

bKash Bangladesh: A Fast Start for Mobile Financial Services

The first mobile financial service deployments were launched in Bangladesh in mid-2011, and by the end of 2013 they were being used by 22 percent of the adult population (Intermedia 2014)—a fast start for a large country of 160 million inhabitants. In 2013 registered mobile financial services accounts in Bangladesh grew faster than in any other country.

Even though Bangladesh’s central bank has approved more than 20 licenses to offer mobile financial services, more than 80 percent of transactions are through a single company—bKash Limited. bKash launched in the second half of 2011, grew to 2 million accounts by the end of 2012, and shot up to 11 million registered accounts by the end of 2013.¹ Unlike large mobile money businesses in other countries, bKash is not a mobile network operator (MNO) and did not have an existing customer base to which it added mobile financial services. bKash acquired each client on its own.

Three factors have combined to drive bKash’s fast start:

1. A specialized organization built to deliver mobile financial services
2. A shared vision for scale among a diverse investor group
3. An enabling and flexible regulatory environment

On their own these three factors are not uncommon, but in this case they combined to drive bKash’s fast start. This Brief provides background on bKash and explores the three factors driving early growth.

The bKash Story So Far

bKash is a private limited company created specifically to provide mobile financial services in Bangladesh. It is part of the BRAC group, a nongovernment

organization (NGO) that provides social services and includes 18 related social enterprises.² Within this group is BRAC Bank, a commercial bank that owns 51 percent of bKash. Bangladesh regulations issued in 2011 require mobile financial services to be provided by a bank or a company that is classified as a bank subsidiary by the central bank. While bKash manages nearly all facets of the mobile financial service operations, BRAC Bank is responsible for regulatory compliance, and bKash must deposit the full value of its mobile account balances with a prudentially regulated commercial bank. A U.S.-based company called Money in Motion LLC invested the initial minority 49 percent shares in bKash.³ The International Finance Corporation (IFC) and the Bill & Melinda Gates Foundation joined as minority investors in 2013 and 2014, respectively, with BRAC Bank retaining 51 percent ownership.

For users, bKash works like mobile money in many markets. Users can open an account linked to a mobile phone number. Account owners can deposit or withdraw at appointed agents using most handset models.⁴ In its first year bKash acquired 5,000 agents under a contract with BRAC whereby BRAC recruited and managed agents.⁵ This temporary arrangement enabled bKash to get started without an existing distribution network. After one year bKash shifted and directly linked to more than a 100 regional distribution companies that could each manage hundreds of agents at a time. These distributors and

1. Active accounts with at least one transaction in prior 30 days were 35 percent, according to bKash.
 2. The BRAC group was founded in 1972 and is well-established in Bangladesh; it has operations in nine other countries. It is by some measures the world’s largest NGO.
 3. When the founder of BRAC (and BRAC Bank), Fazle Hasan Abed, first became interested in mobile money he approached Iqbal and Kamal Qadir, brothers with a history of entrepreneurship in cell-phone technology, such as GrameenPhone and CellBazaar, who had also been exploring mobile money ventures. The brothers formed Money in Motion together with Nick Hughes who led the launch of M-PESA in Kenya and Arun Gore the MD of venture capital vehicle Grey Ghost Capital.
 4. bKash’s menu is a session-based USSD approach provided over the Fundamo (Visa), Enterprise edition.
 5. <http://www.impatientoptimists.org/Posts/2014/06/Mobile-Money-in-Bangladesh-Shifting-from-Scale-to-Innovation>

their retailers were already organized in distributing airtime, fast-moving consumer goods, medicine, and groceries. Timing worked to bKash's advantage because margins for reselling airtime had fallen to historic lows by 2012 leaving airtime resellers hungry for new sources of revenue. With this change the growth of bKash's agent network surged, growing to nearly 80,000 in the subsequent two years.

To promote a new service bKash invested significantly in above-the-line marketing through television spots, radio, and billboards. "bKash" is a play on words—when said quickly in the local language the word sounds like the term for progress. The term bKash has become so commonplace that it is synonymous to mobile money payments.

Most transactions so far are made by people sending money to family members.⁶ These include migrant laborers, garment factory workers, and rickshaw pullers sending money home as well as students receiving money for living expenses. A majority of transactions are over-the-counter where senders or receivers do not use their own accounts and instead enlist the help of an agent to send and receive.⁷ One of the early challenges for bKash is to change this behavior and get clients to transact using their own accounts.

