

0.0 Introduction

The financial sector in Bangladesh has undergone tremendous growth in volume and complexity over the recent years. However despite impressive growth gains in capital base, income, return on equity and other areas, the financial sector remains lagging in reaching out with adequate financial services to large swathes of farm and non-farm economic activities of low income rural and urban population in Bangladesh.

Rapid countrywide expansion of Mobile phone networks and Bangladesh Bank led modernization of the country's Payments system and financial sector IT infrastructure have opened up opportunities for innovating mobile phone based cost efficient modes of off-branch financial service delivery to the underserved population segments. Bangladesh Bank (BB) is issuing these regulatory guidelines for Mobile phone based Financial Service (MFS) platforms in Bangladesh with a view to providing an orderly, enabling and competitive environment for utilizing this new window of opportunity of innovatively extending the outreach of financial services.

1.0 Issuance

BB is issuing these Guidelines in terms of Article 7A (e) of Bangladesh Bank Order, 1972 and Section 5 of Bangladesh Payment and Settlement Systems Regulations, 2014.

2.0 Purpose

The purpose of these Guidelines is to:

- I. Provide regulatory framework for Mobile phone based Financial Services [MFS] providing an enabling environment for innovations in cost efficient off branch financial services delivery;
- II. Reduce use of cash and its associated costs;
- III. Put in place compliance drills required by Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) laws and regulations;
- IV. Promote access to formal financial services at affordable cost especially for the poor and unbanked population segments.

3.0 Scope

These Guidelines shall apply to provision of Mobile phone based Financial Services (MFS) in Bangladesh by scheduled commercial bank-led MFS platforms in Bangladesh.

4.0 Mobile phone based Financial Services (MFS)

4.1 BB shall permit delivery of the following broad categories of financial services by scheduled commercial bank-led Mobile phone based Financial Service (MFS) platforms in Bangladesh:

- I. Disbursement of inward foreign remittances,
- II. Cash in/cash out into Mobile Accounts through agents/bank branches/ATMs/Mobile Network Operator (MNO) outlets.
- III. Person to Business payments - e.g. Utility bill payments, merchant payments, deposits into savings accounts/schemes with banks, loan repayments to banks/ Nonbank Financial Institutions(NBFIs)/ Micro-Finance Institutions (MFIs), insurance premium payments to insurance companies, and so forth.

- IV. Business to Person payments e.g. salary disbursements, dividend/refund warrant payments,
- V. Loan disbursements to borrowers, vendor payments, etc.
- VI. Government to Person payments e.g. pension payments, old age allowances, freedom-fighter allowances, input subsidy payments to farmers, and so forth.
- VII. Person to Government payments e.g. tax, fee, levy payments etc.
- VIII. Person to Person payments (from one Mobile Account to another Mobile Account).

4.2 In extending the above mentioned broad range of financial services through MFS platforms the primary role of the MFS platforms will be as Payment Services Providers (PSPs), with secondary engagements in deposit taking, loan disbursement and recovery, insurance premium collection etc. as duly authorized agents of banks, NBFIs, MFIs, insurance companies etc. concerned. As PSPs the MFS platforms will be under direct supervision of BB's Payments System Department (PSD); while the onus of regulatory compliance in deposit taking, lending and other financial transactions through MFS platforms (e.g., Cash Reserves Requirement against deposit liabilities, obtaining deposit insurance, maintaining statutory liquidity ratio, advance-deposit ratio, capital charge and provisioning against loans, and so forth) will rest primarily with the banks/NBFIs/MFIs etc. engaging the MFS platforms as their authorized agents.

MFS platforms will thus be under two levels of BB's offsite and onsite supervision; firstly as PSPs, and secondly as agents of banks, NBFIs, MFIs, insurance companies and other licensed financial intermediaries.

5.0 Permissible model for MFS platforms

5.1 MFS platforms in Bangladesh will be sponsored and led only by the payments system member scheduled commercial banks, with prior BB approval.

5.2 The scheduled commercial bank-led MFS platforms may have both banks and non-bank entities including Mobile Network Operators (MNOs) as equity holders, subject to:

- i) banks holding majority beneficial ownership in total equity,
- ii) no bank or non-bank entity holding more than fifteen percent beneficial ownership in equity, and
- iii) beneficial ownership of MNOs in an MFS platform not exceeding thirty percent of its total equity.

MFS platforms will be expected to choose non-bank equity partner entities with promise of bringing in innovative dimensions in business model and technology base.

Acceptance of an MNO as equity partner in an MFS platform will be conditional on its extending reliable telecommunication access to all licensed MFS platforms at the same effective standard of ease of access and pricing. Before approving equity ownership of an MNO in an MFS, BB will verify the satisfaction level of all operating MFS platforms about the quality of services extended to them by the MNO.

