

Bangladesh Mobile Payment Guidelines, 2008

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**Payment System Division
Department of Currency Management and Payment Systems
Bangladesh Bank**

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Introduction

The modernization of the payments and settlement system is considered to be one of the core objectives of Bangladesh Bank. The global evolution of mobile payments has created an opportunity to lay the foundation for a regulatory framework that will enable the mobile payment process to deliver its full potential for the benefit of our people. Therefore, these guidelines allow us to provide oversight and regulate a new type of institutions that will offer Mobile Payment Services and will be known as a Mobile Payment Service Provider (MPSP). The MPSP will assist the country in the continued development of the financial system specifically in the field of delivering inward foreign remittances and will be able to provide financial services to the unbanked population of the country.

Our role as the central bank of the country is to ensure the safety, soundness and security of the payments methods that are introduced. Our goal is to reduce and mitigate risk of outstanding financial liabilities in an electronic funds transfer scheme. As a result of this goal, we have developed a methodology for protecting the outstanding balance that will be required for disbursement by ensuring that they are backed by liquid assets. These guidelines will provide the MPSPs with a framework for operating in a sound and prudent manner.

1. Definition

For the purpose of these guidelines:

- (a) *“Consumer”*: means an individual who uses mobile payment services;
- (b) *“Customer Funds”*: means the total outstanding amount of electronic funds introduced into the system that remain in the custody of a Mobile Payment Service Provider;
- (c) *“Electronic Funds”*: means a numeric value housed in electronic form intended to represent an equivalent amount in physical cash or currency and transmitted through electronic channels, instruments or mechanisms designated and approved by Bangladesh Bank. Electronic funds in the context of these guidelines does not constitute a deposit;
- (d) *“Electronic Funds Holder”*, refers to a person who owns an amount of electronic funds held in custody by a Mobile Payment Service Provider (MPSP) at his/her disposal.
- (e) *“Electronic Funds Transfer”*: indicates any transfer of funds that is initiated by electronic means, such as an electronic terminal, telephone, computer, ATM or mobile phone, POS terminal or any other electronic devices;



- (f) *“Guaranteed Deposit Account”*: means a bank account which is different from other accounts in that it holds customer funds in custody and contains a credit balance resulting from funds left in the account from temporary situations arising from normal funds transfer transactions, and is not utilized by the holder to meet their day to day business obligations/ requirements, rather these funds will protect the electronic funds holders in the case of bankruptcy and will be isolated from any claims made by a creditor of the MPSP.
- (g) *“Mobile Network Operator (MNO)”*: also known as a wireless service provider, wireless carrier, mobile phone operator, or cellular company, is a telephone company that provides services for mobile phone subscribers;
- (h) *“Mobile Payment”*: means a payment in which the mobile handset plays a key role in the initiation, authorisation and/or realization of the payment. The payment can be used to purchase goods, pay for services or to perform electronic funds transfer;
- (i) *“Mobile Payment Service Provider (MPSP)”*, refers to any non-bank entity licensed and approved by Bangladesh Bank that provides mobile payment service(s);

2. Scope

These Guidelines will provide the framework for regulating and providing oversight for any organization that plans to offer Mobile Payment Services in Bangladesh. The guideline will govern all Mobile Payment Service Providers (MPSPs) MPSPs will include Bank/Joint Ventures, Bank/Third Party, Bank/Mobile Network Operator, Third Party and Mobile Network Operators. All Mobile Network Operators must create a separate subsidiary for the purpose of providing mobile payment services. The business activities of a MPSP shall be restricted to administering the mobile payment services; the issuance of electronic funds; the performance of operational and other ancillary functions related to such activities; but excluding granting of any form of credit. The MPSP shall not have any holdings in other undertakings except where such undertaking perform operational or other ancillary functions related to mobile payment services and electronic funds issuance.

3. Licensing and Suspension

- i. Before applying for a licence, an MPSP in partnership or a direct relationship with a Mobile Network Operator (MNO), must sign an agreement with the Mobile Network Operator for the use of their telecommunications facilities and the agreement must be approved by the proper regulatory authority (i.e. BTRC).



- ii. The Department of Currency Management and Payment Systems, Bangladesh Bank, Head Office will issue a licence to any company that intends to provide mobile payment services. It will also have the authority and the right to temporarily or permanently suspend the operation of any such MPSP if it is convinced that the interests of the consumers are at risk. However, the aggrieved party may file appeal against such action to the Board of Directors of Bangladesh Bank.

4. Guaranteed Deposit Account

The total outstanding balance of electronic funds introduced by the Mobile Payment Service Provider must be kept in scheduled bank(s) as a Guaranteed Deposit Account. There must be an agreement between the MPSP and the bank to operate such account, the agreement for the Guaranteed Deposits must ensure that the funds are not utilized by the MPSP to meet their day to day business obligations or requirements, rather the funds in this will be protected for the benefit of electronic funds holders in the event of a bankruptcy and will be isolated from any claims made by the creditors of the MPSP. The bank(s) holding the account must pay reasonable interest and repay it in accordance with applicable legal and contractual terms and conditions.

