

Financial Inclusion: The Digital Way

Quazi Mortuza Ali
Vice President and Head of Alternative Delivery Channel
Bank Asia Ltd
qmortuza@gmail.com, +8801755597389
LM- 1467

What is Financial Inclusion:

The term *financial inclusion* refers to a broad financial system that provides access to financing, mobilization of savings, credit allocation, risk management as well as payment services. Financial inclusion refers to both the adequate provision of services by the financial institutions as well as the appropriate uptake or use of these services by all segments of the population. Although it is just one aspect of financial inclusion, an integrated payment system is a critical component of financial inclusion. Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society.

An estimated 2.5 billion working-age adults globally have no access to the types of formal financial services delivered by regulated financial institutions.

It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of financial inclusion public policy.

Why Financial Exclusion:

A vast majority of Bangladeshi lives outside the full formal banking network (about half of the adult people) and therefore deprived from essential financial services and subjected to unfair money lending practices. The Banks have traditionally been very cautious in extending its branches to remoter areas. The root causes for the uneven coverage of financial facilities are manifold:

- 1) **Long distances & Low population density:** There are many areas where people and financial activity not enough to run a formal banking branch.
- 2) **High bank cost relative to income:** Most of the un-banked people have low income. Existing bank charges are high compared to their income.
- 3) **Low education & Illiteracy:** Low educated and illiterate people cannot access existing financial services; the traditional banking requires a lot of paper work.
- 4) **Poor product/ channel design:** Available financial products cannot cater all segments of the society as well as financial demands.
- 5) **Awareness & Policy Support:** Lack of awareness among population is also responsible for low penetration, Present legal framework is aligned to support traditional banking only.

The major barrier is geographical or physical access measuring the average distance from household to bank branch; however, the branches per 1,000 square kilometres could be used as

crude indicator for providing an initial idea to the barriers of inclusion, Bangladesh Bank (BB) said in a working paper styled 'Financial Inclusion: The Role of Bangladesh Bank,'.

Citing an example, the paper said Spain has 96 branches per 100,000 people and 790 branches per 1,000 square kilometres, while Bangladesh has less than seven branches (or ATM) per 100,000 population and about 67 branches (or ATM) per 1,000 square kilometres. A large section of the population who do not have any physical access to the banking services are in rural and remote areas in the country, according to the paper.

A CGAP study¹ found a strong correlation between the likelihood of being poor and the likelihood of not having had a bank account among users. "As a competitive and cost effective strategy, major banks focus on large scale of loans instead of providing services for small size of loan; as a result, rational business decisions prevent a major portion of people from accessing loan services including small and medium enterprises (SME) and agriculture loan," it said quoting poor level of technological infrastructure.

The Bangladesh Government has approached to address some of the issues of financial inclusion by a number of ways, for example by popularizing banking through the 10Tk Account and by encouraging Mobile Financial Services (MFS) initiatives. But despite their commendable goals, these initiatives are not without their own challenges. Very low level of deposit/transactions in 10TK account makes it difficult for the Banks to maintain them as well as failed to create the desired impetus among the rural Bangladeshis, and MFS requires the account holders to own a mobile—hence the poorest folks are already excluded from the benefits. Additionally, the transactions are prohibitively expensive and only small transfer type transactions are mainly executed through the channel. Moreover, there are some issues of clearly customer identification at registration and authentication at withdrawal as it is based on PIN (Personal Identification Number) which is very prone to compromise.

Long distances & low pop density



High bank costs relative to income



Low education & illiteracy



Poor product / Channel design

Poor awareness

Legal Policy / Farework weakness

The MFS transactions environment is not like a bank. It's within another business and people don't feel comfort for day to day transactions. So far the Government and Donor agencies fund couldn't processed that much due to these limitations.

Solution to Financial Inclusion:

Bangladesh Bank has taken initiative to promote another banking model called "Agent Banking", which is to provide formal full-fledged banking services at the door step of the common people. Bangladesh issued Agent Banking Guideline in December 2013 in this regard and subsequent guidance note also circulated. Bangladesh Bank has permitted few banks for Agent Banking. So far only Bank Asia Limited has started Agent Banking Operation in 15 districts.