5.3 Each MFS platform will require a minimum paid up equity capital of Taka one billion; a further cushion of capital reserve matching the amount of paid up capital will have to be built up from retained earnings, at rate not below ten percent of annual post tax profits, to cover operational and other risks.

5.4 Out of concerns about interoperability and viability of numerous small mono-bank MFS platforms going it alone, BB will require adoption of the multi-bank option in allowing the MFS platforms to operate. Already licensed mono bank/ mono bank-subsiary MFS platforms will be required to restructure in conformity with regulations 5.2 and 5.3 above, within three years from the date these revised Guidelines come into effect.

6.0 Approval, commencement of business, operational modalities for MFS platforms:

6.1 Approval applications for setting up scheduled commercial bank led MFS platforms of multi-bank equity structure conforming to regulations 5.1-5.4 above will be addressed to BB's PSD, accompanied by:

- (i) Full details of the services proposed to be offered, with tentative implementation schedule.
- (ii) Applicant's assessment of risks associated with the proposed delivery models for each such service, and explanation of how these risks will be mitigated and managed.
- (iii) Existing MFS platforms proposing to introduce new financial services will also be required to submit such risk analysis and risk mitigation/management plans while seeking necessary BB approval.

6.2 Before launching of services in terms of approval received from BB an MFS platform will have to seek permission for commencement of business from BB's PSD, with the following documents:

- (i) MOU(s) with MNOs and other technology partners, specimens of Service Level Agreements (SLA) to be entered into with intermediaries in the service delivery chains, including the wholesale and field level retail agents;
- (ii) Lists with names and field level locations of retail agent outlets/cash points appointed by the MFS platform, to be updated subsequently on regular monthly basis.

6.3 (i) Transactions in MFS platforms will be conducted only through non-chequing limited purpose accounts termed "Mobile Accounts" in names of customers, accessible with their mobile phone devices.

(ii) Intended primarily for typically low value transactions of lower income individuals, transactions in Mobile Accounts of individual customers in MFS platforms will be subject to risk-proportionate simplified KYC (as per KYC form at Annexure 1) and Customer Due Diligence (CDD) drills, coupled with such caps on transaction size and frequency as BB may prescribe from time to time.

(iii) Opening of Mobile Accounts in names of businesses, utilities, and other entities will however require observance of full KYC and CDD drills applicable in opening regular bank accounts in their names. Opening of Mobile Accounts in names of service delivery intermediaries at wholesale and retail levels ('distributors', 'super agents', 'agents' etc.) will likewise require observance of full KYC and CDD drills applicable for opening regular bank accounts.

6.4 Aggregate of virtual balances in all Mobile Accounts in an MFS platform must at all times agree with the total real cash balances in nominated custodial accounts of the MFS platform with scheduled commercial banks. While banks holding equity in the MFS platforms would normally assume this custodian role, the MFS platforms may opt to use other scheduled commercial banks as well in this role if necessary, keeping BB's PSD informed in advance. Balances and transactions in the custodial accounts must at all times remain separate from, and never co-mingled with other operational accounts of the MFS.

6.5 MFS platforms will handle inward remittances only if received through credits in Nostro Accounts abroad of scheduled commercial banks in Bangladesh, paying out only in Taka to Mobile Accounts of the beneficiaries. No outward cross border payment transactions shall be undertaken by MFS platforms, as these can only be handled by scheduled bank branches holding Authorized Dealership license from BB.

6.6 MFS platforms will not engage in any lending from their own funds, but will be free to act as agents of BB licensed banks and financial institutions in disbursing loans and in accepting repayments on behalf of the principals concerned.

6.7 (i) MFS platforms will likewise be free to mobilize savings of Mobile Account holders into their deposit accounts with authorized deposit taking institutions [banks and financial institutions maintaining required cash reserves with BB, MFIs licensed by Microcredit Regulatory Authority (MRA) maintaining

required cash reserves in scheduled commercial banks]. MFS platforms will act immediately on request of customers for transferring balances from their Mobile Accounts to their accounts with deposit taking institutions.

(ii) Mobile Accounts no being intended to be deposit accounts, it will not be obligatory for MFS platforms to pay interest/profit on balances in Mobile Accounts. They may nevertheless opt to remunerate Mobile Account balances above size and duration thresholds set at their discretion, out of interest/profit earned on the custodial deposits of Mobile Account balances with scheduled banks.

6.8 MFS platforms will draw up annual accounts and financial statements in accordance with prevailing accounting and reporting standards, and submit these, duly audited by reputable audit firms, to BB's PSD within two months of close of the accounting year.

7.0 Suspension, cancellation of BB approval for MFS platforms

BB reserves the discretion of withholding, suspending or cancelling its approval for operation of an MFS platform if its actions are deemed by BB to be detrimental to public interest; alongside appropriate steps towards protecting legitimate interests of the Mobile Account holders and other stakeholders in the MFS platform concerned.

