tufts University, the cost of an electronic transaction is one-fourth that of human-given services, while the cost of using cash to consumers, business and governments is about $200 billion a year in everything from ATM fees to theft to lost tax revenue. For the average American family, that's more than $1,700 a year. Retail Banking Research (RBR) estimates that the process of managing cash costs each individual in Europe €130 per year. For UK consumers, a cashless society would result in savings of up to £110 a year.

A cashless society also provides scope for more monetary policy. With physical cash, people choose convenience over other safe assets offering higher yields. During economic downturns, governments face challenges stimulating the economy by lowering interest rates, since people are likely to hoard their cash instead. With digital payments and no cash, people are unable to withdraw money from the financial system

and governments and banks can leverage greater control of the economy stimulating more lending from banks and increased investment by businesses, as well as encouraging people to invest, lend and spend instead of amassing money.

So, most countries have started a journey from cash only transactions to less cash and thereafter if possible, moving to cashless or digital money society. Central bankers of countries like Indonesia and Bangladesh believe that a less cash society is feasible and desirable for them immediately to become a cashless society in longer time. Indonesia has already chalked out a mega plan to make the country a less cash society.

Role of Innovation & Regulation

To build a less cash or full cash society, innovation is imperative. In payment landscape, many innovations have stood out and payment transactions have evolved from simple cash payments to bank cards and are now transforming again to encompass contactless capabilities. Technologies like NFC (near field communications) are already allowing shoppers to make even small purchases using ubiquitous smartphones and other portable devices. With the introduction of new POS technologies, businesses of all sorts - from a neighborhood smoothie stand to a nearby farmer's market - can adapt to the cashless society.

For countries that have huge population in rural areas, like Bangladesh, China and Indonesia, the most effective innovation in payment is mobile financial service (MFS), which has seamlessly penetrated into every person's daily activities in those countries and has had a profound effect on poor lives. But an un-level playing field in the era of globalisation can create innovation winners or losers. The new book Innovation and Growth: Chasing a Moving Frontier, published jointly by the Organisation for Economic Co-Operation and Development (OECD) and the World Bank, describes how innovation puts developing countries on an un-level playing field compared to developed countries. In the book, experts show how the more open and global nature of innovation makes innovation policies more difficult to design, implement and monitor at the national scale alone.

To realise the promise of greater economic growth, incumbent businesses, challengers and the policymakers who regulate them need to find a balance that encourages fairness without either stifling

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entrepreneurialism or compromising the public interest. Finding this balance has proven difficult for businesses and industry regulators alike. An enabling environment and strict adherence of policy by innovation players are urgent to realise the promise of greater economic growth. Supporting innovation can also help regulators meet their objectives such as promoting competition and making markets work well for consumers.

Regulation should be risk-based and technologically neutral-i.e., 'same risk - same regulation'-for everybody. The same regulatory conditions and supervision should apply to all actors who seek to innovate and compete in the digital financial system. And all innovations require the most robust security and compliance capabilities to meet regulatory obligations, protect themselves from threat actors and instill confidence in their stakeholders. Regulators themselves require secure, agile, and performant technology to support their own oversight activities and continue to ensure the stability of the financial system. Regulators should not only be responsive but also proactive so that the players can balance new product development with stability and consumer protection.

Disruptive innovators have entered the market to provide products and services which not only increase consumer welfare, and drive financial inclusion, but also force their competition to up their game. Regulators have to provide a level playing field for all participants (banks and non-banks alike), while at the same time fostering an innovative, secure and competitive financial market.

So, innovation and regulation should move hand in hand.

Bangladesh : Moving Fast With MFS

Bangladesh is moving ahead like a rocket speed with a target to become a developed economy by 2030 and going to be a less cash nation thanks to rapid growth of digital transactions mostly through MFS channels. Bangladesh Bank data that shows that the average daily transactions through mobile financial services (MFS) has jumped to Tk 1005.51 crore in September last,

which is five time higher than the amount recorded in the same month in 2014.

And this move has gained momentum in recent time thanks to rapid growth of smart phone users and fastest growing MFS industry led by bKash, the largest player in Bangladesh with more than 32 million subscribers mostly who were unbanked poor. A total of 18 commercial banks are involved in MFS service in Bangladesh where bKash is playing revolutionary role in this landscape thanks to its service innovations that meet customers' expectations. BKash recently has launched a customer app, making financial transactions easier and simpler with the use of smart phones. For its simple, user-friendly, and useful features, bKash App has been recognized as the best financial innovation at the Bangladesh Innovation Award 2018.

More banks are now adopting this innovation to survive in the highly competitive environment while some of them are making collaboration with bKash and other

Experts' Opinion

Z. A. M. Khairuzzaman

Industry experts say Bangladesh need a 'less-cash society' as cash facilitates crime because it is anonymous and big bills are especially problematic because they are so easy to carry and conceal. And it is moving fast thanks to technology in payments but need a level playing field for all innovations through same regulation.

"Launching e-card and MFS like bKash is a good initiative taken by the government. This will also help reduce corruption to a great extent", said Dr Md Amzad Hossain, professor of Finance Department at Rajshahi University (RU).