What is Agent Banking:

Agent Banking provides banking and financial services to the underserved population through engaged agents under a valid agency agreement, rather than a teller/ cashier. Agent is the owner of an outlet who conducts banking transactions on behalf of a bank. Globally these retailers are increasingly utilized as important distribution channels for financial inclusion.

The agent banking model is one in which banks provide financial services through nonbank agents, such as educated individuals, chain grocery stores, retail outlets, post offices, pharmacies or NGOs. This model allows banks to expand services into areas where they do

not have sufficient incentive or capacity to establish a formal branch, which is particularly true in rural and poor areas where as a result a high percentage of people are unbanked.

Agent banking is quickly becoming recognized as a viable strategy in many countries for extending formal financial services into poor and rural areas. In recent years, agent banking has been adopted and implemented with varying degrees of success by a number of developing countries. Brazil is often recognized as a global pioneer in this area since it was an early adopter of the model and over the years has developed a mature network of agent banks covering more than 99% of the country's municipalities. Other countries have followed suit, including Mexico, Peru, Colombia, Ecuador, Venezuela, Argentina, Bolivia, Pakistan, Philippines, Kenya, South Africa, Uganda and India.

The regulation, design, and implementation of agent banking vary across countries. These differences are evident in the variety of services offered by agents, the types of businesses acting as agents, the types of financial institutions that work through agents and the business structures employed to manage them. These differences ultimately contribute to the disparities in the extent to which agent banking is actually bridging the financial inclusion gap.



Agent Banking Objectives:

Agent Banking success depends on meeting the following objectives:

1. Provide secured banking services to the unbanked people throughout the country
2. Build agent booths all over the country and create financial service entrepreneurs
3. Provide foreign inward remittance services to the families of expatriate Bangladeshis
4. Provide facilities for utility bill payment, Passport fee payment, social safety net payment services, etc.

5. Process Agricultural, SME & Retail loan from the agent points
6. Enable e-Commerce services through the agent outlets from remote areas
7. Promote school banking in the locality
8. Financing in renewable energy sectors as a green banking initiative

Services for agent banking:

The following services may be offered for agent banking:

- I. Account opening services
- II. Deposit
- III. Withdraw
- IV. Transfer
- V. Inward Foreign Remittance
- VI. Ecommerce
- VII. Utility Bill Payment
- VIII. Social Safety Net cash payment
- IX. Balance Inquiry
- X. Account Statement (mini)
- XI. Insurance Premium
- XII. Passport fee collection
- XIII. SME loan processing
- XIV. Agricultural Loan processing
- XV. Retail Loan processing
- XVI. Support green banking initiative like Solar Home system
- XVII. Debit/ Credit card paper processing
- XVIII. Card based transaction of any bank (Human ATM)
- XIX. Government to People Payments
- XX. People to Government Payments



Any citizen or organization of Bangladesh is eligible to open an account having a valid photo ID card of account holder, ID card of nominee, (trade license, TIN certificate, etc. for organization). The individual intended to open account must be introduced by another account holder of any branch of Bank Asia Limited. These rules for account opening of agent banking are subject to change by Bangladesh Bank guidelines from time to time.

Savings & Current Accounts

All other terms and conditions are similarly applicable as applicable for a savings/ current deposit account maintained with any branch of Bank Asia Limited. Interestingly, there are few exceptions:

- a. The most interesting and innovative thing is that an illiterate person can open and operate an account as s/he doesn't need to sign for withdrawal, deposit, transfer, etc. Finger print will be used for authentication replacing signature. These procedures will clearly bring new edge for financial inclusion.
- b. Transaction profile of Agent Banking will be followed. At present, as per Bangladesh Bank Circular, a customer can deposit and withdraw two times at best per day and each transaction can't be more than Tk.25,000.00 only. It may be changed from time to time in conformity with Bangladesh Bank Circular from time to time.
- c. Account maintenance charges will be as per Agent Banking schedule of charges of Bank Asia Limited. It is mentionable that agent will not impose any charge to customer directly for account maintenance as per Bangladesh Bank Guidelines. Bank will provide reasonable fee or commission to the agent.
- d. No Cheque will be issued for these accounts. This is also an interesting part of agent banking that account holder can avail withdrawal, transfer, etc. without any cheque leaf which will reduce financial, physical and mental cost of the customer. This is another edge over the traditional and conventional banking procedures.

