

**Payment Systems Department
Bangladesh Bank
Head Office
Dhaka.**

PSD Circular No: 04/2018

30 July, 2018
Date: -----
15 Shrabon, 1425

**Managing Directors/Chief Executive Officers
All Scheduled Banks/MFS Subsidiary in Bangladesh**

Dear Sir,

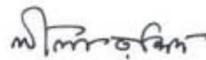
Bangladesh Mobile Financial Services (MFS) Regulations, 2018

As per Section 7A(e) and section 82 of the Bangladesh Bank Order 1972 and Section 26 (cha) of the Bank Companies Act ,1991 (amended in 2013), Bangladesh Bank has issued the regulations titled "Bangladesh Mobile Financial Services (MFS) Regulations, 2018". The new regulations will replace the previously issued "Guidelines on Mobile Financial Services for the Banks" and shall come into effect immediately.

The regulations can be collected from the official website of Bangladesh Bank.

Please acknowledge receipt.

Sincerely Yours,



(Lila Rashid)
General Manager

Payment Systems Department
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Enclosure:
Bangladesh Mobile
Financial Services (MFS)
Regulations, 2018.

Bangladesh Mobile Financial Services (MFS) Regulations, 2018.

1.0 Introduction

The financial sector in Bangladesh is continuously growing in response to the evolving needs of the growing economy. Despite impressive gains in capital base, per capita income and other areas, the financial sector remains lagging in reaching out with adequate financial services for economic activities of low income rural and urban population in Bangladesh. Rapid expansion of mobile phone users, modernization of payments and financial system based on IT infrastructure, country-wide reach of mobile operators network have opened up the opportunities for innovating cost efficient and prompt Mobile Financial Services (MFS) especially for the underserved, un-banked/under-banked and low income group of population.

Since the inception of MFS in 2011, Bangladesh experienced a robust growth in number of account holders, volume and amount of transactions in MFS. With a view to providing an orderly, enabling and competitive environment for optimal utilization of the new windows of opportunity for extension of the traditional financial services, the Board of Directors of Bangladesh Bank (BB), in terms of Section 7A(e) and section 82 of the Bangladesh Bank Order 1972, and in terms of Section 26 (cha) of Bank Companies Act ,1991 (amended in 2013), has decided to issue Bangladesh MFS Regulations 2018 replacing the Guidelines on MFS for Banks, issued in September 2011 and its subsequent amendments. The new MFS Regulations will be in effect along with the Bangladesh Payment and Settlement Systems Regulations, 2014 or any other law(s) shall come into effect regarding these regulations.

2.0 Purposes

The purposes of these Regulations are to:

- (i) Provide regulatory framework to create an enabling and competitive environment to cater cost efficient and prompt MFS;
- (ii) Promote access to formal financial services at an affordable cost, especially for the poor and unbanked population segments; and
- (iii) Ensure compliance with Anti Money Laundering and Combating Financing of Terrorism (AML/CFT) standards set by AML/CFT rules, regulations, guidelines and instruction issued by Bangladesh Financial Intelligence Unit (BFIU).

3.0 Definitions

Agent/ Retail Agent/ Authorized Agent: An entity authorized by a bank/MFS provider to carry out financial transactions for mobile financial services on behalf of the bank/MFS provider.

Bank-led MFS Model: Bank-led MFS is a model where a bank may run the MFS as a product of the bank or a bank may form an MFS providing subsidiary with at least 51% of the share held by the bank with control of the board.

Cash-in: The exchange of cash for electronic value (e-money).

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Cash-out: The exchange of electronic value (e-money) for cash.

Cross Border Payment Transaction: Cross-border transactions include both outbound and inbound transfers of money between related entities residing or operating in different countries.

Distributor/ Super Agent: Any third party acting on behalf of a MFS provider to deal directly with retail agents. Generally MFS providers nominate or select the Distributors/Super Agents in a geography and demography basis. Distributors/Super Agents have an agreement with MFS provider and is liable for nominating or selecting and managing the retail agents. Distributors/Super Agents deal with e-money in bulk with MFS provider and sell/purchase the e-money to/from the retail agent.

Distribution Channel: A distribution channel is a chain of businesses or intermediaries through which electronic money passes from MFS providers to the end users/customers.

Electronic money: Electronic money (e-money) is a monetary value, represented by a claim on the issuer, which is (i) stored on an electronic general ledger; (ii) issued upon receipt of funds in an amount not less in value than the monetary value received; and (iii) accepted as a means of payment by undertakings other than the issuer.