How Has bKash Scaled up So Quickly?

bKash is neither a MNO nor a bank. It is a separate company that built its business on its own and scaled up quickly. Three factors have combined to help drive this fast start.

1. A specialized organization built to deliver mobile financial services

bKash is purpose built for what it does. BRAC expects bKash to have its own identity and build its own business. One important distinction from other companies in which BRAC invests is that the minority investors have significant influence. The minority

investors bring specialized skills and experience that have helped create the business, including providing the CEO, Kamal Quadir. The role of the minority investors is balanced with BRAC Bank appointing the chair of the bKash board and other directors.⁸ Although other banks in Bangladesh offer mobile financial services, BRAC Bank is the only one so far to establish a special-purpose company for mobile financial services, and beyond Bangladesh this is rare for banks or MNOs.

The special-purpose organization establishes a high level of focus on mobile financial services alone, in contrast with banks that often rotate staff in and out of their mobile financial service departments. bKash staff do not come in large numbers out of banking but from other industries and commercial backgrounds. bKash is a standalone business that is expected to drive its own financial performance whereas in many bank environments mobile financial services are treated as an alternate delivery channel to serve the needs of other parts of the bank, for instance, to collect deposits for the retail business. Bank units focused on mobile delivery channels must often respond to the needs of other parts of the bank rather than focus on building their core business.

BRAC has a track record of creating special-purpose businesses, with some 18 in its portfolio, that are expected to be accountable for their own performance. This approach has made bKash's existence more difficult since it cannot assume or expect to gain business from other parts of BRAC. For instance, there have been minimal links (so far) to making salary payments, collecting loans, or linking to any related companies, including BRAC Bank. These links could increase in the future, but so far a "sink or swim" imperative has required bKash to push hard to succeed on its own. This has been further reinforced by the minority investors who have injected risk capital and stand to lose or gain on bKash's mobile financial services performance.

bKash has developed its own culture designed to fit the kind of business it operates. This different mindset

6. <http://www.slideshare.net/CGAP/is-a-transition-to-mobile-wallets-underway-in-bangladesh>

7. A national survey by Intermedia late in 2013 found that the majority of users of mobile money did not use their own account to transact but instead relied on agents, friends, or others to help them send or receive money.

8. Rumea Ali is the bKash chair. Other directors nominated by BRAC Bank include Mahabubur Rahman CEO of BRAC Bank, S. N. Kairy CFO of BRAC, and Shameran Abed, Director BRAC Microfinance.

Box 1. Inspired by design details

On the CEO's bookshelf is an illustrated volume on Satyajit Ray, one of the world's great filmmakers. The CEO occasionally pulls the book down to show how the filmmaker painstakingly storyboarded each movie scene down to minute details—such as the design and color of a character's blouse. This is used to emphasize to bKash staff how to plan a business operation. This attention to detail and design is noticeable across bKash.

begins with the CEO who has a background in technology-driven start-ups. bKash's business model is also fundamentally different from conventional banking. Instead of focusing on credit or savings and building a balance sheet, bKash drives transactions and earns revenue through fees. Many banks begin in one urban region or focus on a particular customer segment, often more affluent segments. bKash has had national reach in all districts of the country almost from the beginning and aims to serve everyone.

2. A shared vision for scale among a diverse investor group

Fazle Hasan Abed, the founder of BRAC, is fond of saying, "Small may be beautiful, but scale is necessary." Going to scale has been at the core of BRAC's work since the 1980s when BRAC pursued, against many experts' advice, a national program to fight child deaths from diarrhea with a homemade oral rehydration solution. BRAC was able to take this to every household across Bangladesh (Chowdhury and Cash 1996).

bKash did not pilot test, rather it aimed to scale from launch and took a "learn as you do" approach. The push for scaling an agent network and a large customer base has been difficult, and bKash has had to make many adjustments to its business along the way. For instance, the shift from the BRAC-acquired agents to direct recruitment required a new distribution team and a re-design of the distribution incentives. Even while it made this fundamental correction bKash continued to grow, changing on the fly.