DPS Accounts

All terms and conditions are similar like a DPS account maintain with any branch of Bank Asia Limited. There are few exceptions similar to those of Savings/ Current deposit account which is already mentioned above. These are:

- a. An illiterate person can open and operate a DPS account as s/he doesn't need to sign anything relating to DPS account open and maintenance.
- b. Savings or Current deposit account will be the source for any debit or credit to DPS account. This is also similar to conventional procedures.

Term Deposit

Term deposits will be a small amount than conventional banking. Each term deposit will be linked to a savings or current deposit account. Each term deposit won't be more than Tk.2,00,000.00 (two lac only) and each customer will be allowed to make five term deposits at best i.e. a customer can make term deposit of Tk.10,00,000.00 (ten lac only) at best.

The customers will be provided only computer generated printed deposit receipt. The receipt would not be signed by any person.

I. Deposit

Agents are allowed to receive cash deposit, clearing cheque and loan repayment from account holders.

- a. Cash: The customers will request to deposit cash in their accounts. The cash will be received by agent and will entry in the agent banking system. The system will provide an SMS to customer's registered mobile as well as a printed receipt for the transaction.
- b. Clearing Cheque: The agent will receive the cheque and forward to nearby branch of Bank Asia Limited for collection. Branch will collect through clearing and deposit the amount to customer's account. Customer will get SMS notification after cheque clearing.
- c. Loan Repayment: The agent will receive any deposit for Bank Asia's loan repayment and deposit the same to the account. Customer will get SMS and printed receipt for the transaction.

II. Withdrawal

Agents are allowed to pay cash to accountholders, disburse foreign remittance and approved SME, agricultural loan.

- a. Cash: The customers will request for withdraw of cash from their accounts. The agent will request the customer to put finger to the finger print detecting device which will verify the significance of the authenticity. This procedure is similar to placing cheque over the counter and verifying signature by a bank officer. When finger print will match, it will be linked to the account of the customer. Then, the agent will complete procedures in system to debit the amount as requested by the customer. System will provide an SMS to customer's registered mobile as well as a printed receipt for the transaction. The agent will provide cash to the customers.
- b. Inward Foreign Remittance: The customer will come to agent's premises for withdrawing foreign remittance. The agent will seek necessary information and assist the customer to fill up required form provided by Bank Asia Limited. Once, the customer complete filling up the form by providing necessary information and other documents like NID Card or other photo ID card, agent will input necessary information in the system and the agent will be notified from the system about the authenticity of the claimed amount. If back office finds provided information correct then allows agent to disburse the amount, the agent will provide right amount of cash

to the customer and the customer will get a notification to his registered mobile number about this transaction

- c. Loan Disbursement: The agent will provide cash verifying through finger print for loan disbursement as per request sent from Bank. Customer will get SMS and printed receipt for the transaction.

III. Transfer

Agents are allowed to process transfer request from any account. Only the account account holder will be able to request to transfer fund by debiting his/her account. The account holder will provide beneficiary account detail and put finger to the finger print detecting device for confirming the authenticity and his holding right title over the account. If the finger print is matched with finger print stored at back office end, the agent will be allowed to put necessary information to transfer right amount of money to the account as requested by the customer. The customer will get a notification from the back office end after successful completion of the transaction. A printed receipt of the transaction will also be allowed to the customer. Such transfer is allowed to any account maintained with Bank Asia Limited. Surprisingly, transfer to any account of any bank is possible through agent's premises. It will be possible through Electronic Fund Transfer procedure.

IV. Inward Foreign Remittance

Inward foreign remittance would be processed for cash withdrawal as well as account transfer. Cash withdrawal will be processed as mentioned in withdrawal section. If remitter mentions account number of the beneficiary through any banking channel from anywhere of the world through amount would be credited to the beneficiary account. It may be mentioned that the transaction may be processed through other bank remittance channel also, and then the transaction would be processed through Electronic Fund Transfer Network. The beneficiary would get SMS notification upon crediting his/her account instantly.

V. Utility Bill Payment

Various utility bills like rural electrification board's bill payment to be processed through agent banking by depositing cash or requesting transfer from account. The cash payment may have a service charge.