Equity Partner: An equity partner is an equity share holder of the company, and is entitled to a proportion of the distributable profits of the company.

Government Security: A "Government Security" is a tradable debt instrument issued by Government of Bangladesh.

Interoperability: Interoperability refers to the set of arrangements/procedures that allows participants in different systems to conduct and settle payments or securities transactions across systems while continuing to operate only in their own respective systems.

Inward Foreign Remittance: Inward foreign remittance is the transfer of foreign currency in Bangladesh by Bangladeshi nationals living abroad via a legal channel (Banks, Money Transfer Organizations and Exchange House etc).

Mobile Financial Services (MFS): MFS refers to E-money services provided against a particular mobile/cell phone number of a client (termed as Mobile Account), where the record of funds is stored on the electronic general ledger. These services can be draw-down through specific payment instructions to be issued from the bearer's mobile phone or through alternative digital process or device by ensuring authenticity of the transaction. However unlike e-money products, 'cash-in' and 'cash-out' and other services as permitted by BB at agent locations are allowed for MFS accounts

Operational Account: Account maintained by MFS providers with schedule commercial banks for different operational purposes other than custody/settlement purpose.

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Oversight: The activities carried out by BB to monitor and analyze the key indicators of MFS as part of the national payments system, assessing them against payment systems objectives and where necessary, inducing change to promote safety and efficiency.

Parent Bank: One single bank that holds at least 51% of the equity share capital along with controlling voting rights in the board of directors of the MFS providing subsidiary.

Payment Services Provider (PSP): "Payment services provider" refers to an entity licensed and approved by the Bangladesh Bank that provides payment service(s) to its participants or to a payment system for the purpose of facilitating payment(s) or payment processes and settling their transactions through a scheduled bank or financial institution maintaining accounts with the Bangladesh Bank for meeting Cash Reserve Requirements.

Principal(s): Banks and financial institutions, licensed by BB, MFIs (Micro Finance Institutions) licensed by the MRA (Microcredit Regulatory Authority), Insurance Companies licensed by Insurance Development and Regulatory Authority of Bangladesh (IDRA) for which MFS provider is acting as agent for disbursing loans and in accepting repayments.

Settlement: "Settlement" means the act of discharging obligations by transferring funds between two or more parties.

Settlement Bank: "Settlement bank" means a bank providing trust cum settlement account/custodian account for the participants of a system to hold funds and to settle transactions between participants in the system.

Subsidiary: A company shall be deemed to be a subsidiary of another company, if that other company controls the composition of Board of Directors of the first mentioned company and that other company holds more than half in nominal value of its equity share capital.

Technology Partner: A technology partner provides technical support to MFS providers.

Trust cum settlement account/Custodian account: Trust cum settlement account/custodian account is the account(s) held with a bank(s) where real money against issued e-money is deposited. Balances and transactions at the custodian end must at all times remain separate from and never be co-mingled with other operational accounts of the MFS providers.

Valid Identity: The documents determined as per the directive of Bangladesh Financial Intelligence Unit (BFIU) to open MFS account.

Virtual Balance: E-money stored in the MFS accounts.

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4.0 Scope

Bangladesh Bank will promote only scheduled commercial bank-led MFS (bank-led MFS) in Bangladesh. The provision of these regulations shall apply to MFS providers in Bangladesh.

Mobile Financial Services Provider will act as a Payment Service Provider (PSP) as defined in the Bangladesh Payment and Settlement Systems Regulations, 2014. To provide MFS, scheduled commercial bank will establish subsidiary with bank or non-bank entity as equity partner and take license as PSP from Payment Systems Department of Bangladesh Bank.

5.0 Products of MFS

5.1 BB permits bank-led MFS providers as PSP to deliver the following broad categories of payment services in Bangladesh:

- (i) 'Cash-in' to and 'Cash-out' from MFS accounts through agent locations, bank branches, ATM, linked bank account and other methods determined by BB;
- (ii) Person to Business payments like utility bill payments, merchant payments, mobile top up, deposits into savings accounts/schemes with banks, loan repayments to banks/non-bank financial institutions (NBFIs)/non-governmental organizations-microfinance institutions (NGO-MFIs), insurance premium payments to insurance companies and so forth;
- (iii) Business to Person payments like salary disbursements, dividend/refund warrant/ discount payments etc.
- (iv) Person to Person payments (One MFS personal account to another MFS personal account with the same MFS provider or another MFS provider as well as the payments from one MFS account to a bank account and vice versa with the same parent bank or of another bank);
- (v) Business to Business payments like vendor payments, supply chain management payments etc.
- (vi) Online and e-commerce payments;
- (vii) Government to Person payments such as pension payments, old age allowances, freedom-fighter allowances, subsidy payments to farmers and so forth;
- (viii) Person to Government payments such as tax, fee, levy payments, toll charge, fine etc.
- (ix) Disbursement of inward foreign remittances in accordance with 7.6 of this regulations;

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- (x) Loan disbursements to borrowers, vendor payments etc.
- (xi) Other payments approved by the BB.