5. Value Redemption

- i. An electronic funds holder may, during the period of validity, ask the issuer to redeem it at par value in coins and bank notes subject to fees applicable as per section 9 provided in these Guidelines.
- ii. The contract between the MPSP and the electronic funds holder shall clearly state the conditions of redemption.

6. Capital, Liquidity and Management

- i. The MPSP will have a minimum paid-up capital of Tk. 350 million as a pre-requisite for the licence. Bangladesh Bank will monitor the capital adequacy of the MPSP and may lower or require additional capital, if warranted.
- ii. In addition to the paid-up capital, a liquidity pool of Tk.150 million will have to be maintained for the purpose of meeting normal operations.
- iii. The MPSP must have sound and prudent management, administrative and accounting procedures, and adequate internal control mechanisms. The risk controls should be responsive to the risks to which the MPSP is exposed. The roles and responsibilities of individual employees must be contained in written policy manuals and a full compliance audit, both internal and external, must be performed on a semi-annual basis.



- (a) Key Personnel Recruitment: Individuals who will perform the key functions in the MPSP need to be selected on assessment criteria that encompass honesty, integrity, reputation, competence and capability.
- (b) Senior Management: The MPSP should be governed by a board of directors, which will have a range of skills and experience appropriate to the business, and be competent to govern the MPSP's affairs. The MPSP's chief executive will have ultimate responsibility for assigning responsibilities and establishing the appropriate risk management environment. Additional responsibility of the chief executive will include maintaining excellence in systems and operations. The chief financial officer and the chief technology officer will have responsibility for liquidity management, technical security, technical development, and anti-money laundering compliance. The appointment of chief executive will require approval from Bangladesh Bank.

7. Operation

- i. Management of Customer Funds: The total amount of electronic funds introduced into the system that has not been distributed must be backed by the deposit of funds in the amount equal to funds collected and not distributed; neither any credit nor any discount will be allowed to the electronic funds holder. The aggregate amount of customer funds will be deposited in a Guaranteed Deposit Account maintained with a bank or multiple banks. The MPSP will be required to provide statements to Bangladesh Bank regarding summary or transactional level data. This information is necessary for Bangladesh Bank to provide the proper level of oversight on the Guaranteed Deposit Account.
- ii. Guaranteed Deposit Account Operation: The Guaranteed Deposit Account(s) will be managed in a prudent manner and must invest in low risk investments such as demand deposits or in Government bills. Interest income must be reported to Bangladesh Bank and can not be comingled with the funds in the GDA. The guaranteed deposits must be protected from the other creditors of the MPSP in the event of bankruptcy. The MPSP will be responsible for the operation of GDA under the supervision and oversight of Bangladesh Bank.
- iii. Technical Aspects and Data Security: The MPSP is expected to meet the same technology standards required of banking companies. These requirements are contained in the 'Regulation on Information & Communication Technology for Scheduled Banks and Financial Institutions' published by Bangladesh Bank. In line with Bangladesh Bank's ICT Regulation the MPSP will develop a guideline of their own which will provide guidance in assessing the various risks associated with technology, employing effective strategies and controls, and monitoring and testing the provision of services to provide assurance that the risks are mitigated.
- iv. Authorized Retail Agents (ARA): The Authorized Retail Agent (ARA) will be the entities through which the cash-in and cash-out portion of the mobile payment



services will be delivered to the consumer. The ARAs may be a designated outlet of the MPSP or MNO, a bank, post office or a Microfinance Institution (MFI) or other approved retail outlets. Any ARA that is not under the direct ownership of the MPSP or MNO must sign a standard agreement with the MPSP that identifies all of the responsibilities and procedures required of an ARA. The MPSP will submit a standard contract template for approval by Bangladesh Bank. The agreement must address the business hours for ARAs, standard of performance, fees that are permissible, customer service, dispute resolution procedures and proper signage. As a condition of issuance of licence, the MPSP must guarantee the financial and customer service performance of any ARAs under its direct control and all ARAs that it approves. The MPSP bears all liabilities that arise from improper action on the part of ARAs. A demonstrated lack of control over ARAs may result in the suspension of the licence of the MPSP. The list of ARAs will be forwarded to Bangladesh Bank and will be updated on a monthly basis.

- v. Issuance Limits: The MPSP shall fix an individual purse/wallet limit and a transaction limit with prior approval of Bangladesh Bank. Any change in these limits will require Bangladesh Bank's approval.
- vi. Disclosure: To minimize operational, legal and reputation risks associated with electronic funds, the MPSP is required to provide its customers with a level of comfort regarding information disclosures and transparency, protection of customer data, and business availability that they can expect when using traditional banking services including record retention.
- vii. Business Continuity: The MPSP shall maintain a standard business continuity and disaster recovery (DR) plan. In the event of any operational failure or disaster the DR site will take over the operation within a maximum of two hours time.