"Crime and corruption, though difficult to quantify, almost surely generate even greater costs. Scaling back the use of cash is a far more humane way to limit immigration than building barbed-wire fences', he said.

Md Rezaul Karim Bakshi, professor of Economics department at RU has expressed the same view. "A level playing field is essential for digital financial service operators to restore transparency, efficiency and market dynamism as well as consumer rights protection", he told The Bangladesh Express.

For Bkash, Rocket, U-Cash and others, the central bank has fixed the amount of money transfer at Tk 15,000 per a day while it is Tk 2,50,000 for Nagad run by Post Office, he mentioned.

Prof Dr Shah Azam Shantonu of RU Marketing Department said Bangladesh move towards a cashless society will face jolt if innovations fail to play their role efficiently in absence of a level playing field.

"Different rules in a similar business for different operators are not conducive to drive growth. As Nagad is still in the market with unfair pricing policy, it should be brought under central bank's regulatory scanner", he said.

Prof Dr Shah Azam Shantonu of RU Marketing Department, said, "A revolution took place following launching of Mobile Financial Service. Digital money transfer is one of the revolutionary achievements that Bangladesh has achieved in the last decade.

He said Bangladesh has scored the highest economic growth in mobile money transfer. This has made general people's lives easier. But in certain cases, limitations imposed on cash out in some online money transfer service providers cause hardship.

"You should not cut your head for headache", he said. "For greater interest, transaction limit for cash out through digital channel should be increased to free general people of the hardship. To reduce risks of money laundering, it should increase its supervision".

operators to avoid high investment. This has already stimulated the inflow of remittance as Bangladeshi workers living abroad are sending their hard-earned remittance to their relatives through bkash via Western unions. More service innovative providers like Pathao and sellers of goods and services are using bkash payment. To ensure due roles of innovations, the central bank has formulated a prudential guideline for all banks and non-bank players of digital payment field to protect consumer rights and stop money laundering.

But the fastest growing payment industry is now becoming a battle field as different players from different regulators are coming with new innovations and creating an un-level field which is distorting regulatory environment. For example, Nagad, a digital financial service operated by Bangladesh Post Office has stood out with different approach outside the central bank's regulations for other innovations. According to reports published in leading dailies, this new player allows its customers higher amount of money- nine time greater than the existing MFS operators set by the financial regulator-

Time To Create A Level Playing Field

He said the unbanked pay four times more in fees to access their money than those with bank accounts. They also pay higher fees per month for cash access on average than those with formal financial services. Such fees include those charged for payday lending, buy-here-pay-here auto loans and check cashing.

Professor Tanjil Bhuiyan of Hospitality and Management Department, Rajshahi University (RU) said Bangladesh should go ahead towards a cashless society. Forward march towards less-cash society already started all over the world.In some countries, the private sector has led the way, creating "less cash" societies in the unlikeliest of places.

Consider Somaliland, one of the poorest countries in the world. It stands at the forefront of a mobile payment revolution with its ZAAD platform. At over 30 mobile payment transactions a month on average, the average citizen of Somaliland is far ahead of the rest of the world's average of 8.5 such transactions per capita per month, he said.

"Singapore, the Netherlands, France, Sweden and Switzerland are among the least cash-reliant countries.In the US, cash usage imposes a regressive tax on consumers, with the highest impact on people who do not have an account with a bank".

He demanded of the government to increase the daily transaction limit of Bkash and other MFS operators in a bid create a level-playing field. He also demanded modernisation of post offices.

Amzad Hossain

Md Rezaul Karim Bakshi

Tanjil Bhiuya

Dr Shah Azam

Bangladesh Bank. This has created anarchy among both market players and millions of customers who are using mobile financial services to meet their daily needs.

Not only risk of money laundering, MFS operators have expressed their concern that sudden entrance of Nagad from a different business environment to the highly regulated financial industry will to hit the balanced growth of market players, destiblise conducive environment of financial services by breaking the level playing field. So, the question has been raised about the role of innovation and responsibility of regulators to create a less cash society to drive growth.

Industry experts say Nagad should be regulated by the central bank. And all innovations should adhere to the rules of Bangladesh Financial Intelligence (BFIU) authority to reduce risks of money laundering.

Bangladesh Bank and the Bangladesh Post Office should ensure a balance growth in digital payment landscape creating a level playing field for all market players to sustain industry growth momentum. Regulations should be same for all players of similar business and regulators must ensure a level playing field for all innovations. Otherwise, unwanted situation may arise to kill innovations and consumers will lose confidence. At the same time, innovation operators must maintain transparency and balance product development with stability and ensure consumer rights protection and more investments in consumer literacy and security of services.

The biggest hurdle for instant adoption of digital mode of payments still now is the poor speed of internet platform, low literacy rates, non-availability of electricity and lack of a level playing field for similar market players. So, innovative players cannot ignore their responsibility to educate their consumers and protect their rights in operations.

The Bottom Line

Bangladesh is moving fast to turn its rural economy into a less cash economy with its MFS innovation, which can help the government to increase revenue income and reduce black money to meet its widened trade deficit. Here, the role of innovation and regulation is crucial and should go hand in hand and move in responsive way. All efforts will go in vein, if different regulators act in different ways and fail to create a level playing field and entertain similar innovations in equal footing.