The scale mentality has been reinforced by bKash's funding and investors. Money in Motion initially invested \$5 million. And even before bKash had much of a track record the Gates Foundation provided a \$10 million grant that included funds to expand as well as source technical assistance—for example, linking bKash to expertise on agent network management from Kenya.⁹ More recently, IFC and the Gates Foundation have come in as minority investors. Each investor has reinforced the drive for national scale.

3. An enabling and flexible regulatory environment

The launch of bKash in July 2011 came on the heels of Bangladesh's central bank (Bangladesh Bank) issuing guidelines (<http://www.bangladesh-bank.org/>) on mobile financial services that provided the certainty and clarity needed for bKash and others to invest and build a business. Bangladesh Bank was comfortable issuing a license to BRAC Bank to launch bKash, since the bank was a well-managed commercial bank the regulator knew well.

The idea of regulation that would allow nonbanks and particularly MNOs to launch their own services had first been debated in 2008, but Bangladesh Bank did not feel comfortable at that time to allow MNOs to lead. However, in addition to allowing banks to offer mobile financial services, the 2011 regulations included a clause that allowed banks to set up subsidiaries specifically for this purpose. This allowed conventional banks to establish separate companies in partnership with funders with relevant experience and, importantly, the risk appetite and entrepreneurial bent needed to make the business succeed. This nuanced light-touch regulation provided the environment that allowed bKash to be an operationally new and different kind of business while still being regulated under the umbrella of banking norms. As of yet, no other bank subsidiaries have been established for mobile financial services in Bangladesh, but the possibility remains.

The regulators made another important decision early on. When bKash launched it had an agreement

9. Technical assistance was provided through ShoreBank International (now called Enclude). The large grant from Gates Foundation had followed a smaller grant through ShoreBank International to help BRAC Bank explore the mobile money concept in 2008–2009.

to link only into the subscribers of one of the four large MNOs. bKash as well as other bank-based mobile financial service providers sought access to unstructured supplementary service data (USSD)¹⁰ channels of all the major MNOs, and Bangladesh Bank actively encouraged mobile operators to open up to mobile financial service providers. Eventually the telecommunications regulator also pressured mobile operators to provide access. With this obligation and with Bangladesh Bank's support, bKash was able to enter revenue-sharing agreements to access a USSD gateway with all four big MNOs, providing access to over 98 percent of Bangladesh's 100 million mobile phone subscriptions. bKash could reach the customers of nearly all MNOs within its first year of operations. While this has been unpopular with MNOs who wanted to offer mobile financial services themselves, it has been a crucial factor in bKash's fast start. bKash had the communications limitations on who it could reach with its service removed and established an industry norm for revenue sharing with MNOs. This stands in contrast to many early-stage MNO deployments that often reach only their own voice subscribers early on.

What's Next for bKash and the Bangladesh Market?

bKash's initial growth to large scale has been among the fastest globally. At the same time, it is still early. The bKash board and management are the first to say that there is a long way to go and much still to do to build the business. It needs to stabilize its technology platform to support a much higher volume of transactions. It needs to shift users from doing their transactions via agents to using their own accounts. It needs to move beyond payments to provide other financial services. And the market in

Box 2. Snapshot of bKash (December 2013)

Staff:	500+
Agents:	80,000
Monthly number of transactions	
Cash In:	13 million
Cash Out:	12 million
Wallet to Wallet:	5 million
Other transactions:	0.3 million
Average Transaction Size:	\$27
Monthly Transaction Volume:	\$680 million

Financial revenue and cost drivers:

Primary Revenues: 1.85 percent of cash-out, taka 5 per wallet to wallet transaction, interest on float account.

Primary Costs: distributor and retailer commissions (estimated at 80 percent of revenue), fee to mobile operators for USSD access (7 percent of revenue), staff and administration.

Bangladesh could benefit from having more than just one dominant business. Early fast scale has provided a platform for bKash to take its next steps and has shown that it is possible to create a deeper and more competitive market in Bangladesh. At the same time, lessons from Bangladesh are being watched by regulators and businesses in other countries that are thinking about the benefits of allowing specialized companies to offer mobile financial services at scale.

References

Chowdhury, A. M. R., and R. A. Cash. 1996. *A Simple Solution: Teaching Millions to Treat Diarrhea at Home*. Dhaka: University Press Ltd.

Intermedia. 2014. Financial Inclusion Insights. www.finclusion.org

10. USSD is a menu-driven communication channel that MNOs can open up and remains the predominant channel in use globally for large-scale mobile financial services.

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