5.2 In extending the broad range of financial services mentioned above, MFS providers will act as Payment Services Providers (PSPs) and also as authorized agent of banks, NBFIs, MFIs, Insurance Companies etc for the purpose of deposit taking, loan disbursement and recovery, insurance premium collection etc.

While performing duties as PSP and as authorized agent, the MFS providers will be under direct supervision of BB's Payment Systems Department (PSD). Whereas, the regulatory compliance of deposit taking, lending and other financial services in which MFS providers will act as agent, will rest with the principal(s) that have engaged the MFS providers as their authorized agents.

6.0 Permissible model for MFS providers

6.1 MFS providers in Bangladesh will be led only by scheduled commercial banks of the country. To provide MFS in Bangladesh, scheduled commercial banks that are already in MFS operation are permitted to continue with the existing license or may form a subsidiary. In case of new applicants, scheduled commercial bank(s) shall have to form a subsidiary. The scheduled bank(s) interested to form a subsidiary, for the purpose of providing MFS, shall focus entirely on providing mobile financial services. In case of a subsidiary following models are permitted:

- (i) One single bank, known as the parent bank should have at least 51% of the equity of MFS providing subsidiary. Parent bank will also have majority in Board of Directors along with controlling share.
- (ii) Parent bank may conduct the operation of subsidiary alone or may take equity partners from the following business entities:
 - (a) Bank(s) and non banking financial institution(s);
 - (b) NGOs, investment and fintech companies who have experience of working in financial market; except Mobile Network Operators (MNOs).
- (iii) Subsidiary (MFS provider) will act as the primary driver of the products and services, manage customer relationships and distribution channels and mitigate associated risks. The parent bank will be responsible for overall governance of the subsidiary.
- (iv) However, any entity whether it is a bank or a non bank, can hold equity in only one MFS providing subsidiary.

6.2 Existing MFS provider(s) will be monitored for Twelve (12) months after the issuance of the regulations. License of existing non-performing MFS may be cancelled by BB if it seems appropriate.

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- 6.3** Subsidiary model-based MFS provider will require to maintain a minimum paid up equity capital of Bangladeshi Taka Forty five (45) Crore; a further cushion of ‘capital reserve’ equal to the amount of paid up capital will have to be built up from retained earnings, at a rate not less than ten percent of annual after tax profits, to mitigate risks. Loss incurring MFS providers may be required to inject additional capital to maintain the minimum paid up capital.

7.0 Approval of application, commencement of business, operational modalities for MFS providers:

- 7.1 (i)** Scheduled banks, already running MFS operations (with approval of BB) may continue with their existing structure. Scheduled banks, already running MFS operations (with approval of BB) which are interested in forming subsidiary, shall restructure their MFS units as subsidiary company exclusively as MFS providing PSPs, in terms of Regulation 6 of these regulations. More than one scheduled banks, already in MFS operations, cancelling their individual license, may also form a subsidiary setting up one of the banks as parent bank.

- (ii)** Scheduled banks having no MFS operations of their own may join any of the running MFS providing subsidiaries by acquiring equity therein. Besides, two or more scheduled commercial banks may jointly form a new MFS (with or without non-bank equity participants to begin with) setting up one of the banks as a parent bank and seek BB’s approval to provide mobile financial services.

- 7.2** All applicants complying with Regulation No. 5 of Bangladesh Payment and Settlement Systems Regulations, 2014 or any other law(s) shall come into effect regarding this regulations, will apply to BB’s PSD with the following documents:

- (i)** 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, explanation of mitigation and management of the risks.