8.0 Rates of charges for services extended by MFS platforms

The rates of charges realizable for various financial services offered by the MFS platforms to their clients shall be set in a competitive, non-collusive manner. Besides keeping BB's PSD fully apprised about all rate settings and rate revisions, MFS platforms will ensure prominent display of the rates of charges in all their retail agent outlets for information of all customers.

9.0 Selection/engaging of partners, service delivery intermediaries (wholesale & retail agents, etc.)

9.1 MFS platforms shall enter into engagements with MNOs and other technology partners as needed for mobile phone based financial service delivery to client segments targeted in their business plans and strategies. They may appoint wholesale and retail service outlet level delivery agents as needed, adhering to clear well documented selection policies and procedures reported to BB's PSD. The agency agreements should have clear delineation of roles and responsibilities of each side in all relevant aspects, including business hours for the service outlets, required standards of customer service, rates of commission/fees payable to agents, transaction reporting routines, authorizations for signing, customer interest protection, dispute resolution and settlement, and so forth.

9.2 Entities with extensive networks of service delivery outlets like NGO MFIs, MNOs, government's Postal Department etc. will inter alia be eligible for engagement as wholesale/retail field level service delivery agents. Agreements with such agent networks should include reporting clauses requiring full visibility on transactions of the agent network in entirety, and also at individual service outlet level as and when necessary. An agreement with a network already in agency relationship with other MFS platforms should include clause requiring clear separation of transactions handled for each MFS platform, avoiding any co-mingling.

9.3 Salient criteria for selection of partners and agents by MFS platforms should inter alia include:

- (i) Technical competence for, and track record the intended role,
- (ii) Financial soundness and business reputation,
- (iii) Standards of security and internal control, audit coverage, monitoring and reporting.
- (iv) Ability of meeting commitments under adverse conditions.

10.0 AML/CFT compliance:

10.1 MFS platforms, their technology partners and agents shall have to comply with prevailing AML/CFT laws and regulations/circulars issued thereunder by the Bangladesh Financial Intelligence Unit (BFIU) at BB. To this end the MFS platforms shall interalia put in place risk proportionate KYC, CDD drills for Mobile Account holders, technology partners, wholesale and retail field level service delivery agents as indicated in regulation 6.3 above.

The MFS platforms shall remain responsible for authenticity and timely updating of the KYCs in their records. In conducting KYC and CDD drills on Mobile Account holders who also have accounts in bank branches the MFS platforms may usefully liaise with the concerned bank branches for obtaining and corroborating necessary information.

10.2 MFS platforms shall put in place arrangements for detecting, isolating and reporting unusual, doubtful or suspicious activities/transactions in terms of prevailing AML/CFT laws, and regulations/circulars issued there under by the Bangladesh Financial Intelligence Unit (BFIU) at BB.

10.3 MFS platforms shall report to the BFIU at BB about any suspicious, unusual or doubtful transaction likely to be related to money laundering or terrorism financing activities, immediately on detection.

11.0 Processes to be followed in ensuring MFS transaction authentication and security

11.1 MFS platforms shall follow the ICT Act 2006, and the Guidelines on ICT Security for Scheduled Banks and Financial Institutions 2010 issued by BB, in addressing ICT security issues in mobile financial services.

11.2 The following properties need to be addressed in offering a secure infrastructure for financial transactions using mobile technology:

- a) Confidentiality: Property ensuring that transaction information cannot be viewed by unauthorized persons.
- b) Integrity: Property that the transaction information remains intact during transmission and cannot be altered.
- c) Authorization: Property that the authentic user has proper permission to perform the particular transaction. It ensures how the system decides what the users can do.
- d) Non-repudiation: Property that the particular transaction initiated by a user cannot be denied by him/her later.

11.3 All transactions must be authenticated by the account holders using their respective Personal Identification Numbers (PINs) or similar other secured mechanism. MFS platforms should ensure that proper protection and security features are maintained in issuing and authenticating the PINs and other securing mechanisms.

11.4 MFS platforms shall ensure that proper process is in place for identifying customers while the service is being enabled. Besides the PIN, a suitably chosen second authentication factor should be built in for additional security.

12.0 Interoperability

12.1 MFS platforms shall proactively foster linking of the Mobile Accounts of customers with their existing or new accounts in banks and financial institutions; maximizing access of customers to credit, deposit and other financial services through the Mobile Accounts, simultaneously expanding the business and income bases of the MFS platforms.

12.2 All MFS platforms shall cooperate and work together in promoting interoperability between the platforms towards ensuring widest possible access by customers. To this end they shall develop linkages with the upcoming integration platforms like the National Payments Switch (NPS) through their equity partner payment system member scheduled commercial banks.