VI. Social Safety Net cash payment

Agents are able to pay cash against government social safety net provided that Bank Asia has arrangement with the government for the same.

VII. Balance Inquiry

Customers can come to agent premises and inquire balance in his account. Agent will request the customer to put finger on the finger print detecting device for the authenticity. Once the fingerprint is matched with finger print scanned earlier at the time of account opening, the system will inform the customer about the balance in his account through SMS.

VIII. Account Statement (mini)

Customers can request to the agent for account statement. This procedure is same for balance inquiry. Agent will provide account statement subject to matching of finger print.

IX. Insurance Premium Collection

Customers can deposit insurance premiums at the agent booth subject to Bank Asia has arrangement with the insurance companies.

X. Passport fee collection

Bank Asia is already entitled to receive passport fee on behalf of the government of Bangladesh. The agents are allowed to receive the same. The agent will provide printed receipt for the service.

XI. SME Loan Processing

Agents may process and forward SME loan proposals. The proposal evaluation and approval will be given by authorized department of bank's back office. However, agent can disburse the approved loan to the customer. The agent may help for collection of loans. The agents would be able to receive any loan installment of Bank Asia Ld.

XII. Agricultural Loan Processing

Agents may process and forward agricultural loan proposals. The proposal evaluation and approval will be given by the authorized department of bank's back office. Like SME loan, agent can disburse approved agricultural loan to the customer. The agent may help for collection of loans. The agents would be able to receive any loan installment of Bank Asia Ld.

XIII. Personal Loan Processing

Agents may process and forward personal loan proposals for House building and any consumer financing offer from Bank Asia Ltd. The proposal evaluation and approval will be given by the authorized department of bank's back office. Like SME & Agriculture loan, agent can disburse approved personal loan to the customer. The agent may help for collection of loans. The agents would be able to receive any loan installment of Bank Asia Ld.

XIV. Support green banking initiative like Solar Home System

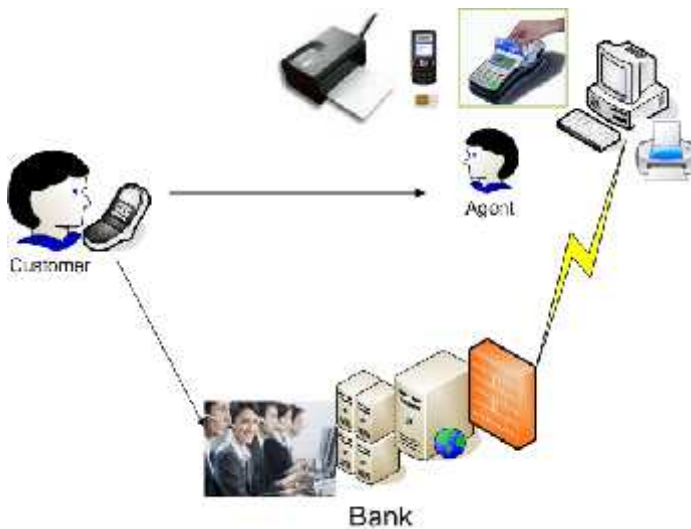
Agent Banking would be used for various green banking services. Agents would be encouraged for renewable energy financing like Solar Home System.

Agent Banking Model

Bank Asia has taken initiative to implement Agent Banking in all districts of Bangladesh.

A module for Agent Banking system is developed with bio-metric authentication system. All transactions are real-time and being authenticated by Fingerprint of Customers and Agents.

Bank Asia's agent banking solution model at a glance:



1. Agent will be equipped with
 - a) Computer/ Laptop
 - b) Mobile
 - c) Bio-Metric Device
 - d) Printer
 - e) POS
2. Customers will have access to 24X7 call center
3. All Transactions will be real-time
4. Customers will get SMS notifications



Conclusion:

Agent Banking will ensure proper customer identification and services at the doorstep of common people with state-of-the-art technology. The digital way of providing services would ensure security and safety of the common people for their fund. The Financial inclusion criterion: Close to the common people; Availability for all people including disabled, illiterate; All the financial services and at affordable cost are met in the Agent Banking. The Agent Banking would be the tool for ensuring Bank Account for all the Adult people of Bangladesh.