- 7.3** For new MFS applicants, approval will be provided in two phases. At first phase, no objection certificate (NOC) will be provided to set up the platform. At second phase, license will be provided to commence the operation. Before launching proposed services, an MFS provider will have to seek permission for commencement of business from BB’s PSD, within one year of getting NOC for setting up a MFS platform, with the following documents:

- (i)** MOU(s) with MNOs and other technology partners, specimen of Service Level Agreements (SLA) to be entered into with intermediaries in the service delivery chains, including the distributors/super agents and field level retail agents;

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the last working day of June and December each year. Remaining cash balance has to be kept in the trust cum settlement account with scheduled commercial banks.

- 7.6** MFS providers will handle foreign inward remittances only if received through credits in Nostro Accounts of scheduled commercial banks in Bangladesh and pay out the same only in Bangladeshi Taka (BDT) to MFS accounts of the beneficiaries. No outward or cross-border payment transactions shall be undertaken by MFS providers, as these can only be handled by the AD branches of scheduled banks in Bangladesh.
- 7.7** MFS providers are strictly prohibited to engage in lending from their own funds, but are free to act as agents of banks and financial institutions licensed by BB and NGO- MFIs licensed by the MRA in disbursing loans and in accepting repayments on behalf of the principal concerned.
- 7.8** MFS account holders are free to mobilize balances of their MFS accounts to their deposit accounts with scheduled commercial banks and MFS providers will act immediately on request of customers for transferring balances from their MFS accounts to their deposit accounts with scheduled commercial banks.
- 7.9** MFS providers will draw up annual accounts and financial statements in accordance with prevailing accounting and reporting standards and submit the ones duly audited by reputed audit firm(s) to PSD of BB within 3(three) months after the end of the accounting year.

8.0 Suspension and cancellation of MFS providers by BB

BB reserves the right of withholding, suspending and cancelling its approval for operation of an MFS provider, if BB deems actions of the accused MFS to be detrimental to public interest. Moreover, BB will take appropriate steps towards protecting legitimate interests of the MFS account holders and other stakeholders of the accused MFS provider.

9.0 Schedule of Charges

The rate of charges realizable from various financial services offered by the MFS providers to their clients shall be set in a competitive, non-collusive manner. Besides, keeping BB's PSD fully apprised of all rate settings and rate revisions, MFS providers will ensure prominent display of the rates of charges in all their retail agent outlets to inform all customers. Information about all products with schedule of charges should also be available for all stakeholders in the customer care centers and websites of MFS providers.

10.0 Distribution Channel

- 10.1** (i) MFS shall appoint distributors/super agents under contract adhering to the existing law according to clear and well-documented selection policies and procedures reported to BB's PSD and shall have clear description of roles and responsibilities of both parties in all relevant aspects. MFS providers may install retail service outlets or appoint delivery agents under contracts adhering to the existing law according to clearly stated roles and responsibilities including business hours for the service outlets, required standards of customer services, rates of commission/fees payable to agents, transaction reporting routines, authorizations for signing, customer interest protection, dispute resolution and settlement and so forth.
- (ii) Agents are not allowed to take part in any transaction other than 'cash-in' (i.e. converting physical money to e-money) and 'cash-out' (i.e. converting e-money to physical money). To do the 'cash-in' and 'cash-out' customers may need to show valid identity to agents. Any transfer transactions involving third party MFS accounts at the sending or receiving end are prohibited. MFS providers will have to sensitize the agents' properly about AML/CFT risks inherent in their transactions and also to monitor transaction patterns carefully towards identifying possible unauthorized/suspicious transaction activities.
- 10.2** Entities with extensive networks of service delivery outlets, such as NGO-MFIs, MNOs and Government's Postal Department etc. will inter alia be eligible for engagement as distributors/super agents/ retail agents and field level service delivery agents. Agreements with such distributors/super agents/ retail agents should include reporting clauses requiring full visibility of transactions of the agent network as well as at individual service outlet level as and when necessary. An agreement with a network already in agency relationship with other MFS providers should include clause requiring clear separation of transactions handled for each MFS provider, avoiding any co-mingling of the e-money of different MFS providers. The distributors/super agents like NGOs, MNOs, and Government's Postal Department etc. will be able to operate in any geographical location in Bangladesh. However, individual (a person) distributors/super agents are bound to work in a certain limited geographical boundary.
- 10.3** Criteria of selecting partners and agents by MFS providers should inter alia include:
- (i) Inclusivity of Distributors and Agents;
 - (ii) Technical competence for and track record of the intended role;
 - (iii) Financial soundness, business reputation and no record of bankruptcy;
 - (iv) Standards of security and internal control, audit coverage, monitoring and reporting;

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- (v) Capability of meeting commitments under adverse conditions;
- (vi) A self declaration that partners and agents do not have a past criminal record.