8. Risk Management

The MPSP must ensure that risk mitigation techniques are in place to minimize operational, liquidity, technical, fraud, financial and money laundering risks. The mobile payment system should not be susceptible to sustained operational failures as a result of computer hardware, software or environmental outages. Recovery from operational failures should occur in a matter of minutes. The MPSP is expected to operate fault-tolerant and mirrored data centres to provide the ability to recover quickly in the event of a data centre failure. Comprehensive controls must be in place to protect the mobile payment system from internal and external fraud threats. A comprehensive anti-money laundering surveillance program must be in place to minimize the risk of money laundering operations. A risk compliance officer must be assigned by the MPSP to provide internal risk management oversight. The capital and liquidity requirements of these Guidelines are designed to reduce the risk of financial failure. Bangladesh Bank will monitor capital and liquidity levels of the MPSP to ensure that a sound financial structure is maintained. Bangladesh Bank will review the risk management program including all of the controls that are in place to manage the risks on a periodic basis



9. Customer Due Diligence and Anti-Money Laundering Procedures

The MPSP must ensure that proper customer due diligence procedures are in place with its agent network for customer identification prior to opening an account..

Customers due diligence checks are to be conducted face-to-face in order for an agent to review the client's identity documents and verify them against the physically present customer. Agents should require the national identification card of the individual once the system is fully implemented in Bangladesh.

The MPSP must have an Anti-Money Laundering compliance unit to review unusual or suspect transactions. Automated tools are essential to ensure that suspect transactions are isolated for subsequent investigation. A compliance officer fully versed in anti-money laundering procedures should be assigned to the unit.

10. Fee Structure

The fees will be set at a maximum level not exceeding 2% of the value. The maximum fee level is subject to change at the discretion of Bangladesh Bank, as experience is gained on the usage of the mobile payment system. The MPSP may establish a minimum transaction fee of not more than Tk 10.

11. Consumer Protection and Dispute Resolution

- i. The MPSP must issue well-defined guidelines for dealing with consumer issues with respect to customer service and customer education. Appropriate consumer protection against risks of fraud, loss of privacy and even loss of service must be established. As the MPSPs are about to deal with a large number of first time customers with a low financial literacy level, MPSP/ARAs need to ensure that adequate measures for consumer protection, awareness and methods for filing grievances are in place. If a consumer is dissatisfied with the course of action taken by the MPSP, the consumer will be able to register a complaint with Bangladesh Bank to mediate the dispute. MPSPs must meet all of the requirements for consumer protection contained in the Bangladesh Electronic Funds Transfer Consumer Protection Directive.
- ii. The MPSP will establish call centre which must respond to customer inquiries and grievances 24 hours a day, 7 days a week. Communication with customers must be as convenient as possible using such mechanisms as Direct Calling, Short Message Service (SMS), Interactive Voice Response (IVR) and e-mail. Each of the grievances received by the centre must be resolved within 72 hours. The MPSP management must ensure that proper controls are in place to track/log all of the grievances and



review the status of each grievance and the ultimate disposition within the timeframe specified.

12. Interoperability

To ensure a cohesive electronic payment strategy for the country, the MPSPs are required to connect the mobile payment service to any other approved private-sector/public-sector payment systems. There shall be no unreasonable restrictions placed on linking the MPSP service with the existing payment system participants such as banks. The MPSP must comply with all instructions and standards issued by Bangladesh Bank on interoperability. The linkage between multiple MPSPs and any other private sector payment system will be provided by the payment system operated by the Bangladesh Bank

13. Monitoring and Oversight

- i. Reporting and Inspection: The MPSP must meet the reporting requirements of the Companies Act 1994 as well as any other reporting requirements prescribed by Bangladesh Bank. The MPSP is also subject to onsite inspection by Bangladesh Bank inspection team. The Department of Currency Management and Payment Systems is the authority for approval, reporting and inspection of Mobile Payment Service Providers. The MPSP must also meet the regulatory requirements of other authorities as provided for in other prevailing laws of the country.
- ii. Application of other Law: The mobile payment service providers will subject to all relevant laws and Regulations of the land such as Money Laundering Act 2002, Foreign Exchange Regulation Act (FERA) 1947, Bangladesh Payments and Settlement Systems Regulation 2008.

14. Bank Sponsored Mobile Payments

There shall be no licensing requirement for a scheduled bank seeking to introduce mobile payment services; however, they will be required to meet many of the provisions of these guidelines except for capital, liquidity and Guaranteed Deposit Account (GDA) requirements. Banks will be required to abide by the operational/procedural requirements set by these guidelines, and such banks will remain under the supervision and oversight of Bangladesh Bank.