13.0 Risk management and internal controls

13.1 For effective management and containment of the substantial operational risks in providing mobile phone based financial services the MFS platforms shall put in place robust internal governance frameworks with internal control and internal audit processes featuring clear delineation of roles, responsibilities and accountabilities.

13.2 Internal control and internal audit processes in MFS platforms shall include oversight routines on operations of wholesale and field level retail agents; and on customer satisfaction levels.

14.0 Customer/Employee education and awareness

MFS platforms shall develop and pursue sustained programs for continual heightening of awareness and knowledge about various aspects of mobile phone based financial services among their employees, agents, and target customer segments.

15.0 Complaint and grievance redressal

15.1 MFS platforms shall put in place processes and procedures for prompt handling and redressal of customer complaints and grievances; readily accessible through website and other appropriate information medium. BB's Financial Integrity and Customer Services Department (FICSD) will maintain oversight on customer complaints redressal performance of the MFS platforms.

15.2 Information materials lucidly explaining the roles, responsibilities, risks, and liabilities of all parties involved in MFS transactions should be kept readily accessible by all existing and potential new customers.

16.0 Record retention

16.1 KYC, CDD records on Mobile Account holders, wholesale and retail agents of MFS platforms, and records of MFS transactions shall be retained for not less than six years from the dates of origination, readily reproducible for later reference as needed by the MFS platforms themselves or by the regulatory and law enforcement authorities.

16.2 MFS platforms shall also provide printouts or copies of relevant transaction records at the request of customers or their counterparts MFS platforms/banks etc. in specific MFS transactions, within the prescribed preservation periods.

17.0 Regulatory oversight

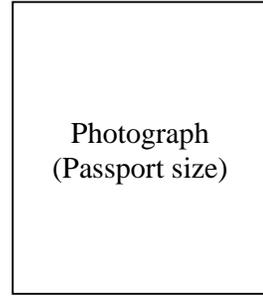
17.1 As already mentioned in regulation 4.2, operations of MFS platforms will be under BB's offsite and onsite supervision, firstly as PSPs extending mobile phone based payment services, and secondly as agents of banks and financial institutions in offering mobile phone based banking and other financial services.

17.2 MFS platforms shall prepare and preserve monthly summaries of their payments service transactions as per Annexes II, III, IV and V, for BB supervisory oversight. Reporting requirements on their activities in agent banking role as prescribed from time to time by relevant BB departments shall also be complied with.

Annex - I

KYC Profile form for Mobile Account opening by individuals

1. Name of the client :
2. Father's name :
3. Mother's name :
4. Date of birth :
5. Occupation :
6. Official address (If applicable) :
7. Present address :
8. Permanent address :
9. Mobile phone registration No. and date :
10. Intended transactions through the mobile account :
11. Information on bank account of the client, if any
 - a. Bank name
 - b. Branch
 - c. Account No.
12. Introducer Information
 - a. Name
 - b. Address
 - c. Occupation
 - d. Mobile phone registration No. and date
13. Attachment (Any of the under mentioned)
 - a. Photocopy of National ID Card
 - b. Copy of Citizenship Certificate
 - c. Copy of Driving License/ Passport etc.



Prepared by

Approved by

Annex - II

Monthly report of MFS transactions in inward foreign remittances

Name of the MFS platform :
Date :

(Tk. 20,000 and above)

Sl. No.	Name of the remitter	Amount received	Name of the beneficiary	Amount disbursed
1.				
2.				
3.				

N.B. : Remittance less than Tk. 20,000 shall have to be reported on consolidated basis mentioning total number and amount of remittance.

Annex - III

Monthly report on Person to Business MFS transactions

Name of the MFS platform :
Date :

(Tk. 20,000 and above)

Sl. No.	Mobile Account No. of the Payer	Name of the payer	Mobile Account No. of the payee Business Organization	Name of the payee Business Organization	Amount transferred
1.					
2.					
3.					

N.B. : Transaction amounts below Tk. 20,000 shall be reported on consolidated basis mentioning total number of transactions and total amount.

Annex - IV

Monthly Report of Business to Person MFS Transactions

Name of the MFS platform :
Date :

(Tk. 20,000 and above)

Sl. No.	Name of the Business Organization	Mobile Account No of the beneficiary	Amount disbursed
1.			
2.			
3.			

N.B. : Transaction amounts below Tk. 20,000 shall be reported on consolidated basis mentioning total number of transactions and total amount.

Annex - V

Monthly Report of Person to Person MFS transactions

Name of the MFS platform :
Date :

(Tk. 10,000/a/c)

Sl. No.	Mobile Account No. of the sender	Name of the sender	Source of income of the sender	Relationship with recipient	Mobile Account No. of the recipient	Name of the recipient	Purpose of transaction	Amount transferred
1.								
2.								
3.								

N.B. : Transaction amounts below Tk. 10,000 shall be reported on consolidated basis, mentioning total number of transactions and total amount.