11.0 AML/CFT and KYC compliance:

11.1 MFS providers shall comply with the provisions of existing Money Laundering Prevention Act, Anti Terrorism Act and respective Rules issued therein under, instructions and guidelines issued by Bangladesh Financial Intelligence Unit (BFIU) from time to time.

11.2 MFS providers shall remain responsible for authenticity and timely updating of the KYC records as per the instructions of BFIU as and when required.

12.0 Processes to be followed in ensuring authentication of MFS transactions and security

12.1 MFS providers shall follow the ICT Act 2006 (amended in 2013) and the Guidelines on ICT Security for Scheduled Banks and Financial Institutions 2010 issued by BB, in addressing ICT security issues in respect of MFS.

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

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

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

12.4 MFS providers shall ensure that proper process is in place for identifying customers while the service is being enabled/executed. Besides the PIN, a suitably chosen second authentication factor would be encouraged to add as an additional security.

13.0 Interoperability

13.1 MFS providers shall proactively foster linking of the MFS accounts of customers with their existing or new accounts in banks; maximizing access of customers credit, deposit and other financial services through the MFS accounts. MFS providers shall cooperate and work together in promoting interoperability among the providers towards ensuring widest possible access for customers.

13.2 The MFS providers shall design their systems and procedures such that all MFS providers are capable of providing funds transfer service in a completely inter-operable way which may include funds transfer from one MFS personal account to another MFS account with the same MFS provider or another MFS provider as well as the payments from one MFS account to a bank account with the same parent bank or of another bank and vice versa.

14.0 Risk management and internal controls

14.1 For effective management and containment of the substantial operational risks in providing Mobile Financial Services, the MFS providers shall put in place robust internal governance frameworks with internal control and compliance and internal audit processes featuring clear description of roles, responsibilities and accountabilities.

14.2 Internal control and compliance and internal audit processes of MFS providers shall include oversight routines on operations of wholesale and field level retail agents and on customer satisfaction levels.

15.0 Customer, Employee, Agent, Distributor/Super Agent education and awareness

MFS providers shall develop and pursue sustainable programs for continual heightening of awareness and knowledge about various aspects of Mobile Financial Services among their employees, agents, distributors/super agents and target customer segments.

16.0 Regulatory oversight

16.1 MFS providers will be under off-site and on-site supervisions of Payment Systems Department, BB, firstly, as PSPs extending mobile financial services and secondly, as agents of banks and financial institutions in offering mobile phone-based banking and other financial services.

16.2 MFS providers shall have to follow rules, regulations, guidelines and instructions issued by Bangladesh Bank time to time.

16.3 MFS providers shall submit to BB all required statements and information in such formats as prescribed by Bangladesh Bank time to time.

17.0 Complaint and Grievance Redressal

- 17.1** BB's Payment Systems Department (PSD) and Financial Integrity and Customer Services Department (FICSD) will oversee customer complaints redressal performance of the MFS providers.
- 17.2** MFS providers 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.
- 17.3** The MFS Provider shall maintain a call centre to receive and process disputes 24 hours a day via telephone, SMS, IVR and mail. Each of the disputes received by the centre must be resolved within ten (10) working days. The MFS provider shall ensure that they are sufficiently equipped to keep track/log of all disputes and review status of each disputes and redressal of the same within stipulated time.
- 17.4** MFS Customers may have also access to services being provided by Customers Interest Protection Centre (CIPC) of Bangladesh Bank. The aggrieved customer can lodge complaints with CIPC of Bangladesh Bank.
- 17.5** Dispute at distributors/super agents' end will be settled according to the agreement between MFS provider and distributors/super agents. Agent complaints and grievances will be handled by distributors/super agents in the primary level and by MFS providers at secondary level.
- 17.6** Information materials clearly explaining the roles, responsibilities, risks and liabilities of all parties involved in MFS transactions should be kept readily accessible to all relevant parties.

18.0 Record retention

- 18.1** KYC, CDD records on Mobile Account holders, wholesale and Retail agents of MFS providers and those of MFS transactions shall be retained for not less than six years from the dates of origination, readily reproducible for later references as needed by the MFS providers themselves or by the regulatory and law enforcement authorities.
- 18.2** MFS providers shall also provide printouts or copies of relevant transaction records in specific MFS transactions, at the request of the customers or their counterparts MFS providers/banks etc. within the prescribed preservation periods.

-- End --